

Government Communication

2002/03:114

Report on Sweden's Export Control Policy and Exports of Military Equipment in 2002

The Government hereby presents this Communication to the Riksdag.

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Brief summary of the Communication

In this Communication the Swedish Government reports on Sweden's exports of military equipment in 2002. The Communication also contains a concise account of significant developments in the field of export controls and describes cooperation in the EU and in other international forums on matters relating to military equipment and dual-use items.

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1 Summary

Every year since 1985 the Government has presented a Communication to the Riksdag with an annual report on Swedish exports of military equipment. Its purpose is, with reference to the conditions applying to exports of military equipment and dual-use items, to report openly on the previous year's exports and to provide material for a broader discussion on matters related to arms exports.

The Government aims to present reports on exports of military equipment that are as transparent as possible and has continuously sought to improve its reporting in order to promote increased transparency. One novelty in this year's report is information about for which countries Sweden issued denials (refusals to grant export licences) in 2002 under the EU Code of Conduct on Arms Exports and the reasons given for the denials.

For a country like Sweden, which does not participate in military alliances, it is a major security and a defence policy interest to maintain its capability and development and production capacity in the defence industry sector. It is also in our security interests to collaborate with other countries on equipment supplies. Some exports are necessary in order to meet Swedish defence needs in the long term. Controls of these exports are necessary in order to ensure that the products exported from Sweden go to for us acceptable recipient countries. Exports of military equipment are thus only permitted if they are justified for security or defence reasons and do not conflict with Sweden's foreign policy.

A report on Sweden's exports of military equipment is presented in part I of the Communication and in the annexes. The value of actual deliveries of military equipment for export increased slightly in 2002 and totalled MSEK 3,440, which is an increase of over 12% compared with 2001, when it was MSEK 3,060.

However, the total value of licences granted for sales of exports fell sharply in 2002. It amounted to SEK 5,882 million, a decrease of 75% compared with 2001, when the value was extremely high due to the export licences granted during the year for exports of the JAS 39 Gripen combat aircraft and of Combat Vehicle 90.

The work done within the framework of the EU Code of Conduct on Arms Exports continued in 2002. The aim of the information exchange that takes place in accordance with of the Code is to achieve a greater degree of restrictiveness and responsibility, as well as agreement as to potential recipients of military equipment. The transparency of the report prepared on an annual basis by the EU under the Code increased substantially during the year. For the first time, the statistics in the 2002 report included data on the individual Member States' exports (export licences granted and actual exports, respectively) by recipient country.

The production of arms is becoming increasingly international. The transnational consolidation of the defence industry continues. This trend is accelerated by shrinking resources, together with new threats and a sharp increase in development costs for new generations of defence

systems. Sweden takes an active part in international defence industry cooperation.

The activities initiated under the Framework Agreement negotiated between France, Italy, Spain, the United Kingdom, Sweden and Germany, which was ratified by the Riksdag in the spring of 2001, continued in 2002. A sub-agreement on procedures and consultations in connection with export controls was virtually completed. The agreement on support for industrial cooperation in the field of military equipment that was signed by Denmark, Finland, Norway and Sweden in the summer of 2001 and approved by the Riksdag in December the same year entered into force on 24 November 2002.

The purpose of export controls is to regulate arms exports and prevent the proliferation of products that can be used to produce weapons of mass destruction. Many products that are manufactured today can be used both for civil and military uses, and effective export controls are necessary to prevent exports that might have a destabilizing effect in other countries.

The fight against terrorism has sharpened the focus on export controls and given rise to explicit demands for restrictions with respect to both dual-use items and military equipment. This, together with the increasing globalization of the world economy, has demonstrated the need for deeper cooperation on export controls across national boundaries, even though this cooperation is mainly governed by our national legislation.

Cooperation on export controls of dual-use items takes place mainly through a number of regimes. There is still considered to be a significant risk of proliferation of weapons of mass destruction. There is continuous discussion within these regimes of which products and technologies should be controlled and which states may be sensitive from the point of view of non-proliferation. During the past two years these arrangements have focused increasingly also on non-governmental entities and the risk of terrorists gaining access to sensitive products that could be used for the production of weapons of mass destruction.

Export controls of intangible transfers are increasingly important as open, modern societies are becoming increasingly dependent on information technology. Regardless of their whereabouts, small and relatively weak entities now have considerable potential for inflicting damage and disruption on large, powerful states. Since IT systems are often interdependent, an attack on one element of such a system can cause serious damage and disrupt essential functions.

Part I – Export controls and exports of military equipment

2 Exports of military equipment in 2002

Every year since 1985 the Government has presented a Communication to the Riksdag with an annual report on Swedish exports of military equipment. These reports provide the Riksdag with consolidated information about exports of military equipment and a factual basis for broader public debate. Some caution is called for in attempting to identify trends in this material. Sweden is not a major exporter of military equipment and therefore individual sales of large systems cause considerable fluctuations in the annual totals which cannot be linked to long-term trends.

The information in the annual report is based on the reports that manufacturers of military equipment are required to submit by law. The National Inspectorate of Strategic Products (ISP) collated the reports and submitted documentation for the statistical data on exports of military equipment in 2002 that are presented in Annex 1.

The value of the Swedish defence industry's invoiced sales of military equipment (both in Sweden and abroad) in 2002 totalled MSEK 9,199.4, which represents a decrease of over 8% compared with 2001. The value of actual export deliveries in 2002 was MSEK 3,440, an increase of 12% at current prices compared with the previous year. Exports thus accounted for over 37% of the defence industry's total invoiced sales of military equipment during the year. At 0.44%, exports of military equipment as a percentage of Sweden's total exports remained almost unchanged compared with 2001.

The value of the exports for which licences were granted in 2002 amounted to SEK 5,882 million, a decrease of 75% compared with 2001, when the value was extremely high due to the export licences granted during the year for exports of the JAS 39 Gripen combat aircraft and of Combat Vehicle 90. The value for 2002 was close to the average value for the last ten years with the exception of 2001.

As can be seen from the diagram in figure 1, Annex 1, the value of authorized exports has varied considerably from one year to the next while there has been much less variation in the value of actual exports. This is because deliveries related to a single export licence are often spread over several years.

3 The Military Equipment Act

The manufacture and exportation of military equipment are governed by the Military Equipment Act (1992:1300, last amended by 2000:1248) and the corresponding Ordinance (1992:1303, last amended by 2000:64). Both these statutory instruments entered into force on 1 January 1993,

replacing the Control of the Manufacture of Military Equipment etc. Act (1983:1034), the Prohibition of Exports of Military Equipment etc. Act (1988:558) and the corresponding ordinances.

The present Act is essentially based on the previous legislation and previous practice. However, it applies a broader definition of military equipment and simplifies, clarifies and updates the provisions relating to the control of manufacturing and cooperation on military equipment with foreign partners.

The Military Equipment Act stipulates that military equipment must not be manufactured without a licence. Licences are also required for all types of defence industry cooperation with foreign partners. The term 'cooperation with foreign partners' covers both export sales and other arrangements for supplying military equipment (for instance transfer of ownership or brokerage). It also includes transfers of manufacturing rights, agreements with a party in another country on development of military equipment or production methods for such equipment together with or on behalf of that party, and agreements on joint manufacture of military equipment. Lastly, licences are required, with certain exceptions, for the provision of military-oriented training.

The Act divides military equipment into two categories: Military Equipment for Combat Purposes (MEC) and Other Military Equipment (OME). The Military Equipment Ordinance contains provisions specifying the types of equipment that are assigned to the two categories. The MEC category consists of destructive equipment, including sights, and firing control equipment. The OME category consists of parts and components for military equipment for combat purposes and equipment that is not directly destructive in a combat situation.

Under the EC Regulation on the control of exports of dual-use items that entered into force in September 2000, export licences are required in some cases for items that do not fall within the definition of military equipment but are associated with military equipment that is exported. Further information on the new rules in this respect will be found in section 13 of this Communication.

Until 31 January 1996 decisions on export licences were taken by the Government. Licences that did not involve large-scale exports or matters of principle were delegated to the minister responsible for applications for export licences with respect to military equipment. 98% of the total value of licences granted in 1995 were based on non-delegated government decisions. As of 1 February 1996, decisions relating to exports of military equipment are normally taken by the ISP except in cases that are deemed to be of interest from the point of view of principle or of particular importance for other reasons, which are referred to the Government for decisions.

4 Guidelines for exports of military equipment

Under section 1 (2) of the Military Equipment Act (1992:1300) licences may only be granted if the export transaction in question is justified for security or defence reasons and does not conflict with Sweden's foreign

policy. The principles applied when examining applications have been established by government practice and are described in the Government's Guidelines on exports of military equipment and other cooperation with foreign partners, which have been approved by the Riksdag (cf. Gov. Bill 1991/92:174, p. 41 ff., Gov. Bill 1995/96:31, p. 23 ff. and Report 1992/93:UU1). A summary of the Guidelines is attached to this report as Annex 3.

The Guidelines are interpreted on the basis of broad parliamentary support and are applied by the ISP in connection with the processing of applications for export licences under the Military Equipment Act and the Military Equipment Ordinance.

The guidelines contain two general criteria for the granting of licences under the Act, namely that cooperation with foreign partners is considered necessary to meet the Swedish armed forces' need of military equipment or know-how or is otherwise desirable for reasons of national security, and that collaboration does not conflict with the principles and objectives of Swedish foreign policy. These general criteria may be regarded as a clarification of section 1 (2) of the Military Equipment Act.

The guidelines also specify the factors that should be taken into account in connection with the consideration of individual applications. One basic condition is that all the relevant circumstances in a particular case must be considered, whether or not they are explicitly mentioned in the guidelines. These criteria also apply to collaboration with persons or enterprises in other countries on the development or manufacture of military equipment. Sweden is one of the few EU Member States that has enacted legislation that contains provisions relating to arms brokering.

The guidelines emphasize in particular the importance that should be attached, in connection with the assessment of the foreign policy aspects of each application, to the human rights situation in the recipient country. The human rights criterion must always be taken into account, even in cases involving exports of equipment which in itself cannot be used to violate human rights.

The guidelines specify three types of absolute obstacles which, if they exist, are deemed to rule out the possibility of exports. These are: decisions by the UN Security Council, international agreements to which Sweden has acceded (e.g. EU sanctions), and bans imposed under international law on exports from neutral states during war.

The definition of military equipment was extended in 1993 to include some equipment for civilian or partly civilian uses. As a result of this extension of the definition, previously unregulated exports are now subjected to political scrutiny and included in the statistics on exports of military equipment. The extension of the definition was accompanied by a division of military equipment into two categories, which are treated slightly differently in the guidelines concerning exports.

In the case of military equipment for combat purposes (MEC) the Government should not grant licences for exports to a state that is involved in an armed conflict with another state or in an international conflict that may lead to an armed conflict, or to a state in which internal armed disturbances occur. However, revocation of a licence may be waived if this is consistent with international law and with the principles and objectives of Swedish foreign policy. Licences should not be granted

for exports to a state in which widespread and serious violations of human rights occur.

These conditions are the same as those applied before 1993, except that previously it was only necessary to take violations of human rights into account if the equipment itself could be used to violate human rights. Sweden differs from some other EU Member States in this respect.

In the case of exports of Other Military Equipment (OME), which consists largely of items that were not subject to control prior to 1993 (such as reconnaissance radars and simulators for training purposes), licences should be granted for exports to countries that are not involved in armed conflicts with other states and in which internal armed disturbances and widespread and serious violations of human rights do not occur. The risk of armed conflict is not applied as a criterion in assessments of exports of other military equipment.

Owing to the differences in the guidelines for MEC and OME, a larger number of countries may be considered as potential recipients of OME, i.e. equipment that is non-destructive, than of MEC.

As regards follow-on deliveries, the guidelines state that “licences should be granted for exports of spare parts for equipment exported previously under a licence, unless an absolute obstacle exists. The same applies to other deliveries, for example of ammunition, linked to previous exports of equipment, or otherwise in cases where it would be unreasonable to deny permission”.

With respect to cooperation with foreign partners, exports to third countries should be assessed in accordance with the Swedish guidelines if the identity of the item is predominantly Swedish. If its identity is predominantly foreign, or if Sweden has a strong defence policy interest in cooperation, the export rules of the cooperating country may be applied to exports from that country.

5 The UN Arms Registry and other international reporting on arms transfers

In December 1991 the United Nations General Assembly adopted a resolution urging Member States to report both their imports and exports of major conventional weapons to a Registry of Conventional Arms. Trade in the following seven categories of weapons is reported: tanks, armoured combat vehicles, heavy artillery, combat aircraft, attack helicopters, warships and missiles/missile launchers. In consultation with defence agencies and the ISP, the Ministry for Foreign Affairs compiles annual information which is submitted to the UN in accordance with the above-mentioned resolution.

120 of the UN's 191 Member States had reported on 2001, the tenth year of the UN Registry, by the end of September 2002. Since all the major exporters with the exception of North Korea and all the major importers except some countries in the Middle East report to the Registry, it is estimated that over 90% of the legal world trade in these

weapons is covered by the Registry. Sweden only participates to a limited extent in the world trade in the relevant types of heavy weaponry.

In 2001, which is the last year for which information has been submitted, Sweden reported exports of two 206S tracked vehicles to Italy, one CV9030 combat vehicle to Switzerland, ten 206S tracked vehicles to Spain and one Näcken submarine to Denmark. Sweden reported no imports in any of the seven arms categories. The report for 2002 will be compiled after the publication of this Communication.

Since 1990 the Government has, in the context of Sweden's efforts to promote greater transparency in this area, presented the United Nations with the English translation of its annual report to the Riksdag on exports of military equipment. Since the autumn of 1996 the information submitted to the UN Registry has been available on the United Nations website (www.un.org).

The Wassenaar Arrangement's reporting mechanism for military equipment (see section 12 in this Communication) is based on the seven categories reported to the UN Registry, although some categories are reported in greater detail by being broken down into subcategories. The 33 Member States have agreed to report twice yearly in accordance with an agreed procedure and to include further information on a voluntary basis. The purpose of this agreement is to bring destabilizing accumulations of weapons to the notice of the Member States at an early stage. Exports of dual-use items and technology are also reported to the Wassenaar Arrangement twice a year.

Cooperation with the UN Secretariat and participation in the UN's group of experts

Sweden actively promotes increased reporting to the UN Arms Registry. In 2002 Sweden initiated collaboration with the UN Secretariat in this area. In 2003, Sweden will help to stage regional seminars arranged by the UN Secretariat with a view to promoting reporting to the Registry. Sweden also intends in this context to press for strengthened export controls as a tool for conflict prevention, not least as regards small arms and light weapons.

Ever since the UN Registry was set up, groups of experts have studied ways and means of improving its effectiveness at intervals of about three years. A new group of experts will be appointed in 2003. Sweden will take part in this group together with about 20 other countries.

6 Cooperation in the EU

The EU Code of Conduct on Arms Exports (see Annex 4), which was adopted in 1998, specifies common criteria for exports of military equipment that are to be applied in connection with national assessments of export applications. A list of the products that are subject to controls is appended to the Code. The Code represents a lowest common

denominator in the area of export controls and there is nothing to prevent individual Member States from pursuing a more restrictive policy.

Under the Operative Provisions of the Code, Member States are to exchange notifications of 'denials', i.e. normally rejections of applications for export licence. If another Member State is considering granting a licence for an essentially identical transaction, consultations are to take place before the licence can be granted. The consulting Member State must also notify the notifying state of its decision. The exchanges of notifications of denials and the following consultations on the notifications tend to make the EU's export policy more uniform. The consultations promote a consensus on the various export destinations, and the fact that the Member States notify each other of the export transactions they deny reduces the risk of export controls being undermined due to the granting of an export licence by another Member State in such cases.

