



# **Swedish Arms Exports in 1997**

A Government Report

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Ministry for Foreign Affairs  
Strategic Export Control Division  
Stockholm, May 1998

# Swedish Government Report to Parliament

1997/98:147

## Swedish Exports of Military Equipment in 1997

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The Government hereby submits this report to Parliament

Stockholm, 7 May 1998

*Thage G Peterson*

*Leif Pagrotsky*  
(Ministry for Foreign Affairs)

### **Principal contents of the report:**

In this report the Swedish Government presents Swedish exports of military equipment in 1997.

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## Swedish Exports of Military Equipment 1997

### 1 Preface

The end of the cold war has resulted in a new world with considerably reduced armed forces and hence diminished international arms trade. From 1990 to 1995 the arms trade decreased by about half. However, after 1995, a minor increase has been noted. The reduction in the arms trade and also falling domestic procurement have led to the need for cuts and the restructuring of the defence industry. The pace of change in the United States has been rapid while so far in Europe restructuring has been rather slow.

As far as Sweden is concerned, the number of employees in the defence industry has fallen considerably from some 23,000 in 1990 to 14,250 in 1997. According to statistics from SIPRI, Sweden's exports of heavy conventional weapons in 1997 accounted for 1.09 per cent of world trade equivalent to a thirteenth place in the list of the world's total lawful exports of these products (see chapter 15).

Several initiatives were taken in 1997 in order to speed up the restructuring process in Europe. The EU Commission presented a proposal for a Union strategy for the defence industry (COM (97) 583).

In December 1997, Germany's Chancellor Kohl and Prime Ministers Blair of the United Kingdom and Jospin of France urged the European aerospace industry to present a restructuring plan not later than 31 March 1998 at the same time as the governments undertook to take measures to facilitate restructuring.

In the long term, the challenges which the defence industry in Sweden and other countries are facing, after the restructuring process has been carried through, should result in an industry adapted to the current demand situation. Through increased cooperation in different forms which is now taking shape, the Swedish defence industry has good chances of adapting to the new preconditions at the same time as it retains its high level of competence which is necessary for the policy of non-participation in military alliances.

Greater international cooperation increases the need for similar rules for exports. An initiative has been taken by the United Kingdom to harmonize export rules within the EU and in early 1998 a British-French proposal was presented chiefly aiming to set a high common standard for member states' export control policies. The British-French proposal for a code of conduct was warmly welcomed by Sweden. It is seen as a foundation for similar and more restrictive export control policies in Europe, although EU member states will continue to reserve the right to have stricter rules than those agreed jointly. At the same time, Sweden stresses the importance of increased openness.

It is with satisfaction the Government notes that more countries are beginning to submit reports of military equipment exports similar to the Swedish one. Most recently the Netherlands produced a report based on what has been called the Swedish model.

## 2 Military Equipment Exports 1997

Since 1985, the Government has submitted annual reports to Parliament on Swedish arms exports. Parliament is thereby provided with collected information about military equipment exports while also providing the basis for a broader public debate. Based on details received from arms manufacturers, the National Inspectorate for Strategic Products (ISP) has submitted the foundation of the 1997 report in the form of statistics (see *Appendix*).

Exports of military equipment in 1997 increased by 0.5 per cent from SEK 3,087 million in 1996 to SEK 3,101 million in 1997. At the same time, total export of goods increased by 10.9 per cent. Military equipment is divided into two categories: *military equipment for combat purposes* and *other military equipment* (see also chapter 2). Exports of *military equipment for combat purposes* decreased by 17.3 per cent or from SEK 1,136 million in 1996 to SEK 939 million in 1997. A 10.8 per cent increase was noted in the exports of *other military equipment*, the equivalent of an increase from SEK 1,951 million in 1996 to SEK 2,162 million in 1997.

Swedish exports of military equipment represented 0.49 per cent of the total export of goods from Sweden in 1997 compared with 0.54 per cent in 1996.

In 1997, export permits have been granted for the sale of military equipment to a value of SEK 5,061 million, of which SEK 2,481 million represents *military equipment for combat purposes* and SEK 2,580 million *other military equipment*. Several of the permits were for deliveries over a number of years. The value of export permits granted increased by 77.0 per cent in 1997 compared with 1996. For *military equipment for combat purposes* the increase amounted to 274.8 per cent and for *other military equipment* to 17.4 per cent compared with 1996. As may be seen from the diagram in Appendix 1, the value of permits granted has varied considerably in recent years while the value of exports has shown very small variations.

## 3 The Military Equipment Act

The Military Equipment Act (1992:1300) and corresponding Ordinance (1992:1303) regulate the manufacture and export of military equipment. Both the Act and Ordinance entered into force on 1 January 1993, replacing the Act concerning Control over the Manufacture of Military Equipment, etc (1983:1034), the Act concerning the Prohibition of the Exportation of Military Equipment, etc. (1988:558) and the appurtenant ordinances.

The present Act is in all essentials based on previous legislation and previous practice. It contains, however, some simplification, clarification and modernisation of the provisions which apply to the overall control of the manufacture and supply of military equipment and a broadening of the concept of military equipment.

Under the Military Equipment Act, military equipment may not be manufactured without permission. In addition, a licence is also required for all defence industry cooperation with other countries. Such cooperation is defined as the export, or other forms of supply, of military equipment, the allocation or transfer of manufacturing rights, agreements with another party on developing military equipment or methods of producing such equipment jointly with or on behalf of such a party, or the joint manufacture of military equipment with a party from abroad. Finally, with certain exceptions, a Government permit is required to provide training with a military orientation.

Under the Act, military equipment is divided into two categories. Weapons and service ammunition are classified as *military equipment for combat purposes* and non-destructive matériel is classified as *other types of military equipment*. Provisions concerning the type of matériel which is included in the two categories are contained in the Military Equipment Ordinance.

#### 4 Government Guidelines for Arms Exports

Government guidelines express principles which the Government has established in practice and which are to be applied when assessing applications for permits to export military equipment in accordance with the Military Equipment Act and the Military Equipment Ordinance (cf bill 1995/96:31 p. 22). The guidelines are applied to all forms of joint action with other countries which is regulated in the Military Equipment Act and may be seen in bill 1991/92:174 the Military Equipment Act (p.41) and report 1992/93: UU1 Exports of Military Equipment.

The overriding purpose of the guidelines is to provide a stable and general base for assessing permit applications. Each export transaction is, however, assessed individually.

In accordance with the guidelines, permits for export of military equipment or for other joint action with a party abroad involving military equipment are only granted if such exportation or joint action

- is considered necessary to meet the Swedish armed forces' need of matériel or know-how or is otherwise desirable from the point of view of security policy, and also
- does not contravene the principles and objectives of Sweden's foreign policy.

