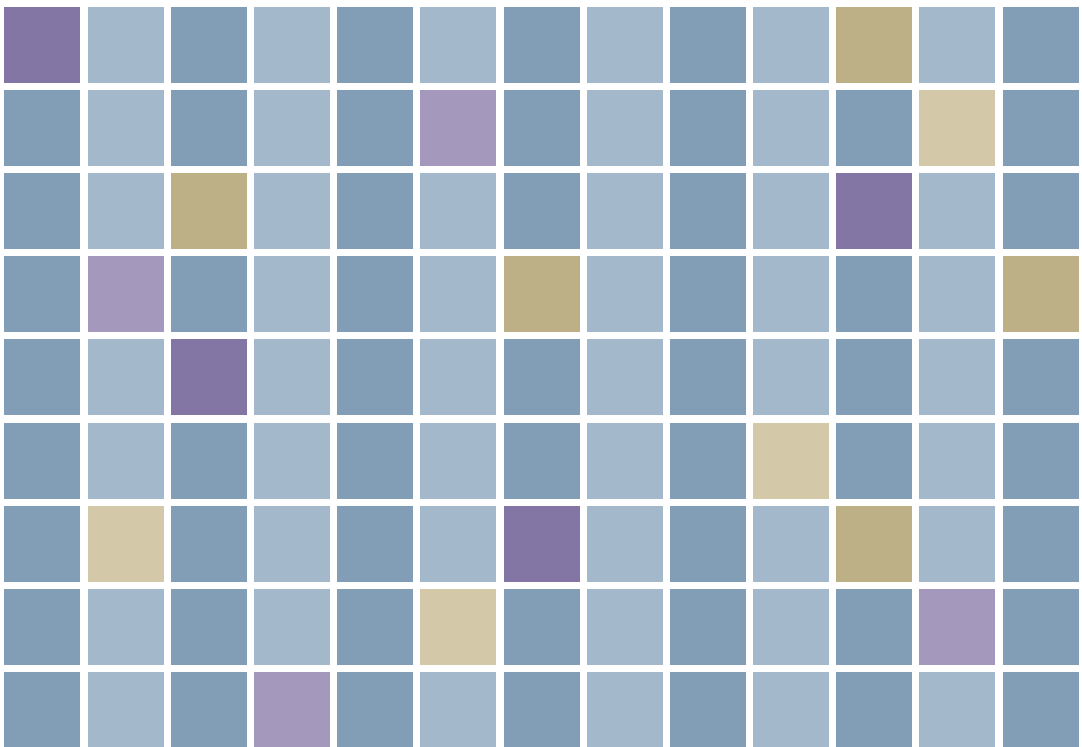


Annual Report 2014



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A word from the DG



WHILE THE EXPORT of military equipment from Sweden was marked by an increase during last year, under 2014 the value of the Swedish export decreased with 33 percent.

Individual export affairs has always had a big impact on specific years. Changes in regulations and what type of export affairs that are made will affect the future export statistics.

Prolonged review of legislation

The parliamentary committee which assignment is to produce a proposition for a new legislation regarding military equipment have had its assignment prolonged. The result of the review will be presented 30 June 2015.

Result from new assignment

From the last quarter of the previous year ISP's license responsibilities were broadened to include export of civilian firearms outside the EU. The past year shows that the implementation of the new assignment has worked out well, but that the amount of work has been much greater than originally expected.

Sanctions

Against the background of Russia's actions, which has destabilized the situation within Ukraine, certain restrictive measures have been taken through sanctions. In the mean-

time the sanctions against Iran has decreased after agreements of actions within the EU and within Iran.

Ratified treaty

The Swedish government decided midway through the year that Sweden would ratify UN's Arms Trade Treaty, which regulates international trade with conventional arms. The assessment criterias that has been added through the treaty is international humanitarian rights and gender based use of violence. The treaty formally entered into force on 24 December.

Christer Ahlström
Director-General



Photo: Catharina Biesert

ISP in short



The ISP is a government authority with assignments within Swedish foreign and security policy. The focus is on control and compliance of strategic products, the management of targeted sanctions, responsibility as a national authority for the Chemical Weapons Convention and international cooperation, assistance and support in these areas.

The mission of the ISP is based on close, active cooperation with several authorities as well as with European and multilateral cooperation bodies, while maintaining a constant dialogue with Swedish industrial and technology companies and organisations.

The ISP works according to the laws passed by the Swedish Parliament, EU regulations and the commitments associated with international cooperation.

Control and compliance

Sweden has an advanced defence industry and several high-tech companies that are world leaders in many respects. The ISP controls certain production and exports of products within these industries.

Moreover, the ISP visits companies that are subject to compliance. During these visits, the ISP checks that the company is aware of current regulations, which products are subject to export controls and that such knowledge is incorporated in the company's work process.