In 2002 Sweden received 399 notifications of denials from 11 Member States and submitted 10¹ notifications of denials itself. These denials related to the following countries (with the criterion referred to in each case): Egypt (Criterion 4 – risks to regional peace, security and stability), the Federal Republic of Yugoslavia (Criterion 3 – the internal situation in the buyer country), the United Arab Emirates (Criterion 4), India (Criterion 4), Israel (Criterion 4), Jordan (Criterion 4), Pakistan (Criterion 4), the Republic of Korea (Criterion 4), Ukraine (Criterion 7 – the existence of a risk that the equipment will be diverted within the buyer country or re-exported under undesirable conditions), and Vietnam (Criterion 4).

The fact that exports to a certain buyer country have been denied in a specific case does not mean that the country is not eligible for Swedish exports. The Swedish export control authority does not apply a system of country lists, i.e. lists of countries that are either approved or not approved as recipients. Each export application is considered on a case-by-case basis in accordance with the guidelines adopted by the Government for exports of military equipment.

The Council Working Group on Conventional Arms Exports (COARM) is a forum in which the fifteen Member States regularly discuss the implementation of the Code of Conduct, exchange views on individual export destinations and draft guidelines on the Member States' regulatory framework on export controls. An annual report containing information about this work, about agreements that have been concluded and statistics on the Member States' exports of military equipment is published.

The fourth annual report under the EU Code of Conduct

The fourth annual report, which was adopted by the Council on 18 November 2002 (OJ C 319, 19.12.2002, p. 1) shows that significant progress has been made as regards cooperation on the Code of Conduct.

¹ Due to the ISP's continuous contacts with the industry, the number of notifications is relatively small.

Arms brokering controls remain an important issue. The trend in the EU is for more Member States to set up control mechanisms, as Sweden has done. Discussions started in 2002 on the adoption of a common position on brokering controls on the basis of the guidelines that were adopted in 2001 and were published in the annual report.

Deepening the dialogue with the candidate countries is another important issue that is pursued by Sweden. In 2002 the Member States agreed to inform the candidate countries about the denials of export applications that are notified by the Member States under the Code's mechanism for information exchange and consultations.

At the end of the year the European Commission presented a proposal for a new control instrument. The proposal is linked to discussions in COARM about the need to control products that are not classified as military equipment but can be used, in particular, to violate human rights, including equipment that can be used for torture.

Here are some of the agreements that were concluded during the fourth year of application of the Code of Conduct:

- The Member States agreed on a list of elements that must always be included in an end user certificate.
- When decisions are taken on licences for production in third countries the Member States must, inter alia, consider the risk of undesirable re-exports.

The following, inter alia, have been identified as future priorities:

- Transparency (harmonization of statistics reporting)
- End user certificates (harmonization)
- Control of licensed production abroad
- Control of electronic transfers (intangible transfers)
- Closer cooperation with the candidate countries
- Development of the administration of denials and consultations

Greater transparency

Sweden continues to advocate increased transparency in the EU, as elsewhere. The annual report mentioned above includes a table containing statistics on the Member States' exports of military equipment. These statistics have been expanded every year. The first two annual EU reports included statistics on the total value of export licences issued in each Member State. The third annual report was more detailed and included information about the Member States' exports from each region. The 2002 report is something of a breakthrough as regards transparency, even though EU reporting cannot yet be compared with the degree of detail in the Government's annual Communication on exports of military equipment.

For the first time the 2002 EU report contains information on the number of export licences, the value of the licences granted and the value of actual exports from each Member State by recipient country. Owing to the differences in the Member States' systems for collection and reporting of statistics, however, the information in the report is incomplete in many cases and not entirely comparable. Only a few

Member States, including Sweden, report *both* the value of export licences granted *and* the value of actual exports.

Another novelty in the report is information about the total number of denials with respect to each recipient country and the criteria referred to. A third novelty is a compendium of the agreements that have been concluded during the four years during which the Code has been implemented.

Cooperation on defence industry matters

Another EU group in this field is the Working Party on a European Armaments Policy (POLARM), an ad hoc group whose task is to analyse the alternatives for European defence industry policy and propose future measures within the framework of Community law. In 2002 the Working Party dealt with subjects such as research and technology, standardization in the defence sector, restructuring of the defence industry as a result of the forthcoming EU enlargement, security of supply issues, the European defence industry in the light of the prevailing overcapacity and the question of a simplified administrative procedure for transiting military equipment in the EU. Efforts are still being made to reach an agreement on this last matter. The question of imposing duties/charges on military equipment, which raises the issue whether such exports are subject to national sovereignty or Community jurisdiction, was previously addressed by POLARM but was transferred during the year to a working party on customs matters under the first pillar.

POLARM's mandate and functions have to do with complex developments in an ongoing European restructuring process that will take many years to complete, and they touch on subjects that often collide with other ongoing European initiatives in non-EU forums. This is the main reason why the Working Party has achieved so limited concrete results.

7 International arms embargoes

An arms embargo decreed by the UN Security Council is an absolute obstacle to Swedish exports under the guidelines on exports of military equipment. The EU Member States comply fully with the UN Security Council's decisions on arms embargoes. The Security Council's recommendations on restrictiveness are, since they are not binding, considered on a case-by-case basis. In certain cases, arms embargoes that are stricter than those decreed by the Security Council are agreed upon unanimously within the framework of the Common Foreign and Security Policy. This may be regarded as an expression of the Member States' resolve to adopt common responses to various security policy issues. An arms embargo imposed by the EU is implemented in accordance with each Member State's national export control rules. See Annex 6 for a list of the embargoes that were in force in 2002.

8 Measures to prevent and combat destabilizing accumulations and the uncontrolled spread of small arms and light weapons

Follow-up to the 2001 UN Conference on Small Arms and Light Weapons

The focus of international efforts on small arms and light weapons is at present on the implementation of the UN's action programme which was adopted at the 2001 UN Conference on the Illicit Trade in Small Arms and Light Weapons. This action programme includes certain basic rules on controls of the production of and trade in small arms and light weapons. The term 'small arms and light weapons' basically refers to light arms and other weapons that are intended to be carried and used by one or more persons, but a uniform definition has not been adopted. The first follow-up meeting to the conference will take place in July 2003, and the states parties will be expected to submit national reports on implementation of the action programme at this meeting.

Other instruments and national implementation

Sweden signed a UN Protocol Against the Illicit Manufacturing of and Trafficking in Firearms, their Parts and Components and Ammunition (the Firearms Protocol of 2001), which is the third additional protocol to the International Convention against Transnational Organized Crime, in 2002.

The Organization for Security and Co-operation in Europe (OSCE) adopted a Document on Small Arms and Light Weapons in November 2000 which deals with production and export controls and lays down rules on labelling, registration, tracing, information exchange, safe storage and surplus military equipment.

As regards national implementation of the UN action programme, the OSCE Document on Small Arms and Light Weapons and the UN Firearms Protocol, these documents were circulated for review by the relevant authorities and organizations in Sweden in 2001. Their submissions indicated that, by and large, Sweden is already meeting its commitments under the action programme. The consultation procedure will be followed up ahead of Sweden's report to the above-mentioned UN meeting in July 2003.

EU measures with respect to small arms and light weapons

The EU's measures in this field are based on the Programme for Preventing and Combating Illicit Trafficking in Conventional Arms, which was adopted in 1997, and a common position adopted in 1998 against destabilizing accumulations of firearms and small arms and light

weapons. The joint action was updated by decision of the Council on 12 July 2002.

Apart from preparing and pursuing common issues prior to and during the UN Meeting in July 2003, the EU is also financing joint measures to combat the uncontrolled spread of small arms and light weapons. It is at present financing a project in Cambodia and measures in the Balkans and Latin America. The EU also publishes an annual review of the Member States' national measures and international action in the field of small arms and light weapons.

9 The defence industry and international cooperation on military equipment

In *Renewal of Sweden's Total Defence* (Gov. Bill 1996/97:4, p. 154) and the Bill *The New Defence* (Gov. Bill 1999/2000:30) it was established that in the light, inter alia, of diminishing appropriations for military equipment for Sweden's armed forces and the contracting international market, closer international cooperation seems crucial to the survival of Sweden's defence industry and the future adaptability of its armed forces. The first of these Bills also stated that it is important for the Government and the Swedish authorities to support the defence industry's export efforts in an active and structured manner, provided that they are consistent with the existing guidelines for Swedish exports of military equipment.

The Parliamentary Standing Committee on Defence urged the Government in its report 1998/99:FöU1 to take further measures in order to promote export successful major military equipment projects, such as the JAS 39 Gripen aircraft. The Defence Committee too has emphasized the importance of active government measures to support exports.

The final report of the Commission on Military Equipment Supplies (SOU 2001:21) observed that exports of military equipment are important from the point of view of Sweden's security and defence policy since they contribute to maintaining the domestic enterprises' capability and capacity. Successful exports also contribute to the domestic industry's image. Active export promotion measures by the Government and the relevant authorities were considered necessary to improve the industry's prospects of marketing and selling equipment abroad.

There are several reasons for the Government to involve itself in export support activities, and these are summarized in the Bill Continued Renewal of the Total Defence (Gov. Bill 2001/02:10). For example, exports help to lay a sustainable technological and industrial foundation for new development, as well as to maintain and further develop existing equipment systems. Furthermore, exports are an important element in strengthening the international competitiveness of the domestic industry. It is also an advantage to broaden the customer base for equipment that is used by the Armed Forces, since this offers opportunities for sharing

development costs, coordinating training and maintenance and exchanging experience concerning the use of the equipment.

As regards the globalization of the Swedish defence industry, and the related restructuring measures, this is likely to continue for a number of years. There is still considerable excess capacity, particularly in the European defence industries.

As was mentioned in Communication 2000/01:114, the Government informed the Riksdag in the beginning of the year 2001 (Gov. Bill 2000/01:49) of the Framework Agreement between France, Italy, Spain, the United Kingdom, Sweden and Germany that was negotiated by these countries as a result of the Letter of Intent (LoI) – the Six-State Initiative – adopted by the countries' defence ministers in July 1998, which was followed by the Framework Agreement signed in July 2000 on measures to facilitate the restructuring and operation of the European defence industry.

The relevant working groups continued their work in 2002 and presented reports at regular intervals to the Executive Committee that was set up in 1998. As regards export controls, the drafting of a sub-agreement to the Framework Agreement is almost complete. The sub-agreement lays down detailed rules on the procedures and consultations provided for in the part of the Framework Agreement that deals with export controls. The drafting group also studied several matters that are directly relevant to export controls, such as the requirements regarding the content of an end user certificate from a third country, the treatment of a seventh country subcontractor, the **involvement** of a seventh country as a principal participant in a project, the disposal of surplus equipment and the need to streamline and harmonize the practical administration of export controls. The fact that one country in the group – Italy – did not complete its ratification of the Framework Agreement in 2002 has slightly delayed the issue of the first global project licences between the six countries.

In the Bill *Continued Renewal of the Total Defence* (Gov. Bill 2001/02:10) the Government presented a general agreement on aid for industrial cooperation in the military equipment sector between Denmark, Finland, Norway and Sweden, which was signed on 9 June 2001, for the approval of the Riksdag. The agreement, which as regards export controls is largely modelled on the Framework Agreement between the LoI states, is a confirmation of the process of change in the defence industry in the Nordic countries that has been under way for several years. Cooperation on the defence industry between the Nordic ammunition company NAMMO AS, which was formed in 1998 out of parts of the Norwegian company Raufoss ASA, the Finnish company Patria Industries Oy and the former Swedish company Celsius AB, was the subject of a first annex to the general agreement. The Riksdag approved the general agreement on 11 December 2001 (Parl. Comm. 2001/02:104). The agreement was ratified by the countries in 2002 and entered into force on 24 November 2002.

Ever since the Letter of Intent was adopted in July 1998 there has been a noted growing American interest in facilitating the possibility of increased international and transatlantic defence industry cooperation. Following a first agreement with Canada, the USA continued to discuss

the principles for and content of a Framework Agreement, called a Declaration of Principles (DoP), with basically the same content as the European LoI, but shorter and more general. Framework agreements have already been negotiated and signed with the United Kingdom, Australia and Norway. Discussions on a framework agreement with Sweden were opened in the latter half of 2001. Negotiations continued between Sweden and the USA in 2002.

Sweden is also taking part in another American initiative, the Defense Trade Security Initiative (DTSI), which was launched in 2000. The purpose of this initiative is to improve the effectiveness of the American licensing procedure, to encourage interoperability and standardization between the USA and countries closely associated with the USA, to facilitate transatlantic industrial joint ventures and to raise the common level of technology production between the collaborating countries. Following a decision on the part of the USA, Sweden joined this initiative in the summer of 2001. The previous partners were the NATO states, Japan and Australia. One aim of the initiative is eventually to open negotiations between the USA and Sweden on a general exemption from the provisions of the International Traffic in Arms Regulations (ITAR). Similar negotiations are already under way between the USA and the United Kingdom and Australia. The previous agreement between the USA and Canada in this area serves as a model in this context too.

In the Government's view, Sweden's participation in international cooperation on military equipment will safeguard Sweden's foreign, security and defence policy interests both in a short and a long term perspective. The defence policy aspects are i.a. connected with Sweden's non-participation in military alliances. The foreign and security policy goals in this area are met by permitting exports to and cooperation with countries that are crucial to Swedish security interests. Sweden will only remain an attractive international cooperation partner if it can maintain an internationally competitive level of technology.

A competitive level of technology can only be maintained if there are sufficient financial resources for the domestic industry to survive and develop, as well as a certain amount of cooperation with other countries. Exports are considered an essential factor for ensuring that Swedish technology remains internationally competitive.

Naturally, an essential condition for government support for exports is that the equipment in question is approved from the point of view of export controls.

10 Developments in the international arms trade

The Stockholm International Peace Research Institute (SIPRI) compiles certain statistics on the trade in arms in its Yearbook and in a database. These statistics are based on trend indicator values (SIPRI's website, www.sipri.se, contains further information about the methods used to collect data) and relate to transfers of major conventional weapons.

According to the most recent information from SIPRI's database, transfers of major conventional weapons increased slightly from USD 16,167 in 2001 to USD 16,496 in 2002.

During the five-year period 1998-2002 Sweden was ranked in 11th place in SIPRI's list of exporters of major conventional weapons (aircraft, warships, artillery, armoured vehicles, missiles, target acquisition and radar systems) with 1.22% of world exports, which totalled USD 92,552 million during the same period. The largest exporter, the USA, accounted for over 40% of global exports during that period, followed by Russia (22%), France (9%), Germany (5.4%) and the UK (5.2%).

The leading importer of major conventional weapons during the period 1998-2002 was China, which accounted for 9.5%, followed by Taiwan (7.4%), India (5.2%), Turkey (5%) and Saudi Arabia (4.7%). Sweden was in 35th place during the period with 0.6% of total imports of major conventional weapons. More information is available in the database at SIPRI's website www.sipri.se.

11 Corruption in the international arms trade

Sweden has long been actively engaged in combating corruption in the international arms trade. In connection with these efforts Sweden started cooperating in the summer of 1999 with the British section of the NGO Transparency International. This cooperation has resulted in a number of meetings and seminars in the last three years. The first meeting was held in Stockholm in 2000 and was attended by a unique mixture of representatives of public administration, the military sector, the defence industry and academia. Both producer countries and consumer countries were represented, as well as countries at various levels of economic development. The aim was to offer the participants an opportunity to meet and conduct an open and constructive dialogue. The meeting structure has been retained, and during the second meeting in Cambridge (UK) in 2001 the project set up a steering committee for its future business. The steering committee held its first meeting in Stockholm in February 2002 and has subsequently sought to move the discussion in the direction of concrete proposals. One of these proposals is to apply the TI's Integrity Pact concept to the international arms trade. The basic principle of this concept is that the buyer and the tenderers should conclude an agreement guaranteeing that no bribes or undue benefits will be demanded or given. Another proposal is to merge the many ethical programmes that are used by the industry into a single model. The steering committee is expected to hold its next meeting in the summer of 2003, and its aim will be to present and develop the concrete proposals. Sweden intends to pursue this issue in the EU. In the spring of 2001 the project was officially named Corruption in the Official Arms Trade (COAT).