When assessing individual export transactions from a foreign policy point of view, the guidelines emphasise the importance which should be attached to

respect for human rights in the recipient country. The human rights criterion must always be taken into consideration, even in cases involving the export of matériel which in itself cannot be used to violate human rights.

As mentioned earlier, the broadening of the concept of military equipment was accompanied in 1993 by the classification of matériel into two categories. Guidelines which differ in certain respects have been drawn up for the export of such equipment, according to whether it is of a destructive or non-destructive nature. On the whole, the earlier guidelines continue to apply for *military equipment for combat purposes*, i.e., the Government *should not issue* an export permit to a state which is involved in armed conflict with another state, a state involved in an international conflict that is feared may lead to armed conflict, a state in which internal armed disturbances are taking place or a state in which extensive and serious violations of human rights occur.

In case of the export of *other military equipment*, which largely consists of new products not subject to controls prior to 1993, an export permit *should* be granted to countries not engaged in armed conflict with another state, those which are not subject to internal armed disturbances or where there are no extensive and serious violations of human rights.

The different guidelines for *military equipment for combat purposes* and *other military equipment* mean that a greater number of countries may be considered as potential recipients of other military equipment, i.e., non-destructive matériel rather than military equipment for combat purposes. By broadening the concept of military equipment, exports are reported and made visible which were previously unregulated. These exports are now also subject to political assessment.

Regarding follow-up deliveries it is stated, among other things, in the guidelines that "permits should be granted for exports of spare parts for military equipment previously exported with due permission, unless there are unconditional objections to this. The same should apply to other deliveries, for example of ammunition, which are connected with previous exports or for which it would otherwise be unreasonable not to grant a permit".

## 5 Review of the Rules for Follow-on Deliveries

In connection with an examination in 1995/96 of Government business relating to permits for certain exports of military equipment by the parliamentary Standing Committee on the Constitution, the Committee found that the development of practice regarding follow-on deliveries needed to be examined more closely (report 1995/96:KU30 p.90). Such a review was carried out during the 1996/97 session of Parliament. The Standing Committee on the Constitution found that "what the Committee has stated concerning problems particularly connected with the concept of follow-on deliveries, gives cause, in the Committee's view, for the Government to consider and define the section of the guidelines that deals with follow-on



deliveries" (report 1996/97:KU25 p.39 ff). On 25 November 1997 the Government decided on directives for such an inquiry (dir. 1997:130) and has appointed a special expert to carry out the inquiry. The latter shall submit a report not later than 1 November 1998.

## 6 New Rules to Prevent the Export of Spare Parts for Military Equipment which has been Unlawfully Exported

There have been cases where owners of military equipment which was unlawfully exported from Sweden or which was re-exported in contravention of a permit granted to Swedish suppliers have asked for spare parts for the military equipment. At present there is no legal possibility of preventing such exports if the spareparts are not classified as military equipment. The Government has therefore presented a bill, 1997/98:68, which would enable prevention.

It is proposed in the bill that an export permit requirement be introduced into legislation on strategic products for products which in individual cases are, or may be intended for, use as parts or components of military equipment which has been unlawfully exported or which has been re-exported in contravention of the permit granted. The permit requirement shall apply if the National Inspectorate of Strategic Products has informed the exporter that the products are, or may be intended for, such a purpose.

In addition, it is proposed that an obligation be introduced for exporters to notify the National Inspectorate of Strategic Products of projected exports of products which in individual cases are intended to be used as parts or components of such military equipment. The Inspectorate shall decide whether an export permit is required.

## 7 The National Inspectorate of Strategic Products

On 1 February 1996 a new authority was established, the National Inspectorate of Strategic Products (ISP), to exercise control over military equipment and other strategically sensitive products which can be used for civil and military purposes (dual-use products). The Inspectorate assumed responsibility for most of the assignments that were previously carried out by the Inspectorate-General of Military Equipment (KMI) and the competent department at the Ministry for Foreign Affairs dealing with exports of strategic products. ISP decides in cases concerning permits for the export of military equipment and other strategic products. The authority is obliged to submit cases of principal significance or which are otherwise of particular importance for consideration by the Government. ISP works in close consultation with the Ministry for Foreign Affairs and the Ministry of Defence.

Companies are required to provide quarterly reports to the ISP on their marketing abroad. Besides their decision-making function concerning permits, ISP analyses the obligatory notifications from arms manufacturers

which are to be submitted at least four weeks prior to their offer of tender, entering into an export agreement or other overseas cooperation concerning military equipment. Finally, exporters of military equipment must notify their deliveries of military equipment. ISP is in continuous contact with the companies on these matters.

ISP is self-financing. Fees which cover the authority's costs are charged to the manufacturing companies and are assessed on the invoiced value of military equipment and other strategic products in excess of SEK 2.5 million a year.

The number of export permit cases totalled 2,235 in 1997, of which 403 involved dual-use goods. The corresponding figure for 1996 (11 months) was 1,923 and 549 respectively. The aim of the ISP has been to complete the assessment of export permit applications within a month of their receipt and within two weeks in due course.

## 8 Export Control Council

Under Chapter 10, Section 6 of the Instrument of Government, the Government must, where possible, consult the Advisory Council on Foreign Affairs before taking a decision on a matter of major importance concerning foreign affairs. Some cases involving arms exports are of a kind that calls for consultation with the Council. It is deemed desirable to achieve a broader basis for examining other individual export transactions of principal importance. The Swedish Parliament therefore decided in 1984 that an Advisory Board on Exports of Military Equipment should be established on the basis of the Bill on greater insight and consultation in questions involving the export of military equipment (1984/85:82). The Board was reformed and broadened in structure on 1 February 1996 and became the Export Control Council when the ISP was set up. All the political parties in Parliament are now represented on the Export Control Council. The Council has ten members.

The Export Control Council is convened by the head of ISP, the Inspector-General of Military Equipment, who also chairs the meetings. The Ministry for Foreign Affairs participates at the meetings, presenting assessments of the recipient countries. The Ministry of Defence also participates with assessments of matters from a defence policy point of view.

All matters of principle importance are subject to consultation at the Council's monthly meetings. Further, members receive continuous reports on all decisions taken on exports, giving them complete insight into the way in which the Inspectorate deals with issues concerning the export of military equipment. This procedure ensures that the Swedish Parliament has insight into the work of the ISP.

The Export Control Council has not replaced the Advisory Council in matters on which the Government must consult the Advisory Council in accordance with the Instrument of Government.

## 9 The Technical-Scientific Council

A special Technical-Scientific Council was established in 1984, with representatives from several institutions with expertise in the application of technology in civilian and military spheres, to assist the Inspector-General in preparing for the classification of military equipment. The Council held three meetings in 1997. With the establishment of the ISP, the Council's field of work has been extended to include dual-use products.

