

Swedish Arms Exports and Strategic Export Controls in 1999

A Government Report

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Swedish Export Controls and Exports of Military Equipment in 1999

The Government hereby submits this report to Parliament

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Lena Hjelm-Wallén

Leif Pagrotsky
(Ministry for Foreign Affairs)

Principal contents of the report:

In this report the Swedish Government presents Swedish exports of military equipment in 1999. A brief account of important developments in the area is also included. A new feature this year is information about Sweden's participation in multilateral export control arrangements covering dual-use goods. In addition, a brief description is given of the framework of rules applicable to this area.

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Swedish Exports of Military Equipment and Dual-use Goods 1999

1 Introduction

This year's report to the Swedish Parliament has been extended to include an account of the control of exports of dual-use goods under the Strategic Products Act (1998:397). The customary report of exports of military equipment is presented in Part I and in Annex 1. A new Part II and Annex 4 contain a report of exports of dual-use goods.

The control of exports of military equipment is traditionally a domestic concern based on national rules although the element of international dialogue has grown in recent years, particularly within the framework of EU cooperation. The control of dual-use goods is based on international agreements. The new Part II of the report therefore focuses on a description of the development and aims of international cooperation in this field and also on the formulation of ensuing Swedish legislation.

Developments in the defence industry continue to be characterised by European restructuring. In recent years, there have been a number of transboundary mergers and cooperation agreements, which have diminished the national character of the defence industry. This trend is expected to continue. One important cause has been the end of the cold war, which changed threat scenarios and led, in most countries, to reduced procurement of military equipment. Diminished 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, for economic reasons, purely national defence industries can no longer be maintained.

The trend everywhere is towards cuts and rationalisations in national defence industries. The U.S. defence industry have generally remained 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 U.S. industry in terms of competitiveness.

The Swedish assessment of this trend and its implications were set out in the 1996 Defence Programme (cf. bill 1995/96:12 and 1996/97:4) and in 'The New Defence Forces' (bill 1999/2000:30). Swedish defence companies were urged to strengthen their international links. Although – for the reasons described above - a domestic defence industry can no longer be maintained in the traditional way, it is important for Sweden to maintain advanced technical know-how in this field and to secure adequate supplies of matériel as a prerequisite for the maintenance of our policy of non-participation in military alliances. The continued existence of a Swedish defence industry as part of a larger European industry means that earlier independence is exchanged for a mutual dependence that is considered to offer adequate security that necessary supplies of matériel will be obtainable for Swedish defence forces if the need arises. Furthermore, a restructuring at the European level should lead to a reduction of current excess capacity in the European defence industry. This should, in turn, reduce the pressure to export in

order to compensate for the loss of local orders. The Government judges this to be a desirable effect in itself.

During 1999, Sweden participated in 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 and implement measures to facilitate the restructuring of defence industry. The areas under discussion include export control procedures. This work is described in greater detail in Section 14 of this report. Work within the common Code of Conduct on Arms Exports adopted by the European Union on 8 June 1998 has also continued during 1999 and is described in Section 11. Both these activities are examples of processes that will lead to a gradual convergence of the arms export policies of EU countries and to a greater degree of restrictiveness and responsibility in Europe as a whole.

Sweden participates actively in international cooperation in a number of international fora to promote responsible export policies, effective export control procedures and increased transparency in this field. Great importance is attached to the ongoing international efforts to prevent and combat destabilising accumulations and uncontrolled dissemination of small arms and light weapons, leading up to the UN conference to be held in 2001. In line with the Swedish Government's ambition to counteract corruption the Government has initiated cooperation with Transparency International, jointly organising a seminar on corruption in the arms trade.

Regarding control of dual-use goods, developments have been characterised by an ambition to systematically strengthen the cooperation that has developed from a series of export control arrangements. Of greatest practical importance are the exchanges of information that regularly take place within the various export control arrangements. These exchanges make it possible for export control authorities to differentiate between legitimate civil trade and acquisitions ultimately intended to support programmes for the development or manufacture of weapons of mass destruction, or for other destabilising military purposes. The EU Council Regulation setting up a Community regime for the control of exports of dual-use goods, which sets out binding rules for the fulfilment of member states' commitments under the export control arrangements, was under renegotiation during 1999. This work will most probably be completed in 2000.

Part I - Export Controls and Exports of Military Equipment

2 Military Equipment Exports in 1999

Since 1985, the Government has annually submitted reports to Parliament on Swedish arms exports. Parliament is thereby provided with cohesive information about military equipment exports and, at the same time, a basis is provided for broader public debate on the issues. Some caution is called for in attempting to identify trends in this material. Exports of military equipment from Sweden are limited. Consequently, individual sales of large systems cause considerable fluctuations 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 legally mandated reporting from the manufacturers of military equipment. This material is compiled by the National

Inspectorate of Strategic Products (ISP) and submitted as the basis for the detailed description of exports of military equipment in 1999 that may be found in Annex 1.

The value of the Swedish defence industry's total invoiced sales of military equipment during 1999 amounted to SEK 11,196.6 million, which represents a 17 % decrease compared with 1998. The value of actual export deliveries in 1999 was SEK 3,654 million, an increase of 4% at current prices compared with the previous year. Thus, exports accounted for just under 33 per cent of the defence industry's total invoiced sales of military equipment during the year. Sweden's total exports also increased in 1999 and consequently, the proportion of arms exports, 0.52% of total exports of goods, is unchanged compared with 1998.

The value of licences granted increased by 120% from SEK 3,273 million last year to SEK 7,153 million for 1999. This increase is attributable to an increase in the value of permits for the category "other military equipment" (OME). Permits granted for exports of "military equipment for combat purposes" (MEC) decreased at the same time by 25% from SEK 1,449 million in 1998 to SEK 1,082 million in 1999.

As may be seen from diagram 2 in Annex 1, the value of licences granted has varied considerably in recent years while at the same time there has been very little variation in the value of actual exports. The explanation for this is that deliveries related to a single export licence are often spread over several years.

3 The Military Equipment Act

The Military Equipment Act (1992:1300, latest amendment 1998:771) and the corresponding Ordinance (1992:1303, latest amendment 2000:64) regulate the manufacture and export of military equipment. Both these statutes entered into force on 1 January 1993, replacing the Act concerning Control of the Manufacture of Military Equipment, etc (1983:1034), the Act concerning Prohibition of the Exportation of Military Equipment, etc. (1988:558) and the corresponding ordinances.

The present Act is in all essentials based on the previous legislation and previous practices. It contains, however, a broadening of the concept of military equipment, and some simplifications, clarifications and updating of the provisions relating to control of manufacturing and cooperation with other countries in this respect.

Under the Military Equipment Act, military equipment may not be manufactured without a permit. A permit is also required for all types of defence industry collaboration with other countries. The concept of collaboration covers both export sales and other forms of supply of military equipment (for instance transfer of ownership or brokering). Furthermore, it covers the assignment or transfer of manufacturing rights, agreements on the development of military equipment or methods of producing such equipment jointly with or on behalf of a party abroad, or the joint manufacture of military equipment with a party abroad. Lastly, 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, military equipment for combat purposes (MEC) and other military equipment (OME). Provisions concerning the

type of matériel which is included in the two categories are included in the Military Equipment Ordinance.

New provisions were introduced in 1998 under the Strategic Products Act (1998:397) requiring a permit for products that are not included in the concept of military equipment but which in individual cases are or may be intended for use as spare parts or components for military equipment that has been unlawfully exported from Sweden or re-exported in contravention of a previously granted licence. The licence requirement applies if the National Inspectorate of Strategic Products has informed the exporter that the products are or may be intended for such purposes. Exporters should inform the Inspectorate of planned exports for such purposes. The Inspectorate then decides whether or not a permit is required for the export.

Until 31 January 1996, decisions on export licences were taken solely by the Government. Matters that did not involve large or otherwise significant exports were decided by the minister responsible for presenting military equipment export licensing issues in cabinet. Decisions not delegated to the minister comprised 98% of the total value of licences granted in 1995. Since 1 February 1996, decisions on export matters are primarily taken by the National Inspectorate of Strategic Products, except in matters deemed to be of particular importance or otherwise of special significance, which are passed on to the Government for decision-making.

An amendment to the Military Equipment Ordinance in 1999 means that under certain circumstances the police authorities may decide cases concerning the export of small arms belonging to the category other military equipment, their component parts and, where relevant, accompanying ammunition, if the applicant is entitled to possess the weapon in this country under the Weapons Act (1996:67). This applies, *inter alia*, if the weapon is to be transferred to a private individual or arms dealer in an OECD member country.

The most recent amendment to the Military Equipment Ordinance entered into force on 15 March 2000. This amendment changes, among other things, the previous quarterly reporting period for companies' declarations of invoiced and delivered military equipment to a bi-annual reporting period.

4 Government Guidelines for Arms Exports

Under Section 1, paragraph two, of the Military Equipment Act (1992:1300) a permit may only be granted if there are security or defence policy reasons for doing so and if it does not conflict with Sweden's foreign policy. The principles applied when examining licence applications have been elaborated through Government practice and are detailed in the Government Guidelines for the Exportation of Military Equipment and Other Forms of Collaboration Abroad (cf. bill 1991/92:174 p. 41 f., bill 1995/96:31 p.23 f. and report 1992/93:UU1). The Guidelines are attached to this report as Annex 2.

The Guidelines have broad parliamentary support and are applied by the National Inspectorate of Strategic Products (ISP) when assessing export licence applications in accordance with the Military Equipment Act and the Military Equipment Ordinance.

The Guidelines contain two overriding criteria for granting licences under the law, namely that collaboration with other countries is considered necessary to fulfil the Swedish defence forces' need of matériel or know-how or is otherwise desirable for reasons of national security, and that collaboration is not in conflict with the principles and aims of Swedish foreign policy. These overriding criteria may be considered as an expression of Section 1, paragraph two of the Military Equipment Act.

The guidelines also define the factors that should be taken into consideration in the assessment of individual applications. A basic requirement is that all relevant circumstances in a particular case shall be considered, whether or not they are expressly included in the guidelines. These assessment criteria also apply to collaboration with persons or companies abroad relating to the development or manufacture of military equipment. Sweden is one of the few EU countries that have legislation also covering arms brokerage.

