

Swedish Arms Exports in 1998

A Government Report

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Swedish Exports of Military Equipment in 1998

The Government hereby submits this report to Parliament

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Principal contents of the report:

In this report the Swedish Government presents Swedish exports of military equipment in 1998. In addition, a comprehensive description is given of the framework of rules that is applicable to this area. A brief report of Important developments during 1998 is also included.

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1 Introduction

The increasing internationalisation that characterises many sectors of society is also evident in the arms area. A rationalisation of the European defence industry has begun, involving a considerably greater measure of transboundary industrial cooperation in the defence area than has traditionally been the case. The reason for this is to be found, inter alia, in the end of the cold war, which has signified a changed threat scenario, and in most countries reduced economic frameworks for procurement of military equipment. Shrinking resources and substantially rising development costs for each new generation of military equipment have given rise to an awareness in most European countries with significant arms industries that purely national defence industries can no longer be maintained for economic reasons.

The trend everywhere is towards cuts and the restructuring of national defence industries. The American arms industry may generally be said to be ahead of its European counterparts in this development. Various initiatives have therefore been taken both by the European Commission and individual governments in an attempt to speed up and facilitate the restructuring process in Europe. The aim is to create a defence industry at the European level that can match the highly rationalised and large-scale American industry.

Sweden's view was set out in the 1996 Defence Programme (cf. bill 1995/96:12 and 1996/97:4) in which the Swedish defence industry was urged to look abroad in search of strengthened international cooperation. Although – for the reasons described above - a domestic defence industry can no longer be maintained in the same way as previously, it is important for Sweden that the armed forces' supplies of matériel are secured in a manner which preserves the credibility of our policy of non-participation in military alliances. The continued existence of the Swedish defence industry as part of a larger European industry means that its former independence is exchanged for mutual dependence that is judged to afford good opportunities for securing supplies of matériel for the Swedish defence forces when needed. Furthermore, a restructuring at the European level should facilitate a reduction of the current excess capacity in the European defence industry, which, in its turn, will reduce the pressure to export in order to compensate for the loss of local orders. The Government judges this to be a desirable effect.

Sweden has acceded to the so-called Letter of Intent (LOI) initiative that was signed by the Defence Ministers of France, Italy, Spain, UK, Sweden and Germany in July 1998. The aim of this initiative is to identify measures to facilitate the restructuring of the defence industry. The areas that are being discussed include export control procedures. Sweden's objective in this context is to achieve a result that is accommodated within the framework of Sweden's existing guidelines. Among other things, supply guarantees that will secure supplies of matériel to the Swedish defence forces are also being discussed.

The European Union adopted a common Code of Conduct on Arms Exports on 8 June 1998. The purpose of the Code is, inter alia, to lay the foundation for

more convergent and restrictive export control policies in Europe. The Code is politically binding and there are no obstacles to the application of tighter rules at the national level on the part of the individual member states. Hence, Sweden can continue its restrictive policy in this area. The Code of Conduct contains certain practical elements where the focus is on exchanges of information between member states, among other things information is exchanged about rejections of arms export inquiries. It is hoped that the Code of Conduct will make possible a gradual alignment of the policies of EU countries in this area and a greater degree of restrictiveness and acceptance of responsibility in Europe as a whole.

Sweden is working actively to ensure that the Code contributes towards increased openness in respect of individual member states' thinking in this area. As a result of the adoption of the Code, an annual report of EU member states' arms exports, which will be available to all the EU governments, will be compiled by the chairmanship. Sweden wants the annual report to be treated as a public document.

The international arms trade, as reported by the Stockholm International Peace Research Institute (SIPRI), decreased most between 1990 and 1995, which was followed by a more stable period. The United States retains the leading position it has held since 1991 regarding exports of conventional weapons, followed by Russia. However, Russia's exports have decreased since 1996. Sweden's exports of heavy conventional weapons increased slightly during 1998, which resulted in a 14th place this year, after all the major EU countries and Canada, among others. Swedish imports of military equipment decreased during the year, resulting in a drop from 23rd to 36th place in SIPRI's list. (This is reported annually in SIPRI's year-book).

The number employed in the Swedish defence industry has continued to decrease during 1998, a trend that will probably continue.

2 Military Equipment Exports 1998

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 and, at the same time, the basis is provided for a broader public debate. Some caution is called for as regards reading trends in the material. Exports of military equipment from Sweden are limited. Consequently, individual sales of large systems cause powerful swings upwards or downwards in the annual totals which cannot be linked to any long-term trend.

The information in the annual report is based on reports from arms manufacturers required by law. This material has then been compiled by the National Inspectorate for Strategic Products (ISP) and submitted as the basis for a report of exports of military equipment in 1998 (see *Appendix*).

The value of total invoiced sales of military equipment during 1998 amounted to SEK 13,484 million, equivalent to an increase by 14.6 per cent compared with 1997. The increase depends on the completion of previously contracted supplies to the Swedish armed forces. Invoicing may be expected to remain at a high level over the next few years also due to the fact that supplies between different companies in the defence industry are

included in the sum total. Sub-deliveries of subordinate systems between industries may therefore be entered in the books one year, only to reoccur another year as part of a total price invoiced to the end customer, the armed forces. Thus, the sum total contains a certain measure of double calculation.