## 10 Information concerning the Arms Export Policy

ISP recently published a revised edition of the handbook compiled by the Inspectorate-General (KMI) chiefly intended for the defence industry and government authorities concerned with the manufacture and export of military equipment. It describes current legislation, regulatory structure and procedures employed in issuing permits. ISP intends to continue holding seminars and information meetings about its activities and field of work.

A summary of Sweden's arms export policy (Sweden's Policy on Arms Exports, Ministry for Foreign Affairs Information 1993:4) describes the part played by arms exports in Swedish security policy, the Swedish defence industry, the guidelines for exports of military equipment and international cooperation in the control of arms exports. This publication has also been issued in English, French and German in order to promote awareness in other countries about Sweden's policy in this field. A revised edition of this publication is under way.

The text of last year's report to Parliament together with a translation into English is available on the Internet. The web site address is:  
[http://www.regeringen.se/info\\_rosenbad/departement/utrikes/vapenexport](http://www.regeringen.se/info_rosenbad/departement/utrikes/vapenexport)

The same address can be used to access this report.

## 11 The UN Register and International Transparency regarding Arms Transfers

In December 1991, the United Nations General Assembly adopted a resolution urging member states to report both their imports and exports of certain categories of heavy conventional weapons to a conventional arms register. Trade in the following seven categories of weapons is to be

reported: tanks, armoured combat vehicles, heavy artillery, combat aircraft, attack helicopters, warships and missiles/missile launchers.

In consultation with the defence authorities and ISP, the Ministry for Foreign Affairs compiles current information which is submitted to the UN in accordance with the above-mentioned resolution.

The fifth year of the UN register was 1996, and on 1 April 1998, 93 of the UN's 185 member states (and also Switzerland which has observer status) had submitted information about their exports and imports of these seven categories of heavy weapons. 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 register, it is estimated that over 90 per cent of world trade in these weapons is covered by the register.

Sweden only participates to a minor extent in world trade in the relevant types of heavy weaponry.

In 1997, Sweden reported imports from Germany of 26 Leopard 2 tanks (tank 122) and 57 splinterproof armoured personnel carriers (MT-LB, etc) and 2 Piranha armoured command and radar vehicles from Switzerland. Sweden reported exports of 4 combat vehicles of type CV 9030 to Norway, 3 tracked vehicles of type Bv 206 S to Germany and 1 minelayer ("Älvsborg") to Chile.

Sweden is working in various ways for increased reporting to the United Nations Register of Conventional Arms and greater transparency in weapon deals. These efforts are part of Sweden's endeavours to increase general openness in this area and thereby confidence between the nations.

The 55 participating states in the Organization for Security and Cooperation in Europe (OSCE) have agreed in the Security Forum to observe certain principles for the transfer of weapons, including reporting annually to the UN register.

Since 1995, consultations on reporting to the UN Register have been held with the other members of the EU. So that the register may become more usable, the EU has sent a letter to the UN Secretary-General urging other members of the UN to provide information on their weapons holding as well as on their own production of military equipment covered by the register. Sweden submitted this type of information to the register for the first time in 1997. A review of the register was carried out in 1997, but no concrete progress could be noted regarding an extension of the register. A new review can be expected in the next few years.

As part of Sweden's endeavours to achieve greater transparency in this area, the Government has since 1990 submitted to the United Nations an English translation of its annual report to Parliament on exports of military equipment. Since autumn 1996 the information submitted to the UN register has been available on the Internet. The address is:

<http://www.un.org/depts/dpa/cda/register/register.htm>

## 12 The Wassenaar Arrangement and Other Export Control Regimes

The main task of the Wassenaar Arrangement (WA) is to prevent the spread of both weapons and dual-use goods that may have a militarily destabilizing effect and threaten international and regional peace and security. At present the WA has 33 members.

As in the case of other international export control regimes in which Sweden participates, no binding decisions are taken through the WA. It is a political undertaking in which the participating countries retain their influence over export control. The WA is not directed against any individual state or group of states. It is to be applied globally and in a non-discriminatory manner and is not intended to impede bona fide transactions. Hence, the aim is to develop a common view on the development trends and risks connected with transfers of these products through exchanges of information (export statistics and notification that export permits have not been granted) and discussions about sensitive regions. It may be mentioned that the areas discussed include Afghanistan (initiated by the United States) and Central Africa (initiated by Sweden).

In support of the arrangement, lists of products have been compiled covering both dual-use goods and military equipment. These are to be reviewed regularly. The list of strategic products are then coordinated with the corresponding EU list of export controlled products.

Sweden also participates in other existing export control regimes regulating the exportation of dual-use goods. These are the Nuclear Suppliers' Group (NSG), the Australia Group (AG), and the Missile Technology Control Regime (MTCR). Their aim is to prevent, or at least to impede, the proliferation of weapons of mass destruction and their carriers, that is to say nuclear weapons (NSG), biological and chemical weapons (AG) and missiles (MTCR).

Each regime has some thirty member states. In most cases, the chairmanship rotates every year. Sweden currently holds the chairmanship of the Wassenaar Arrangement.

Sweden actively participates in all these regimes. Today, export control is perhaps the most effective operative method available for preventing the proliferation of weapons of mass destruction. Sweden's participation in the regimes is essential for its credibility in international non-proliferation work.

During the year, Sweden took an initiative to improve the efficiency of export control through cooperation between the regimes. Work is in progress, among other things to improve exchanges of information by using computerized communication systems.

A Cabinet Office Reference Group presented a report concerning Swedish policy in the area of cryptography. This will be followed by a proposal for a Swedish cryptography policy. The work of formulating such a proposal is taking place in parallel with similar work within the OECD, the EU and the Wassenaar Arrangement and in direct cooperation with other countries. The aim is to create a secure infrastructure for international traffic. The Wassenaar Arrangement for export control is to be reviewed before the end of the year. For Sweden's part the aim is that the new system of rules shall create the preconditions for some cryptography to be exempted from control while retaining control of advanced cryptography.

### 13 EU Export Control Cooperation

Cooperation within the EU in export control matters in the military equipment area takes place within the framework of an ad hoc working group on the restructuring of the defence industry (Polarm) and a working group within the framework of the Common Foreign and Security Policy (CFSP), called COARM. The EU Commission has long advocated that measures be taken within the EU to facilitate a restructuring of the European defence industry. At the end of 1997 the Commission presented a communication to this effect (COM(97)583) under the heading A Union Strategy for the Defence Industry. The communication also contained a section on export control matters. The strategy includes a summary of several measures to facilitate restructuring. Most of the measures are directed at the defence industry while others are intended to facilitate the restructuring of European industry in general. The proposals aim, among other things, to simplify transfers of military equipment between the EU countries through simplified procedures and the abolition of customs duties. There are also proposals for procurement rules and concerning more harmonized export control rules.