The guidelines emphasise in particular the importance that should be attached to the respect for human rights in the recipient country when assessing export applications from a foreign policy point of view. 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 in 1993 of the concept of military equipment was accompanied by the separation of matériel into two categories with guidelines that differ in certain respects. For the category *military equipment for combat purposes* (MEC), the presumption is that the Government *should not* issue export licences if the recipient state is involved in armed conflict with another state, or in an international conflict that may lead to armed conflict, or if internal armed disturbances are taking place, or if extensive and serious violations of human rights occur. These are the same requirements that were applied before 1993 with the exception that previously, violations of human rights only needed to be taken into consideration if the matériel itself could be used to violate human rights. In the broader current application of the human rights criterion Sweden differs from some other EU states.

In the case of *other military equipment* (OME), which consists largely of products not subject to control prior to 1993, an export licence *should be* granted to countries not engaged in armed conflict with another state, not subject to internal armed disturbances and where there are no extensive and serious violations of human rights. Thus, the risk of armed conflict is a criterion not applied in assessing exports of other military equipment.

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, i.e. non-destructive, equipment. However, by broadening the definition of military equipment, previously unregulated exports are now identified, subject to political control and included in public reporting.

Regarding *follow-on deliveries* it is stated in the guidelines that "permits should be granted for the exportation of spare parts pertaining to equipment exported previously with the requisite permission, unless an unconditional obstacle exists. The same

applies to other deliveries of, for example, ammunition, linked with previous exports of equipment, or otherwise in cases where denial of permission would be unreasonable".

In the case of collaboration with parties abroad, exports to third countries should be assessed in accordance with the Swedish guidelines if the product has a predominantly Swedish identity. If the product has a predominantly foreign identity, or if Sweden has a strong defence policy interest in cooperation, the export rules of the cooperating country may be applied to exports from that country.

5 Review of the Rules for Follow-on Deliveries

In connection with the 1995/96 review of a Government export licensing decision by the parliamentary Standing Committee on Constitutional Affairs, the Committee found that the development over time of practices regarding follow-on deliveries needed to be studied more closely (report 1995/96:KU30 p.90). A review was carried out during the 1996/97 session of Parliament. The Standing Committee on Constitutional Affairs 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 clarify the section of the guidelines that deals with follow-on deliveries" (report 1996/97:KU25 p.39 ff.). On 25 November 1997 the Government established directives for an inquiry into the matter (dir. 1997:130) and appointed a special expert to carry out the inquiry. The latter submitted his report on 31 March 1999 (Swedish Official Reports 1999:38).

One of the conclusions drawn by the inquiry was that the concept of follow-on deliveries does not cover a clearly defined category of cases and that an absolute delimitation of the concept is not possible. Hence, it was not deemed possible to describe and regulate all the situations relating to follow-on deliveries. However, in order to clarify the section on follow-on deliveries in the Guidelines, certain amendments of the wording were proposed. It was further proposed that arms export embargos decided by the EU Council of Ministers be introduced into the Guidelines as an unconditional obstacle to exports and that the so-called neutrality rule be removed since this rule has not been applied in the last 50 years and an application in the future seems improbable.

The customary procedure of circulating the report for comments has been completed. When the comments received have been considered, the Government will take a decision on possible measures to be taken.

6 The National Inspectorate of Strategic Products (ISP)

The National Inspectorate of Strategic Products (ISP) was established on 1 February 1996 to exercise the controls laid down in the Military Equipment Act (1992:1300) and the Strategic Products Act (1998:397) and their respective Ordinances. The Inspectorate thereby assumed responsibility for most of the tasks previously carried out by the Inspectorate-General of Military Equipment (KMI) in the Ministry for Foreign Affairs as well as the competent department at the Ministry for Foreign Affairs dealing with exports of strategic products. The ISP has subsequently also been designated the

competent national authority within the framework of the UN Chemical Weapons Convention (CWC).

Thus, the ISP is responsible for the licencing of exports of military equipment and other strategically sensitive products with both civil and military uses (dual-use goods). Under Section 1a of the Military Equipment Act and Section 5 of the Strategic Products Act, the authority is obliged to submit cases which are deemed to be of particular importance or otherwise of special significance to the Government for decision. The ISP works in close consultation with the Ministry for Foreign Affairs and the Ministry of Defence.

The ISP maintains regular contact with the companies subject to its control activities. Companies are required to provide the ISP with quarterly reports on their marketing of military equipment abroad. These reports are the basis for reviews of export efforts at regular meetings between the ISP and each company. In addition to the licensing decision itself, the ISP reviews the notification that companies are obliged to submit at least four weeks before tendering a binding offer, or entering into a contract involving exports of- or other cooperation abroad concerning military equipment (the ISP can prohibit such legal commitments by the company) . Finally, exporters of military equipment must notify the deliveries of military equipment they have carried out under licences issued.

The ISP is financed by an annual fee levied on companies manufacturing controlled products. The fee is assessed on the total invoiced value of controlled products delivered, for totals exceeding SEK 2.5 million a year. Since the fee is calculated on the basis of deliveries both in Sweden and abroad, there is no direct connection between the size of the fee and the size of exports. A direct connection between the authority's operations and industry's payments has also been avoided, in that fees are paid to the Ministry of Finance and not directly to the ISP. Operational funds for the authority's activities are provided over the state budget and these costs are covered by charging industry on an annual basis retroactively, when the actual costs of operations and the value of companies' invoicing can be established. In this context it may be noted that the Government has requested the Agency for Administrative Development to review the the ISP's fee system in order to find solutions to technical difficulties encountered both by the ISP and industry.

The number of export permit applications totalled 1,751 in 1999, of which 380 involved dual-use goods. The corresponding figures for 1998 were 2,040 and 447 respectively. This reduction is partly explained by the fact that certain export licenses now are processed by police authorities. Under the Chemical Weapons Convention, 161 declarations were submitted by industry to the ISP, compared to 183 in 1998. The corresponding number of declarations submitted to the OPCW secretariat in the Hague was 37 both for 1998 and 1999. In this context, declaration means information about the operations carried on at companies or plants that commercially use, import and export chemicals that are listed in section 1 of the Annex to the Strategic Products Ordinance (1998:400). Under the verification provisions of the Chemical Weapons Convention, two Swedish plants were inspected by the OPCW in 1999 compared to one in 1998.

During 1999 the ISP introduced a new electronic workflow system. Furthermore, a general licence was issued to the Swedish Armed Forces' for exports of matériel that is

to be returned to Sweden at a later stage, provided that a government decision has been obtained for the related activity. This licence also applies for the re-export of equipment belonging to foreign troops carrying out manoeuvres in Sweden under government permission. In addition, rationalisation efforts were initiated in the licensing area to simplify administrative procedures for matters of a routine nature. One of the aims of these measures is to be able to provide a better service to companies. The aim of the ISP has been to finalize the assessment of export licence applications within a month of their receipt, ultimately within two weeks. The introduction of a completely electronic licencing system is being studied, which would further simplify matters for the companies concerned.

7 The Export Control Council

Under Chapter 10, Section 6 of the Instrument of Government, the Government must, if possible, consult the Advisory Council on Foreign Affairs before taking decisions on matters of major importance in the area of foreign affairs. Some arms exports decisions are of the kind calling for consultation with the Council. It was, however, considered desirable to achieve broad political support for other arms export cases of particular importance as well. The Swedish Parliament therefore decided in 1984 that an Advisory Board on Exports of Military Equipment should be established, on the basis of a Government 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 National Inspectorate of Strategic Product (ISP). At the same time its composition was broadened to reflect the broader composition of the Advisory Council on Foreign Affairs today. All the political parties in Parliament are therefore represented on the Export Control Council. The Council has ten members. An up-to-date list of the members of the Council is available on the ISP's web site www.isp.se.

Before a decision is taken in arms export cases of particular importance, the Export Control Council is consulted. The Council is convened by the head of the ISP, the Inspector-General of Military Equipment, who also chairs the meetings. The Ministry for Foreign Affairs participates in the meetings, presenting assessments of the recipient countries under consideration. The Ministry of Defence also participates, providing assessments of the defence policy significance of the cases. The aim of the Council is to interpret the guidelines in a consistent manner, in order to provide further guidance for the Inspectorate.

In addition to being consulted on important cases, members receive regular information on all export licencing decisions taken, giving them complete insight into the way in which the Inspectorate deals with these issues. This procedure ensures that the Swedish Parliament has a degree of oversight of the application of the Military Equipment Act (1992:1300). The Inspector-General of Military Equipment is also obliged to consult the Council when necessary on matters concerning the 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 under the Instrument of Government.

Seven Council meetings were held in 1999.

8 The Technical-Scientific Council

A special Technical-Scientific Council was established in 1984, with representatives from a number of institutions with expertise in the application of technology in civilian and military areas, to assist the Inspector-General in decisions concerning the classification of military equipment. The Council held three meetings in 1999.

With the establishment of the ISP, the Technical-Scientific Council's field of work has been extended to include, if necessary, dual-use goods.

9 Public Information Regarding Arms Export Policies

Sweden actively works for increased transparency in the arms trade at the international level. Efforts are also made at the national level to disseminate information in this area. The Government's official annual report on Swedish Exports of Military Equipment is part of its efforts to achieve greater openness. The annual report is published in Swedish and English and is available on web sites www.ud.se, www.regeringen.se and also in Rixlex (www.riksdagen.se). In order to promote access to information in this area, Sweden has made financial contributions to the establishment and development of the Stockholm International Peace Research Institute's (SIPRI) internet database which contains information about national and international export control systems as well as some statistics on holdings and exports.

An important task for the ISP is to disseminate information about export controls, both to the general public and to the companies concerned. In 1998 the ISP published a revised edition of the handbook most recently published by the erstwhile Inspectorate-General (KMI) 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 licensing procedures. A similar handbook concerning strategic products was published for the first time during 1998. In addition, the ISP arranges regular seminars and information meetings about its activities. Furthermore, during 1998 the authority set up a well-elaborated web site on the Internet. The number of visitors to the site averaged 1400 per month in 1999. Its address is www.isp.se. A study of the further development of the ISP's information activities was initiated in 1998 with specially allocated funds. With the aid of a firm of consultants the ISP has drawn up an information plan which will be implemented during the year 2000. A pamphlet entitled "What do you export?" concerning export control regulations has been compiled and distributed to customs offices, engineering companies, the export control association and private companies, etc.