The value of exports of military equipment in 1998 was SEK 3,514 million. Thus, exports accounted for almost 26.1 per cent of the defence industry's total invoiced sales of military equipment during the year. Export deliveries increased in 1998 by 13.3 per cent compared with exports in 1997. This may be compared with a 14.6 per cent increase for total invoiced sales of military equipment and a 6.4 per cent increase of total exports of goods from Sweden.

Swedish exports of military equipment represented 0.52 per cent of the total exports of goods from Sweden in 1998 compared with 0.49 per cent in 1997.

Military equipment is divided into two categories: weapons of destruction which may be designated military equipment for combat purposes and non-destructive matériel designated other military equipment. Exports of military equipment for combat purposes increased by 77.0 per cent or from SEK 939 million in 1997 to SEK 1,662 million in 1998. Regarding other military equipment a decrease in exports by 14.3 per cent was noted corresponding to a reduction from SEK 2,162 million in 1997 to SEK 1,852 million in 1998.

In 1998, export permits were granted for the sale of military equipment to a value of SEK 3,273 million, of which SEK 1,449 million represents military equipment for combat purposes and SEK 1,824 million other military equipment. The value of export permits granted fell by 35.3 per cent in 1998 compared with 1997. For military equipment for combat purposes the decrease amounted to 41.6 per cent and for other military equipment to 29.3 per cent compared with 1997. As may be seen from the diagram in Appendix 1, the value of permits granted has varied considerably in recent years while there has been very little variation in the value of actual exports. The explanation for this is that sub-deliveries connected with a single export permit may continue over several years.

3 The Military Equipment Act

The Military Equipment Act (1992:1300, latest amendment 1998:771) and corresponding Ordinance (1992:1303, latest amendment 1998:402) 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, a broadening of the concept of military equipment, and some simplification, clarification and modernisation of the provisions which apply to the overall control of the manufacture and supply of military equipment.

Under the Military Equipment Act, military equipment may not be manufactured without permission. 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 (arms brokerage). Furthermore, it covers 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.

As mentioned above, under the Act, military equipment is divided into two categories. 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 for exports which have been established with broad parliamentary support 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 that 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. The National Inspectorate for Strategic Products grants permits in accordance with the Military Equipment Act. Each export transaction is, however, assessed individually.

In accordance with the guidelines, licences for export of military equipment are only granted if such exportation

- 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.

The above criteria also comprehend cooperation with persons or companies abroad relating to the development or manufacture of military equipment. Sweden is one of a few EU countries that have legislation also covering arms brokerage. The provisions of the Swedish law comprehend all persons resident in the country, irrespective of nationality. EU member states are currently examining the possibility of introducing such legislation, with the Swedish law serving as a concrete example.

The guidelines emphasise in particular the importance which, when assessing each export application from a foreign policy point of view, 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.

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 export of the two categories of equipment. For the category *military equipment for combat purposes*, 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. These are the same requirements as applied previously, except that previously the occurrence of violations of human rights need only be taken into consideration if the matériel could in itself be used to violate human rights. In this respect, Sweden differs from some other EU states.

In case of the export of *other military equipment*, a category 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-on deliveries it is stated, among other things, in the guidelines that "licences 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 licence".

5 Review of the Rules for Follow-on Deliveries

In connection with an examination by the parliamentary Standing Committee on the Constitution in 1995/96 of Government business relating to permits for certain exports of military equipment, 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 submitted his report on 31 March 1999 (Swedish Official Reports 1999:38). The customary procedure of circulating the report for consideration will follow.

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 licence granted to Swedish suppliers have asked for spare parts for the military equipment. The Government's view is that such exports should not be permitted. This approach has also been made clear in the guidelines which provide that so-called follow-on deliveries shall refer to military equipment previously exported *under a valid licence*. Spare parts are usually included in the concept of military equipment and thus export of them can be controlled. However, certain simple spare parts are standard industrial products. These unsophisticated parts lie outside the military equipment concept and there was previously no legal possibility of preventing exportation of them. The Government therefore presented proposals to prevent such exports in a bill, 1997/98:68, Export control of certain strategic products.

Through the new statutory provisions relating to strategic products (Swedish Code of Statutes 1998:397), which entered into force on 1 July 1998, an export permit requirement has been introduced for products which are not included in the concept of military equipment but 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, an obligation has been 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

The National Inspectorate of Strategic Products (ISP) was established on 1 February 1996 to exercise control over military equipment as laid down in the Military Equipment Act (1992:1300) and the Strategic Products Act (1998:397) and appurtenant Ordinances. The Inspectorate thereby 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 has subsequently also been designated the competent national authority within the framework of the UN Chemical Weapons Convention (CWC).

Thus, ISP is responsible for cases concerning licences for the export of military equipment and other strategically sensitive products with both civil and military uses (dual-use 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.

ISP has regular contact with the companies affected by its control activities. Regarding military equipment, companies are required to provide ISP with quarterly reports on their marketing abroad. These reports are the basis for run-throughs of their export efforts which ISP regularly carries out with the companies. In addition to 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 cooperation abroad involving military equipment. Finally, exporters of military equipment must notify the deliveries of military equipment they have carried out by virtue of licences granted.

ISP is self-financing. Fees that cover the authority's costs are charged to the manufacturing companies. The fees are assessed on the invoiced value of deliveries of products that are subject to control, in excess of SEK 2.5 million a year. Thus, the basis for the fee charged covers both deliveries in Sweden and abroad. There is no direct connection between the size of the fee and the scale of the exports. A direct connection between the authority's operations and the industry's payments has also been avoided, in that the fees are paid to the state and not directly to the authority. The authority's routine operations are financed through allocations in the usual manner and cost coverage is achieved by charging the industry on a yearly basis retroactively, when the actual costs of operations and the companies' invoiced deliveries can be established.