The rules which are applied by members to exports of jointly developed products to third countries are an important factor in this context. It is proposed in the Commission's communication that exports of such products shall take place in accordance with the applicable rules in the country where the product was manufactured or offered for sale. Under the Swedish guidelines the main principle is that Swedish rules shall apply to jointly developed products if the joint product has a predominantly Swedish identity. In the light of the fact that it appears to be becoming increasingly difficult to determine the identity of joint projects, a review of the Swedish rules in this respect is being considered.

Discussions on the Commission's communication commenced recently. It may be stated that even if the member states in principle welcome measures aiming to facilitate a restructuring of the European defence industry, there is also some hesitance about the Commission's initiative. It is perceived by some states as a desire on the part of the Commission to limit the right of member states to exempt production and trade in military equipment from the EU's general rules (Art. 223 of the EC Treaty).

In early December Chancellor Kohl and Prime Ministers Blair and Jospin took an initiative in which they urged the aircraft industry to present a restructuring plan before 31 March 1998. At the same time, the governments undertook to agree on measures to facilitate the restructuring of industry. Sweden was invited to participate in this process together with Italy and Spain. The Swedish Government has responded in the affirmative to this invitation.

A British-French proposal has been presented for a declaration and code of conduct for export of military equipment. The proposal is based on the eight criteria for export of military equipment agreed at the summit meetings in Luxembourg in 1991 and in Lisbon in 1992 (see annex to appendix 2) and means that the members should concretize these criteria in explanatory text. The starting-point is to set a high common standard for members' export control policies. Sweden welcomes this ambition and at the same time attaches great importance to members agreeing on greater transparency, above all in reporting on exports of military equipment to their respective parliaments.

The EU Council of Ministers decided in 1997 to introduce a weapons embargo against Sierra Leone. Countries subject to EU embargoes from an earlier date include Afghanistan, Bosnia and Herzegovina, the Federal Republic of Yugoslavia and Croatia, Burma, Iraq, China, the Democratic Republic of the Congo, Libya, Nigeria and Sudan. There are weapons embargoes decided by the UN against Angola, Iraq, the Federal Republic of Yugoslavia, Liberia, Libya, Rwanda, Sierra Leone and Somalia.

The OSCE has decided on a weapons embargo against Armenia and Azerbaijan.

The control of exports of dual-use goods also involves exchange of information within the framework of the CFSP. The EU has a common Council Regulation (EC) no. 3381/94 for control of exports of dual-use goods which has been in force since 1 July 1995. The aim of the Regulation is to achieve the free movement of such products (with some limited exceptions) within the EU and the control of exports to third countries. Developments in the export control regimes are observed by continuous amendments to and updating of the Annexes to the Regulation. The application of the Regulation on the control of exports of dual-use goods is the subject of regular discussions in a special coordination group for this purpose.

#### 14 The Swedish Defence Industry and International Cooperation in the Field of Military Equipment

In Government bill 1996/97:4 (cf p. 154) "On the Renewal of Sweden's Defence", which was adopted by Parliament (report 1996/97:FöU1) it was established that in the light of, inter alia, Sweden's limited domestic market and the weakening international market for defence matériel, substantially increased international cooperation appears to be a precondition for the

survival of the Swedish defence industry and for the military authorities' ability to adapt. It is not economically or technically possible, nor desirable, to try to create national independence in the area of defence matériel. The Government assesses that Sweden should try to create mutual international dependence in order to utilize the advantages and minimize the risks of international dependence.

Sweden maintains well established cooperation with the United States and hence has considerable defence industry interests to safeguard. European cooperation also holds major and growing potential. Sweden's role in this is becoming increasingly important on account of the discussions taking place within the EU on extended cooperation in the defence matériel sector.

For the first time in a very long time, a foreign company has been granted permission in Sweden to acquire a Swedish factory producing defence matériel. The British company Alvis plc was granted permission in 1997 to acquire Hägglunds Vehicle AB. Through the acquisition, Alvis broadened its range of tracked vehicles.

The rate of rationalization in the defence industry has been high in the United States at the same time as company mergers in the industry have progressed at a rapid pace. The corresponding development in Europe, up to now at least, must be considered rather modest in comparison

Intensified international cooperation demands of Swedish industry and Swedish authorities that they are able to contribute advanced technical know-how or products. It is also of particular importance that the form and scope of support given by the authorities facilitate cooperation.

It is established in the bill that if it is to be possible to utilize the export potential of Swedish companies, the Government and Swedish authorities must actively and in a structured way support the export endeavours of the defence industry to undertake major defence matériel projects, on condition that these endeavours are in line with the guidelines for exports of military equipment.

In 1996, an interdepartmental advisory group at State Secretary level was formed for defence industry matters and exports of military equipment.

## 15 Development in the International Arms Trade

According to the Stockholm International Peace Research Institute (SIPRI), Sweden was responsible for 1.09 per cent of world exports of heavy conventional weapons (aircraft, warships, artillery, armoured vehicles, missiles and homing and radar systems) in 1997 compared with 1.40 per cent in 1996. Sweden was in 13th place among the world's weapons exporters in 1997 compared with a 9th place in 1996.



In 1997, the United States was the largest exporter with an average share of 43.09 per cent followed by Russia with 13.78, France 13.29, the UK 10.46, Spain 2.54, Germany 2.26, and the Netherlands 2.00 per cent.

For the five-year period 1993-1997, the corresponding Swedish share amounted to an average 0.78 per cent, which represented a 14th place among the world's weapons exporters. During the same period the United States was the largest exporter with an average share of 46.93 per cent, followed by Russia with 13.47, the UK 8.32, France 6.86, Germany 6.34, China 3.12 and the Netherlands 1.92 per cent.

In 1997 the leading importer of heavy conventional weapons was Taiwan with 16.10 per cent, followed by Saudi Arabia with 9.42, China 7.22, Malaysia 5.35, Turkey 5.07, India 4.31 and South Korea 4.28 per cent. Sweden accounted for 0.49 per cent of imports in 1997 compared with 0.20 per cent in 1996. This gave a 33rd place in the import statistics for 1997 compared with 51st place in 1996.

For the five-year period 1993-1997 Saudi Arabia had the highest proportion of imports corresponding to an average 8.69 per cent, followed by Taiwan with 7.28 per cent, Turkey 6.19, Egypt 5.91, South Korea 4.72, China 4.46 and Japan 4.02 per cent. Sweden was in 40th place for the corresponding period with average imports amounting to 0.43 per cent.