An information brochure (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 size of Swedish defence industry, the guidelines for exports of military equipment and international cooperation in the field of arms export control. This

publication has also been published in English, French and German in order to promote an awareness of Sweden's policies in other countries. A revised edition is planned.

10 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 heavy conventional weapons to a conventional arms register. Trade in the following seven categories of weapons is reported: tanks, armoured combat vehicles, heavy artillery, combat aircraft, attack helicopters, warships and missiles/missile launchers.

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

For 1997, the sixth year of the UN register, 95 of the UN's 185 member states (including Switzerland which has observer status) had submitted information about their exports and imports of these seven categories of heavy weapons by the beginning of 1999. 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 limited extent in world trade in the relevant types of heavy weaponry.

For 1998, which is the most recent year for which information has been submitted, Sweden reported imports from Germany of 34 shrapnel-protected armoured personnel carriers (MT-LBu) and 3 Piranha armoured command and radar vehicles from Switzerland. Sweden reported exports of 24 combat vehicles of the type CV 9030 to Norway. Information for 1999 will be compiled later this year after this report has been completed.

Sweden is working in different ways to encourage increased reporting to the United Nations Register of Conventional Arms and greater transparency in arms transfers. This is part of Sweden's efforts to promote greater openness in this area, in order to strengthen confidence between nations and to improve the information base upon which responsible export policies must rest.

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 annual reporting to the UN register.

Since 1995, consultations on reporting to the UN Register have been held with the other members of the EU. In order to strengthen the register, the EU sent a communication to the UN Secretary-General urging other members of the UN to provide information on their weapon holdings as well as on their own production of equipment covered by the register. Sweden submitted this type of information to the register for the first time in 1997. That same year a review of the Register was completed without,

however, concrete progress regarding any expansion of the register. A new review is expected in the year 2000.

Since 1990, as part of Sweden's efforts to achieve greater transparency in this area, the Government has submitted to the United Nations the English translation of its annual report to Parliament on exports of military equipment. Since the autumn of 1996 the information submitted to the UN register has been available on the United Nations web site (*www.un.org*)

11 EU Cooperation in the Export Control Area

Military equipment has been identified as a suitable area for cooperation within the framework of the EU Common Foreign and Security Policy (CFSP). The fifteen member states regularly discuss different issues related to arms exports in the Council Working Group on Conventional Arms Exports, COARM. In addition to the Working Group there is an ad hoc Working Party on European Armaments Policy, POLARM, which focuses on the need for amendments to national regulatory systems and EU rules to support a restructuring of European defence industry.

On 8 June 1998 the EU Council of Ministers adopted a common Code of Conduct on Arms Exports. The Code is based on and further defines the common criteria for arms export which the European Council adopted in Luxembourg in 1991 and Lisbon in 1992. The text of the Code is attached as Annex 3. The Code specifies different criteria to be applied in the national assessment of export applications. These tally in all essentials with the Swedish guidelines for exports of military equipment. Through the Code, member states have strengthened exchanges of relevant information in order to achieve greater mutual understanding and gradually move towards a convergence of export policies between different member states. Inter alia, member states will inform each other of potential export transactions that are not permitted, so-called denials.

Under the Code, an annual report shall be drawn up. In the first six months of every year, each member state draws up a report of its exports of military equipment and application of the Code. The reports are compiled by the presidency during the last six months of the year and are discussed at an annual meeting held within the framework of the Common Foreign and Security Policy (CFSP). In connection with this meeting the operation of the Code of Conduct is to be reviewed and possible improvements discussed. After the meeting, a consolidated annual report is drawn up which is submitted to the Council of Ministers for approval.

The first annual report under the Code of Conduct was adopted by the Council in the autumn of 1999. In line with Swedish goals, it was made public. Among other things, the report described the guidelines that have been adopted in order to improve application of the Code, priorities for future common work and some statistics on member states' exports of conventional weapons. The report shows that, during the year, member states continued their discussions on the formulation of a common European list of military equipment. There were also exchanges of information on the implementation of UN, EU and OSCE embargoes in order to develop common practice.

Some 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 Code is appended to this report (see Annex 3) and is also available on the internet under the addresses www.regeringen.se and www.ud.se.

12 International Arms Embargoes

A decision by the UN Security Council on a weapons embargo is an unconditional obstacle to Swedish exports under the Guidelines for Exports of Military Equipment. During 1999, for all or part of the year, binding embargoes decided by the UN Security Council applied to Angola (UNITA), Iraq, the Federal Republic of Yugoslavia, Liberia, Libya, Rwanda, Sierra Leone and Somalia. Furthermore, non-binding UN embargoes applied to Afghanistan, Azerbaijan, Ethiopia, Eritrea, and Yemen.

EU member states fully comply with the UN Security Council's decisions on weapon embargoes. The Security Council's recommendations on 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 arms embargoes are unanimously decided which are applied in addition to those prescribed through Security Council decisions. These should be regarded as a result of member states' desire to react jointly to different security policy issues. An arms embargo decided by the EU is applied through the national export control regulations in each member state. During the whole or part of 1999 the EU upheld embargoes against Afghanistan, Bosnia and Herzegovina, Burma, Ethiopia, Eritrea, Indonesia, Iraq, the Federal Republic of Yugoslavia, China, the Democratic Republic of the Congo, Croatia, Libya, Sierra Leone and Sudan. Furthermore, EU member states adhered to an arms embargo against Nagorno-Karabakh decided by the Organisation for Security and Cooperation in Europe (OSCE) in 1992.

13 Destabilising Accumulations and the Uncontrolled Spread of Small Arms and Light Weapons

For several years work has been ongoing in various international fora to prevent and combat the destabilising accumulation and spread of small arms and light weapons. Sweden attaches great importance to this work and actively participates in these efforts, *inter alia* by means of contributions to different development cooperation projects. At present, intensive preparations are in progress for the UN conference 2001 on the Illicit Trade in Small Arms and Light Weapons in All its Aspects. Export control measures and new measures against illicit trafficking in arms are important components of this work. Among measures being discussed one could mention politically agreed codes of conduct for the manufacture, export, safe storage, marking and destruction of small arms and light weapons. The concept of light weapons in principle covers small arms and other weapons intended to be carried and used by one or two persons, although a uniform definition has yet to be established. International studies indicate that uncontrolled accumulations of small arms and light weapons seriously contribute to conflicts and that a large proportion of all those killed in recent conflicts were victims of

light weapons – as opposed to heavy weapons, such as tanks, helicopters, fighter aircraft, artillery, etc.

The EU Programme for Preventing and Combating Illicit Trafficking in Conventional Arms (1997), the EU Joint Action on Combating the Destabilising Accumulation and Spread of Small Arms and Light Weapons (1998) and the EU Code of Conduct on Arms Export (1998) are important instruments in this work.

Within the EU and at the international level Sweden supports the introduction and implementation in each country of responsible export policies, adequate laws and regulations, effective enforcement systems and an efficient administration that supervises manufacturers, buyers, sellers, agents and brokers. Sweden attaches particular importance to the control of arms dealers and to increased openness and transparency in the arms trade. Swedish legislation, which also applies to persons or legal entities acting as intermediaries in arms transactions, is one of the examples cited in international discussions in this field.

14 The Swedish Defence Industry and International Defence Industry Restructuring

In the Government bill 1996/97:4 (p. 154) "On the Renewal of Sweden's Defence Planning", which was adopted by Parliament (report 1996/97:FöU1), and in the Government bill "The New Defence Forces" (bill 1999/2000:30), it was established that in the light of, inter alia, the Swedish armed forces' diminishing appropriations for matériel and the weakening international market, substantially increased international cooperation appears to be a precondition for the survival of the Swedish defence industry and for the armed forces' ability to adjust to future changes. It is no longer economically or technically viable, nor desirable, to try to maintain national independence in the area of defence matériel. The Government assesses that by participating to a greater extent in international cooperation in this area, Sweden should try to create mutual dependencies that will provide a good basis for securing supplies of matériel for the Swedish armed forces in times of need.

While the rate of defence industry restructuring has been high in the United States and mergers of different companies in this field have proceeded at a rapid pace, the corresponding developments in Europe are still at an early stage.

The Swedish defence industry has already carried out several restructuring measures. In the autumn of 1997 the British company Alvis plc acquired Hägglunds Vehicle AB in Örnsköldsvik. In 1998, the capacity to manufacture explosives and ammunition in Sweden, Norway and Finland was coordinated in the two constellations NAMMO (Sweden, Norway and Finland) and NEXPLO (Sweden and Finland). For Sweden's part, this involved inter alia Bofors LIAB AB and Bofors Explosives AB. For several years there has been cooperation between SAAB AB and British Aerospace (BAe) of 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. In 1999, the German shipyard Howaldtwerke-Deutsche Werft AG (HDW) acquired Kockums AB, including the Karlskrona shipyard, while at the same time the erstwhile parent company Celsius AB acquired a share in the German company's parent. After the approval of the

Swedish Parliament early in 2000, the Government decided to sell its remaining share of the Celsius group to Saab AB. Further restructuring may be expected in the next few years.

On 6 July 1998 the Swedish Minister for Defence signed a Letter of Intent together with the Defence Ministers of France, Germany, Italy, Spain, and the UK, to initiate discussions in order to identify measures to facilitate the restructuring of the defence industry. This Letter of Intent (LOI) led to the establishment of six working parties made up of government officials which discussed the issues of security of supply, export procedures, security of classified information, defence-related research and technology, treatment of technical information and harmonisation of military requirements. The objective was to submit proposals for a comprehensive agreement in June 1999 to be approved by the respective governments at the end of the year. In fact, the technically complicated negotiations went on until December 1999 and a final text is currently subject to final coordination at national level. In view of the contents of the proposal, the Government expects that the agreement will be submitted to Parliament for approval. On several occasions since the autumn of 1998 the Government has briefed the relevant parliamentary committees on the course of the negotiations. Regarding the section on export control, the outcome is in conformity with present Swedish regulations and guidelines, which accords with Swedish goals for the negotiation. The parliamentary Export Control Council has also been briefed on the negotiations. The agreement, which is subject to ratification procedures in six national parliaments, by no means implies that work is complete. Deepened discussions on all six issues are expected to begin during the spring. The means of providing other European nations with defence industries an opportunity to study the LOI results are also being studied by the parties to the agreement.