Part II – Export controls of dual-use items

12 Cooperation in the multilateral export control regimes

The issue of non-proliferation of weapons of mass destruction has been high on the international agenda ever since the late 1980s. There are several reasons for this, including indications that certain countries in unstable regions seek to acquire weapons of mass destruction and signs of non-governmental entities being increasingly interested in acquiring such weapons too. Following the attacks on 11 September 2001 in the USA, particular focus has been placed on the terrorist threat.

The term ‘weapons of mass destruction’ means nuclear weapons and chemical and biological weapons. Efforts to prevent the proliferation of weapons of mass destruction also include certain weapon carriers such as long-range ballistic missiles and cruise missiles. ‘Non-proliferation’ is understood to mean multilateral measures designed to prevent the spread of weapons of mass destruction. These measures are mainly reflected in a number of international treaties and several informal so called export control regimes.

As regards the first category, special mention may be made of the 1968 Treaty on the Non-Proliferation of Nuclear Weapons (NPT), the 1972 Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction (BTWC) and the 1993 Convention on the Prohibition of the Production, Development, Stockpiling and Use of Chemical Weapons and on their Destruction (CWC). Sweden is a party to all three conventions (see Sweden’s Agreements with Foreign Powers 1970:12, 1976:18 and 1993:28).

Under the NPT, non-nuclear-weapon states undertake not to receive or manufacture nuclear weapons, and the nuclear-weapon states commit themselves to disarmament. Under Article III, the parties also undertake not to provide source or special fissionable material, or equipment or material especially designed or prepared for the processing, use or production of special fissionable material, to any non-nuclear weapon state, unless the source or special fissionable material is subject to International Atomic Energy Agency (IAEA) safeguards. Under Article III of the BTWC the parties undertake not to transfer, either directly or indirectly, equipment that can be used for the production of biological weapons. Similarly, Article I of the CWC lays down an obligation upon the parties not to transfer, either directly or indirectly, chemical weapons to another state.

Even if the primary objective of these international treaties is disarmament and prevention of the proliferation of weapons of mass destruction, all three also contain provisions encouraging the parties to promote trade for peaceful purposes. The reason for this is that a substantial proportion of the products and technologies concerned are

dual-use items, i.e. they can be used for both civilian and military purposes.

In order to facilitate international cooperation on non-proliferation of weapons of mass destruction, closer to forty countries have formed a number of multilateral export control regimes: the Zangger Committee (ZC), the Nuclear Suppliers' Group (NSG), the Australia Group (AG), the Missile Technology Control Regime (MTCR) and the Wassenaar Arrangement (WA). Details of the memberships of these export control regimes will be found in Annex 5. The purpose of these regimes is to identify products and technologies that can be used to produce weapons of mass destruction, exports of which should therefore be subject to coordinated control by the members, and to exchange information on proliferation risks. The export control regimes differ from the above-mentioned international treaties in that they are not based on binding agreements under international law. The cooperation in the multilateral regimes is based, rather, on a common will to prevent the proliferation of weapons of mass destruction and on national legislation, which provides for export controls for products and technologies that are identified as strategic products. Participation in the export control regimes may be regarded as a means of facilitating fulfilment of the obligations under international law laid down in the above-mentioned conventions not to assist other states, either directly or indirectly, to acquire weapons of mass destruction.

Two key concepts in this multilateral cooperation are 'denials' and 'no undercut'. A member of a regime which has denied an export licence for a specific transaction with reference to the regime's objectives is expected to inform the other members of its decision. The other members of the regime are expected to consult the state that has issued this denial before deciding whether to grant an export licence for a similar transaction. This consultation procedure is referred to as the 'no undercut' principle. The system of issuing denials is used within the NSG, the AG, the MTCR and the WA. The 'no undercut' consultation procedure is used within the NSG, the AG and the MTCR.

Export control regimes after 11 September 2001

The terrorist attacks in New York and Washington on 11 September 2001 caused mass destruction without the use of weapons of mass destruction in the conventional sense. The circulation of anthrax bacteria in the USA during the autumn of 2001 demonstrated that biological material that can be used as biological weapons had fallen into the wrong hands. In the light of these events, cooperation in the multilateral export control regimes now focuses to a great extent on the terrorist threat. The first step has been to declare explicitly in the regimes' basic documents that one of the purposes of the activities is to prevent the spread of dual-use items to terrorists. The WA did this in 2001 and the AG and NSG in 2002. The MTCR will take the same decision in 2003. Another measure is to expand the information exchange in the regimes to include the risk of items spreading to non-governmental actors.

The Zangger Committee

The Zangger Committee (ZC), which was formed in 1974, deals with export control matters within the framework of the Nuclear Non-Proliferation Treaty (NPT). The Committee defines the meaning of the term “equipment or material especially designed or prepared for reprocessing, use or production of special fissionable material” in Article III of the Treaty. The NPT lays down that such equipment, as well as source and special fissionable material, may only be exported to a non-nuclear weapon state if the fissionable material is subject to IAEA safeguards. The equipment and material is specified in the Committee’s control list, which is continuously updated in the light of technological developments. The list can be found in the IAEA’s information circular no. 209 (INFCIRC/209/Rev. 2).

In 2002 the Zangger Committee decided, on Sweden’s initiative, to include certain equipment for the separation of plutonium isotopes in the control list. The members continued their efforts to promote transparency regarding the Committee’s activities and to clarify the Committee’s role within the NPT framework, in particular in preparation for the next review conference of the Treaty in 2005.

The Nuclear Suppliers' Group

The Nuclear Suppliers' Group (NSG) stems from the so called London Club, which was established in the middle of the 1970s, partly in response to India’s explosion of a nuclear device in 1974. The work of the NSG covers controls of exports of products that can be used to produce nuclear material for use in weapons and dual-use items that can be used for the production of nuclear weapons. These items are specified in the IAEA’s information circular no. 254, which includes a control list for each group of items (INFCIRC/254/Rev. 5/Part 1 and INFCIRC/254/Rev. 4/Part 2).

In 2002 the NSG amended its guidelines to the effect that the authorities in the Member States should, in connection with export controls, also take into account the risk of items being used for acts of terrorism. Sweden played an active role in these efforts. The information exchange within the regime now also focuses on the terrorist threat. The NSG continued its contacts with non-member countries with a view to promoting non-proliferation objectives and proceeded with the work of continuously updating the regime’s control lists. Like the ZC, the NSG adopted Sweden’s proposal that certain equipment for the separation of plutonium isotopes be included in the list.

The Australia Group

The Australia Group (AG) was formed in 1985 on the initiative of Australia. Its aim is to harmonize its members’ export controls in order to prevent the proliferation of biological and chemical weapons to states as well as terrorist groups. Originally it was only concerned with chemicals and chemical production equipment. However, the members of the

Group decided in 1990 to extend its control lists to include micro-organisms, toxins and certain types of production equipment for biological weapons.

In 2002 the Australia Group adopted guidelines to be applied in connection with national export controls of sensitive biological and chemical substances and items. These guidelines are public, and non-members are urged to adopt them. The terrorist attacks in the USA on 11 September 2001 resulted in more intensive efforts to strengthen cooperation on export controls with a view to limiting the risks of terrorism involving biological and chemical weapons and in accordance with the recently adopted guidelines the Member States should, in connection with the processing of applications, pay heed to the risk of controlled items being used for terrorist purposes. The guidelines also contain a catch-all clause, under which licences may also be required for items that are not subject to controls if there is reason to suspect that they may be used in the production of chemical or biological weapons. The Australia Group is the first of the export control regimes to adopt such a clause.

In 2002 the Group also discussed a number of proposals to revise the control lists in the light of technological developments. In addition, agreement was reached for the first time on controls of intangible transfers of information and technology that can be used in connection with the production of chemical and biological weapons.

The Missile Technology Control Regime

The Missile Technology Control Regime (MTCR) goes back to an American initiative in 1982. Its activities cover export controls of complete missile systems (including ballistic missiles, space launch rockets and missiles and sounding rockets) and other unmanned aerial vehicles (including cruise missiles and target and reconnaissance platforms) with a range of 300 km or more. Controls also extend to components of such systems and other products that can be used to produce such missiles.

In 2002 the work in the MTCR focused on amending the regime's guidelines by introducing provisions requiring the authorities in the Member States in connection with export control decisions also to take into account the risk of terrorists gaining access to the products. This process is expected to be concluded in 2003. Sweden plays an active role in these efforts. The continuous updating of the regime's control lists continued. In that connection definitions were adopted for calculation of the range and payload of missiles. It has also been proposed, partly in view of the terrorist threat, that the MTCR should extend its control activities to include unmanned aerial vehicles with a range of less than 300 km. As in previous years, the regime contacted several non-members to inform them about the MTCR's objectives and activities, to encourage them to comply with its guidelines and to offer support for further development of their export control systems. Some Member States also arranged regional export control seminars.

The MTCR terminated its work on an international code of conduct on ballistic missiles in 2001. In 2002 further negotiations took place at international meetings in Paris and Madrid, after which the code was opened for accession at an international conference in the Hague on 25-26 November. The so called Hague Code comprises a number of principles, undertakings and confidence-building measures aimed at curbing the proliferation of ballistic missiles. About 100 countries, including Sweden, have subscribed to the Code so far.

The Wassenaar Arrangement

The Wassenaar Arrangement (WA) was formed in 1996 as a successor to the multilateral export control cooperation that had previously taken place within the framework of the Coordinating Committee on Multilateral Export controls (COCOM). It became increasingly apparent after the end of the cold war that cooperation within the COCOM framework must be extended to include former Eastern bloc countries. COCOM ceased to exist on 31 March 1994, and after three years of negotiations a new export control regime was established – the Wassenaar Arrangement.

The WA is based on the principle that trade in the items in the control lists shall be allowed but must be monitored in order to avoid destabilizing accumulations. The aim of the Arrangement is to contribute to regional and international security and stability by promoting transparency and responsibility with regard to transfers of conventional weapons and dual-use items, thus helping to avoid destabilizing accumulations.

The WA targets a broader product portfolio than the other export control regimes. Two control lists are attached to the basic document: the Munitions List, which covers conventional military equipment, and the List of Dual-Use Goods and Technologies, which covers technologies with civilian and military uses that are not included in the control lists of the other control regimes. Further information about the WA is available at its website, www.wassenaar.org.

In spring 2002 an acceptable solution was found to an issue that has long been a subject of technical discussions in the WA by revising the control levels for computers. At the same time, efforts continued at the political level with a view to formulating new proposals as to how to implement the provision on combating terrorism that was inserted in the basic document in 2001. At the December 2002 plenary the WA adopted a number of proposals, including a new guideline document for exports of small arms and light weapons. The WA also adopted a new Statement of Understanding on arms brokering and increased the number of sub-groups in the seven arms categories included in the WA's reporting mechanism. It also adopted an action programme to develop and strengthen the Wassenaar Arrangement Information System (WAIS). Sweden has made a major commitment both to the issue of small arms and light weapons and the work on arms brokering and has also played a leading role in connection with WAIS. During 2003 the organization will perform its second overall assessment.

13 EC Regulation on the control of exports of dual-use items

In 2000 the Council of the European Union issued a new Regulation, Council Regulation (EC) No 1334/2000 setting up a Community regime for the control of exports of dual-use items and technology (OJ No L 159, 30.6.2000, p. 1). The new Regulation entered into force on 28 September 2000, replacing Council Regulation (EC) No 3381/94 setting up a Community regime for the control of exports of dual-use goods, which entered into force on 1 July 1995. Unlike the multilateral export control regimes that were described in previous sections, the Regulation is legally binding on Sweden. Its purpose is to establish free movement for controlled items in the internal market while strengthening and harmonizing the various national export control systems.

The Regulation combines the Member States' undertakings within the framework of the multilateral export control regimes with the freest possible trade in the internal market. Developments in the regimes (NSG, AG, MTCR and WA) are taken into account by continuous alterations and updates of the lists of items annexed to the Regulation. The annexes to the new Regulation are adopted within the framework of Community cooperation under the first pillar, which means that they become directly applicable at the national level. The annexes are to be updated on an annual basis. However, the updating of the alterations adopted by the regimes in 2001 was delayed, and therefore the update was carried out at the end of 2002 at the same time as the update for that year.

The Regulation of 2000 introduced several new elements, one of which was a general Community authorization for exports of specific products to certain third countries. The new Community authorization has simplified matters for exporters since one and the same authorization can be referred to regardless of the EU country from which the products are exported. This has also led to a better consensus in the EU on this type of exports. The processing of licence applications is now simpler since the new Regulation also includes common criteria that must be taken into account by the Member States when processing applications.

Swedish legislation

The Swedish Control of Dual-Use Items and Technical Assistance Act (2000:1064) and the associated Ordinance (2000:1217) complement the Council Regulation at the national level. Both the Act and the Ordinance entered into force on 1 January 2001 and replaced the Strategic Products Act (1998:397) and the Strategic Products Ordinance (1998:400).

Licences must be obtained for exportation and transfer of dual-use items, and the granting authority is the ISP. However, in the case of nuclear material and materials etc. listed in Annex 1 to the Council Regulation, licences are granted by the Swedish Nuclear Power Inspectorate. Data on the number of export applications concerning dual-use items that were submitted to the ISP will be found in Annex 2.

Unlike the legislation on military equipment, in which export licences represent exemptions from a general prohibition of exports, the reverse applies under the rules for control of dual-use items. In such cases export licences are granted unless they are prejudicial to foreign or security interests within the meaning of the EC Regulation.

Like the previous legislation, the Dual-Use Items and Technical Assistance Act does not include any provisions concerning the possibility of obtaining advance notification of whether or not an export licence will be granted in the event of exportation of dual-use items to a specific destination. However, in practice the ISP gives companies advance notifications nonetheless. 43 advance notifications were issued in 2002.

The catch-all clause

Under the Regulation and Swedish legislation, a licence may also be required for exports of items that are not specified in the annexes to the Regulation ('non-listed items') if the exporter has been **informed** by the ISP that the item is or may be intended to be used in connection with the production of weapons of mass destruction or missiles that are capable of carrying such weapons. This provision, which allows for controls of non-listed items, is a catch-all clause that has been added to ensure that the aims of the Regulation are not circumvented due to the fact that item lists are seldom exhaustive in view of technological developments. Statistics on catch-all procedures during the period 2000-2002 will be found in Annex 2.

The catch-all clause includes special conditions for licences in certain cases for exports related to military end use or military equipment. The clause also contains directly applicable provisions under which authorization is required for exports of non-listed items that are or may be intended for military end use in a country that is subject to a UN, EU or OSCE embargo and non-listed products which are or may be intended for use as parts or components for military equipment that has been illegally exported.

As regards the first three paragraphs of Article 4 of the Council Regulation, the exporter must be informed by the ISP of the use of the item. However, the exporter is also required under Article 4.4 to inform the competent authority (ISP) if he is **aware** that an item is intended, in its entirety or in part, for a use referred to in paragraphs 1-3 of the Article. In that case the ISP must decide whether or not an export licence is required.

14 Cryptography

The Government presented its views on certain aspects of the use and control of cryptoproducts in its Communication to the Riksdag on cryptography (1998/99:116).

The question of the extent to which export controls should apply to cryptoproducts has attracted considerable attention both in Sweden and

elsewhere. Account must be taken of the important role these products in the development of electronic commerce and electronic administration at both the national and international levels, of the judicial authorities' possibilities when it comes to fighting organized crime, including so called 'cyber crime', and of the need – for reasons of national security – to prevent access to powerful cryptographic tools, for example for users who are associated with the development or production of weapons of mass destruction or with terrorism.