According to the same source, world trade in these weapons increased by 12 per cent in fixed prices between 1996 and 1997. The corresponding increase in fixed prices since 1994 was 24 per cent. Furthermore, trade in heavy conventional weapons in 1997 corresponded to 62 per cent of trade in 1987, when the highest figures were recorded for trade in these types of weapons since 1950.

## Appendix

### Swedish Exports of Military Equipment in 1997

#### 1 General Background

The National Inspectorate of Strategic Products (ISP) continuously monitors the marketing and export of military equipment from Sweden. Companies that are licensed to conduct activities in the military equipment area - at present about 200, of which some 40 are active exporters - are obliged to submit reports to ISP in various contexts. In the Bill concerning greater insight and consultation in questions involving the export of military equipment (1984/85:82), the Government declared its intention of submitting an annual report to Parliament on Swedish exports of military equipment. The following report concerns Swedish exports of military equipment in 1997.

#### 2 Export Permits

In recent years, the number of applications for permits has been in the region of 2,000. Most of the applications have concerned exports for purposes other than sale, such as export prior to or following repair, for demonstration purposes or for testing. During 1997 the value of export permits increased by 77% compared with the previous year. Export permits refer on the one hand to small transactions concerning, for example, spare parts or ammunition, on the other hand, to very extensive transactions involving major weapons systems delivered over several years. Thus, a few large transactions can have a noticeable effect on a year's results. The high level in 1997 is due to a limited number of large transactions with western industrial nations. A consequence of the broadening of the concept of military equipment in 1993 is that statistics also cover exports of matériel which is classified as military equipment, for civil or partially civil use. 40 % of the value of export permits for other military equipment reported in 1997 refer to such exports.

Unlike previous annual reports, the value is only given in current prices in the following. The reason for this is that previous fixed price estimates were made using the export price index for engineering goods produced by Statistics Sweden, an index that can hardly be considered representative of exports of military equipment.

Until 31 January 1996, decisions about export permits were taken only by the Government. However, in cases which did not involve major exports or were not particularly significant in other respects, decisions about permits were taken by the Minister responsible for matters relating to the export of military equipment. In 1995, Government decisions on exports represented 98 per cent of the total value of permits granted. Since 1 February 1996,

decisions on export matters are primarily taken by ISP except in cases that are deemed to be of principle significance or otherwise of special importance, which are submitted to the Government for a decision.

Table 1 below indicates the total value of export permits granted, calculated in current prices.

Permits have also been issued for exports of equipment for hunting and sporting purposes to 19 countries, namely Australia, Austria, Belgium, Canada, Denmark, Estonia, Finland, France, Germany, Latvia, Macedonia, Namibia, New Zealand, Norway, Poland, Switzerland, Tanzania, UK and USA.

**Table 1. Export Permits Granted for Sales of Military Equipment in the Period 1990-1997 at Current Prices**

Year	Total value at current prices SEK M			Percentage change in current prices compared with previous year		
	Total	MEC	OME	Total	MEC	OME
1990	2,869			- 60.4		
1991	2,487			- 13.3		
1992	2,992			+20.3		
1993	6,106	1,942	4,164			
1994	4,268	1,991	2,277	- 30.1	+ 2.5	- 55.3
1995	6,543	2,011	4,532	+53.3	+ 1.0	+99.0
1996	2,859	662	2,197	- 56.3	- 67.1	- 51.5
1997	5,061	2,481	2,580	+77.0	+ 274.8	+17.4

### 3 Actual Deliveries

ISP export statistics are based on information supplied by the exporting companies regarding the value of equipment delivered.

Table 2 shows the value of Swedish exports of military equipment over the past ten years at current prices. The table also indicates the proportion of military equipment in Sweden's total exports of manufactured goods.

In 1997, "military equipment for combat purposes" to a value of SEK 939 million and "other military equipment" to a value of SEK 2,162 million were exported, i.e. with a total value of SEK 3,101 million. Compared with 1996, exports of military equipment increased by 0.5 % in 1997. The corresponding

figure for "military equipment for combat purposes" was -17.3% and for "other military equipment" +10.8%.

**Table 2 Value of Exports of Swedish Military Equipment in the Period 1988-1997 at Current Prices**

Year	Sweden's total export of goods (current prices)	Exports of military equipment			Share of total exports %	Change in %			
		Current prices SEK M					Total	MEC	OME
1988	304,782	6,155			2.02	+39.0			
1989	332,580	6,005			1.81	- 2.4			
1990	339,850	3,327			0.98	-44.6			
1991	332,779	2,705			0.81	- 18.7			
1992	326,031	2,753			0.84	+ 1.8			
		<u>Total</u>	<u>MEC</u>	<u>OME</u>					
1993	388,290	2,863	1,216	1,647	0.74				
1994	471,602	3,181	1,347	1,834	0.68	+ 4.0	+10.8	+11.4	
1995	567,836	3,313	1,148	2,165	0.58	+11.1	-14.8	+18.0	
1996	569,167 <sup>1</sup>	3,087	1,136	1,951	0.54	- 6.8	- 1.0	- 9.9	
1997	631,413 <sup>2</sup>	3,101	939	2,162	0.49	+ 0.5	-17.3	+10.8	

<sup>1</sup> Data for Sweden's total exports of goods for 1996 have been corrected in this year's report, compared with the corresponding information in Government Report 1996/97:138 on exports of military equipment in 1996. The correction means no change in the proportion of military equipment in the total export of goods.

<sup>2</sup> Preliminary information for exports of goods in 1997.

Exports of military equipment in 1996 amounted to 0.54% of Sweden's total exports of manufactured goods. The corresponding proportion for "military equipment for combat purposes" was 0.20% and for "other military equipment" 0.34%. This proportion declined to 0.49% in 1997, of which 0.15% represented "military equipment for combat purposes" and 0.34% was "other military equipment."

These export statistics, which are based on manufacturers' delivery notifications to ISP, are the only figures that are directly linked to legislation on military equipment. Apart from certain narrowly defined areas, Swedish general foreign trade statistics, based on information supplied by the customs authorities to Statistics Sweden, do not distinguish between military equipment and civilian products except in some narrowly defined areas.

Changes from one year to the next do not provide a basis for long-term assessment of development trends. Developments on export markets in the 1990s have been marked by the end of the cold war, which has caused many military powers to cut their allocations for military equipment. The effect of the decline of export markets on Swedish exports of military equipment has partly been masked by the broadening of the concept of military equipment which took place in 1993, and which meant that many new types of matériel were included in export statistics for the first time. Exports of "traditional" military equipment were halved between 1992 and 1993, which was concealed in the total figures by the addition of new matériel in the "other military equipment" category. Subsequent years also meant a continuation of the weakening trend for traditional military equipment, albeit at a less rapid pace.