If Swedish industry is to be able to assert itself in the restructuring process and the desired level of cooperation attained, it must be technically competent and thereby able to gain orders. Cooperation is rendered easier if it has the support of the authorities. The 1996 Defence Programme established that arms exports continued to be of importance for defence policy, and that it was desirable for the Government and Swedish authorities to support in a more active and structured manner the defence industry's export marketing efforts for major export projects, provided that these efforts were in line with the guidelines for arms exports. Since 1996 a special working group at State Secretary level has coordinated this support within central Government. A special post at the level of senior official has also been created in the Ministry for Foreign Affairs with responsibility for day-to-day coordination of support for industry marketing efforts.

15 Developments in the International Arms Trade

In its Yearbook and in a special data base, the Stockholm International Peace Research Institute (SIPRI) compiles statistics on the arms trade. According to the most recent information available from SIPRI, world trade in major conventional weapons decreased by about 12 per cent at fixed prices between 1998 and 1999. In the list of countries exporting major conventional weapons (aircraft, warships, artillery, armoured vehicles, missiles, target acquisition systems and radar) Sweden was the 14th largest exporter for the period 1995-1999, with 0.59% of total world exports. Total exports for the same

period amounted to USD 111,314 billion at 1990 prices. The United States was the largest exporter accounting for about 42% during that period, followed by Russia (13%), France (11%), the UK (6.6%) and Germany (5.5%).

During the period 1995-1999 the leading importer of major conventional weapons was Taiwan, responsible for 13 per cent, followed by Saudi Arabia (8.3%), Turkey (5.8%), South Korea (5.4%), and Egypt (4.3%). Sweden was the 38th largest importer for the corresponding period with imports amounting to 0.62% of total world imports.

Part II – Export controls for dual-use products

16 International export control co-operation

During the late 1980s and throughout the 1990s the non-proliferation of weapons of mass destruction has held a prominent place on the international agenda. There are several reasons why this issue has attracted such attention: indications that certain countries in unstable regions have displayed an interest in acquiring weapons of mass destruction, revelations of Iraq's programme for weapons of mass destruction and of how close it was to developing nuclear weapons, and signs of growing interest among non-governmental players in acquiring weapons of mass destruction (e.g. the religious group in Japan in 1995 which released nerve gas in the Tokyo underground).

The term "weapons of mass destruction" is usually restricted to nuclear weapons and chemical and biological weapons. Long-range ballistic missiles and cruise missiles are often included in efforts to prevent the proliferation of weapons of mass destruction. "Non-proliferation" is understood to mean multilateral measures designed to impede the spread of weapons of mass destruction. These measures are mainly embodied in a number of multilateral conventions and several informal "export control arrangements".

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

Under the 1968 NPT, non-nuclear-weapon states undertake not to receive or manufacture nuclear weapons, and the nuclear-weapon states commit themselves to disarmament. Under Article III, the parties also undertake not to provide source or special fissionable material, or equipment or material especially designed or prepared for the processing, use or production of special fissionable material, unless the source or special fissionable material is subject to International Atomic Energy Agency safeguards. Under Article III of the 1972 BTWC the parties undertake not to transfer, either directly or indirectly, equipment that can be used for the production of biological weapons. Similarly, Article I of the 1993 CWC lays down a general obligation upon the parties not to transfer, either directly or indirectly, chemical weapons to another state.

It should be emphasized that even if the primary objective of these international agreements is disarmament and prevention of the proliferation of weapons of mass destruction, all three agreements mentioned above contain provisions to the effect that parties shall promote trade for peaceful purposes. The reason for this is that a substantial proportion of the products and technologies concerned have dual uses, i.e. they have perfectly legitimate and peaceful uses at the same time as they can be used for the production of weapons. For example, some biotechnical equipment can be used to produce both medicines and biological weapons. Certain chemical substances can be used for the production of fertilizer at the same time as they can be used as raw materials for chemical weapons. Non-military nuclear energy operations can generate fissionable material which can be used in nuclear weapons. The development of space launch vehicles can form the technological basis for the production of ballistic missiles. Such dual-use products – i.e. products that can be used for both civilian and military purposes – are also called “strategic products”.

For the purpose of facilitating international co-operation on non-proliferation of weapons of mass destruction, about thirty countries have joined a number of multilateral export control arrangements: the Zangger Committee (ZC), the Nuclear Suppliers Group (NSG), the Australia Group (AG), the Missile Technology Control Regime (MTCR) and the Wassenaar Arrangement (WA). Details of the memberships of these export control arrangements will be found in Annex 4. The purpose of these arrangements is to promote exchanges of information on proliferation risks between the members and to identify products and technologies that can be used to produce weapons of mass destruction, exports of which should therefore be subject to coordinated control. Generally speaking, it may be said that a considerable proportion of the work carried out by these arrangements consists in keeping the product lists up to date in the light of technological developments. The export control arrangements differ, however, from the relevant conventions in that they are not based on binding agreements under international law. Co-operation on multilateral arrangements is based, rather, on national legislation, which provides for export controls for products and technologies that are identified as strategic products. Consequently, participation in these export control arrangements may be regarded as a means of facilitating fulfilment of the obligation in international law laid down in the abovementioned conventions to refrain from assisting other states, either directly or indirectly, to acquire weapons of mass destruction.

Two key concepts in multilateral co-operation are “denials” and “no undercut”. A member of an arrangement which denies an export permit for a specific transaction with reference to the objectives of the arrangements (“denial”) is expected to inform the other members of its decision. The other members of the arrangement are expected to consult the state that has issued this denial before deciding whether to grant an export permit for a similar transaction. This consultation procedure is referred to as “no undercutting”. The system of issuing denials is used within the NSG, the AG, the MTCR and the WA. The undercut consultation procedure is used within the NSG, the MTCR and the AG.

The Zangger Committee

The Zangger Committee was formed in 1974. The rationale behind this co-operation is application of Article III of the NPT. As mentioned above, parties may not transfer equipment or material especially designed for the production of special fissionable

material unless it is subject to International Atomic Energy Agency safeguards. Quite soon after the entry into force of NPT it became apparent that interpretations differed as to what equipment or material was referred to in Article III. In order to find a common solution to this problem, a committee consisting of representatives of the signatories to NPT, chaired by the Swiss Claude Zangger, was formed in 1971. Three years later, the committee had produced two memoranda: one defining source and special fissionable material (Memorandum A) and one defining “equipment or material especially designed or prepared for the processing, use or production of special fissionable material” (Memorandum B, also referred to as “the trigger list” since exports of the specified equipment would require or “trigger” IAEA safeguards). Sweden has taken part in the work of the Zangger Committee from the start. In 1990, the members agreed to merge the two lists into a consolidated trigger list. Over the years, the work of the Zangger Committee has concentrated on keeping the consolidated list up to date in the light of technological developments and in 1999 the members agreed to extend the list to cover equipment that can be used to convert uranium.

The Nuclear Suppliers Group

Co-operation within the Zangger Committee included those countries that had signed the NPT. At that time, however, several important countries remained outside of the treaty. In order to include these countries in the efforts to stem the proliferation of nuclear weapons, the Nuclear Suppliers Group was formed in 1974. A contributing reason was also India’s explosion of a nuclear device in 1974. In 1976 the members of the NSG agreed to more extensive controls on exports of products that could be used to produce nuclear material for use in weapons – the “London Guidelines”. Sweden joined this regime at an early stage and took part in the drafting of the guidelines. Co-operation within the NSG revived in the early 1990s following revelations of how close Iraq had come to developing nuclear weapons and how exports of nuclear-related materials had contributed to this. The members decided at a meeting in the Hague in March 1991 to update the London Guidelines and to consider extending export controls from products and materials related mainly to the nuclear fuel cycle, to dual-use products that can be used to make nuclear weapons. One year later the Guidelines for Transfers of Nuclear-Related Dual-Use Equipment, Material and Related Technology (also known as the “Warsaw Guidelines”) were adopted at the plenary meeting in Warsaw. These guidelines lay down that equipment that is not directly related to nuclear material but can be used to produce a nuclear device is to be controlled. Continuous discussions are in progress in the NSG concerning possible amendments to the guidelines in the light of technological developments. At present the NSG is reviewing the question of intangible transfers. Furthermore, work is in progress under Swedish chairmanship on the application of controls to components of controlled products referred to in the Warsaw Guidelines.

The Australia Group

The Australia Group was formed in 1985. The establishment of this export control arrangement was primarily a response to the conflict between Iran and Iraq in the 1980s, during which it became known that Iraq had acquired substantial national capacity for producing chemical weapons. As a result, several countries tightened their export controls of chemicals and certain chemical production equipment. However, these national measures were not coordinated and as a result the degree of control varied from one country to another. In 1985, a meeting was convened on Australia’s initiative for the purpose of discussing the possibility of harmonizing national controls.

This initiative resulted in the drafting of a list of chemicals that should be subject to national export controls. Several of these chemicals also have legitimate peaceful uses. In June 1990, the members of the Australia Group decided to extend their remit to microorganisms, toxins and certain production equipment for biological weapons. Sweden joined the Australia Group in 1991. Cooperation in the Australia Group has recently been criticized by countries on the grounds that retaining export controls in relation to other parties to BTWC and CWC is discriminatory. The view of the Swedish Government is that our participation in the Australia Group may be seen as a measure that is necessary for the fulfilment of our international obligations both under BTWC and CWC, i.e. to prevent the proliferation of biological and chemical weapons.