The number of export permit cases totalled 2,040 in 1998, of which 447 involved dual-use goods. The corresponding figures for 1997 were 2,009 and 403 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. Within the area of activities relating to the Chemical Weapons Convention, 183 declarations were submitted to ISP as compared with 180 in 1997. The corresponding number of declarations submitted to the OPCW secretariat in the Hague was 37 both for 1997 and 1998. Under the verification provisions of the Chemical Weapons Convention, a Swedish plant was inspected by the OPCW in 1997 and in 1998.

8 The 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 reorganised on 1 February 1996 and became the Export Control Council in connection with the creation of the ISP. At the same time its structure was broadened to reflect the broader structure of the Advisory Council on Foreign Affairs. All the political parties in Parliament are therefore 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 application of the Military Equipment Act (1992:1300). The Inspector-General of Military Equipment also has the possibility of consulting the Council where necessary on matters concerning application of the Strategic Products Act (1998:397).

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.

Nine Council meetings were held in 1998.

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 four meetings in 1998.

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

An important task for ISP is to ensure the dissemination of knowledge about export control, both to the general public and to the companies concerned. ISP recently carried out a revision of the handbook most recently published by the Inspectorate-General (KM) in 1993. The handbook is 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 licences. A similar handbook concerning strategic products was published during 1998. In addition, ISP arranges regular seminars and information meetings about its activities and field of work. Furthermore, during 1998 the authority set up a detailed web site on the Internet. Its address is "<http://www.isp.se>". A study of the further development of ISP's provision of information was initiated in 1998 with specially allocated funds.

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 of Sweden's policy in this field. A revised edition of this publication is under way.

The text of this report together with a translation into English is available on the Internet. The web site address is:
"<http://www.regeringen.se>" and "<http://www.ud.se>".
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 sixth year of the UN register was 1997, and by the beginning of 1999, 95 of the UN's 185 member states (as well as 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 1998, Sweden reported imports from Germany of 34 splinterproof armoured personnel carriers (MT-LBu) and 3 Piranha armoured command and radar vehicles from Switzerland. Sweden reported exports of 24 combat vehicles of type CV 9030 to Norway.

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, and to improve the information basis for a responsible control of exports.

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 year 2000.

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/dda/Cab/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 their own export control. Unlike its predecessor, COCOM, 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 WA list of strategic products is reflected in the corresponding EU list of export controlled products.

A review of the WA system of rules, the so-called Initial Elements, will take place in 1999.

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. Since 1996 Sweden has held 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.

Sweden is making efforts to improve the efficiency of export control through cooperation between the regimes. Work is in progress, among other things to improve exchanges of information within several of the arrangements by the introduction of computerized communication systems.

During the year, a Cabinet Office Reference Group formulated a proposal for Swedish policy in the area of cryptography. In 1998 the Reference Group began work on a government report to the Riksdag on cryptography.

Certain products in the area of cryptography belong in the strategic products category. The lists of products drawn up by the Wassenaar Arrangement were recently revised, among other things, regarding cryptography products and these changes have been incorporated into the EU's lists.

The EU has started work on a new regulation concerning control of exports of dual-use goods, including cryptographic products (cf. end of Chapter 13 below). Work on formulating such a proposal is taking place in parallel with work within, among others, the OECD and the EU in order to create a secure infrastructure for electronic communication. The new system of rules should create the preconditions for exempting certain cryptographic products from control, while retaining control of advanced cryptographic products.

13 EU Export Control Cooperation

Military equipment has been identified as a suitable area for cooperation within the framework of the EU's second pillar. In the Council Working Group on Conventional Arms Exports (COARM), the fifteen member states regularly discuss different issues connected

with trade in military equipment. In addition to this working group, there is also an ad hoc Working Party on a European Armaments Policy, which focuses on the question of the need for changes to national systems of rules and EU rules, pursuant to the restructuring of the European defence industry.

On 8 June 1998, the EU adopted a common Code of Conduct on Arms Exports. The Code is based on, and gives further details of, the common criteria decided by the European Council in Luxembourg in 1991 and in Lisbon in 1992. In the Code, the member states express their desire to establish strict common standards that are to be regarded as minimum standards, for trade in conventional military equipment, and also to strengthen exchanges with each other of relevant information in order to achieve greater insight. Among other things, in future member states will inform each other of potential export deals that are not permitted, so-called denials. Under the Code of Conduct, each member state shall draw up an annual report of its exports of military equipment and its application of the Code. The reports will be compiled by the presidency and discussed at an annual meeting within the framework of the Common Foreign and Security Policy (CFSP). In connection with this meeting the effects of the Code of Conduct will be evaluated and possible improvements to the Code discussed. After the meeting a report is drawn up which has to be approved by the Council of Ministers.

The Code of Conduct has been adopted by the EU Council of Ministers as a politically binding document on all member states. Several other countries, including Norway and Canada as well as several states associated with the EU, have stated that they will be guided by the Code when they take decisions on exports of military equipment. The Government considers the Code of Conduct to be an important element in the development towards a future common order for control of military equipment exports from EU member states.