A comparison between Tables 1 and 2 above shows that the total value of export permits granted may differ substantially from the value of actual deliveries in the same year. This is because permits often apply for exports over several calendar years, and also the fact that permits are not fully utilized in some cases. The substantial increase in the number of export permits recorded in 1997 is in no way reflected in the actual exports that year. It is impossible to predict how the increase will be reflected in actual deliveries in the years ahead, inter alia since the low level of export permits granted in 1996 will have a weakening effect.

**Table 3. Value of Swedish Exports of Military Equipment in the Period 1996-1997 in SEK million, in Accordance with the Main Areas Covered by the Military Equipment Classification**

		1996	1997
<i>Military Equipment for Combat Purposes</i>			
MEC1	Small-calibre barrel weapons	0	0
MEC2	Cannons, anti-tank guns	111	155
MEC3	Ammunition	147	138
MEC4	Missiles, rockets, torpedoes, bombs	501	184
MEC5	Firing control equipment	146	307
MEC6	ABC weapons	1	0
MEC7	Gunpowder and explosives	109	106
MEC8	Warships	28	33
MEC9	Combat aircraft	0	0
MEC10	Combat vehicles	94	16
MEC11	Directed energy weapon systems	0	0
	<b>TOTAL</b>	<b>1,136</b>	<b>939</b>
<hr/>			
<i>Other Military Equipment</i>			
OME21	Small-calibre barrel weapons, parts, etc.	1	6
OME22	Cannons, anti-tank guns, parts, etc.	47	44
OME23	Ammunition for training purposes, etc.	299	277
OME24	Training rockets, sweeping equipment, etc.	95	144
OME25	Reconnaissance and measurement equipment	311	280
OME26	Protective equipment, etc.	12	12
OME27	Gunpowder and explosives components	0	0
OME28	Surveillance vessels, etc.	213	112
OME29	Aircraft designed for military use, etc.	144	369
OME30	Vehicles designed for military use, etc.	218	204
OME31	Directed energy weapon systems	0	0
OME32	Fortifications	0	0
OME33	Electronic equipment for military use	186	130
OME34	Photographic and electro-optical equipment	0	0
OME35	Training equipment	323	506
OME36	Manufacturing equipment	101	72
OME37	Software	1	6
	<b>TOTAL</b>	<b>1,951</b>	<b>2,162</b>

#### 4 Geographical Distribution

Table 3 shows the total extent of military equipment exports and their distribution into principal categories according to the military equipment list.

Last year, the Government expressed its intention to consider presenting the recipient countries for the principal categories in the list of military equipment, as is done in Norway. ISP was requested to look into the matter in detail. In its reply to the Government, ISP stated that it is not yet technically possible to accommodate this wish. Furthermore, ISP stated its opinion that publication of recipient countries might contravene rules on commercial secrecy and secrecy relating to foreign affairs in certain cases.

The regional summary in Table 4 indicates the normal pattern, which is that the overwhelmingly largest proportion of Swedish exports of military equipment go to the Nordic countries, other Western European countries, North America, Australia and Japan. In 1997, more than 75% of total exports were supplied to these destinations. All in all, the share of the Nordic countries and other Western European countries of these exports showed a tendency to increase slightly in 1997. While amounting to 36% in 1995, it increased to 44% in 1996 and to 48% in 1997. At the same time, Asia's share decreased from 36% in 1995 to 20% in 1996 but increased to 28% in 1997. The North American share fell from 22% in 1995 to 20% in 1996 and continued to decrease to 17% in 1997. However, no far-reaching conclusions about development trends in the area can be drawn from these changes. A single large transaction can cause major shifts in proportions of the relatively limited total exports. Altogether 49 countries received deliveries of Swedish military equipment during 1997 compared with 48 in 1996 and 45 in 1995.

**Table 4. Exports of Military Equipment by Region, Percentage of Value in the Period 1995-1997**

	1995			1996			1997		
	Total	MEC	OME	Total	MEC	OME	Total	MEC	OME
Nordic countries	15	14	15	19	21	18	17	31	11
Other West European countries	21	16	24	25	23	25	31	18	36
Central and Eastern Europe	0	1	1	0	1	0	0	1	0
North America	22	7	30	20	11	24	17	16	17
Latin America	1	2	0	9	15	5	4	8	3
Australia and New Zealand	4	5	4	7	4	8	2	1	2
Asia	36	55	26	20	24	18	28	24	30
Africa	0	1	0	0	0	0	0	1	0

The following table shows the proportion of exports of military equipment to recipient countries. Table 5 includes all countries where exports of military equipment have exceeded SEK 1.0 million in any year in the period 1995-1997. Exports of military equipment of Swedish manufacture in 1997 were supplied to 49 countries. In 16 cases the value of exports was under SEK 1 million.

Exports to EU countries amounted to SEK 1,299.2 million in 1997 compared with SEK 964.5 million in 1996, an increase of 34.7%. Calculated as a share of total exports, they increased for the EU's part from 31.2% in 1996 to 41.9% in 1997.

The largest individual recipient of Swedish military equipment in 1997 was Germany valued at SEK 504.8 million, followed by the United States with SEK 474.1 million, Denmark SEK 319.9 million, Japan SEK 283.4 million, the UK 194.6 million, Singapore SEK 165.7 million and Norway SEK 161.0 million.

Exports of military equipment valued at under SEK 50,000 are indicated in Table 5 with SEK 0.0 million.