The Missile Technology Control Regime

On the USA's initiative, the G-7 countries (the USA, Canada, France, Italy, Japan, the UK and Germany) commenced discussions on export controls for missiles and missile technologies in 1982. On April 16 1987 it was announced that these discussions had led to the adoption of guidelines for exports of missile technologies which the individual countries each intended to implement through their national legislation. An Equipment and Technology Annex was attached to these guidelines, in which the products to be subject to national export controls were identified. This co-operation became known as the Missile Technology Control Regime (MTCR). The MTCR's control lists include complete missile systems (including ballistic missiles, space launch rockets and missiles and sounding rockets) and other unmanned aircraft systems (including cruise missiles and target and reconnaissance platforms) with a payload of at least 500 kg and a range of 300 km or more. Controls also extend to components of such systems and other products that can be used to produce such missiles. The MTCR export control regime was originally aimed at impeding the proliferation of missiles that could be used to deliver nuclear weapons. In 1993 the guidelines were amended to extend export controls to carriers for chemical and biological weapons too. It should also be mentioned that at present missiles are not the object of any multilateral conventions. Sweden has participated in this co-operation since 1991, when it incorporated export controls consistent with the MTCR guidelines into national export control legislation. In 1999 this regime has devoted much effort in various international fora to pointing out the risks associated with the proliferation of missiles and in presenting the MTCR's objectives in this light.

The Wassenaar Arrangement

The Wassenaar Arrangement was formed in 1996 as a successor to the multilateral export control co-operation that had previously taken place within the framework of the Coordinating Committee on Multilateral Export Controls (COCOM). It became increasingly apparent after the end of the cold war that co-operation within the COCOM framework must be extended to include former Eastern bloc countries. In November 1993, the members therefore decided to replace COCOM with a new forum, and on March 31 1994 COCOM ceased to exist. However, the states that took part in the establishment of the new forum had not yet agreed on the details of co-operation. Sweden took part in these negotiations from December 1994. In July 1996 a consensus was reached on the basic document for this new forum, which was named after the town in the Netherlands where a large part of the negotiations had taken place – Wassenaar. A substantial difference between the Wassenaar Arrangement and its predecessor COCOM is that the Wassenaar Arrangement is based on the principle that trade in products mentioned in the control lists should be permitted, but must be monitored in

order to avoid “destabilizing accumulations”. Furthermore, co-operation within the Wassenaar Arrangement framework is not directed at particular identified states. According to the Initial Elements, the basic document, the purpose of the arrangement is to contribute to regional and international security and stability by promoting transparency with regard to transfers of conventional weapons and dual-use products and thus helping to avoid arms buildups of a destabilizing nature. This objective is to be achieved by national policy-making in accordance with national rules. It should be noted, in particular, that the Wassenaar Arrangement targets a different and broader product portfolio than the other export control arrangements. Two control lists are attached to the basic document: the Munitions List, which covers conventional military equipment, and the List of Dual-Use Goods and Technologies, which covers technologies with civilian and military uses that are not included in the control lists of other arrangements. As regards controls for the latter category, it is expressly stated in the Initial Elements that the arrangement is intended to complement and strengthen co-operation in the abovementioned arrangements without duplicating their work. Examples of product categories appearing on the list of dual-use products are certain crypto products and industrial production equipment. The functioning of the arrangement was reviewed in 1999. In this connection the Member States stated that the basic document worked well and that there was therefore no need to amend it. The Member States agreed, however, on certain measures designed to deepen and render more effective the day-to-day exchanges of information within the framework of the arrangement and to update product lists faster in order to keep up with the rapid technological developments in many areas.

EC Regulation on dual-use products

The European Union has adopted Council Regulation (EC) No 3381/94 setting up a Community regime for the control of exports of dual-use goods, which entered into force on July 1 1995 (OJ no L 367, 31.12.1994, p. 1). Unlike the export control arrangements described above, this Regulation is legally binding upon Sweden. Its purpose is to reconcile the commitments of the Member States within the framework of the different multilateral export control arrangements described above with the freest possible trade within the single market. Developments in the NSG, the MTCR, the AG and the WA are taken into account by continuous amendments and updates of the product lists annexed to the Regulation. Implementation of the Regulation is a subject of regular discussions in a co-ordination group which has been set up especially for this purpose. Following a review of the operation of the Regulation during its first two years, the Commission presented a draft of a revised Regulation in May 1998. An ad hoc working party previously appointed by the Council was assigned the task of reviewing this draft. The working party is expected to complete its work in 2000 so that the revised Regulation can enter into force at the end of this year or next year.

Intangible transfers

A priority issue during the year that has been considered by most of the export control arrangements is the question of future controls of intangible transfers, i.e. transfers of technology without exports of physical products, such as electronic transfers of software or technical information, e.g. drawings, and educational materials via data links, fax or the Internet. The rules of the export control arrangements were drawn up at a time when software and computer files were normally distributed on magnetic tapes, diskettes and CD-ROMs. Networks were slower and less reliable than today, and both sellers and buyers preferred to transfer software, computer files etc. by means of physical media.

Following the rapid developments in electronic information and communication services in recent years, it is now slower, more costly and often less reliable to transfer technology by the physical means. Electronic transmission has become the rule rather than the exception. The lack of generally available security solutions, which used to be a limitation, is now being remedied. But export control arrangements are now facing a new kind of control problem. There is general agreement that electronic transfers must, at least partly, be controlled so as to ensure that the objectives of export controls are not undermined by the circumvention of physical controls. The discussion centres on practical ways and means of controlling electronic exports while safeguarding fundamental civil rights and freedoms. It should be noted that the new Council Regulation proposed by the Commission (see above) also specifically includes controls of technology transfers via electronic media, telefax and telephone.

17. The Strategic Products Act

It was noted above that multilateral co-operation on export control arrangements relating to dual-use products is not based on any international convention, but rather on national legislation permitting export controls in accordance with the guidelines agreed upon by the various arrangements. As far as Sweden is concerned, exports of strategic products are regulated by Council Regulation (EC) No 3381/94 setting up a Community regime for the control of dual-use goods, which entered into force on July 1 1995 (OJ no L 367, 31.12.1994, p. 1). This Regulation contains a number of annexes containing lists of products etc. (cf. 1994/942CFSP, last amended by 1999/193/CFSP). The Regulation is complemented by the Strategic Products Act (1998:397) and the Strategic Products Ordinance (1998:400, last amended by 1999:681). Both the Act and the Ordinance entered into force on July 1 1998 and replaced the Strategic Products Act (1991:341) and the Strategic Products Ordinance (1994:2060). The Strategic Products Act (1998:397) is applicable, inter alia, to the following products:

1. complete missile and rocket systems and other unmanned aircraft that can be used to deliver weapons of mass destruction;
2. subsystems, components and construction materials for systems referred to in 1 which have a range of at least 300 km;
3. testing and production equipment for systems, subsystems and components referred to in 1 and 2;
4. biological substances that can be used in biological weapons and chemical precursors that can be used for the production of chemical weapons;
5. equipment that can be used to produce biological weapons and biological substances and chemical precursors referred to in 4;
6. nuclear material, minerals containing nuclear material, products consisting of or containing nuclear material;
7. equipment specifically designed or prepared for the processing, use or production of nuclear material;
8. equipment that can be used for the production of nuclear devices;
9. other high-technology products that can be used directly or indirectly for destructive purposes;
10. computer software specifically designed for products referred to in 1-3 and 9 or equipment referred to in 5, 7 and 8.

Permits must be obtained for exports of the above-mentioned products, production equipment, software and technology, and the licensing authority is the National Inspectorate of Strategic Products (ISP). Annex 4 includes information on the number of applications for export licences for dual-use products submitted to the ISP. Unlike the legislation on defence equipment, under which export licences represent an exception from the general prohibition of exports, it is the other way around when it comes to dual-use products. Here, the assumption is that permission to export will be granted unless it is incompatible with Sweden's foreign, security or defence policy interests. The licence requirement also applies in a situation where an exporter in Sweden supplies dual-use products that are located abroad to a consignee abroad. Licences may also be required for exports of products not included in the annexes to Council Regulation (EC) No 3381/94 if the exporter has been informed by the ISP that the product is or may be intended for use in connection with weapons of mass destruction or missiles that are capable of delivering such weapons. Similarly, exporters must inform the ISP where they suspect that a product may be used in connection with weapons of mass destruction or missiles that are capable of delivering such weapons. This catch-all clause has been included to permit controls of non-listed products, the purpose being to ensure that the objectives of the legislation are not circumvented due to the fact that, on account of technological developments, the lists of products are seldom all-inclusive (cf. Article 4 of the Council Regulation).

It has been the Government's ambition to ensure that the routines applied in connection with export controls are rational and efficient in order not to place an unnecessary burden on industry. Progress in this respect may also help to give the industry an advantage in relation to competitors from countries where the procedure takes longer. Initiatives designed to achieve this aim are being taken continuously both by the Government and by the licensing authority, ISP.

An amendment adopted in 1999 made it possible for the ISP to formulate rules for general licences (SFS 1999:681). Pursuant to these rules the Inspection has issued "open" general licences that are published in the Customs Code of Statutes (TFS 1999:40). These rules entered into force on August 1 1999. Exporters do not have to apply for open general licences, but simply refer to the applicable licence in connection with exportation. The general licences issued so far correspond either to licences previously issued to companies, or relate to exports to 60 different destinations outside the EU of mass market crypto products with a key length of not more than 128 bits or relate to exports in connection with repairs or demonstrations of products covered by the Wassenaar Arrangement to the same 60 destinations.

The Strategic Products Act does not include any provisions concerning the possibility of obtaining advance notification of whether an export licence will be granted in the event of exportation of dual-use products to a specific destination. However, in practice the ISP nevertheless provides companies with advance notifications. The main reason for this is that exporters are obviously keen to know whether it will be possible to carry out a transaction with a "risk country" before the tender procedure starts. Sixteen advance notifications were issued in 1999, and seven of these were negative.

The ongoing revision of the Council Regulation on the control of dual-use products will make it necessary to adopt new national legislation. Preparations have been made to

present the necessary draft legislation to Parliament at short notice when negotiations have been completed.

18 Cryptography

In the Government's Communication to Parliament 1998/99:116 on cryptography, adopted on May 6 1999, its views on certain aspects of the use and control of crypto products were presented.