The Code is appended to this report (see Addendum 2) and is also available on the internet under the address "<http://www.regeringen.se>" and also "<http://www.ud.se>".

In an annex to the Code of Conduct, which concerns lawful trade in military equipment, additional measures have been taken to counter illicit transfers in the form of the EU Programme for Preventing and Combating Illicit Trafficking in Conventional Arms.

EU member states fully comply with the UN Security Council's decisions on weapon embargoes. The Security Council's recommendations of restrictiveness in the same area are not of the same binding character and are considered from case to case. Within the framework of the Common Foreign and Security Policy certain weapon embargoes are unanimously decided which are in addition to those prescribed through Security Council decisions. These should be regarded as a result of the member states' desire to react jointly to different security policy issues. Regarding weapon embargoes, Article 223 of the Treaty of Rome means that the concrete implementation is effected by introducing the matter into the respective member state's national legislation. In 1998 embargoes decided by the UN applied to Angola (UNITA), China, Iraq, Liberia, Libya, Rwanda, Sierra Leone, Somalia and the Federal Republic of Yugoslavia. During the year, the EU upheld embargoes against Afghanistan, Bosnia and Herzegovina, Burma, China, the Democratic Republic of the Congo, Croatia, Iraq, Libya, Nigeria, Sierra Leone, Sudan and the Federal Republic of Yugoslavia.

EU member states also adhered to a weapon embargo against Armenia and Azerbaijan decided by OSCE in 1992.

The EU has adopted a 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. The aim of the Regulation is to achieve the free movement of dual-use goods (with certain limited exceptions) within the EU, and also the control of exports to third countries. Developments in the export control arrangements NSG, MTCR, the Australia Group and WA (see chapter 12) are observed by continuous amendments and updating of the Annexes to the Regulation containing lists of goods. 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. Following a survey of how the Regulation functioned during its first two years, the Commission presented a proposal in May 1998 for its revision. The Council of Ministers has appointed an ad hoc working party to discuss the proposal. The working party is expected to complete its work in 1999 so that a revised Regulation can enter into force some time in the year 2000.

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

In Government bill 1996/97:4 (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 no longer 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 utilise the advantages and minimise the risks of international dependence.

While the rate of rationalisation in the defence matériel industry has been high in the United States and mergers of different companies in this line of business have proceeded at a rapid pace, the corresponding development in Europe is in the early stages.

In Sweden, a foreign company has been granted permission to acquire a Swedish factory producing defence matériel. The British company Alvis plc was granted permission in October 1997 to acquire Hägglunds Vehicle AB in Örnsköldsvik. In 1998, the capacity to manufacture explosive substances and ammunition in Sweden, Norway and Finland was coordinated in the two constellations NAMMO and NEXPLO. For Sweden's part, this involved Bofors LIAB AB, Bofors Explosives AB, etc. For several years there has been cooperation between SAAB AB, Gripen and British Aerospace (BAe) in the United Kingdom in the development and marketing of an export version of the Swedish fighter aircraft JAS 39 Gripen. BAe has acquired 35 per cent of SAAB AB shares.

If Swedish industry is to be able to assert itself in the restructuring process and desirable cooperation attained, Swedish industry must possess the advanced technical know-how and be able to demonstrate development assignments and orders in their fields, and they must have the support of Swedish authorities in their cooperation endeavours.

On 6 July 1998 the Swedish Minister for Defence signed a Letter of Intent together with the Defence Ministers of France, Italy, Spain, the UK and Germany, to initiate discussions in order to identify measures to facilitate the restructuring of the defence industry. This Letter of Intent (LOI) has resulted in the establishment of six working parties at senior official level which are discussing the issues of delivery security, export procedures, defence confidentiality, research and technical development, matters concerning intellectual property rights and the harmonisation of military matériel requirements.

According to the LOI the objective is to submit proposals for an agreement in June 1999 that is to be accepted by the states at the end of the year. The aim of Sweden's participation in the discussions in the sphere of export procedures is to achieve an outcome that is accommodated within the framework of the existing Swedish guidelines.

The previously mentioned 1996 Defence programme also established that arms exports continued to be of importance for defence policy and that it was desirable that the Government and Swedish authorities support in a more active and structured manner the defence industry's export endeavours regarding major arms projects, provided that these export endeavours were in line with the guidelines for arms exports. A special coordinator post has been set up in the government offices to coordinate support for the defence industry's export endeavours. An interdepartmental advisory group at State Secretary level has been in place since 1996 to discuss overall 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 0.62 per cent of world exports of heavy conventional weapons (aircraft, warships, artillery, armoured vehicles, missiles and homing and radar systems) in 1998 compared with 0.19 per cent in 1997. Sweden was in 14th place among the world's weapons exporters in 1998 compared with a 21st place in 1997

In 1998 the United States was the largest exporter with an average share of 56.24 per cent followed by France with 17.38, Russia 5.81, Germany 4.85, the UK 3.07, the Netherlands 2.31 and Ukraine 2.05 per cent.

For the five-year period 1994-1998, the corresponding Swedish share amounted to an average 0.52 per cent, which represented a 16th place among the world's weapons exporters. During the same period the United States was the largest exporter with an average share of 47.99 per cent, followed by Russia with 10.92, France 9.43, the UK 7.94, Germany 6.42, China 2.52 and the Netherlands 2.09 per cent.