**Table 5 Exports of Military Equipment by Country 1995-1997 in SEK million**

	1995			1996			1997		
	MEC	OME	Total	MEC	OME	Total	MEC	OME	Total
Australia	58.8	80.6	139.4	47.6	164.1	211.6	2.9	50.5	53.4
Austria	85.0	49.9	134.8	182.1	53.8	235.8	114.2	35.4	149.6
Bahrain	-	-	-	-	2.1	2.1	-	0.0	0.0
Bangladesh	-	1.7	1.7	3.5	0.0	3.5	16.5	2.7	19.2
Belgium	0.0	5.8	5.8	0.7	12.4	13.1	1.0	9.6	10.6
Brazil	21.9	8.8	30.6	81.7	101.8	183.5	17.4	46.8	64.2
Canada	22.0	189.9	211.9	18.9	21.3	40.3	23.1	20.9	44.1
Chile	-	0.0	0.0	-	0.0	0.0	16.0	-	16.0
China	-	2.4	2.4	-	-	-	-	-	-
Denmark	54.9	51.8	106.7	100.8	85.5	186.3	221.1	98.8	319.9
Finland	1.8	120.1	122.0	1.3	54.7	56.0	14.5	41.3	55.8
France	0.3	21.3	21.6	0.6	12.3	12.9	2.1	34.4	36.6
Germany	59.6	124.4	184.0	46.8	292.0	338.8	39.1	465.7	504.8
India	-	117.3	117.3	-	147.7	147.7	3.9	76.0	79.9
Indonesia	-	-	-	59.9	4.6	64.5	8.0	3.2	11.2
Ireland	2.5	0.1	2.6	0.3	2.5	2.8	2.4	10.0	12.4
Italy	0.8	2.5	3.3	0.9	7.5	8.4	2.4	3.7	6.1
Japan	-	27.8	27.8	0.2	14.0	14.2	0.4	283.0	283.4
Republic of Korea	-	7.9	7.9	-	12.9	12.9	-	6.6	6.6
Lithuania	-	-	-	5.8	0.8	6.6	12.1	1.3	13.4
Malaysia	16.4	70.2	86.6	29.7	31.2	60.9	-	78.2	78.2
Netherlands	28.4	8.6	37.0	24.5	7.6	32.1	0.0	2.6	2.6
New Zealand	0.3	1.7	2.0	2.8	1.1	3.9	3.8	0.3	4.2
Norway	98.4	157.2	255.6	134.9	219.0	353.9	56.7	104.3	161.0
Oman	-	-	-	-	0.3	0.3	104.0	1.4	105.4
Pakistan	35.9	-	35.9	177.0	12.8	189.7	21.8	37.9	59.7
Poland	7.0	1.2	8.1	1.9	-	1.9	0.1	0.4	0.5
Portugal	-	0.1	0.1	1.2	0.1	1.3	0.1	0.3	0.4
Singapore	582.0	92.7	674.8	2.8	85.5	88.3	46.3	119.4	165.7
Spain	0.4	2.5	2.9	1.7	6.8	8.5	0.1	2.1	2.2
Switzerland	4.1	14.9	19.0	4.9	29.9	34.8	5.3	24.1	29.4
Thailand	1.9	238.0	239.9	2.4	34.7	37.0	24.2	21.3	45.4
Tunisia	9.3	4.4	13.7	-	2.5	2.5	10.1	1.7	11.8
United Arab Emirates	-	0.1	0.1	-	1.1	1.1	-	16.3	16.3
United Nations	-	5.2	5.2	-	7.6	7.6	-	-	-
United Kingdom	0.7	291.4	292.1	2.9	65.6	68.5	1.2	193.4	194.6
USA	56.2	461.9	518.1	108.1	454.1	562.3	125.5	348.6	474.1

Venezuela	-	0.0	0.0	89.4	-	89.4	42.2	15.1	57.3
				-					
Other countries	-	2.7 <sup>3</sup>	2.7	0.8 <sup>4</sup>	1.3 <sup>5</sup>	2.1	0.2 <sup>6</sup>	1.4 <sup>7</sup>	1.6
TOTAL	1,148	2,165	3,313	1,136	1,951	3,087	939	2,162	3,101

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<sup>3</sup> Andorra, Argentina, Czech Republic, Estonia, Greece, Hongkong, Hungary, Israel, Mauritius, Namibia, and Zimbabwe .

<sup>4</sup> Andorra, Botswana, Iceland and the Czech Republic

<sup>5</sup> Andorra, Argentina, Czech Republic, Hungary, Iceland, Luxembourg, Philippines, Mauritius, Namibia, South Africa, and Zimbabwe.

<sup>6</sup> Estonia, Iceland and South Africa.

<sup>7</sup> Andorra, Argentina, Brunei, Estonia, Czech Republic, Hungary, Iceland, Kuwait, Mauritius, Namibia, New Caledonia, Peru, Russia, and South Africa.

## 5 Transfer of Manufacturing Rights, Cooperation, etc

Five permits were granted in 1997 for the transfer of manufacturing rights abroad. The countries concerned were Brazil, Greece, Japan, Malaysia and Poland.

In addition, a permit was granted for an extension of a previous transfer of manufacturing rights. The country concerned was Spain.

Eleven cooperation agreements were examined and approved for joint development or production with the following countries: the United States (two permits), France, Germany (three permits), Malaysia (three permits), Singapore and the UK.

In assessing cases involving the transfer of manufacturing rights and cooperation with foreign partners, the stricter criteria applied to exports of *military equipment for combat purposes* are employed, irrespective of the type of export, because this kind of cooperation normally results in a lengthier commitment than with regular exports. The scope of such agreements, their duration, re-export clauses, etc. are examined in detail in this context.

Under the Military Equipment Act (1992:1300), the Government has prescribed that those who transfer manufacturing rights for military equipment to a party in a foreign country or who have entered into a cooperation agreement with a foreign partner, have an obligation to report annually stating whether the agreement is still in force, whether manufacture or other cooperation in accordance with such an agreement still takes place and how such cooperation is pursued.

In 1997, 14 companies reported a total of 165 transfers of licences and cooperation agreements in 20 countries. Of these, 13 companies had 84 licence agreements in 18 countries and 8 companies 81 cooperation agreements in 17 countries.

## 6 Training for Military Purposes

Under the Military Equipment Act, with certain exceptions, foreign subjects may not be given training which has a military orientation within or outside Sweden without the consent of the National Inspectorate of Strategic Products. The prohibition applies to training that is not connected with sales of military equipment for which an export licence has been granted.

No such permission has been granted in 1997.

## 7 Reporting Ownership in a Foreign Legal Entity

Under the Military Equipment Act (1992:1300), companies that have received permission to manufacture or supply military equipment must report annually regarding ownership of foreign legal entities which pursue the development, manufacture, marketing or sales of military equipment.

In 1997, seven companies have reported ownership in 26 foreign legal entities in 15 countries

## 8 Export Companies

Some 200 companies are licensed to manufacture military equipment. Of these, 40 exported such equipment in 1997.

The largest exporters of military equipment in 1997 were as follows: Bofors AB, Saab Training Systems AB, Saab AB and Celsius Tech Systems AB. Bofors AB was responsible for exports in excess of SEK 500 million but less than SEK 1 billion. The other three companies were each responsible for exports exceeding SEK 200 million but less than SEK 500 million. In addition, five companies exported to a value exceeding SEK 100 million, viz. Bofors Explosives AB, CelsiusTech Electronics AB, Ericsson Microwave Systems AB, Hägglunds Vehicle AB and Kockums Submarine AB.

Four companies each exported to a value of between SEK 50 million and SEK 100 million, namely Bofors Underwater Systems AB, Norma Precision AB, Saab Dynamics AB and Volvo Aero AB.

Eight companies exported for an amount between SEK10 million and SEK 50 million. They were Bofors Carl Gustaf AB, Bofors LIAB AB, Chematur Engineering, Dockstavarvet AB, Ericsson Saab Avionics, FMV, Fjellman Press and Mipro AB.