The main forum for international discussions in this field is the Wassenaar Arrangement, which adopted major amendments to the list for information security products in December 1998. The requirements were relaxed somewhat in December 2000 by abolishing the requirement relating to the maximum length of crypto keys for mass market products (see the Cryptography Note). The reason given for the latter alteration is the need to revise the list in the light of rapid technological developments in this area.

The Swedish Government's view on this matter is that there remain national security reasons for preventing the dissemination of certain cryptoproducts to unsuitable recipients in some countries. The trade in cryptoproducts in the EU's single market should be as free as possible in order to promote electronic communications and trade and the development of IT in Sweden and in the EU as a whole.

The Regulation on the control of exports of dual-use items and technology (see section 13), as amended in 2000, has led to a situation where Swedish suppliers can sell almost all types of cryptoproducts in the EU and in about ten other countries, including the USA, as freely as on the Swedish domestic market.

Sweden also advocates freer trade in cryptoproducts with third countries, taking into account the importance of electronic communication and crime prevention and security concerns. A consensus must be reached in the EU, in particular with respect to the Member States' controls of crypto product exports to third countries. If these countries' policies are not co-ordinated, the controls will in practice be ineffective and distort competition in the industries concerned. The need to avoid a situation in which Sweden applies less stringent controls than other important exporting countries is another argument for achieving a consensus. Otherwise those countries might impose export restrictions on Sweden.

The limited export controls of crypto technology that are appropriate should be maintained by means of prompt and unbureaucratic procedures in order to avoid any competitive disadvantage for Swedish industry in relation to the control procedures applied by other countries, and preferably to give Swedish industry a competitive advantage.

The general licences that were introduced in 1999, including licences for exports of mass market cryptoproducts to all the significant export markets, and a time-saving control procedure in other respects, have eased the burden for companies.

In the Government's opinion, the policy on cryptoproducts should be flexible and supportive in order to meet the growing need for secure communications and to respond to changes in other countries' policies and future technological developments in this area.

Following the events of 11 September 2001 and the spread of the Internet to practically all the countries in the world, several countries are now giving careful consideration to the impact of the Internet on vulnerability, the availability of criminal information on the Internet, rules for Internet traffic and methods for controlling the spread of cryptography and learning more about cryptoproducts in use. There is a growing opinion in favour of giving countries' judicial authorities and security organs access, in connection with criminal investigations, to a clear-text version of transmitted information, for example by making available the crypto keys that are used. There are also demands for greater transparency as regards the construction of cryptoproducts. Such demands may influence export control policies.

Against this background, a small-scale review of the Government's Communication to the Riksdag on cryptography (Comm. 1998/99:116) has been initiated in the Government Offices.

15 Intangible transfers

The question of controls of intangible transfers, i.e. transfers of software or technology, is a subject that has exercised most of the export control regimes and the EU for several years. Transfers between countries are made mainly via electronic media (computer networks and the Internet). Technology can also be transferred verbally and by telefax.

Council Regulation 1334/2000 defines software as a collection of one or more programmes or microprogrammes fixed in any tangible medium of expression. Technology means specific information necessary for the development, production or use of items. This information takes the form of technical data or technical assistance.

This section will focus on electronic transmission by means of the Internet and other computer networks.

Electronic transmission of software and technology is one of the most neglected areas in the field of export controls, and in the light of recent developments there is a risk of its becoming a weak link in the export control chain. There are enormous numbers of potential transmitters and receivers, and for non-governmental entities, including terrorists, electronic transmission is a simple, cheap and safe method. This makes it easier for terrorists to use such transmission for their purposes. There is a greater risk that terrorists will use the transmitted information in order to produce weapons of mass destruction and it will be easier for them to carry out information operations designed to paralyse essential functions ('cyberterrorism').

It is particularly important to take measures to prevent illicit electronic technology transfer (as defined above). Technology transfer is carried out by all exporters, both for military equipment and dual-use items. Exporters can use inputs in their solutions delivered by suppliers in other countries. Such process chains can be long and complex, and it is difficult to identify where export-controlled components are developed and incorporated into the final product.

The subject is complicated, and efforts in this field have met with little success so far. Sweden is making active efforts to achieve effective export controls in the field of electronic transmission of technology by means of computer networks. Among other things, much better data and descriptions of this area are needed. The work of broadening and deepening knowledge is being undertaken at a national level and in collaboration with other countries and within the EU. The next step in the ongoing process is to present proposals for policy and measures in this area. Sweden is also working on the question of electronic transmission of software via computer networks. This question is being considered both by Sweden and the EU, and by the export control regimes.

Last year's Communication to the Riksdag with a report on Sweden's export control policy and exports of military equipment (Comm. 2001/02:114) contained a section on intangible transfers (section 19). Please refer to that section for specific information.

Data on intangible transfers were collected in 2002 by the Ministry for Foreign Affairs in cooperation with other authorities, in particular the ISP and export control authorities in several other countries, both in the EU and North America. Topical issues being discussed by the export control regimes and the progress made by the regimes in this area were monitored. The expansions of the Internet and its spread to almost all the countries in the world have been examined. The Internet is an excellent medium for transferring software and technology. Due to its global distribution, sensitive information can be stored in places (some of which may be unsuitable) without the knowledge of exporters.

The criteria and procedures applied by Swedish authorities in export control matters relating to containing intangible transfers were also studied.

Policies and procedures will be proposed when this fact-finding and analysis exercise is completed. This will give Sweden a stable platform from which to influence the EU and the export control regimes to take appropriate measures to improve the situation.

Swedish initiatives in the EU in 2001 and 2002

The Government has taken initiatives leading to cooperation between the Commission and the Member States on the complex issue of electronic transmissions and exports in order to promote the development of uniform national control mechanisms. One important reason for this is that a certain degree of harmonization reduces the risk of fast-moving electronic exports finding the 'easiest' way out of the EU's internal market to third countries.

The Swedish initiatives were considered in 2002 both by the coordination group that takes part in implementation of the EC Regulation (1334/2000) and by the Council Working Party on Dual-Use. The work within the EU framework is expected to continue for several years.

Part III – Export controls – competent authority, other bodies and their activities

16 The National Inspectorate of Strategic Products

The National Inspectorate of Strategic Products (ISP) was established on 1 February 1996 as the authority responsible for implementing the controls laid down in the Military Equipment Act and the corresponding Ordinance. The Inspectorate thus assumed responsibility for most of the matters previously decided by the Government following preparation by the Inspectorate-General of Military Equipment and the department within the Ministry for Foreign Affairs that was responsible for exports of strategic products. The ISP was also assigned responsibility for controls under the Control of Dual-Use Items and Technical Assistance Act (2000:1064) and the corresponding Ordinance. In addition, the ISP has been designated the competent national authority within the framework of the UN Chemical Weapons Convention (CWC).

The ISP is thus responsible for matters relating to licences and exports of both military equipment and products with both civil and military uses (dual-use items). Under section 1a of the Military Equipment Act and section 5 of the Strategic Products Act the Inspectorate is, on its own initiative, to refer matters that are deemed to be of interest from the point of view of principle or of particular importance for other reasons to the Government for a decision. The ISP works in close consultation with the Ministry for Foreign Affairs and the Ministry of Defence.

The ISP maintains regular contacts with the companies whose exports are the subject of its control activities. Companies are required to provide the ISP with quarterly reports on their marketing of military equipment in other countries. These reports form the basis for the ISP's periodic briefings with the companies regarding their export activities. Besides processing applications for licences, the ISP reviews the notifications that companies are required to submit at least four weeks before submitting tenders or signing contracts for exports of military equipment or other cooperation with foreign partners in this field. Finally, exporters of military equipment must notify the deliveries of military equipment that are made under the export licences issued to them.

The ISP is financed by annual fees paid by the manufacturing companies. The fees are assessed on the basis of the total invoiced value of controlled products delivered in excess of 2.5 MSEK a year. The fees are calculated on the basis of deliveries both in Sweden and abroad. The fees are paid to the Ministry of Finance and not to the ISP, in order to avoid any direct connection between the Inspectorate's operations and the payments made by the industry. The Inspectorate's current activities are financed by a budget appropriation in the normal way and its costs are covered by annual fees paid by the industry in arrears, when the actual cost of operations and the value of companies' invoiced deliveries is established.

Altogether, the ISP received 1,406 applications for export licences in 2002. 279 of these related to dual-use items. The corresponding figures for 2001 were 1,421 and 245, respectively, and 1,571 and 231, respectively, for 2000. One explanation for the declining trend regarding export licences for military equipment is that the Inspectorate increasingly makes use of project licences with more detailed specifications and a longer period of validity. General licences have also been introduced for military equipment belonging to Swedish or foreign armed forces. 112 industry declarations were submitted in 2002 by the industry to the ISP within the framework of the Chemical Weapons Convention, compared with 125 in 2001. The corresponding number of industry declarations submitted to the OPCW secretariat in the Hague was 40, compared with 38 in 2001. Industry declarations are statements about the operations carried on at companies or plants that use, import and export certain sensitive chemicals on a professional basis. One Swedish plant was inspected by the OPCW under the verification provisions of the Chemical Weapons Convention in both 2002 and 2001.

The ISP continued its efforts to rationalize licensing procedures during the year in order to simplify the administrative process for routine applications. The Inspectorate's aim is to process applications for export licences within a month of receipt, and eventually within two weeks. A system for secure electronic communication between the ISP and exporters of military equipment was developed in 2002. The system will come into use in 2003.

17 The Export Control Council

Under chapter 10, section 6 of the Instrument of Government the Government must, wherever possible, consult the Advisory Council on Foreign Affairs before taking decisions on important matters relating to foreign affairs. Under this provision, some matters relating to exports of military equipment call for consultation with the Council. However, it has also been considered desirable to achieve a broader political consensus in connection with other matters relating to such exports that are of interest from the point of view of principle. The Riksdag therefore passed a Bill (1984/85:82) in 1984 that proposed greater transparency and consultation in matters relating to exports of military equipment and the establishment of an Advisory Board on Exports of Military Equipment. The Board was reorganized on 1 February 1996 in connection with the establishment of the National Inspectorate of Strategic Products (ISP), and was renamed the Export Control Council. At the same time its composition was broadened to reflect the broader composition of the Advisory Council on Foreign Affairs today. All the political parties in the Riksdag are therefore represented on the Export Control Council, which has ten members. An up-to-date list of the members of the Council is available on the ISP's website www.isp.se.

The Council is convened by the Director-General of the ISP who also chairs the meetings. The Export Control Council is consulted before

decisions are taken on important licensing applications. The Ministry for Foreign Affairs participates in the meetings, presenting assessments of the recipient countries under consideration, and the Ministry of Defence contributes assessments of the defence policy aspects. The Council seeks to interpret the guidelines in a consistent manner in order to provide further guidance for the Inspectorate.

The members have unrestricted access to the documentation of all export licence application procedures since all decisions on export sales are presented on a continuous basis. This also ensures that the Riksdag is kept informed of the application of the Military Equipment Act (1992:1300) and has a say before important decisions are taken. The Director-General can also consult the Council when necessary on matters concerning the application of the Control of Dual-Use Items and Technical Assistance Act (2000:1064). The purpose of the Swedish system, which has no counterpart elsewhere, is to build a broad consensus on export control policy and promote continuity in the conduct of that policy.

The Advisory Council on Foreign Affairs, and not the Export Control Council, is still consulted in cases where this is prescribed by the Instrument of Government.

Ten meetings of the Export Control Council were held in 2002, which was the same number as in 2001.

18 The Technical and Scientific Council

The Technical and Scientific Council, which consists of representatives of several institutions with expertise in technological applications for both civilian and military uses, was established in 1984 to assist the Director-General of the National Inspectorate of Strategic Products in connection with decisions concerning the classification of military equipment. As in 2001, the Council held three meetings in 2002.

Following the establishment of the ISP, the field of activities of the Technical and Scientific Council has been extended to include dual-use items where the need arises.

19 Dissemination of information concerning export controls

Sweden actively encourages increased transparency in the trade in military equipment at the international level. Efforts are also made at the national level to disseminate information in this area. The Government's annual report on Swedish exports of military equipment is published in the context of its efforts to achieve greater openness. The annual report is published in Swedish and English and is available on the websites www.ud.se and www.regeringen.se, as well as in Rixlex (www.riksdagen.se).

The annual report that is issued within the framework of the EU Code of Conduct for Arms Exports is an important instrument for increasing transparency at the European level. Sweden has called for continuous improvement and expansion of this report. The Code of Conduct will be found in Annex 4 to this Communication. As a further measure to promote information access in this area internationally the Government has continued to provide funding for the Internet database managed by the Stockholm International Peace Research Institute (SIPRI) (www.sipri.se), which contains information on national and international export control regimes and some statistics on holdings and exports.

An important task for the ISP is to disseminate information about export controls, both to the general public and to the companies concerned. In 1998 the ISP published a revised edition of the handbook last published by the former Inspectorate-General in 1993. The handbook is chiefly intended for the defence industry and government agencies that deal with the production and exports of military equipment. It describes current legislation, the regulatory framework and the application processing procedure. A similar handbook concerning strategic products was published for the first time in 1998. As usual, the ISP arranged seminars and information meetings in 2002 on its activities primarily for personnel in the industry. The Agency also took part in a number of seminars arranged by non-governmental organizations (NGOs) both in Sweden and in other countries. The Inspectorate opened a comprehensive website on the Internet in 1998 (www.isp.se).

20 Annex 1: Swedish exports of military equipment in 2002

20.1 Introduction

The National Inspectorate of Strategic Products (ISP) continuously monitors Swedish companies' marketing and exports of military equipment, and it supplies the Government with the statistical data for this report on exports of Swedish military equipment. The 120 or so enterprises that are authorized to manufacture military equipment (excluding about 50 'hand loaders', private individuals who manufacture and sell hunting and sporting ammunition), some 40 of which are active exporters, are required by law to submit various kinds of information about their operations to the ISP. The Government declared its intention, in the Bill *Greater Transparency and Consultation in Matters Relating to Exports of Military Equipment* (1984/85:82), of submitting an annual report to the Riksdag on Swedish exports of military equipment. The subject of the present report is Swedish exports of military equipment in 2002.

20.2 Export licences granted

Table 1
Export licences granted for sales of military equipment during the period 1998-2002 at current prices

Year	Value in MSEK at current prices			Change in %		
	Total	MEC	OME	Total	MEC	OME
1998	3 273	1 449	1 824	-35.3	-41.6	-29.3
1999	7 153	1 082	6 071	+118.5	-25.3	+232.8
2000	4 640	2 369	2 271	-35.1	+118.9	-62.6
2001	23 900	21 228	2 672	+415	+796	+18
2002	5 882	3 094	2 788	-75,4	-85,4	+4,3

The value of the export licences granted is reported under two main categories: Military Equipment for Combat Purposes (MEC) and Other Military Equipment (OME). The MEC category consists of destructive equipment, including sights, and firing control equipment. The OME category consists of parts and components for equipment for combat purposes and equipment that is not directly destructive in a combat situation.

The value for 2002 was close to the average value for the last ten years with the exception of 2001, when it was extremely high due to the export licences granted during the year for exports of the JAS 39 Gripen combat aircraft and of Combat Vehicle 90. The total value of the export licences granted was SEK 5,882 million in 2002, which represents a decrease of 75% compared with 2001. The value of export licences granted in the MEC category was MSEK 3,094 – a decrease of 85% compared with 2001. The value of the export licences granted in the OME category increased by 4% during the same period to MSEK 2,788.