In 1998 the leading importer of heavy conventional weapons was Taiwan with 21.21 per cent, followed by Saudi Arabia 8.88, Greece 7.13, Turkey 6.27, Israel 5.85, Japan 5.38 and the United Arab Emirates 3.44 per cent. Sweden accounted for 0.40 per cent of imports in 1998 compared with 0.94 per cent in 1997. This gave a 36th place in the import statistics for 1998 compared with a 23rd place in 1997.

For the five-year period 1994-1998 Taiwan accounted for the highest proportion of imports corresponding to an average 11.85 per cent, followed by Saudi Arabia with 8.68 per cent, Turkey 5.89, Egypt 5.24, South Korea 4.61, Greece 4.23 and India 3.70 per cent. Sweden was in 35th place for the corresponding period with average imports amounting to 0.65 per cent.

According to the same source, world trade in these weapons increased by 19.96 per cent in fixed prices between 1997 and 1998. Trade in heavy conventional weapons in 1998, USD 21.9 billion at the 1990 price level, was only about 9 per cent above the corresponding figure for 1994, which was the year with the lowest figures recorded for trade in these types of weapons since 1970.

It should be noted that the above figures are first-hand information from SIPRI's coming 1999 yearbook. They are not always identical or wholly comparable with the figures

reported in previous yearbooks due to revisions SIPRI has carried out in the light of subsequent information.

Appendix

Swedish Exports of Military Equipment in 1998

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 1,600. Most of the applications concerned exports for purposes other than sale, such as export for repair, for demonstration purposes or for testing. During 1998 the value of export permits decreased by over 35% 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.

As of 1993 the value of export permits is divided into two sub-categories, military equipment for combat purposes and other military equipment. A consequence of this broadening of the concept of military equipment is that statistics also cover exports of matériel that is classified as military equipment, for civil or partially civil use.

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 1996, 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.

Table 1. Export Permits Granted for Sales of Military Equipment in the Period 1991-1998 at Current Prices

Year	Total value at current prices SEK M			Percentage change in current prices compared with previous year		
1991	2,487			- 13.3		
1992	2,992			+ 20.3		
	Total	MEC	OME	Total	MEC	OME
1993	6,106	1,942	4,164	+104.1		
1994	4,268	1,991	2,277	- 30.1	+ 2.5	- 45.3
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
1998	3,273	1,449	1,824	- 35.3	- 41.6	- 29.3

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 1998, "military equipment for combat purposes" to a value of SEK 1,662 million and "other military equipment" to a value of SEK 1,852 million were exported, i.e. with a total value of SEK 3,514 million. Compared with 1997, exports of military equipment increased by 13.3 % in 1998. The corresponding figure for "military equipment for combat purposes" was an increase by 77.0 % and for "other military equipment" a 14.3 % reduction.

Table 2 Value of Exports of Swedish Military Equipment in the Period 1989-1998 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
1989	332,580	6,005			1.81	- 2.4			
1991	332,779	2,705			0.81	- 18.7			
1992	326,031	2,753			0.84	+ 1.8			
		Total	MEC	OME					
1993	388,290	2,863	1,216	1,647	0.74	+ 4.0			
1994	471,602	3,181	1,347	1,834	0.68	+ 11.1	+10.8	+11.4	
1995	567,836	3,313	1,148	2,165	0.58	+ 4.1	-14.8	+18.0	
1996	569,167	3,087	1,136	1,951	0.54	- 6.8	- 1.0	- 9.9	
1997	632,709 ¹	3,101	939	2,162	0.49	+ 0.5	-17.3	+10.8	
1998	673,091 ²	3,514	1,662	1,852	0.52	+ 13.3	+77.0	- 14.3	

¹ Data for Sweden's total exports of goods for 1997 have been corrected in this year's report, compared with the corresponding information in Government Report 1997/98:147 on exports of military equipment in 1997. The correction means no change in the proportion of military equipment in the total export of goods.

² Preliminary information for exports of goods in 1998.

Exports of military equipment in 1997 amounted to 0.49% of Sweden's total exports of manufactured goods. The corresponding proportion for "military equipment for combat purposes" was 0.15% and for "other military equipment" 0.34%. This proportion increased to 0.52% in 1998, of which 0.25% represented "military equipment for combat purposes" and 0.27% 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. 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. A single major delivery one year can have a substantial impact on statistics. 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 because 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 exports in the years ahead, inter alia since the low level of export permits granted in 1996 and 1998 will have a weakening effect.

Table 3. Value of Swedish Exports of Military Equipment in the Period 1997-1998 in SEK million, in Accordance with the Main Areas Covered by the Military Equipment Classification

		1997	1998
<i>Military Equipment for Combat Purposes</i>			
MEC1	Small-calibre barrel weapons	0	0
MEC2	Cannons, anti-tank guns	155	248
MEC3	Ammunition	138	358
MEC4	Missiles, rockets, torpedoes, bombs	184	260
MEC5	Firing control equipment	307	274
MEC6	ABC weapons	0	0
MEC7	Gunpowder and explosives	106	107
MEC8	Warships	33	53
MEC9	Combat aircraft	0	0
MEC10	Combat vehicles	16	361
MEC11	Directed energy weapon systems	0	0
	TOTAL	939	1,662
<hr/>			
<i>Other Military Equipment</i>			
OME21	Small-calibre barrel weapons, parts, etc.	6	3
OME22	Cannons, anti-tank guns, parts, etc.	44	92
OME23	Ammunition for training purposes, etc.	277	320
OME24	Training rockets, sweeping equipment, etc.	144	100
OME25	Reconnaissance and measurement equipment	280	229
OME26	Protective equipment, etc.	12	17
OME27	Gunpowder and explosives components	0	0
OME28	Surveillance vessels, etc.	112	579
OME29	Aircraft designed for military use, etc.	369	84
OME30	Vehicles designed for military use, etc.	204	78
OME31	Directed energy weapon systems	0	0
OME32	Fortifications	0	0
OME33	Electronic equipment for military use	130	33
OME34	Photographic and electro-optical equipment	0	15
OME35	Training equipment	506	274
OME36	Manufacturing equipment	72	9
OME37	Software	6	18
	TOTAL	2,162	1,852

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.