The question of the extent to which export controls should apply to crypto products has attracted considerable attention both in Sweden and abroad. Account must be taken both of the important role these products play in the development of electronic services and the need – for national security reasons – to prevent access to powerful cryptographic tools, for example by users who are associated with the development or production of weapons of mass destruction. The main forum for international discussions in this field is the Wassenaar Arrangement, which adopted a new list for information security products in December 1998, with a two-year period of validity for certain crypto products. This is explained by the need for continuous review of the contents of the list in the light of the rapid technological development in this area.

The Swedish Government's view on this matter is that there remain national security reasons for preventing the dissemination of certain crypto products to unsuitable recipients in some countries. The trade in crypto products in the EU's single market should be as free as possible in order to promote electronic communications and trade and the development of IT in the EU as a whole, including Sweden. Sweden also advocates freer trade in crypto products with third countries, taking into account security aspects. However, international consensus must be reached on the EU countries' controls in relation to third countries. If these countries' policies are not co-ordinated, the controls will in practice be ineffective and distort competition in the industries concerned. The need to avoid a situation in which Sweden applies less stringent controls than other important export countries also makes international consensus essential. Otherwise, those countries might impose export restrictions on Sweden.

When it comes to the small number of crypto products that remain under export controls, the Government aims to maintain prompt and unbureaucratic procedures in order to avoid any competitive disadvantage for Swedish industry in relation to the control procedures applied by other countries, and preferably to give Swedish industry a competitive advantage. Thanks to the open general licences that were introduced in 1999, including licences for exports of mass market crypto products to all significant export markets, and a time-saving control procedure in other respects – electronic licence application and issuing procedures are now being introduced – many of the export control problems experienced by companies have now been eliminated. The simplifications introduced by the Wassenaar Arrangement in 1998 (including the exemption of crypto products designed for authentication or for personal use), and by the EU in 1999 for mass market products, have reduced the amount of paperwork for enterprises, and export controls are now applied to a small number of crypto products and users in cases where the need for control overrides free trade considerations.

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

1 General Background

The National Inspectorate of Strategic Products (ISP) continuously monitors the marketing and export of military equipment from Sweden. At present about 200 companies are licenced to conduct activities in the military equipment area (this figure includes so-called hand loaders - private individuals who manufacture hunting and sporting ammunition). Of these companies, some 40 are active exporters. These are obliged to submit information of various kinds on their operations to the ISP. 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 1999.

2 Export Permits

As of 1993 when the distinction was introduced, the value of export licences granted has been divided into two sub-categories: military equipment for combat purposes (MEC) and other military equipment (OME). The latter category mainly comprises matériel that was previously not subject to control. As a consequence of this broadening of the concept of military equipment, subsequent statistics also comprise matériel not previously controlled as well as certain exports of matériel for civilian or partially civilian use (which was not the case while the traditional concept of military equipment applied). The value of export licences increased in 1999 by just under 120% compared with the previous year. This increase referred solely to other military equipment. The value of export licences for military equipment for combat purposes decreased by 25.3%. Export licences refer on the one hand to small transactions concerning, for example, spare parts or ammunition, on the other hand to a limited number of very large transactions involving major systems with deliveries that extend over several years. Thus, a few large transactions, which do not necessarily occur every year, can have a noticeable effect on an individual year's results.

As may be seen from Table 2 below, statistics on export licences demonstrate considerable differences from one year to another. However, these variations have a limited impact on the size of actual exports of Swedish military equipment in any given year, since exports connected with a major export licence are usually spread over several years.

Table 1. Export Permits Granted for Sales of Military Equipment in the Period 1991-1999 at Current Prices

Year	Total value at current prices million SEK			Percentage change in current prices compared with previous year		
	Total	MEC	OME	Total	MEC	OME
1991	2,487			- 13.3		
1992	2,992			+ 20.3		
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
1999	7,153	1,082	6,071	+ 118.5	- 25.3	+232.8

3 Actual Deliveries

ISP export statistics are based on information supplied by the exporting companies regarding the invoiced value of equipment delivered. Swedish exports of military equipment increased slightly compared with the previous year, at current prices (see Table 2 below). The increase relates to export of military equipment for combat purposes while export of other military equipment has decreased. The largest recipients of military equipment for combat purposes in 1999 were Norway and Switzerland, followed by Brazil, Venezuela, USA and France (For further information see section 4 of this annex). Sweden's total export of goods also increased and hence the proportion of arms exports remains unchanged. Swedish exports of military equipment are also recorded in the general foreign trade statistics which are based on information supplied by the customs authorities to Statistics Sweden (SCB). However, SCB statistics also include civilian products that do not come under the Military Equipment Act. These figures are not comparable with ISP statistics and are not included in this report.

Changes in statistics in the annual report from one year to the next cannot be used as a basis for long-term assessment of export trends. Individual sales of large systems cause powerful swings upwards or downwards in the figures. Developments on export markets in the 1990s were marked by the end of the cold war which caused many military powers to cut their allocations for military equipment. The impact of the declining export market on Swedish exports of military equipment was partly 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 not previously registered.

Table 2 Value of Exports of Swedish Military Equipment in the Period 1989-1999 at Current Prices

Year	Sweden's total export of goods (curr.prices) million SEK	Exports of military equipment						
		Current prices SEK M			Share of total exports %	Annual Change %		
		Total	MEC	OME		Total	MEC	OME
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		
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	3,101	939	2,162	0.49	+ 0.5	- 17.3	+10.8
1998	673,091	3,514	1,662	1,852	0.52	+13.3	+77.0	-14.3
1999	700,000 ¹	3,654	1,954	1,700	0.52 ¹	+ 4.0	+17.6	- 8.2

¹Preliminary figure

Diagram 1. Value of Swedish exports of military equipment in million SEK in the period 1984-1999, as from 1993 divided into other military equipment (OME) and military equipment for combat purposes (MEC)

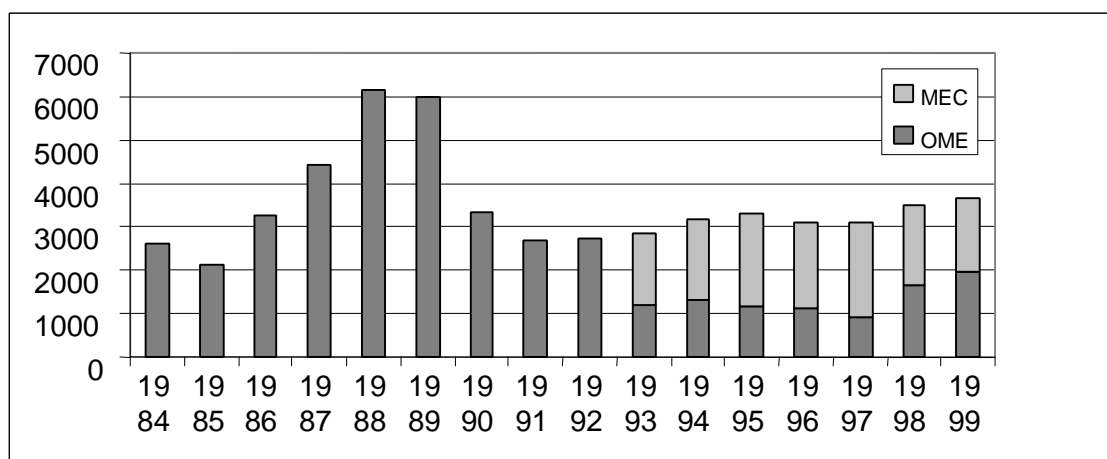


Table 3. Value of Swedish Exports of Military Equipment in the Period 1998-1999 in SEK million, in Accordance with the Main Areas Covered by the Military Equipment Classification

		1998	1999
<i>Military Equipment for Combat Purposes</i>			
MEC1	Small-calibre barrel weapons	0	0
MEC2	Cannons, anti-tank guns	248	405
MEC3	Ammunition	358	426
MEC4	Missiles, rockets, torpedoes, bombs	260	186
MEC5	Firing control equipment	274	257
MEC6	ABC weapons	0	1*
MEC7	Gunpowder and explosives	107	89
MEC8	Warships	53	144
MEC9	Combat aircraft	0	0
MEC10	Combat vehicles	361	444
MEC11	Directed energy weapon systems	0	0
TOTAL		1,662	1,953

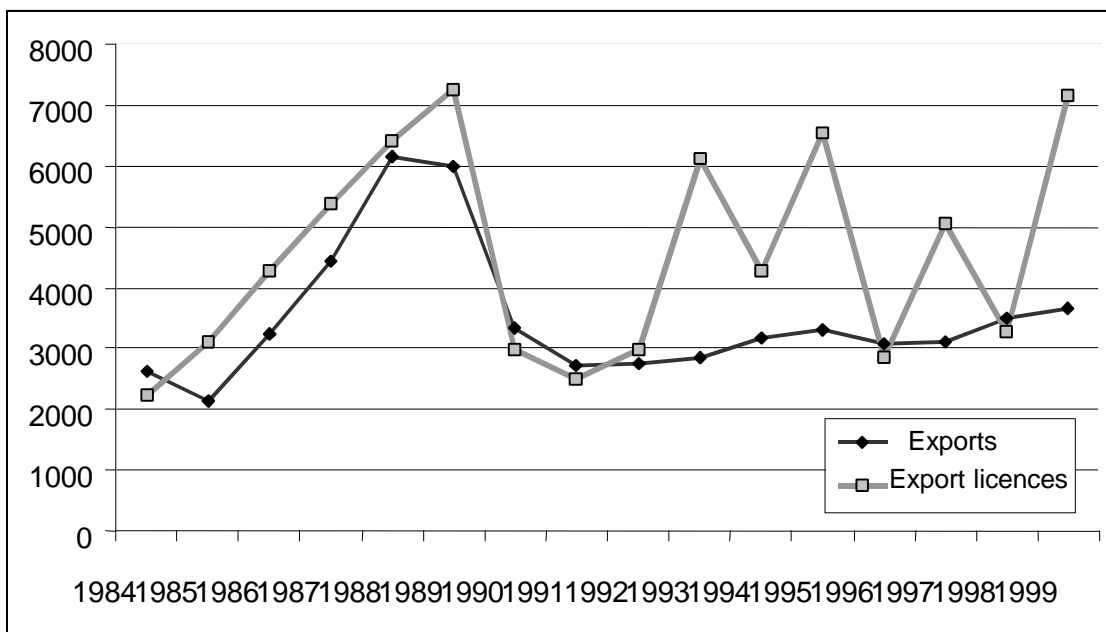
*Export of MEC6 refers to components for tear-gas products to countries in Western Europe