Export licences are granted, on the one hand, for many small transactions involving items such as spare parts or ammunition, and on the other hand for a small number of very large transactions involving major systems that are delivered over a period of several years. A few large transactions, which do not necessarily occur every year, can thus have a very significant effect on the results in a given year. As can be seen from figure 1 below, there are considerable differences in the statistics on export licences from one year to another, and this is particularly true of the figures for 2001 due to the great impact made by the export licences for JAS 39 Gripen. However, these variations in the value of export licences make little impact on actual exports of Swedish military equipment, which do not vary greatly from one year to the next. The reason for this is that the exports associated with a major export licence are usually spread over several years.

Figure 1
Value of export licences granted and actual exports of military equipment in MSEK, 1998-2002

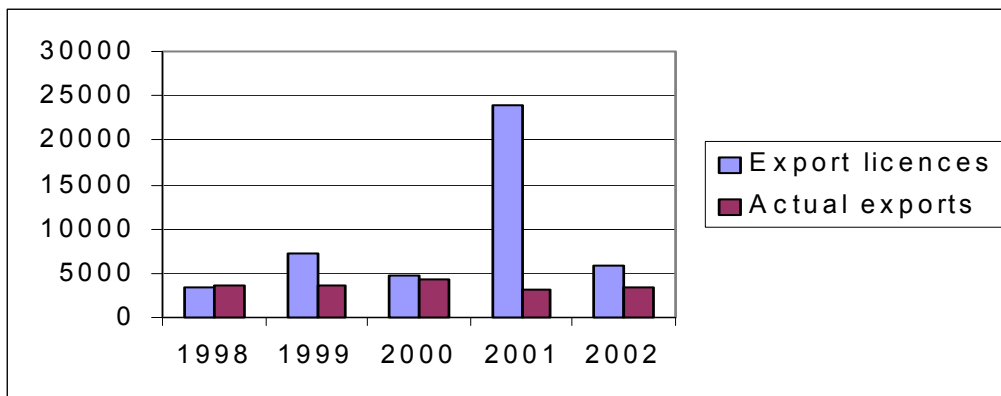


Table 2 shows the destinations for which export licences were granted, the total value of the licences for each country and the categories of equipment covered by the licences. The categories of equipment are the main categories specified in the Military Equipment Classification (MEC 1-11, OME 21-37), which are listed in table 4. More detailed information on the content of each category will be found in Annex 1 to the Military Equipment Ordinance (1992:1303). The main types of products in the respective categories of equipment are listed in the table. This means that export licences were granted for one or more of the products, or related

subcomponents, in an equipment category. But it does not mean that export licences were granted for all the products in each category.

In cases where only one or two licences were granted, an approximate value is given in order to protect commercial interests or defence secrets. The various subcategories of equipment in the MEC and OME categories may have the same designation; the designations are generic and relate to the type of equipment system. The MEC category consists of destructive equipment, including sights, and firing control equipment. The OME category consists of parts and components for military equipment for combat purposes and equipment that is not directly destructive in a combat situation.

Table 2

Export licences granted and their total value in 2002 by countries and the main categories specified in the Military Equipment Classification*

* The table lists the main types of products in the respective categories of equipment, which does not, however, mean that export licences were granted for all the products. For illustrative purposes, specific equipment information is given instead of the standardized main category descriptions in the case of a small number of countries.

Country	No. of licences granted	Main category for which export licences were granted (category numbers and types of products)		Value of granted licences (MSEK) ²
		MEC	OME ³	
Australia	25	3,4,5,7 Ammunition, missiles, rockets etc., firing control equipment, gunpowder and explosives	22,23,24,25,28,37 Barrel weapons, ammunition, bombs, torpedoes etc., reconnaissance and measurement equipment, surveillance vessels, software	139
Austria	16	6,7 Components for tear-gas products, gunpowder and explosives	23,24,29,35,36 Ammunition, bombs, torpedoes etc., aircraft and helicopters and related parts, training equipment, manufacturing equipment	128.3
Bahrain	1		23 Ammunition for military target shooting	<1
Belgium	9	3 Ammunition	21,22,23,25 Barrel weapons, ammunition, reconnaissance and measurement equipment	34.3

² The values are rounded to the nearest decimal point. In cases where only one or two licences were granted, an approximate value is given.

³ The various subcategories of equipment in the main categories MEC and OME may have the same designation; the designations are generic and relate to the type of equipment system. The content of the two categories is as follows.

MEC: Military equipment for combat purposes consists of destructive equipment, including sights for such equipment, and firing control equipment.

OME: Other military equipment includes parts and components for military equipment for combat purposes and equipment that is not directly destructive in a combat situation.

Country	No. of licences granted	Main category for which export licences were granted (category numbers and types of products)		Value of granted licences (MSEK) ²
		MEC	OME ³	
Brazil	6	2,3,7 Barrel weapons, ammunition, gunpowder and explosives	22,25 Barrel weapons, reconnaissance and measurement equipment	42.6
Brunei	1		21 Sight attachments	<1
Canada	11	3,7 Ammunition, gunpowder and explosives	21,22,23,25 Barrel weapons, ammunition, reconnaissance and measurement equipment	23.2
Chile	7	2,3,7 Barrel weapons, ammunition, gunpowder and explosives	22,35 Barrel weapons, training equipment	30.9
Czech Republic	11	3,7 Ammunition, gunpowder and explosives	23,29 Ammunition, aircraft and helicopters and related equipment	7.8
Denmark	17	3,7 Ammunition, gunpowder and explosives	21,23,25,29,35 Barrel weapons, ammunition, reconnaissance and measurement equipment, equipment for aircraft and helicopters, training equipment	50.3
Egypt	1		23 Ammunition for military target shooting	<1
Estonia	3	3 Ammunition	21,23 Barrel weapons, ammunition	0.5
Finland	38	1,2,3,5,7,10 Barrel weapons, ammunition, firing control equipment, gunpowder and explosives, combat vehicles	21,22,23,25,30,35,36,37 Barrel weapons, ammunition, reconnaissance and measurement equipment, equipment for vehicles, training equipment, manufacturing equipment, software	2,364
France	14	2,3,7 Barrel weapons, ammunition, gunpowder and explosives	21,23,25,35 Barrel weapons, ammunition, reconnaissance and measurement equipment, training equipment	42.9
Germany	68	3,6,7 Ammunition, components for tear-gas products, gunpowder and explosives	21,22,23,24,25,27,28,30,35 Barrel weapons, ammunition, bombs, torpedoes etc., reconnaissance and measurement equipment, explosives, surveillance vessels, equipment for vehicles, training equipment	742.9
Greece	8	2,7 Barrel weapons, gunpowder and explosives	21,23,25 Barrel weapons, ammunition, reconnaissance and measurement equipment	91.5
Hungary	5	3,7 Ammunition, gunpowder and explosives	23 Ammunition	0.7

Country	No. of licences granted	Main category for which export licences were granted (category numbers and types of products)		Value of granted licences (MSEK) ²
		MEC	OME ³	
India	9	2,3 Barrel weapons, ammunition	22,24,35 Spare parts for barrel weapons, parts for bombs, torpedoes etc., training equipment	298.2
Indonesia	1		22 Spare parts for barrel weapons	<1
Iceland	3	3 Ammunition	21,23 Barrel weapons, ammunition	0.5
Ireland	4	4,5 Missiles, rockets etc., firing control equipment	23 Ammunition	6.4
Italy	11	3,7 Ammunition, gunpowder and explosives	21,23,25,29,36 Barrel weapons, ammunition, reconnaissance and measurement equipment, equipment for aircraft and helicopters, manufacturing equipment	5.9
Japan	22	3,7 Ammunition, gunpowder and explosives	22,23,24,36 Barrel weapons, ammunition, bombs, torpedoes etc., manufacturing equipment	20.2
Kuwait	5	5 Firing control equipment	21,25,37 Barrel weapons, reconnaissance and measurement equipment, software	4.8
Latvia	3	3 Ammunition	23,35 Ammunition, training equipment	10.9
Luxembourg	2	3 Ammunition	21 Sight attachments	<5
Malaysia	5		21,22,25 Barrel weapons, reconnaissance and measurement equipment	26.4
Mexico	11	2,3,5 Barrel weapons, ammunition, firing control equipment	22,25,28,35,36,37 Barrel weapons, reconnaissance and measurement equipment, surveillance vessels, training equipment, manufacturing equipment, software	488.6
Netherlands	12	3,7 Ammunition, gunpowder and explosives	21,22,23,25 Barrel weapons, ammunition, reconnaissance and measurement equipment	9.1
Norway	38	2,3,4,7 Barrel weapons, ammunition, missiles, rockets etc., gunpowder and explosives	21,22,23,24,28,29,35 Barrel weapons, ammunition, bombs, torpedoes etc., surveillance vessels, equipment for aircraft and helicopters, training equipment	67.2
New Zealand	5		21,23 Barrel weapons, ammunition	3.9
Pakistan	3		24,36 Parts for bombs, torpedoes etc., testing equipment	51.5
Portugal	3		21,22 Barrel weapons	0.9
Romania	2		23 Hunting and sporting ammunition	<1

Country	No. of licences granted	Main category for which export licences were granted (category numbers and types of products)		Value of granted licences (MSEK) ²
		MEC	OME ³	
Russia	8		21,23 Air rifles, hunting and sporting ammunition	5.5
Singapore	20	3,5 Ammunition, firing control equipment	21,22,25,28,30,35,37 Barrel weapons, reconnaissance and measurement equipment, surveillance vessels and related equipment, equipment for vehicles, training equipment, software	301.6
Slovakia	2	3 Ammunition	23 Ammunition	<1
South Africa	5	7 Gunpowder and explosives	21,23 Barrel weapons, ammunition	1.4
Spain	10	3,7 Ammunition, gunpowder and explosives	23,25,26 Ammunition, reconnaissance and measurement equipment, protective equipment	0.9
Switzerland	24	7 Gunpowder and explosives	23,25,30,37 Ammunition, reconnaissance and measurement equipment, equipment for vehicles, software	64.8
Thailand	6	4 Missiles, rockets etc.	22,24,25,35 Barrel weapons, bombs, torpedoes etc., reconnaissance and measurement equipment, training equipment	40.7
Tunisia	1		25 Reconnaissance and measurement equipment	<1
Turkey	3		23 Ammunition for military target shooting	2.6
United Arab Emirates	4		22,23,25,28 Spare parts for barrel weapons, ammunition for military target shooting, spare parts for reconnaissance and measurement equipment, surveillance vessels	128.3
United Kingdom	17	2,3,7 Barrel weapons, ammunition, gunpowder and explosives	21,24,25,29,35,37 Barrel weapons, bombs, torpedoes etc., reconnaissance and measurement equipment, aircraft and helicopters and related equipment, training equipment, software	28.9
USA	66	2,3,7 Barrel weapons, ammunition, gunpowder and explosives	21,22,23,25,26,29,33,35 Barrel weapons, ammunition, reconnaissance and measurement equipment, protective equipment, equipment for aircraft and helicopters, electronic equipment, training equipment	546
Venezuela	2	5 Firing control equipment	25 Reconnaissance and measurement equipment	<80

20.3 Actual deliveries

The ISP's export statistics are based on the statements on the invoiced value of equipment supplied that the export companies are required to submit. As can be seen in table 3 below, Swedish exports of military equipment increased in 2002 from MSEK 3,060 to MSEK 3,440, which represents an increase of 12% at current prices compared with 2001. However, the value of exports of MEC fell by over 10%. The increase was therefore entirely due to exports of OME, the value of which increased by 28% compared with 2001. At 0.44%, exports of military equipment as a percentage of Sweden's total exports remained almost unchanged compared with 2001.

Table 3
Value of exports of Swedish military equipment during the period 1998-2002 at current prices

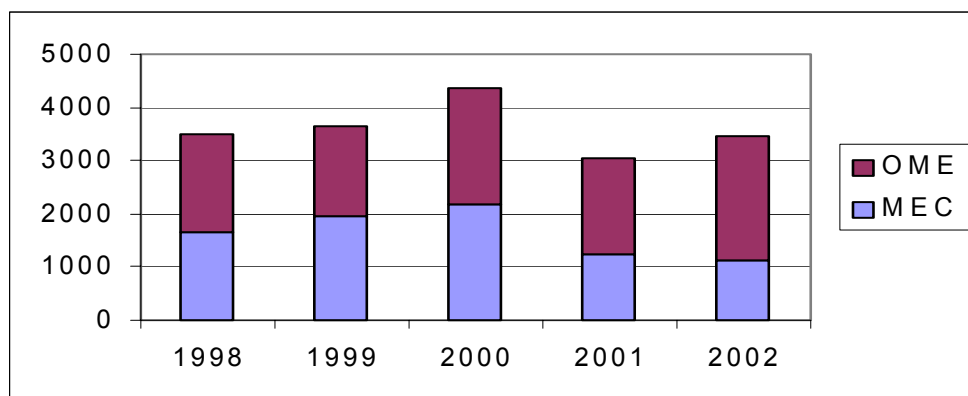
Year	Sweden's total exports of goods (curr.prices) MSEK	Exports of military equipment						
		Share of total exports %	Current prices, MSEK			Change in %		
			Total	MEC	OME	Total	MEC	OME
1998	673 091	0.52	3,514	1,662	1,852	+13.3	+77.0	-14.3
1999	700 945	0.52	3,654	1,954	1,700	+4.0	+17.6	-8.2
2000	796 673	0.55	4,371	2,189	2,182	+19.6	+12.0	+28.4
2001	780 594	0.4	3,060	1,247	1,813	-30	-43	-17
2002	786 625	0,44	3,440	1,120	2,320	+12.4	-10.2	+28

Changes in the above statistics from one year to another cannot be used as a basis for long-term assessments of export trends. Individual sales of large systems give rise to substantial fluctuations in the statistics.

Figure 2 shows the value of Sweden's exports of military equipment during the period 1998-2002 by the two categories Military Equipment for Combat Purposes (MEC) and Other Military Equipment (OME).

Figure 2

Value of Swedish exports of military equipment in MSEK during the period 1998-2002, broken down into Military Equipment for Combat Purposes (MEC) and Other Military Equipment (OME)



Swedish exports of military equipment are also recorded in the general foreign trade statistics which are based on information supplied by the customs authorities to Statistics Sweden (SCB). However, SCB statistics include civilian products to which the Military Equipment Act is not applicable. These figures cannot be compared with ISP statistics and are not included in this report. The breakdown of the trade statistics was explained in Communication 1996/97:138.

20.4 Breakdown of exports by type of equipment

In table 4 exports of military equipment are broken down into the main categories specified in the Military Equipment Classification. This breakdown of the data gives some idea of the structure of military equipment exports as regards equipment categories. As with other types of export statistics, they should not be used to draw far-reaching conclusions about export trends, since the volume of exports is not sufficiently large to ensure even equipment flows in all the categories produced in Sweden; rather, the figures indicate a random emphasis that shifts over time depending on the export contracts won by the industry.

During the period in question, i.e. 2001-2002, small-calibre barrel weapons (MEC 1), the most important item in the category 'small arms and light weapons', played a negligible role in Swedish exports. This is worth bearing in mind in the light of Sweden's active role within the UN framework in the fight against the illicit trade in small arms and light weapons. The small-calibre barrel weapons mentioned under OME 21 are hunting and sporting weapons, exports of which are controlled in

order to avoid large shipments of such weapons, which might be used for military purposes.