Other companies with exports in excess of SEK 1 million included Bofors SA Marine AB, Degerfors Formings, FFV Aerotech, Polyamp AB, Sundström Safety AB, Svenska Tico AB, VM-Trailer AB, and Åkers Krutbruk Protection AB.

In all, the above-mentioned 29 companies represented almost 100 per cent of Swedish exports of military equipment in 1997.

## 9 Employment Developments in Arms Export Companies

Fourteen of the largest manufacturers of military equipment in Sweden are members of the Association of Swedish Defence Industries which was founded in 1986. Member companies are responsible for the majority of exports of military equipment. The Association defines exports of defence matériel as member companies' supplies to countries abroad of "military

equipment and civil products to military customers", that is to say, a broader definition than the definition of military equipment.

Member companies employed 26,400 people in their military equipment departments in 1987. This number has subsequently fallen to 22,780 in 1990 to 15,400 in 1996 and finally to 14,250 in 1997.

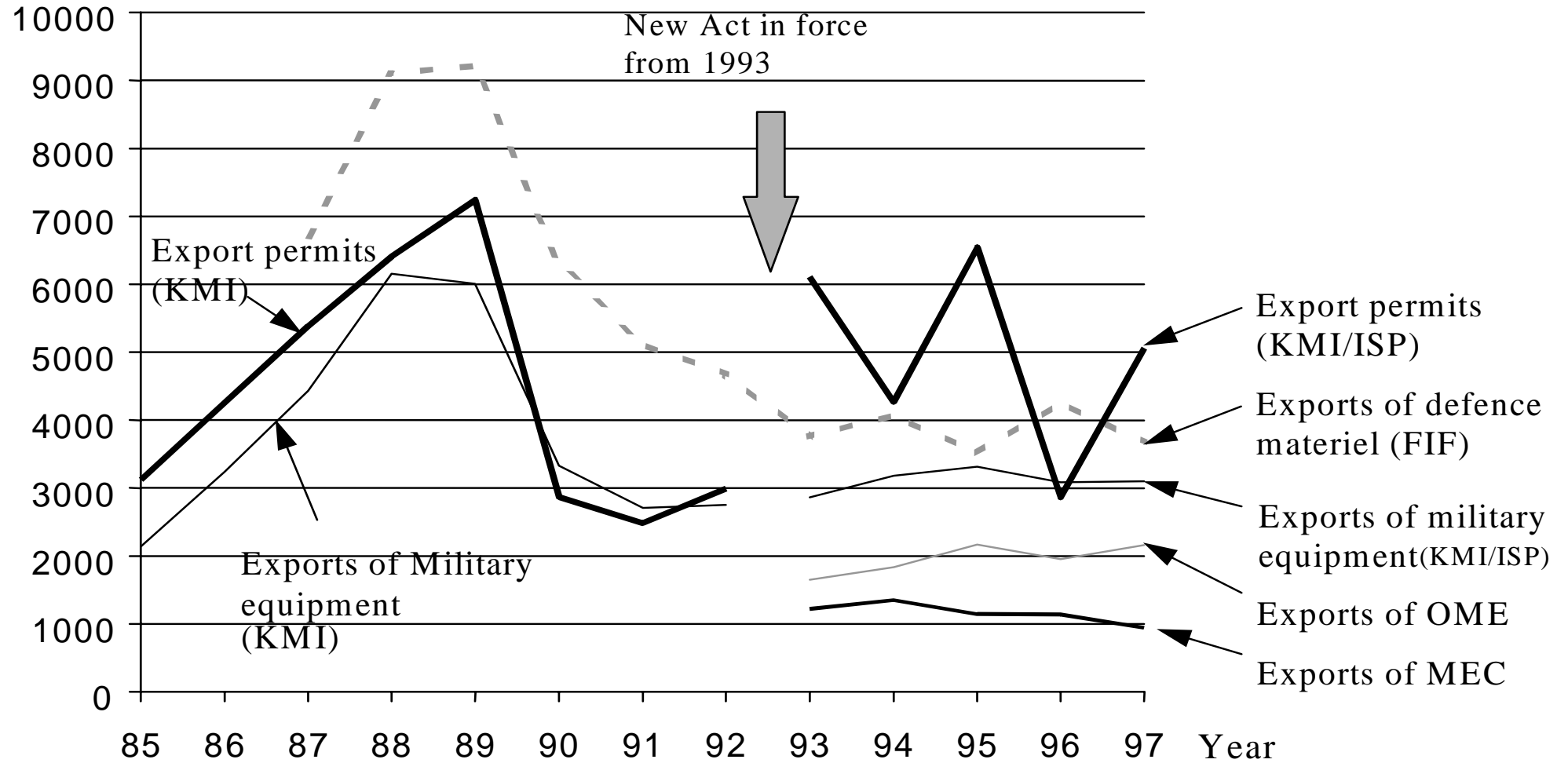
These companies' exports of defence matériel represented a value of SEK 6,700 million in 1987, SEK 6,294 million in 1990, SEK 4,289 million in 1996 and SEK 3,667 in 1997. Compared with 1996, exports of defence matériel decreased by 14.5 per cent in 1997.

The companies' sales to the Swedish armed forces increased between 1996 and 1997 from SEK 10,477 million to SEK 13,136 million, which is equivalent to 25.4 per cent.



### Exports of Military Equipment and Export Permits, 1985-1997

million SEK (at current prices)



## EU Criteria for Arms Exports

At its meeting in Luxembourg on 28-29 June 1991 and in Lisbon on 26-27 June 1992, the European Council approved eight common criteria for Member States' arms exports.

- respect for the international commitments of the Member States of the Community, 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;
- the respect of human rights in the country of final destination;
- the internal situation in the country of final destination, as a function of the existence of tensions or armed conflicts;
- preservation of regional peace, security and stability;
- the national security of Member States and of territories whose external relations are the responsibility of a Member State, as well as that of friendly and allied countries;
- 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;
- the existence of a risk that the equipment will be diverted within the buyer country or re-exported under undesirable conditions;
- 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.



**Ministry for Foreign Affairs**

Extract from the minutes of the Cabinet Meeting held on 7 May 1998.

Those present: Cabinet Minister Peterson, chairman, and the following Cabinet Ministers, Freivalds, Tham, Åsbrink, Schori, Andersson, Winberg, Uusmann, Ulvskog, Lindh, Johansson, von Sydow, Klingvall, Åhnberg, Pagrotsky, Östros, Messing, Engqvist.

Items on the agenda presented by: Leif Pagrotsky, Cabinet Minister

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The Government decides to present to Parliament Report 1997/98:147, Swedish Exports of Military Equipment in 1997.

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