The aim of the Swedish Government is to show the greatest possible openness in reporting exports of military equipment. One way of achieving this objective is, for example, to present the recipient countries for the principal categories in the list of military equipment. The Government intends to look into this and other possibilities when it is technically possible for ISP to produce the necessary basic material for additional reporting. The aim for greater openness must always be balanced against the existing rules on commercial confidentiality 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 1998, almost 70 % 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 no change in 1998. Over the period it amounted to 36% in 1995, 44% in 1996, and 48% in 1997 and 1998. Asia's share decreased from 36% in 1995 to 20% in 1996 but subsequently increased to 28% in 1997, only to decrease again to 22 % in 1998. The North American share fell from 22% in 1995 to 20% in 1996 and continued to decrease to 17% in 1997 and 14 % in 1998. Latin America's share of these exports was 1 % in 1995, 9 % in 1996, after which it decreased to 4 % in 1997 and then increased again to 12 % in 1998.

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 51 countries received deliveries of Swedish military equipment during 1998 compared with 49 in 1997 and 48 in 1996.

Permits were issued for exports of equipment for hunting and sporting purposes to 15 countries, namely Austria, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Iceland, Italy, Norway, New Zealand, Poland, Switzerland, UK, and USA.

Table 4. Exports of Military Equipment by Region, Percentage of Value in the Period 1996-1998

	1996			1997			1998		
	MEC	OME	Total	MEC	OME	Total	MEC	OME	Total
Nordic countries	21	18	19	11	31	17	11	44	27
Other West European countries	25	23	25	36	18	31	22	21	21
Central and Eastern Europe	0	1	0	0	1	0	1	2	1
North America	24	11	20	17	16	17	17	10	14
Latin America	5	15	9	3	8	4	8	16	12
Australia and New Zealand	8	4	7	2	1	2	3	3	3
Asia	18	24	20	30	24	28	38	4	22
Africa	0	0	0	0	1	0	0	0	0
Total	100	100	100	100	100	100	100	100	100

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 one million SEK in any year in the period 1996-1998. As mentioned previously, exports of military equipment of Swedish manufacture in 1998 were supplied to 51 countries. In 18 cases the value of exports was under SEK 1 million.

Exports to EU countries amounted to SEK 822.4 million in 1998 compared with SEK 1,299.2 million in 1997, a decrease of 36.7%. Calculated as a share of total exports, they decreased for the EU's part from 41.9% in 1997 to 23.4% in 1998.

The largest individual recipient of Swedish military equipment in 1998 was Norway with deliveries valued at SEK 772.0 million, followed by Singapore with SEK 492.0 million, the United States with SEK 464.4 million, Brazil SEK 264.8 million, Germany SEK 245.1 million, Austria SEK 160.5 million and Venezuela SEK 152.1 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 1996-1998 in SEK million by country

	1996			1997			1998		
	MEC	OME	Total	MEC	OME	Total	MEC	OME	Total
Australia	47.6	164.1	211.6	2.9	50.5	53.4	57.9	59.4	117.3
Austria	182.1	53.8	235.8	114.2	35.4	149.6	114.7	45.9	160.5
Bahrain	-	2.1	2.1	-	0.0	0.0	-	0.8	0.8
Bangladesh	3.5	0.0	3.5	16.5	2.7	19.2	-	-	-
Belgium	0.7	12.4	13.1	1.0	9.6	10.6	-	11.5	11.5
Brazil	81.7	101.8	183.5	17.4	46.8	64.2	166.4	98.4	264.8
Canada	18.9	21.3	40.3	23.1	20.9	44.1	8.0	9.2	17.1
Chile	-	0.0	0.0	16.0		16.0	0.2	0.1	0.4
Denmark	100.8	85.5	186.3	221.1	98.8	319.9	64.8	58.8	123.6
Finland	1.3	54.7	56.0	14.5	41.3	55.8	2.1	40.8	42.9
France	0.6	12.3	12.9	2.1	34.4	36.6	108.2	42.7	150.9
Germany	46.8	292.0	338.8	39.1	465.7	504.8	24.9	220.2	245.1
Greece	-	-	-	-	-	-	21.1	0.4	21.6
India	-	147.7	147.7	3.9	76.0	79.9	-	5.8	5.8
Indonesia	59.9	4.6	64.5	8.0	3.2	11.2	-	0.9	0.9
Ireland	0.3	2.5	2.8	2.4	10.0	12.4	5.6	6.8	12.4
Italy	0.9	7.5	8.4	2.4	3.7	6.1	3.1	6.1	9.2
Japan	0.2	14.0	14.2	0.4	283.0	283.4	0.5	102.3	102.8
Republic of Korea	-	12.9	12.9	-	6.6	6.6	-	-	-
Kuwait	-	-	-	-	0.4	0.4	-	6.0	6.0
Lithuania	5.8	0.8	6.6	12.1	1.3	13.4	35.2	8.9	44.1
Malaysia	29.7	31.2	60.9	-	78.2	78.2	2.6	17.2	19.9
Netherlands	24.5	7.6	32.1	0.0	2.6	2.6	0.1	3.5	3.6
Nepal	-	-	-	-	-	-	22.7	1.9	24.6
New Zealand	2.8	1.1	3.9	3.8	0.3	4.2	-	1.5	1.5
Norway	134.9	219.0	353.9	56.7	104.3	161.0	667.3	104.7	772.0
Oman	-	0.3	0.3	104.0	1.4	105.4	-	0.2	0.2
Pakistan	177.0	12.8	189.7	21.8	37.9	59.7	34.2	4.1	38.3
Poland	1.9	-	1.9	0.1	0.4	0.5	0.0	0.5	0.5
Portugal	1.2	0.1	1.3	0.1	0.3	0.4	-	-	-
Saudi Arabia	-	-	-	-	-	-	-	1.0	1.0
Singapore	2.8	85.5	88.3	46.3	119.4	165.7	2.2	489.7	492.0
Slovenia	-	-	-	-	-	-	-	1.9	1.9
Spain	1.7	6.8	8.5	0.1	2.1	2.2	0.6	3.3	3.9
Switzerland	4.9	29.9	34.8	5.3	24.1	29.4	65.6	20.9	86.5
Thailand	2.4	34.7	37.0	24.2	21.3	45.4	-	65.0	65.0
Tunisia	-	2.5	2.5	10.1	1.7	11.8	-	1.9	1.9
United Arab Emirates	-	1.1	1.1	-	16.3	16.3	-	6.2	6.2