Other Military Equipment

OME21	Small-calibre barrel weapons, parts, etc.	3	6
OME22	Cannons, anti-tank guns, parts, etc.	92	112
OME23	Ammunition for training purposes, etc.	320	316
OME24	Training rockets, sweeping equipment, etc.	100	34
OME25	Reconnaissance and measurement equipment	229	384
OME26	Protective equipment, etc.	17	30
OME27	Gunpowder and explosives components	0	5
OME28	Surveillance vessels, etc.	579	1
OME29	Aircraft designed for military use, etc.	84	75
OME30	Vehicles designed for military use, etc.	78	275
OME31	Directed energy weapon systems	0	0
OME32	Fortifications	0	0
OME33	Electronic equipment for military use	33	40
OME34	Photographic and electro-optical equipment	15	3
OME35	Training equipment	274	397
OME36	Manufacturing equipment	9	14
OME37	Software	18	9
TOTAL		1,852	1,700

A comparison between tables 1 and 2 above shows that the total value of export licences granted may differ considerably from the value of actual deliveries in the same year. This is because licences often apply for exports over several calendar years and also because licences are not fully utilised in some cases. The substantial increase in licences granted in 1997 and 1999 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 coming years, particularly since the low level of export licences granted in 1996 and 1998 will continue to have a weakening effect.

Diagram 2 Value of export licences and actual exports of military equipment in million SEK in the period 1984-1999



4 Geographical Distribution

The aim of the Swedish Government is to attain the greatest possible transparency 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 the ISP to produce the necessary basic data 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.

A total of 49 countries received deliveries of Swedish military equipment in 1999 as opposed to 51 in 1998 and 49 in 1997. 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 and North America. In 1998, almost 62 % of total exports were supplied to these destinations. The pattern is even clearer in 1999 when the corresponding share of total exports was 75%. Outside this groups of countries, a particularly strong decline may be noted in exports to Asia, primarily as a result of the economic crisis there, at the same time as Latin America's share increased from 12% to 18%.

Table 4. Exports of Military Equipment by Region, Percentage of Value in the Period 1997-1999

	1997			1998			1999		
	MEC	OME	Total	MEC	OME	Total	MEC	OME	Total
Nordic countries	11	31	17	11	44	27	39	26	33
Other West European countries	36	18	31	22	21	21	27	37	32
Central and Eastern Europe	0	1	0	1	2	1	0	2	1
North America	17	16	17	17	10	14	7	13	10
Latin America	3	8	4	8	16	12	23	12	18
Australia and New Zealand	2	1	2	3	3	3	1	2	1
Asia	30	24	28	38	4	22	3	7	5
Africa	0	1	0	0	0	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 1997-1999.

Just as in the previous year the largest individual recipient of Swedish military equipment in 1999 was Norway (SEK 1.032m), followed by Brazil (SEK 362m), Germany (SEK 343.2m), the United States (SEK 304m), and Switzerland (SEK 298m). These five destinations accounted for in all 60% of total Swedish exports of military equipment.

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

Table 5 Exports of Military Equipment by Country 1997-1999 in SEK million

	1997			1998			1999		
	MEC	OME	Total	MEC	OME	Total	MEC	OME	Total
Australia	2.9	50.5	53.4	57.9	59.4	117.3	21.0	31.4	52.4
Austria	114.2	35.4	149.6	114.7	45.9	160.5	79.1	84.4	163.5
Bahrain	-	0.0	0.0	-	0.8	0.8	0.0	0.1	0.1
Bangladesh	16.5	2.7	19.2	-	-	-	-	-	-
Belgium	1.0	9.6	10.6	-	11.5	11.5	0.1	17.6	17.6
Brazil	17.4	46.8	64.2	166.4	98.4	264.8	201.1	161.3	362.4
Canada	23.1	20.9	44.1	8.0	9.2	17.1	25.6	31.6	57.2
Chile	16.0	-	16.0	0.2	0.1	0.4	-	-	-
Czech Rep.	-	-	-	-	-	-	1.5	0.8	2.3
Denmark	221.1	98.8	319.9	64.8	58.8	123.6	89.8	68.2	158.0
Estonia	-	-	-	-	-	-	0.0	2.8	2.8
Finland	14.5	41.3	55.8	2.1	40.8	42.9	1.7	19.1	20.8
France	2.1	34.4	36.6	108.2	42.7	150.9	125.4	77.1	202.5
Germany	39.1	465.7	504.8	24.9	220.2	245.1	30.1	313.1	343.2
Greece	0.3 ¹	3.3 ¹	3.6¹	21.1	0.4	21.6	0.0	0.2	0.2
India	3.9	76.0	79.9	-	5.8	5.8	0.0	5.0	5.0
Indonesia	8.0	3.2	11.2	-	0.9	0.9	0.0	0.3	0.3
Ireland	2.4	10.0	12.4	5.6	6.8	12.4	6.0	3.7	9.7
Italy	2.4	3.7	6.1	3.1	6.1	9.2	4.2	40.3	44.5
Japan	0.4	283.0	283.4	0.5	102.3	102.8	0.2	19.5	19.7
Rep. of Korea	-	6.6	6.6	-	-	-	-	-	-
Kuwait	-	0.0	0.0	-	6.0	6.0	-	-	-
Latvia	-	-	-	-	-	-	0.0	2.0	2.0
Lithuania	12.1	1.3	13.4	35.2	8.9	44.1	4.9	6.1	10.9

¹ Correction of last year's figures concerning Greece

(cont.)	1997			1998			1999		
	MEC	OME	Total	MEC	OME	Total	MEC	OME	Total
Malaysia	-	78.2	78.2	2.6	17.2	19.9	30.7	3.9	34.6
Mexico	-	-	-	-	-	-	63.2	1.0	64.1
Netherlands	0.0	2.6	2.6	0.1	3.5	3.6	-	9.4	9.4
Nepal	-	-	-	22.7	1.9	24.6	-	-	-
New Zealand	3.8	0.3	4.2	-	1.5	1.5	-	0.7	0.7
Norway	56.7	104.3	161.0	667.3	104.7	772.0	676.3	355.9	1032.2
Oman	104.0	1.4	105.4	-	0.2	0.2	-	3.6	3.6
Pakistan	21.8	37.9	59.7	34.2	4.1	38.3	-	5.1	5.1
Poland	0.1	0.4	0.5	0.0	0.5	0.5	0.4	20.2	20.6
Portugal	0.1	0.3	0.4	-	-	-	1.1	0.2	1.2
Saudi Arabia	-	-	-	-	1.0	1.0	-	0.4	0.4
Singapore	46.3	119.4	165.7	2.2	489.7	492.0	20.6	25.8	46.4
Slovenia	-	-	-	-	1.9	1.9	-	1.3	1.3
Spain	0.1	2.1	2.2	0.6	3.3	3.9	0.6	8.4	8.9
Switzerland	5.3	24.1	29.4	65.6	20.9	86.5	276.1	21.6	297.7
Thailand	24.2	21.3	45.4	-	65.0	65.0	-	51.3	51.3
Tunisia	10.1	1.7	11.8	-	1.9	1.9	-	1.6	1.6
UAE	-	16.3	16.3	-	6.2	6.2	0.0	8.3	8.3
UK	1.2	193.4	194.6	0.2	37.0	37.2	0.6	58.9	59.4
USA	125.5	348.6	474.1	155.0	309.9	464.4	116.4	187.7	304.0
Venezuela	42.2	15.1	57.3	97.5	54.6	152.1	177.3	48.7	226.0
Other countries	0.2 ²	1.0 ³	1.2	1.1 ⁴	2.0 ⁵	3.1⁶	0.3 ⁷	1.3	1.8
GRAND TOTAL	939	2,165¹	3,104₁	1,662	1,852	3,514	1,954	1,700	3,654

² Estonia, Iceland and South Africa

³ Andorra, Argentina, Brunei, Czech Republic, Estonia, Hungary, Iceland, Mauritius, New Caledonia, (France), Peru, Russia, South Africa,

⁴ Czech Republic and South Africa

⁵ Argentina, Czech Republic, Estonia, Hong Kong (China), Hungary, Iceland, Mauritius, Namibia, New Caledonia, (France), Peru, Russia and Zimbabwe

⁶ Israel, Peru and South Africa

⁷ Andorra, Hong Kong (China), Hungary, Iceland, Mauritius, Namibia, Peru and South Africa

5 Transfer of Manufacturing Rights, Cooperation, etc

Six licences were granted in 1999 for the transfer of manufacturing rights abroad. The countries concerned were France, Malaysia, Norway, Poland, South Africa and USA.

Nine cooperation agreements were examined and approved for joint development or production with the following countries: Finland (two licences) France, Greece, Malaysia, Singapore, South Africa, UK and USA.

In assessing cases involving the transfer of manufacturing rights or cooperation with foreign partners, the stricter criteria applied to exports of *military equipment for combat purposes* are 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 these cases.

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 1999, 15 companies reported a total of 145 transfers of licences and cooperation agreements with 25 countries. Of these, 13 companies had 76 licence agreements in 19 countries and 10 companies 69 cooperation agreements in 21 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 purpose 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 was granted in 1999.

7 Reported Ownership in Foreign Legal Entities

Under the Military Equipment Act (1992:1300), companies that have received a permit 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 1999, 12 companies reported ownership in 48 foreign legal entities in 16 countries.

8 Export Companies

Some 200 companies are licenced to manufacture military equipment. Of these, 40 exported such equipment in 1999. About 25% of these companies are one-man businesses with a permit to hand-load hunting and sporting ammunition. The largest exporters of military equipment in 1999 were as follows: Bofors AB, Hägglunds Vehicle AB, Bofors Carl-Gustaf AB, Saab Training Systems AB and Ericsson Microwave Systems AB. Bofors AB and Hägglunds Vehicle AB were both responsible for exports in excess of SEK 600 million but less than SEK 1 billion. The other three companies were each responsible for exports exceeding SEK 200 million but less than SEK 600 million. In addition, three companies exported to a value exceeding SEK 100 million, viz. Dockstavarvet AB, CelsiusTech Electronics AB, and Saab Dynamics AB.