Table 4. Value of Swedish exports of military equipment during the period 2000-2001 (MSEK) in accordance with the main categories specified in the Military Equipment Classification

	2001	2002	
<i>Military Equipment for Combat Purposes (MEC)</i>			
MEC1	Small-calibre barrel weapons	0	0
MEC2	Cannons, anti-tank guns	46	204
MEC3	Ammunition	306	223
MEC4	Missiles, rockets, torpedoes, bombs	72	25
MEC5	Firing control equipment	155	42
MEC6	ABC weapons	0.7*	0.6*
MEC7	Gunpowder and explosives	117	122
MEC8	Warships	488	178
MEC9	Combat aircraft	0	0
MEC10	Combat vehicles	62	325
MEC11	Directed energy weapon systems	0	0
TOTAL MEC		1,247	1,120

* The exports under MEC6 consist of components for tear-gas products to countries in Western Europe

Other Military Equipment (OME)

OME21	Small-calibre barrel weapons, parts etc.	5	6
OME22	Cannons, anti-tank guns, parts etc.	180	110
OME23	Ammunition for training purposes etc.	258	210
OME24	Training rockets, sweeping equipment etc.	39	57
OME25	Reconnaissance and measurement equipment	539	547
OME26	Protective equipment etc.	11	0.6
OME27	Gunpowder and explosives components	0	0
OME28	Surveillance vessels etc.	58	165
OME29	Aircraft designed for military use etc.	83	766
OME30	Vehicles designed for military use etc.	155	104
OME31	Directed energy weapon systems	0	0
OME32	Fortifications	0	0
OME33	Electronic equipment for military use	50	71
OME34	Photographic and electro-optical equipment	0.3	0.7
OME35	Training equipment	418	269
OME36	Manufacturing equipment	13	10
OME37	Software	3.5	2.8
TOTAL OME		1,813	2,320

20.5 Geographical distribution of exports

A total of 51 countries received deliveries of Swedish military equipment in 2002, compared with 55 in 2001 and 52 in 2000. The regional distribution of exports, as shown in tables 5a and 5b indicates the normal pattern, i.e. the largest share of Swedish exports of military equipment is destined for the Nordic countries, other Western European countries, North America, Australia and New Zealand. These destinations accounted for more than 64% of total exports in 2002; the corresponding figure for 2001 was 72% and for 2000 it was 64%.

Table 5a
Exports of military equipment by region in MSEK in 2002*

REGION	VALUE OF EXPORTS OF MILITARY EQUIPMENT (MSEK)		
	MEC	OME	TOTAL ⁴
European Union	201.6	884.2	1,085.8
North America	186.4	289	475.5
Non-EU Europe	304	239.9	543.9
Southeast Asia	198.2	285.2	483.4
South America	39	30.7	69.6
South Asia	0	7.9	7.9
Oceania	62.1	64.9	127
Central America and Caribbean	128.3	128	256.3
Middle East	0	26.8	26.8
Northeast Asia	0.2	1.7	1.9
North Africa	0	2	2
Sub-Saharan Africa	0.7	357.7	358.3

Since all the figures are given to one decimal place there may in some cases be a discrepancy between the total amount for the region and the MEC and OME subtotals.

* Sweden exported military equipment to the following countries in the respective regions: **EU** (Austria, Belgium, Denmark, Finland, France incl. New Caledonia, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Spain, United Kingdom) **North America** (USA, Canada) **Non-EU Europe** (Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Iceland, Lithuania, Norway, Poland, Romania, Russia, Slovakia, Slovenia, Switzerland, Turkey) **Southeast Asia** (Indonesia, Malaysia, Singapore, Thailand, Vietnam) **South America** (Brazil, Chile) **South Asia** (India, Pakistan) **Oceania** (Australia, New Zealand) **Central America and Caribbean** (Mexico) **Middle East** (Bahrain, Oman, Saudi Arabia, United Arab Emirates) **Northeast Asia** (Japan, Republic of Korea) **North Africa** (Tunisia) **Sub-Saharan Africa** (South Africa)

⁴ In addition, Sweden exported military equipment to the United Nations in 2002 to the value of SEK 1.7 million.

Table 5 b
Exports of military equipment by regions as a percentage of the value in 2002*

REGION	DISTRIBUTION OF EXPORTS OF MILITARY EQUIPMENT AS A PERCENTAGE OF THEIR VALUE		
	MEC	OME	TOTAL ⁵
European Union	18	38.1	31.6
North America	16.6	12.5	13.8
Non-EU Europe	27.1	10.3	15.8
Southeast Asia	17.7	12.3	14.1
South America	3.5	1.3	2
South Asia	0	0.3	0.2
Oceania	5.5	2.8	3.7
Central America and Caribbean	11.4	5.5	7.5
Middle East	0	1.2	0.8
Northeast Asia	0.0	0.1	0.1
North Africa	0	0.1	0.1
Sub-Saharan Africa	0.1	15.4	10.4

The following tables show the proportion of exports of military equipment to recipient countries. Table 6 includes all countries to which the value of exports of military equipment exceeded MSEK 1 in any year during the period 2000-2002.

The largest individual recipient of Swedish military equipment in 2002 was France (MSEK 479.3), followed by the USA (MSEK 460.8), Singapore (MSEK 419.8), Switzerland (MSEK 361.1) and South Africa (MSEK 358.3). These five destinations accounted for 60% of total Swedish exports of military equipment. The reason why South Africa and Singapore are two of the largest recipients in this year's statistics is that deliveries have started within the framework of the two large export deals for which licences were granted: the JAS 39 Gripen aircraft to South Africa and the Sjöormen ('Sea Serpent') submarine to Singapore.

⁵ In addition, Sweden exported military equipment to the United Nations in 2002 to the value of SEK 1.7 million.

Table 6
Exports of military equipment by country 2000-2002 (MSEK)

	2000			2001			2002		
	MEC	OME	Total	MEC	OME	Total	MEC	OME	Total
Australia	83.6	16.8	100.4	54	16.2	70.2	62.1	61.1	123.2
Austria	69.3	24.7	94.0	3.4	111.1	114.4	1.5	49.1	50.5
Bahrain	-	1.1	1.1	23.1	1.5	24.6	-	0.2	0.2
Belgium	0.09	85.0	85.09	0.0	10.2	10.2	8.3	6	14.3
Brazil	5.6	242.8	248.4	16	205	221	12	27.3	39.2
Canada	18.3	49.7	68.0	2.3	85.2	87.4	2.2	12.4	14.7
Chile				4	0.2	4.2	27	3.4	30.4
Croatia				-	5.4	5.4	-	2.3	2.3
Czech Republic	2.2	0.5	2.7	1.5	0.08	1.6	2.5	0.45	3
Denmark	6.2	37.9	44.1	314.2	20.6	334.8	5.5	82.1	87.5
Estonia	0.07	0.07	0.14	0.0	4.4	4.4	0.0	3.8	3.8
Finland	34.9	62.0	96.9	22.9	32.6	55.5	60	20.4	80.4
France	0.6	81.5	82.1	1.3	85.5	86.9	99.6	379.7	479.3
Germany	24.6	255.3	279.9	10.2	225.5	235.7	13	204.6	217.6
Greece	59.4	0.8	60.2	116.9	5.6	122.4	1	1.7	2.7
India	1.7	119.2	120.9	37.5	88.6	126.1	-	6.6	6.6
Indonesia				-	2.3	2.3	-	0.9	0.9
Ireland	16.7	12.3	29.0	5.5	12	17.5	3.8	5.8	9.5
Italy	3.6	74.4	78.0	5.2	11.2	16.4	4.3	7.9	12.2
Japan	0.3	10.5	10.8	0.4	23.3	23.8	0.2	1.6	1.8
Latvia	4.0	1.0	5.0	-	0.4	0.4	-	-	-
Lithuania	23.8	0.1	23.9	0.0	7.3	7.3	0.0	0.2	0.2
Malaysia	80.5	0.3	80.8	120.3	15.8	136.1	-	27.3	27.3
Mexico	202.7	29.1	231.8	55	-	55	128.3	128	256.3
Netherlands	0.1	10.5	10.6	0.0	32.2	32.2	2.5	48.1	50.6
New Zealand	2.5	0.8	3.3	3.4	2.1	5.5	-	3.8	3.8
Norway	877.8	274.0	1 151.8	122.9	234.4	357.3	28.8	139	167.8
Oman	-	0.4	0.4	-	1.7	1.7	-	0.3	0.3
Pakistan	-	0.3	0.3	5.9	9.7	15.6	-	1.3	1.3
Poland	16.4	1.5	17.9	-	0.2	0.2	0.07	0.2	0.3
Portugal	-	0.1	0.1	-	1.6	1.6	-	0.35	0.35
Russia							-	1.25	1.25
Saudi Arabia	-	0.2	0.2	-	2.2	2.2	-	1.2	1.2
Singapore	333.5	121.2	454.7	58.2	118	176.2	178	241.8	419.8
South Africa							0.65	357.7	358.3

	2000			2001			2002		
	MEC	OME	Total	MEC	OME	Total	MEC	OME	Total
Spain	0.8	46.3	47.1	0.07	55	55	0.4	11.8	12.2
Switzerland	59.9	34.1	94.0	37.8	26.4	64.2	272.4	88.7	361.1
Thailand	21.9	0.7	22.6	-	1.9	1.9	20.2	3.1	23.3
Tunisia	13.9	6.3	20.2	2.4	2.4	4.9	-	2	2
Turkey	-	1.4	1.4	-	1.4	1.4	-	2.6	2.6
United Arab Emirates	-	0.3	0.3	-	0.9	0.9	-	25.1	25.1
United Kingdom	2.1	70.0	72.2	28.2	70.7	98.9	1.5	66.8	68.3
USA	80.2	317.4	397.6	155.6	277.7	433.2	184.2	276.6	460.8
Venezuela	141.4	187.8	329.2	38.9	2.1	41	-	-	-
Vietnam							-	12.1	12.1
<i>Other countries</i>	<i>0.5⁶</i>	<i>3.7⁷</i>	<i>4.2</i>	<i>0.6⁸</i>	<i>2.7⁹</i>	<i>3.2</i>	<i>0.2¹⁰</i>	<i>3.4¹¹</i>	<i>3.6</i>
TOTAL	2 189	2 182	4 371	1 247	1 813	3 060	1 120	2 320	3440

Since all the figures are given to one decimal place there may in some cases be a discrepancy between the total amount for the year and the MEC and OME subtotals.

Exports of military equipment totalling less than SEK 50,000 are recorded in table 6 as MSEK 0.0.

In addition to the statistics on country exports in table 6, which only show whether the exported military equipment is Other Military Equipment (OME) or Military Equipment for Combat Purposes (MEC), table 7 includes data broken down into the relevant types of equipment for each destination. As in table 2, the data are broken down into the main categories specified in the Military Equipment Classification. More detailed information on the content of each category will be found in Annex 1 to the Military Equipment Ordinance (1992:1303). As in table 2, the main types of products in the respective categories of equipment are listed. This means that one or more of the products, or subcomponents of them, in an equipment category were exported, but it

⁶ Iceland, Hungary and South Africa

⁷ Andorra, Brunei, Bulgaria, Chile, Hungary, Iceland, Indonesia, Mauritius, Namibia, Peru, Russia, Slovenia and South Africa

⁸ Iceland, Hungary, Romania and South Africa

⁹ Argentina, Bulgaria, Hungary, Iceland, Mauritius, Namibia, New Caledonia, Peru, the Republic of Korea, Russia, Slovenia and South Africa

¹⁰ Hungary and Iceland

¹¹ Bulgaria, the UN, Hungary, Iceland, New Caledonia, the Republic of Korea, Romania, Slovakia, Slovenia

does not mean that all the products in each category of equipment were exported.

Table 7. Exports of military equipment in 2002 by countries and the main categories specified in the Military Equipment Classification (MSEK)*

* The table lists the main types of products in the respective categories of equipment, which does not, however, mean that all the products in the category were exported. For illustrative purposes, specific equipment information is given instead of the standardized main category descriptions in the case of a small number of countries.

Country	Main category to which exports relate (category number and type of product)		Value of exports (MSEK)
	MEC	OME ¹²	
Australia	3,4,5,7 Ammunition, missiles, rockets etc., firing control equipment, gunpowder and explosives	21,22,23,24,25,28,37 Barrel weapons, ammunition, bombs, torpedoes etc., reconnaissance and measurement equipment, surveillance vessels, software	123.2
Austria	3,7 Ammunition, gunpowder and explosives	22,23,24,25,29,35 Barrel weapons, ammunition, bombs, torpedoes etc., reconnaissance and measurement equipment, aircraft and helicopters and related parts, training equipment	50.5
Bahrain		23,25,37 Ammunition for military target shooting, parts for electronic systems, software	0.2
Belgium	3,7 Ammunition, gunpowder and explosives	21,22,23,24,25 Barrel weapons, ammunition, bombs, torpedoes etc., reconnaissance and measurement equipment	14.3
Brazil	2,3,4,5 Barrel weapons, ammunition, missiles, rockets etc., firing control equipment	22,24,25,35,37 Barrel weapons, bombs, torpedoes etc., reconnaissance and measurement equipment, training equipment, software	39.2
Bulgaria		23 Hunting and sporting ammunition	0.0
Canada	3,7 Ammunition, gunpowder and explosives	22,23,25 Barrel weapons, ammunition, reconnaissance and measurement equipment	14.7
Chile	2,3,7 Barrel weapons, ammunition, gunpowder and explosives	22,35 Barrel weapons, training equipment	30.4

¹² The various subcategories of equipment in the categories MEC and OME may have the same designation; the designations are generic and relate to the type of equipment system. The content of the two categories is as follows.

MEC: Military equipment for combat purposes consists of destructive equipment, including sights for such equipment, and firing control equipment.

OME: Other military equipment includes parts and components for military equipment for combat purposes and equipment that is not directly destructive in a combat situation.

Country	Main category to which exports relate (category number and type of product)		Value of exports (MSEK)
	MEC	OME ¹²	
Croatia		24 Sweeping equipment	2.3
Czech Republic	3,7 Ammunition, gunpowder and explosives	23,29 Ammunition, aircraft and helicopters and related equipment	3
Denmark	3,7 Ammunition, gunpowder and explosives	21,22,23,24,25,28,29,35 Barrel weapons, ammunition, bombs, torpedoes etc., reconnaissance and measurement equipment, surveillance vessels, equipment for aircraft and helicopters, training equipment	87.5
Estonia	3 Ammunition	22,23 Barrel weapons, ammunition	3.8
Finland	2,3,5,7,10 Barrel weapons, ammunition, firing control equipment, gunpowder and explosives, combat vehicles	21,22,23,24,25,30,35,36,37 Barrel weapons, ammunition, bombs, torpedoes etc., reconnaissance and measurement equipment, equipment for vehicles, training equipment, manufacturing equipment, software	80.4
France	2,3,7 Barrel weapons, ammunition, gunpowder and explosives	22,23,25,29,33,35 Barrel weapons, ammunition, reconnaissance and measurement equipment, equipment for aircraft and helicopters, electronic equipment, training equipment	479.3
Germany	3,6,7 Ammunition, components for tear-gas products, gunpowder and explosives	21,22,23,24,25,28,30,33,34,35,36 Barrel weapons, ammunition, bombs, torpedoes etc., reconnaissance and measurement equipment, surveillance vessels, equipment for vehicles, electronic equipment, photographic and electro-optical equipment, training equipment, manufacturing equipment	217.6
Greece	2,7 Barrel weapons, gunpowder and explosives	21,23,25 Barrel weapons, ammunition, reconnaissance and measurement equipment	2.7
Hungary	3,7 Ammunition, gunpowder and explosives	23 Ammunition	0.8
India		22,24,35 Spare parts for barrel weapons, parts for bombs, torpedoes etc., training equipment	6.6
Indonesia		22 Spare parts for barrel weapons	0.9
Ireland	4,5 Missiles, rockets etc., firing control equipment	23,35 Ammunition, training equipment	9.5
Iceland	3 Ammunition	21,23 Barrel weapons, ammunition	0.1