United Nations	-	7.6	7.6	-	-	-	-	-	-
United Kingdom	2.9	65.6	68.5	1.2	193.4	194.6	0.2	37.0	37.2
USA	108.1	454.1	562.3	125.5	348.6	474.1	155.0	309.9	464.4
Venezuela	89.4	-	89.4	42.2	15.1	57.3	97.5	54.6	152.1
Other countries	0.8 ³	1.3 ⁴	2.1	0.2 ⁵	1.0 ⁶	1.2	1.1 ⁷	2.0 ⁸	3.1
TOTAL	1,136	1,951	3,087	939	2,162	3,101	1,662	1,852	3,514

³ Andorra, Botswana, Iceland and the Czech Republic

⁴ Andorra, Argentina, Philippines, Iceland, Luxembourg, Mauritius, Namibia, South Africa, Czech Republic, Hungary and Zimbabwe

⁵ Estonia, Iceland and South Africa

⁶ Andorra, Argentina, Brunei, Estonia, Iceland, Mauritius, New Caledonia (France), Peru, Russia, South Africa, Czech Republic and Hungary

⁷ South Africa and the Czech Republic

⁸ Argentina, Estonia, Hongkong (China), Iceland, Mauritius, Namibia, New Caledonia (France), Peru, Russia, Czech Republic, Hungary and Zimbabwe.

5 Transfer of Manufacturing Rights, Cooperation, etc

Five permits were granted in 1998 for the transfer of manufacturing rights abroad. The countries concerned were the UK, USA (two permits) and Japan (two permits).

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

Fourteen cooperation agreements were examined and approved for joint development or production with the following countries: Poland, USA (four permits), France (three permits), Switzerland, Norway and the UK (four permits).

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 1998, 11 companies reported a total of 196 transfers of licences and cooperation agreements in 8 countries. Of these, 10 companies had 85 licence agreements in 18 countries and 5 companies 111 cooperation agreements in 18 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 1998.

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 1998, ten companies have reported ownership in 41 foreign legal entities in 19 countries

8 Export Companies

Some 200 companies are licensed to manufacture military equipment. Of these, 40 exported such equipment in 1998.

The largest exporters of military equipment in 1998 were as follows: Bofors AB, Kockums AB, Hägglunds Vehicle AB and Saab Training Systems AB. Bofors AB was responsible for exports in excess of SEK 1 billion but less than SEK 1.5 billion. The other three companies were each responsible for exports exceeding SEK 200 million but less than SEK 600 million. In addition, four companies exported to a value exceeding SEK 100 million, viz. Nexplo Bofors AB, CelsiusTech Electronics AB, Ericsson Microwave Systems AB, and Saab Dynamics AB.

Five companies each exported to a value of between SEK 50 million and SEK 100 million, namely Bofors Carl Gustaf AB, Bofors Underwater Systems AB, Dockstavarvet AB, Norma Precision AB, and Volvo Aero AB.

Six companies exported for an amount between SEK10 million and SEK 50 million. They were Bofors SA Marine AB, CelsiusTech Naval Systems AB, CelsiusTech Systems AB, Ericsson Saab Avionics AB, Vanäsverken AB and Åkers Krutbruk Protection AB.

Other companies with exports in excess of SEK 1 million included Airsafe Sweden AB, CNC-Process i Hova AB, Celsius Aerotech AB, FMV, Mipro AB, Nammo LIAB AB, Saab AB and VM-Trailer AB.

In all, the above-mentioned 27 companies represented almost 100 per cent of Swedish exports of military equipment in 1998.

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 14,250 in 1997 and finally to 14,225 in 1998.