Two companies each exported to a value of between SEK 50 million and SEK 100 million, namely Norma Precision AB and Nexplo Bofors AB. Ten companies exported for an amount between SEK10 million and SEK 50 million. They were Vanäsverken AB, Åkers Krutbruk Protection AB, Volvo Aero AB, Nammo LIAB AB, FMV, CelsiusTech Systems AB, Ericsson Saab Avionics AB, Bofors Underwater Systems AB, Saab AB and Celsius Aerotech AB.

Other companies with exports in excess of SEK 1 million included Chematur Engineering AB, Scania CV AB, Airsafe Sweden AB, CNC-Process i Hova AB, Aimpoint AB, Degerfors Formnings AB, Applied Composites AB, Waltreco AB and Polyamp AB.

In all, the above-mentioned 29 companies represented almost 100 per cent of Swedish exports of military equipment in 1999.

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.

According to the latest statistics, 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.

Swedish Guidelines for the Exportation of Military Equipment and Other Forms of Collaboration Abroad

A permit for the exportation of military equipment, or for other forms of collaboration abroad involving military equipment, may only be granted if such exportation or cooperation

1. is considered necessary to fulfil the Swedish defence forces' requirements for matériel or know-how, or is otherwise desirable for reasons of national security, and
2. is not in conflict with the principles and aims of Swedish foreign policy.

When considering a request for a permit, the Government is responsible for making an overall assessment, taking into account all the relevant circumstances and applying the basic principles stated above.

There are no obstacles of a foreign policy nature to collaboration with, or exportation to, the Nordic countries and the traditionally neutral countries of Europe. In principle, collaboration with these countries is consistent with the requirements of Sweden's national security. To the extent that collaboration with other members of the European Communities is extended, the same principles should be applied to collaboration with, and exports to, these countries.

A permit may only be granted with regard to a Government, a Government Authority, or a Government-authorized recipient; furthermore, an End User Declaration (EUD) or an Own Production Declaration (OPD) should be presented when equipment is to be transferred abroad. A Government which, despite assurances to the Swedish Government, has allowed or neglected to prevent the unauthorized re-exportation of Swedish military equipment, shall not in principle be eligible to receive further equipment from Sweden as long as these circumstances remain.

A permit for exportation or for other forms of collaboration abroad under the Military Equipment Act may not be granted if this would contravene an international agreement which Sweden has signed, a Resolution adopted by the United Nations Security Council, or a rule of international law concerning exports from neutral states in times of armed conflict (unconditional obstacles).

A permit for exportation of military equipment or for other forms of collaboration abroad comprising military equipment, may not be granted when it involves a country in which widespread and serious violations of human rights occur. Respect for human rights is an essential condition for the issuance of permits.

A permit for the exportation of Military Equipment for Combat Purposes (MEC), or for other collaboration involving MEC or Other Military Equipment (OME), should not be granted for a country involved in armed conflict with another country – whether or not war has been declared – or for a country involved in an international conflict which may lead to an armed conflict, or for a country in which internal armed disturbances are taking place.

A permit should be granted for the exportation of equipment designated as Other Military Equipment (OME) on condition that the recipient country is not involved in an armed conflict with another country, that it is not the scene of internal armed disturbances or widespread and serious violations of human rights, and that no unconditional obstacle exists.

A permit that has been granted should be revoked if an unconditional obstacle arises, or if the recipient country becomes involved in an armed conflict with another country or the scene of internal armed disturbances. When one of the latter two situations has arisen, the Government may refrain from revoking the permit in exceptional cases, if this is consistent with the rules of international law and with the principles and aims of Swedish foreign policy.

Permits should be granted for the exportation of spare parts pertaining to equipment exported previously with the requisite permission, unless an unconditional obstacle exists. The same applies to other deliveries of, for example, ammunition linked with the previous exports of equipment or otherwise in cases where denial of permission would be unreasonable.

With reference in particular to agreements with a foreign party on the joint development or production of military equipment, the examination of each case shall be based on the fundamental principles given above. Exports to the cooperating country under the agreement should be permitted unless an unconditional obstacle arises. If an agreement with a foreign party is based on an assumption of exportation from the cooperating country to third countries, and the equipment concerned has a predominantly Swedish identity, the question of such exports should be assessed in accordance with Swedish guidelines.

Regarding equipment with a predominantly foreign identity, exports from the cooperating country to third countries should be assessed in accordance with the export regulations of the cooperating country. If there is a strong Swedish defence policy interest in a certain agreement, and the cooperating country requires that certain exports take place from that country, exports to third countries under the export regulations of the cooperating country may be allowed in other circumstances too.

In cases where collaboration with another country in the area of military equipment is of considerable magnitude and importance to Sweden, a government-to-government agreement should be reached between Sweden and the cooperating country. Before agreements of this kind are signed, the Advisory Council on Foreign Affairs should be consulted.

**EUROPEAN UNION
THE COUNCIL**

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

8675/2/98

**EUROPEAN UNION CODE OF CONDUCT
ON ARMS EXPORTS**

THE COUNCIL OF THE EUROPEAN UNION,

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

RECOGNIZING the special responsibility of arms exporting states,

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

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

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

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

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

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

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

CRITERION ONE

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

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

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

CRITERION TWO

The respect of human rights in the country of final destination

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

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

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

CRITERION THREE

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

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

CRITERION FOUR

Preservation of regional peace, security and stability

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

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

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

CRITERION FIVE

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

Member States will take into account:

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

CRITERION SIX

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

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

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

CRITERION SEVEN

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

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

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

CRITERION EIGHT

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

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

OPERATIVE PROVISIONS

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

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

4. Member States will keep such denials and consultations confidential and not use them for commercial advantage.
5. Member States will work for the early adoption of a common list of military equipment covered by the Code of Conduct, based on similar national and international lists. Until then, the Code of Conduct will operate on the basis of national control lists incorporating where appropriate elements from relevant international lists.
6. The criteria in the Code of Conduct and the consultation procedure provided for by paragraph 3 of these Operative Provisions will also apply to dual-use goods as specified in Annex 1 to Council Decision 94/942/CFSP⁽⁸⁾, 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.

⁽⁸⁾ 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).

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

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:

Export controls for dual-use products in 1999

It is not possible to present complete statistics on dual-use products like those for defence equipment, since the control of dual-use products is based on the principle of freest possible trade, which means that controls are only applied in certain cases. It is, however, possible to report and compare trends over time concerning the number of applications for various types of licences – global, general and individual – in various control areas.

Table 1. Number of licence applications for exports of dual-use products

Type of export licence	Year	
	1998	1999
Global	36	18*
General	30	15#
Individual, of which	381	347
<i>Wassenaar Arrangement</i>	346	306 [□]
<i>Missile Technology Control Regime</i>	5	0
<i>Nuclear Suppliers Group</i>	5	5
<i>Australia Group</i>	25	36

Notes

- * This decrease is due to the fact that the validity of global licences is two years, and this year relatively few licences were renewed on account of expiry of the period of validity.
- # The sharp reduction in the number of general export licences is due to the introduction of the option of global licences in August 1999.
- This decrease is due, inter alia, to the introduction of less stringent licence requirements for mass market cryptographic products.

Global licences can be granted for frequent exports of products to civilian buyers for non-military end use. Licences are granted for all destinations except for a small number of countries for which an individual licence application procedure is compulsory. Global licences are not issued for products included in product lists kept by the MTCR, the NSG or the AG. *General licences* are issued in accordance with EU rules and allow exports of certain dual-use products to a number of identified countries. *Individual licences* are issued to exporters for exports of particularly sensitive products or to particularly sensitive destinations.

Table 2. Membership of multilateral export control arrangements

Land	ZC	NSG	AG	MTCR	WA
Argentina	x	x	x	x	x
Australia	x	x	x	x	x
Austria	x	x	x	x	x
Belgium	x	x	x	x	x
Brazil	-	x	-	x	-
Bulgaria	x	x	-	-	x
Canada	x	x	x	x	x
China	x	-	-	-	-
Czech Rep.	x	x	x	x	x
Denmark	x	x	x	x	x
Finland	x	x	x	x	x
France	x	x	x	x	x
Germany	x	x	x	x	x
Greece	x	x	x	x	x
Hungary	x	x	x	x	x
Ireland	x	x	x	x	x
Iceland	-	-	x	x	-
Italy	x	x	x	x	x
Japan	x	x	x	x	x
Korea (Rep.)	x	x	x	-	x
Latvia	-	x	-	-	-
Luxembourg	x	x	x	x	x
Netherlands	x	x	x	x	x
Norway	x	x	x	x	x
New Zealand	-	x	x	x	x
Poland	x	x	x	x	x
Portugal	x	x	x	x	x
Romania	x	x	x	-	x
Russia	x	x	-	x	x
Slovakia	x	x	x	-	x
South Africa	x	x	-	x	-
Spain	x	x	x	x	x
Sweden	x	x	x	x	x
Switzerland	x	x	x	x	x
Turkey	x	-	-	x	x
UK	x	x	x	x	x
Ukraine	x	x	-	x	x
USA	x	x	x	x	x
<i>Total</i>	<i>34</i>	<i>35</i>	<i>30</i>	<i>32</i>	<i>33</i>

Changes in 1999:

- Turkey was admitted to the Zangger Committee.

Ministry for Foreign Affairs

Extract from the minutes of the Cabinet Meeting held on 23 March 2000

Present: Cabinet Minister Hjelm-Wallén, chairman, and the following Cabinet Ministers, Freivalds, Thalén, Winberg, Ulvskog, Sahlin, von Sydow, Klingvall, Pagrotsky, Östros, Messing, Engqvist, Rosengren, Larsson, Wärnersson, Lejon, Lövdén.

Agenda item presented by: Leif Pagrotsky, Cabinet Minister

The Government decides to present to Parliament the Report 1999/2000:110, Swedish Export Controls and Exports of Military Equipment in 1999.

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Ministry for Foreign Affairs
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Sweden
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