Country	Main category to which exports relate (category number and type of product)		Value of exports (MSEK)
	MEC	OME ¹²	
Italy	3,7 Ammunition, gunpowder and explosives	21,23,24,25,33,36 Barrel weapons, ammunition, bombs, torpedoes etc., reconnaissance and measurement equipment, electronic equipment, manufacturing equipment	12.2
Japan	3 Ammunition	21,22,23,24 Barrel weapons, ammunition, bombs, torpedoes etc.	1.8
Lithuania	3 Ammunition	23 Ammunition	0.2
Malaysia		21,22,25 Barrel weapons, reconnaissance and measurement equipment	27.3
Mexico	2,3,5 Barrel weapons, ammunition, firing control equipment	22,25,28,35,36,37 Barrel weapons, reconnaissance and measurement equipment, surveillance vessels, training equipment, manufacturing equipment, software	256.3
Netherlands	3,7 Ammunition, gunpowder and explosives	21,22,23,25,29,35 Barrel weapons, ammunition, reconnaissance and measurement equipment, equipment for aircraft and helicopters, training equipment	50.6
Norway	2,3,4,7 Barrel weapons, ammunition, missiles, rockets etc., gunpowder and explosives	21,22,23,24,25,28,29,30,35,36,37 Barrel weapons, ammunition, bombs, torpedoes etc., reconnaissance and measurement equipment, surveillance vessels, equipment for aircraft and helicopters, vehicles for military use, training equipment, manufacturing equipment, software	167.8
New Caledonia (France)		23 Hunting and sporting ammunition	0.1
New Zealand		21,22,23 Barrel weapons, ammunition	3.8
Oman		25 Parts for reconnaissance and measurement equipment	0.3
Pakistan		24,25 Parts for bombs, torpedoes etc., parts for reconnaissance and measurement equipment	1.3
Poland	7 Gunpowder and explosives	23 Ammunition	0.3
Portugal		22,23 Barrel weapons, ammunition	0.4
Republic of Korea		25 Parts for reconnaissance and measurement equipment	0.1
Romania		23 Hunting and sporting ammunition	0.0
Russia		21,23 Air rifles, hunting and sporting ammunition	1.3
Saudi Arabia		33 Parts for electronic equipment	1.2

Country	Main category to which exports relate (category number and type of product)		Value of exports (MSEK)
	MEC	OME ¹²	
Singapore	4,5,8 Missiles, rockets etc., firing control equipment, warships	22,24,25,28,30,35,37 Barrel weapons, bombs, torpedoes etc., reconnaissance and measurement equipment, surveillance vessels and related equipment, equipment for vehicles, training equipment, software	419.8
Slovakia		23 Ammunition	0.1
Slovenia		23 Ammunition	0.6
South Africa	7 Gunpowder and explosives	21,23,29 Air rifles, ammunition, parts for combat aircraft	358.3
Spain	3,7 Ammunition, gunpowder and explosives	23,25,26,30 Ammunition, reconnaissance and measurement equipment, protective equipment, vehicles for military use	12.2
Switzerland	3,7,10 Ammunition, gunpowder and explosives, combat vehicles	23,24,25,30,35,37 Ammunition, bombs, torpedoes etc., reconnaissance and measurement equipment, equipment for vehicles, training equipment, software	361.1
Thailand	4 Missiles, rockets etc.	22,24,25 Barrel weapons, bombs, torpedoes etc., reconnaissance and measurement equipment	23.3
Tunisia		24,25,37 Parts for bombs, torpedoes etc., parts for reconnaissance and measurement equipment, software	2
Turkey		23 Ammunition for military target shooting	2.6
United Arab Emirates		22,23,25,28 Spare parts for barrel weapons, ammunition for military target shooting, spare parts for reconnaissance and measurement equipment, surveillance vessels	25.1
United Kingdom	3,7 Ammunition, gunpowder and explosives	21,23,24,25,29,33,36,37 Barrel weapons, ammunition, bombs, torpedoes etc., reconnaissance and measurement equipment, aircraft and helicopters and related equipment, electronic equipment, manufacturing equipment, software	68.3
United Nations (UN)		30 Vehicles for military use	1.7
USA	2,3,7 Barrel weapons, ammunition, gunpowder and explosives	21,22,23,25,26,29,33,35 Barrel weapons, ammunition, reconnaissance and measurement equipment, protective equipment, equipment for aircraft and helicopters, electronic equipment, training equipment	460.8

Country	Main category to which exports relate (category number and type of product)		Value of exports (MSEK)
	MEC	OME ¹²	
Vietnam		25 Reconnaissance and measurement equipment	12.1

20.6 Transfers of manufacturing rights, cooperation etc.

Five licences were granted in 2002 for the transfer of manufacturing rights to other countries. The countries concerned were Italy, Poland and Japan.

Ten cooperation agreements were examined and authorized for joint development or production with the following countries in 2002: France (two licences), Germany, Finland (two licences), the United Kingdom (two licences), Brazil, the USA (two licences) and Greece. One of the agreements relates to both France and Germany

In assessments of cases involving the transfer of manufacturing rights or cooperation with foreign partners, the stricter criteria applied to exports of Military Equipment for Combat Purposes are applied irrespective of the type of export, because this kind of cooperation normally results in a lengthier commitment than in the case of regular exports. The scope of such agreements, their duration, re-export clauses etc. are examined in detail in these cases.

Under the Military Equipment Act (1992:1300), entities which have transferred manufacturing rights for military equipment to a party in a foreign country or have entered into a cooperation agreement with a foreign partner are required to report on an annual basis whether the agreement is still in force, whether production or other cooperation under such an agreement still takes place and how such cooperation is carried on. In 2002, 9 companies reported a total of 79 valid cooperation agreements in 18 countries and 12 companies reported a total of 104 valid licensing agreements in 24 countries.

20.7 Military-oriented training

Under the Military Equipment Act foreign subjects must not be given military-oriented training within or outside Sweden without the permission of the National Inspectorate of Strategic Products. No such permission was granted in 2002.

The prohibition does not apply to training that is related to sales of military equipment for which an export licences were granted.

20.8 Reporting of ownership in foreign legal entities

Under the Military Equipment Act (1992:1300), companies that are authorized to manufacture or supply military equipment must submit annual reports on their ownership of foreign legal entities that are engaged in the development, production, marketing or sales of military equipment. In 2002, 12 companies reported ownership in 49 foreign legal entities in 19 countries.

20.9 The exporting companies

Some 120 companies are authorized to manufacture military equipment, and 44 of these exported such equipment in 2002. The largest exporters of military equipment in 2002 were, in descending order: SAAB AB Saab Aerospace, Saab Bofors Dynamics AB, Ericsson Microwave Systems AB, Alvis Hägglunds AB (Hägglunds Vehicle AB), Kockums AB and Saab Training Systems AB. The two largest companies, SAAB AB Saab Aerospace and Saab Bofors Dynamics AB, reported export revenues of between MSEK 500 and MSEK 1,000 in 2002. The export revenues of the other four companies were between MSEK 200 and MSEK 500. Three other companies exported equipment worth more than MSEK 100, viz. Bofors Defence AB, Nexplo Bofors AB and Norma Precision AB.

The following three companies reported export sales of between MSEK 50 and 100: Volvo Aero AB, Saab Avionics AB and SaabTech Systems AB. The export sales of the following 6 companies totalled MSEK 10-50: Saab Dynamics AB, Nammo LIAB AB, Vanäsverken AB, N. Sundin Dockstavarvet AB, Swede Ship Marine AB and Botnia Production AB.

The export sales of the following companies totalled MSEK 1-10: AerotechTelub AB, Polyamp AB, Åkers Krutbruk Protection AB, Cross Country Services AB (CC Services), Nammo Vingåkersverken AB, Airsafe Sweden AB, Aimpoint AB, Degerfors Formnings Deform AB, Scandinavian Demining Group AB, CNC-Process i Hova AB, FFV Ordnance AB and Exensor Technology AB.

The export sales of the following companies were less than SEK 1 million in 2002: FMV Transport, Karlskoga CNC Quality AB, C-ITS AB, Waltreco AB, BEFYRAEM Service & Innovation AB (B4M), INM Mekaniska AB, FLIR Systems AB, Ekenäs Mekaniska AB, New Pac Safety AB, Carbonia Composites AB, Pressmetall AB, Schill Reglerteknik AB, Vapex Import och Export AB and Lesjöfors Fjädrar AB.

20.10 Employment and ownership structure in the Swedish defence industry

Most manufacturers of military equipment in Sweden are members of the Association of Swedish Defence Industries, which was established in 1986.

According to the latest statistics issued by the Association, the aggregate workforce of the member companies in 2002 was 24,040, 14,810 of whom were employed in their defence equipment divisions. It should be noted that employment in the Swedish defence industry is not taken into account in the assessment of exports of military equipment. This can be seen from the criteria set forth in the Swedish guidelines on exports of military equipment (Annex 3).

The pace of restructuring in Europe has accelerated in recent years, although it has not yet achieved the same level of concentration in this sector as in the USA, and it remains to be seen how far the European defence industry will move in that direction. The Association of Swedish Defence Industries has carried out a number of restructuring measures in the last few years, and its present ownership structure reflects the increased internationalization.

The ownership structure as regards the largest Swedish defence industry enterprises is currently as follows. The Swedish producer of military vehicles Alvis Hägglunds AB is 100% owned by the British company Alvis plc. Bofors Defence AB, which specializes in the development and production of weapon systems and ammunition, is 100% owned by the American defence group United Defense and the Swedish submarine and surface ship manufacturer Kockums AB is 100% owned by the German company Howaldtswerke Deutsche Werft AG. Saab AB, which includes a large number of business areas, companies and divisions, e.g. Saab Aerospace, Saab Bofors Dynamics, Saab Technical Support & Services, Saab Ericsson Space, Saab Aviation Services, SaabTech (previously SaabTech Systems och Saab Avionics), Saab Barracuda, Saab Training Systems, Saab TransponderTech och Combitech Systems, is 35% owned by the British company BAE SYSTEMS and 20% by Investor (Investor's percentage of the votes is 36%), the remaining 45% being owned by a number of Swedish and foreign investors. The Saab group also includes the sales company Gripen International, which is responsible for foreign sales of the JAS 39 Gripen combat aircraft. Gripen International is 50% owned by Saab AB and 50% by BAE SYSTEMS. As regards the explosives and ammunition manufacturers Nammo Sweden AB and NEXPLO Industries AB, the former is 100% owned by the Norwegian company Nammo A.S. and the latter is 60% owned by Saab AB and 40% by the Finnish company Patria Industries Oy. Ericsson Microwave Systems AB, which develops and manufactures sensors and information networks, is 100% owned by Telefonaktiebolaget L M Ericsson, and, lastly, Volvo Aero Corporation

is 100% owned by Swedish AB Volvo. The membership of the Association of Swedish Defence Industries also includes about ten small and medium-sized enterprises engaged in small-scale production of defence equipment.

21 Annex 2: Export controls of dual-use items in 2002

It is not possible to present complete statistics on dual-use items like those for military equipment, since the control of dual-use items is based on the principle of freest possible trade, which means that controls are only applied in certain cases. It is, however, possible to report the number of applications for licences in various control areas. Table 1 shows the number of export licence applications relating to dual-use items submitted to the ISP and their distribution among the multilateral export control regimes (See section 12 for further information on the export control regimes).

Table 1. Number of export licence applications relating to dual-use items, 1999-2002

Applications for export licences	1999	2000	2001	2002
Total	380	223	245	279
Wassenaar Arrangement	339	181	177	146
Missile Technology Control Regime	0	2	7	33
Nuclear Suppliers' Group (Part 2)	5	6	14	9
Australia Group	36	34	47	91

Global licences can be granted for frequent exports of products to civilian buyers for non-military end use. The licences specify the country or countries for which they are valid. A general Community authorization was introduced by EC Regulation 1334/2000 (see section 13). It is applicable to exports to ten non-EU countries of most items that are exempt from EU controls. The Community authorization is one more expression of the consensus between the Member States as regards exports to these countries. General licences can also be issued at the national level and are 'open', like the Community export authorizations, i.e. no application is required. The ISP has issued a Regulation concerning these licences: ISP Regulation on General Export Licences, published in the Swedish Customs statute-book (TFS 2000:24). In 2002 national general licences were issuable for the purposes of repairs and demonstration with the exception of especially sensitive items. The latter are listed in the annex to the Regulation. The licence was issuable for exports to 50 named destinations. For all other purposes individual licences are issued for exports of dual-use items.

Table 2 shows the number of preliminary inquiries submitted to the ISP during the period 2000-2002 regarding exports of dual-use items and the number of denials and catch-all procedures during the same period (see sections 12 and 13).

Table 2 Number of preliminary inquiries submitted, denials and catch-all procedures during the period 2000-2002

Year	2000	2001	2002
Number of preliminary inquiries submitted	10	25	43
Number of denials issued	3	6	2
Number of catch-all procedures	9	5	1

22 Annex 3: Swedish guidelines on exports of military equipment and other cooperation with foreign partners

Licences for exports of military equipment or for other cooperation arrangements with foreign partners involving military equipment should only be granted where such exports or cooperation:

1. are considered necessary to meet the Swedish armed forces' need of military equipment or know-how or are otherwise desirable for reasons of national security; and
2. do not conflict with the principles and objectives of Swedish foreign policy.

When considering an application for a licence, the Government shall make an overall assessment of all the relevant circumstances, taking into account the basic principles mentioned above.

There is no obstacle from the point of view of foreign policy to cooperation with, or exports to, the Nordic countries and the traditionally neutral countries of Europe. In principle, cooperation with these countries may be considered consistent with Sweden's security policy. As cooperation with the other Member States of the European Union develops, the same principles regarding cooperation with foreign partners and exports should be applied to these countries too.

Licences may only be granted to governments, central government agencies or government-authorized recipients, and an End User Certificate or an Own Production Declaration should be presented in connection with exports of military equipment. A state which, despite undertakings given to the Swedish Government, allows, or fails to prevent, unauthorized re-exportation of Swedish military equipment shall not in principle be eligible as a recipient of such equipment from Sweden as long as these circumstances persist.

Licences for exports or for other cooperation arrangements with foreign partners pursuant to the Military Equipment Act must not be granted if this would contravene an international agreement to which Sweden is a party, a Resolution adopted by the United Nations Security Council or provisions of international law concerning exports from neutral states during a war (absolute obstacles).

Licences for exports of military equipment or for other cooperation arrangements with foreign partners should not be granted where the recipient country is a state in which widespread and serious violations of human rights occur. Respect for human rights is an essential condition for the issuance of licences.

Licences for exports of Military Equipment for Combat Purposes or for other cooperation arrangements with foreign partners involving Military Equipment for Combat Purposes or Other Military Equipment

should not be granted where the state in question is involved in an armed conflict with another state, regardless of whether or not war has been declared, is involved in an international conflict that may lead to an armed conflict or is the scene of internal armed disturbances.

Licences should be granted for exports of equipment designated as Other Military Equipment provided that the recipient country is not involved in an armed conflict with another state, that it is not the scene of internal armed disturbances, that widespread and serious violations of human rights do not occur there and that no absolute obstacles exist.

A licence that has been granted should be revoked not only if an absolute obstacle to exports arises, but also if the recipient country becomes involved in an armed conflict with another country or becomes the scene of internal armed disturbances. Exceptionally, revocation of a licence may be forgone in the last two cases if this is consistent with international law and with the principles and objectives of Swedish foreign policy.

Licences should be granted for exports of spare parts for equipment previously exported under a licence, unless an absolute obstacle exists. The same applies to other supplies, for example of ammunition, linked to previous exports of equipment, or otherwise in cases where it would be unreasonable to refuse a licence.

As regards agreements with a foreign party on joint development or production of military equipment, the basic criteria mentioned above are to be applied when licence applications are considered. Exports to the cooperating country under the agreement should be permitted unless an absolute obstacle arises. If an agreement with a foreign party is linked to exports from the cooperating country to third countries, the question of such exports should, provided that the identity of the equipment concerned is predominantly Swedish, be considered in accordance with the guidelines for exports from Sweden.