These companies' exports of defence matériel represented a value of SEK 6,700 million in 1987, SEK 6,294 million in 1990, SEK 3,667 million in 1997 and SEK 4,434 in 1998. Compared with 1997, exports of defence matériel increased by 20.9 per cent in 1998.

The companies' sales to the Swedish armed forces decreased between 1997 and 1998 from SEK 13,136 million to SEK 12,758 million, which is equivalent to 2.9 per cent.

Exports of Military Equipment & Export Permits, 1984-1998

million SEK (at current prices)

9100 9221

Exports (FiF) :

(data since 1987)

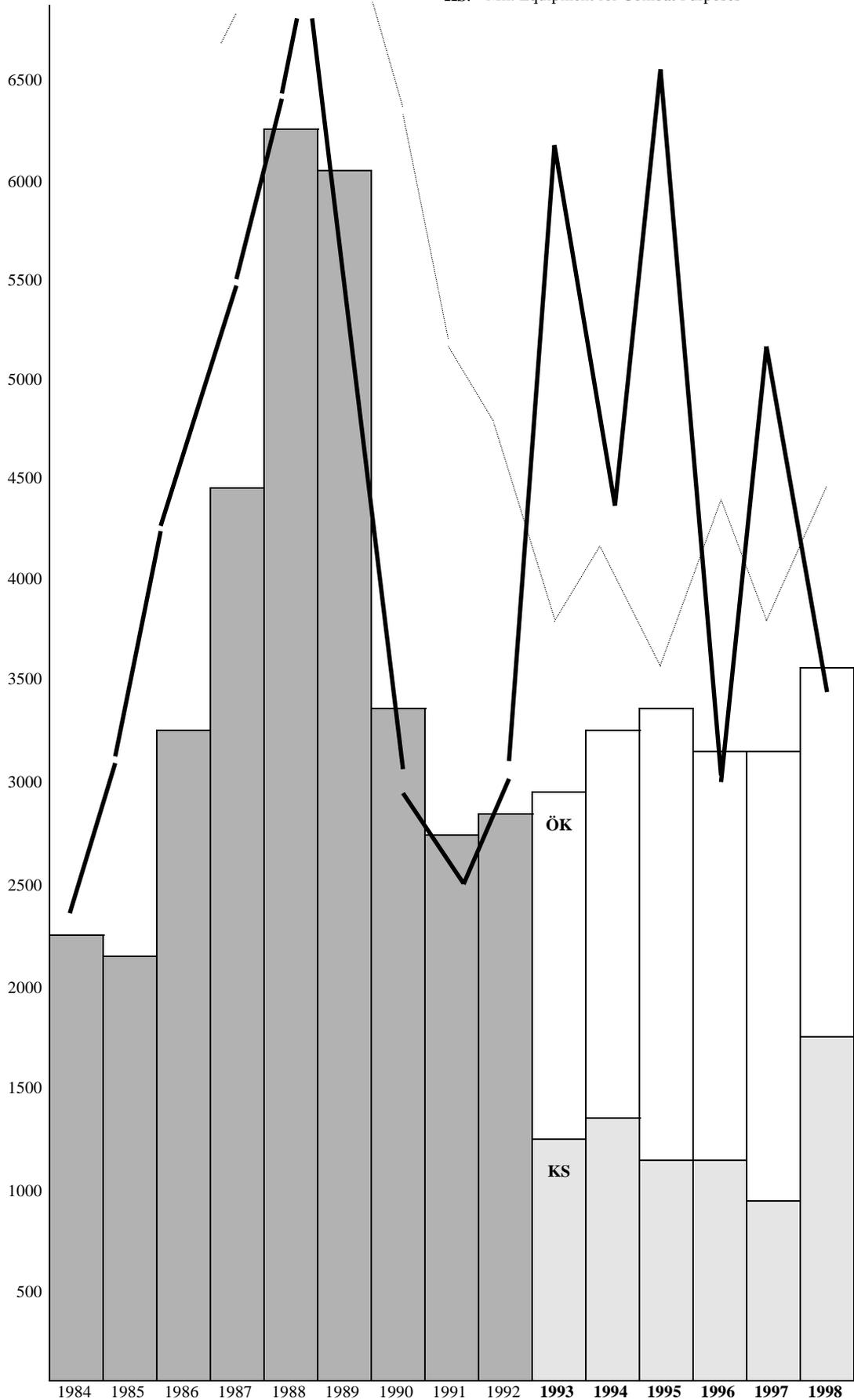
ÖK: Other Military Equipment

KS: Mil. Equipment for Combat Purposes

Exports (gov:t report) : columns

Permits (gov:t report) : **—————**

7200



**EUROPEAN UNION
THE COUNCIL**

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

**8675/2/98
REV 2**

LIMITE

PESC	137
COARM	13
COMER	62
ECO	181
UD	67
ATO	66

**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 ⁽⁹⁾, where there 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⁾ 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).

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.

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:

Ministry for Foreign Affairs

Extract from the minutes of the Cabinet Meeting held on 29 April 1999.

Those present: Cabinet Minister Persson, chairman, and the following Cabinet Ministers, Winberg, Ulvskog, Lindh, von Sydow, Klingvall, Pagrotsky, Östros, Messing, Engqvist, Rosengren, Larsson, Wärnersson, Lejon, Lövdén, Ringholm.

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

The Government decides to present to Parliament Report 1998/99:128, Swedish Exports of Military Equipment in 1998.

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