As regards equipment with a predominantly foreign identity, exports from the cooperating country to third countries should be considered in accordance with the export rules of the cooperating country. If Sweden has a strong interest in cooperation for reasons of defence policy, and certain exports from the cooperating country are a condition for cooperation, exports to third countries may, depending on the circumstances, be allowed under the export rules of the cooperating country in other cases too.

In cases where cooperation on military equipment with a foreign partner is extensive and important to Sweden, an intergovernmental agreement should be concluded between Sweden and the cooperating country. The Advisory Council on Foreign Affairs should be consulted before such agreements are concluded.

23 Annex 4: The European Code of Conduct on Arms Exports

**EUROPEAN UNION
THE COUNCIL**

**Brussels, 5 June 1998
(OR.en)**

8675/2/98

EUROPEAN UNION CODE OF CONDUCT ON ARMS EXPORTS

THE COUNCIL OF THE EUROPEAN UNION,

BUILDING on the Common Criteria agreed at the Luxembourg and Lisbon European Councils in 1991 and 1992,

RECOGNIZING the special responsibility of arms exporting states,

DETERMINED to set high common standards which should be regarded as the minimum for the management of, and restraint in, conventional arms transfers by all Member States, and to strengthen the exchange of relevant information with a view to achieving greater transparency,

DETERMINED to prevent the export of equipment which might be used for internal repression or international aggression or contribute to regional instability,

WISHING within the framework of the Common Foreign and Security Policy (CFSP) to reinforce cooperation and to promote convergence in the field of conventional arms exports,

NOTING complementary measures taken against illicit transfers, in the form of the EU Programme for Preventing and Combating Illicit Trafficking in Conventional Arms,

ACKNOWLEDGING the wish of Member States to maintain a defence industry as part of their industrial base as well as their defence effort,

RECOGNIZING that States have a right to transfer the means of self-defence, consistent with the right of self-defence recognized by the UN Charter,

HAS DRAWN UP the following Code of Conduct together with Operative Provisions:

CRITERION ONE

Respect for the international commitments of Member States, in particular the sanctions decreed by the UN Security Council and those decreed by the Community, agreements on non-proliferation and other subjects, as well as other international obligations

An export licence should be refused if approval would be inconsistent with, inter alia:

- (a) the international obligations of Member States and their commitments to enforce UN, OSCE and EU arms embargoes;
- (b) the international obligations of Member States under the Nuclear Non-Proliferation Treaty, the Biological and Toxin Weapons Convention and the Chemical Weapons Convention;
- (c) the commitments of Member States in the framework of the Australia Group, the Missile Technology Control Regime, the Nuclear Suppliers' Group and the Wassenaar Arrangement;
- (d) the commitment of Member States not to export any form of anti-personnel landmine.

CRITERION TWO

The respect of human rights in the country of final destination

Having assessed the recipient country's attitude towards relevant principles established by international human rights instruments, Member States will:

- (a) not issue an export licence if there is a clear risk that the proposed export might be used for internal repression.
- (b) exercise special caution and vigilance in issuing licences, on a case-by-case basis and taking account of the nature of the equipment, to countries where serious violations of human rights have been established by the competent bodies of the UN, the Council of Europe or by the EU;

For these purposes, equipment which might be used for internal repression will include, inter alia, equipment where there is evidence of the use of this or similar equipment for internal repression by the

proposed end-user, or where there is reason to believe that the equipment will be diverted from its stated end-use or end-user and used for internal repression. In line with paragraph 1 of the Operative Provisions of this Code, the nature of the equipment will be considered carefully, particularly if it is intended for internal security purposes. Internal repression includes, inter alia, torture and other cruel, inhuman and degrading treatment or punishment, summary or arbitrary executions, disappearances, arbitrary detentions and other major violations of human rights and fundamental freedoms as set out in relevant international human rights instruments, including the Universal Declaration on Human Rights and the International Covenant on Civil and Political Rights.

CRITERION THREE

The internal situation in the country of final destination, as a function of the existence of tensions or armed conflicts

Member States will not allow exports which would provoke or prolong armed conflicts or aggravate existing tensions or conflicts in the country of final destination.

CRITERION FOUR

Preservation of regional peace, security and stability

Member States will not issue an export licence if there is a clear risk that the intended recipient would use the proposed export aggressively against another country or to assert by force a territorial claim.

When considering these risks, Member States will take into account inter alia:

- (a) the existence or likelihood of armed conflict between the recipient and another country;
- (b) a claim against the territory of a neighbouring country which the recipient has in the past tried or threatened to pursue by means of force;
- (c) whether the equipment would be likely to be used other than for the legitimate national security and defence of the recipient;
- (d) the need not to affect adversely regional stability in any significant way.

CRITERION FIVE

The national security of the Member States and of territories whose external relations are the responsibility of a Member State, as well as that of friendly and allied countries

Member States will take into account:

- (a) the potential effect of the proposed export on their defence and security interests and those of friends, allies and other Member States, while recognizing that this factor cannot affect consideration of the criteria on respect for human rights and on regional peace, security and stability;
- (b) the risk of use of the goods concerned against their forces or those of friends, allies or other Member States;
- (c) the risk of reverse engineering or unintended technology transfer.

CRITERION SIX

The behaviour of the buyer country with regard to the international community, as regards in particular its attitude to terrorism, the nature of its alliances and respect for international law

Member States will take into account inter alia the record of the buyer country with regard to:

- (a) its support or encouragement of terrorism and international organized crime;
- (b) its compliance with its international commitments, in particular on the non-use of force, including under international humanitarian law applicable to international and non-international conflicts;
- (c) its commitment to non-proliferation and other areas of arms control and disarmament, in particular the signature, ratification and implementation of relevant arms control and disarmament conventions referred to in point (b) of Criterion One.

CRITERION SEVEN

The existence of a risk that the equipment will be diverted within the buyer country or re-exported under undesirable conditions

In assessing the impact of the proposed export on the importing country and the risk that exported goods might be diverted to an undesirable end-user, the following will be considered:

- (a) the legitimate defence and domestic security interests of the recipient country, including any involvement in UN or other peace-keeping activity;
- (b) the technical capability of the recipient country to use the equipment;
- (c) the capability of the recipient country to exert effective export controls;
- (d) the risk of the arms being re-exported or diverted to terrorist organizations (anti-terrorist equipment would need particularly careful consideration in this context).

CRITERION EIGHT

The compatibility of the arms exports with the technical and economic capacity of the recipient country, taking into account the desirability that states should achieve their legitimate needs of security and defence with the least diversion for armaments of human and economic resources

Member States will take into account, in the light of information from relevant sources such as UNDP, World Bank, IMF and OECD reports, whether the proposed export would seriously hamper the sustainable development of the recipient country. They will consider in this context the recipient country's relative levels of military and social expenditure, taking into account also any EU or bilateral aid.

OPERATIVE PROVISIONS

1. Each Member State will assess export licence applications for military equipment made to it on a case-by-case basis against the provisions of the Code of Conduct.
2. The Code of Conduct will not infringe on the right of Member States to operate more restrictive national policies.
3. Member States will circulate through diplomatic channels details of licences refused in accordance with the Code of Conduct for military equipment together with an explanation of why the licence has been refused. The details to be notified are set out in the form of a draft pro-forma set out in the Annex hereto. Before any Member State grants a licence which has been denied by another Member State or States for an essentially identical transaction within the last three years, it will first consult the Member State or States which issued the denial(s). If following consultations, the Member State nevertheless decides to grant a licence, it will notify the Member State or States issuing the denial(s), giving a detailed explanation of its reasoning.

The decision to transfer or deny the transfer of any item of military equipment will remain at the national discretion of each Member State. A denial of a licence is understood to take place when the Member State has refused to authorize the actual sale or physical export of the item of military equipment concerned, where a sale would otherwise have come about, or the conclusion of the relevant contract. For these purposes, a notifiable denial may, in accordance with national procedures, include denial of permission to start negotiations or a negative response to a formal initial enquiry about a specific order.

4. Member States will keep such denials and consultations confidential and not use them for commercial advantage.
5. Member States will work for the early adoption of a common list of military equipment covered by the Code of Conduct, based on similar national and international lists. Until then, the Code of Conduct will operate on the basis of national control lists incorporating where appropriate elements from relevant international lists.
6. The criteria in the Code of Conduct and the consultation procedure provided for by paragraph 3 of these Operative Provisions will also apply to dual-use goods as specified in Annex 1 to Council Decision 94/942/CFSP ⁽¹³⁾, where there

⁽¹³⁾ OJ L 367, 31.12.1994, p. 8. Decision as last amended by Decision 98/232/CFSP (OJ L 92, 25.3.1998, p. 1).

are grounds for believing that the end-user of such goods will be the armed forces or internal security forces or similar entities in the recipient country.

7. In order to maximize the efficiency of the Code of Conduct, Member States will work within the framework of the CFSP to reinforce their cooperation and to promote their convergence in the field of conventional arms exports.
8. Each Member State will circulate to other Member States in confidence an annual report on its defence exports and on its implementation of the Code of Conduct. These reports will be discussed at an annual meeting held within the framework of the CFSP. The meeting will also review the operation of the Code of Conduct, identify any improvements which need to be made and submit to the Council a consolidated report, based on contributions from Member States.
9. Member States will, as appropriate, assess jointly through the CFSP framework the situation of potential or actual recipients of arms exports from Member States, in the light of the principles and criteria of the Code of Conduct.
10. It is recognized that Member States, where appropriate, may also take into account the effect of proposed exports on their economic, social, commercial and industrial interests, but that these factors will not affect the application of the above criteria.
11. Member States will use their best endeavours to encourage other arms exporting states to subscribe to the principles of the Code of Conduct.
12. The Code of Conduct and Operative Provisions will replace any previous elaboration of the 1991 and 1992 Common Criteria.

ANNEX

Details to be notified

..... [name of Member State] has the honour to inform partners of the following denial under the EU Code of Conduct:

Destination country:

Short description of equipment, including quantity and where appropriate, technical specifications:

Proposed consignee:

Proposed end-user (if different):

Reason for refusal:

Date of denial:

Annex 5

24 Annex 5: Membership of multilateral export control regimes

Country	ZC	NSG	AG	MTCR	WA
Argentina	x	x	x	x	x
Australia	x	x	x	x	x
Austria	x	x	x	x	x
Belarus	-	x	-	-	-
Belgium	x	x	x	x	x
Brazil	-	x	-	x	-
Bulgaria	x	x	x	-	x
Canada	x	x	x	x	x
China	x	-	-	-	-
Cyprus	-	x	x	-	-
Czech Republic	x	x	x	x	x
Denmark	x	x	x	x	x
Finland	x	x	x	x	x
France	x	x	x	x	x
Germany	x	x	x	x	x
Greece	x	x	x	x	x
Hungary	x	x	x	x	x
Iceland	-	-	x	x	-
Ireland	x	x	x	x	x
Italy	x	x	x	x	x
Japan	x	x	x	x	x
Kazakhstan	-	x	-	-	-
Korea (Rep.)	x	x	x	x	x
Latvia	-	x	-	-	-
Lithuania	-	-	-	-	-
Luxembourg	x	x	x	x	x
Netherlands	x	x	x	x	x
New Zealand	-	x	x	x	x
Norway	x	x	x	x	x
Poland	x	x	x	x	x
Portugal	x	x	x	x	x
Romania	x	x	x	-	x
Russia	x	x	-	x	x
Slovakia	x	x	x	-	x
Slovenia	x	x	-	-	-
South Africa	x	x	-	x	-
Spain	x	x	x	x	x
Sweden	x	x	x	x	x
Switzerland	x	x	x	x	x
Turkey	x	x	x	x	x
Ukraine	x	x	-	x	x
United Kingdom	x	x	x	x	x
USA	x	x	x	x	x
TOTAL	35	40	33	33	33

(See section 12 for information on the export control regimes).

The European Commission participates in the Australia Group and is an observer member of the Nuclear Suppliers' Group.

Changes in 2002:

Kazakhstan was admitted as a member of the Nuclear Suppliers' Group.

25 Annex 6: International arms embargoes

The table below lists the international arms embargoes that were in force for the whole or part of 2001, their period of application and the decision under which the embargo was imposed and, in some cases, modified or lifted.

International arms embargoes in 2002

COUNTRY	TYPE OF EMBARGO	PERIOD OF APPLICATION	REFERENCE
Afghanistan	UN embargo	Repealed on 19 January	UN Security Council Resolution (UNSCR) 1333 (2000);
	EU embargo	Lifted on 27 May	Common position 2001/771/CFSP Common position 2002/402/CFSP
Angola	UN embargo (embargo against UNITA and the rest of Angola apart from specified import routes)	Lifted on 9 December	UNSCR 864 (1993)
			UNSCR 1448 (2002)
Armenia	UN embargo (non-binding)	The whole year	UNSCR 853 (1993)
Azerbaijan	UN embargo (non-binding)	The whole year	UNSCR 853 (1993)
Bosnia and Herzegovina	EU embargo (exemption for minesweeping equipment)	The whole year	Common position 1996/184/CFSP
	Exemption for transfers of small arms and light weapons to the police forces	The whole year	Council decision 1999/481/CFSP
China (excl. Hong Kong and Macao)	EU embargo	The whole year	European Council Declaration of 27 June 1989
Democratic Republic of the Congo	EU embargo	The whole year	Declaration 33/93 of 7 April 1993
	Exemption for transfers of minesweeping equipment etc.	From 21 October	Common position 2002/829/CFSP
Iraq	UN embargo	The whole year	UNSCR 661 (1990)
	EU embargo	The whole year	Declaration 56/90 of 4 August 1990
Liberia	UN embargo	The whole year	UNSCR 1343 (2001)
	EU embargo	The whole year	Common position 2001/357/CFSP

COUNTRY	TYPE OF EMBARGO	PERIOD OF APPLICATION	REFERENCE
Libya	EU embargo	The whole year	Declaration of foreign ministers 14 April 1986; Common position 1999/261/CFSP
Myanmar	EU embargo	The whole year	General Affairs Council Declaration of 29 July 1991; Common position 1996/635/CFSP
	Embargo extended to include equipment that can be used for internal repression of terrorism.	The whole year	Common position 2000/346/CFSP
Nagorno-Karabach region	OSCE embargo	The whole year	Decision by OSCE's Senior Officials Committee of 28 February 1992
Rwanda	UN embargo	The whole year	UNSCR 918 (1994);
	Exemption for transfers to Rwanda's government via specified import routes		UNSCR 1011 (1995)
Sierra Leone	UN embargo on transfers to non-governmental forces in Sierra Leone	The whole year	UNSCR 1171 (1998)
	EU embargo (exemption for transfers to Sierra Leone's government)	The whole year	Common position 1998/409/CFSP
Somalia	UN embargo	The whole year	UNSCR 733 (1992)
	EU embargo	From 10 December	Common position 2002/960/CFSP
Sudan	EU embargo	The whole year	Common position 1994/165/CFSP
Yemen	UN embargo (non-binding)	The whole year	UNSCR 924 (1994)
Zimbabwe	EU embargo	From 18 February	Common position 2002/145/CFSP

Ministry for Foreign Affairs

Extract of the minutes of the Cabinet Meeting held on 13 March 2003.

Present: Prime Minister Persson, chair, and Ministers Winberg, Ulvskog, Lindh, Pagrotsky, Östros, Messing, Engqvist, Lövdén, Ringholm, Bodström, Karlsson, J.O., Sommestad, Karlsson, H., Lund, Andnor, Johansson, Hallengren, Björklund

Rapporteur: Minister Lund

The Government adopts Communication 2002/03:114, *Report on Sweden's Export Control Policy and Exports of Military Equipment in 2002*