Military equipment

Military equipment (ME) or defence equipment, refers to products such as weapons, ammunition, surveillance and monitoring equipment as well as security equipment or other products developed for military use. The ISP is responsible for processing applications for purposes such as the manufacture and export of defence materiel. The ISP also assesses technical aid, military training and various cooperation agreements.

Civilian firearms

Civilian firearms, parts and ammunitions are under export control, which means that whoever wishes to export them to a country outside the EU, as well as conduct certain import and transit operations, must apply for a licence from the ISP.

Dual-use items

Dual-use items (DUs) are products that have an established civilian application. Machine tools, heat exchangers, encryp-

tion equipment, IR cameras, microorganisms and chemicals are examples of such products. It is crucial that such products do not fall into the wrong hands where they can be used for internal repression, or for the manufacture or use of weapons of mass destruction (WMD) by terrorists or by states or individual players.

The principal rule for DUs is that exports should be permitted unless there are specific reasons suggesting otherwise, and it is the task of the ISP to determine whether to allow products to be exported.

Targeted sanctions

Certain countries, companies and individuals have limited opportunities to trade in strategic products due to sanctions and arms embargoes. For example, the restrictions might ban the export of certain products or financial transactions to companies or individuals in those countries.

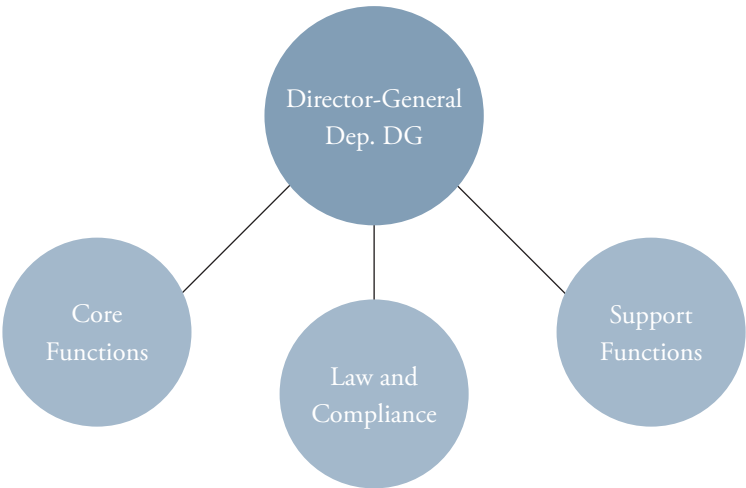
The purpose of such sanctions is to influence a country to stop certain behaviours or implement certain reforms. The UN, EU and OSCE decide on sanctions. The ISP works with sanctions against Belarus, Burma, Central African Republic, Congo, Iran, Ivory Coast, Lebanon, Liberia, Libya, North Korea, Russia and Ukraine, Somalia, Syria and Zimbabwe as well as enquiries regarding embargoes against a number of countries.

Targeted sanctions involve licence examination for the export of controlled products, the determination of whether frozen assets can be released and the management of financial transactions.

National authority for the Chemical Weapons Convention

The ISP is the national authority for the Chemical Weapons Convention. Under this convention, comprehensive work is carried out around the world to destroy those che-

ISP’s organisation



mical weapons that remain and at the same time to ensure that no new chemical weapons are produced. Companies must declare their activities to the ISP, which also assists the Convention's main organisation OPCW with inspections in Sweden. Another important part of the ISP's work with the Convention is to serve as a hub for the Swedish chemical industry and the relevant authorities.

International cooperation, support and assistance

One way to ensure that international export controls work is to have well-developed cooperation in place, both within the EU and the Nordic countries, with other partner countries and through various export control regimes.

Another important area is to educate and inform countries as to which export controls are not as developed. The goal is to strengthen export controls and non-proliferation, thereby helping to improve global security.

ISP councils

Three councils are linked to the ISP, the ECC, the TCS and the SCC.

Export Control Council (ECC)

The ECC is an advisory body consisting of twelve members appointed by the government. The Moderate and Social Democratic parties have three members each, while the other parties each have one member. ECC members are subject to the same confidentiality provisions as the ISP administrators.

All export matters are reported to the Council, as are cases in which the ISP needs advice prior to taking positions concerning new recipient countries or countries where developments require a new assessment.

The Council meets approximately ten times per year and the chairperson of the Council is the ISP Director-General. Representatives of the Swedish Ministry for Foreign Affairs and the Ministry of Defence also participate at council meetings.

Technical Scientific Council (TSC)

The TSC consists of senior management from various academies and technical authorities and assists the ISP in decisions of fundamental significance regarding the classification of products and materiel.

The Council meets quarterly and the ISP Director-General appoints its members.

Strategic Cooperation Council (SCC)

The SCC consists of representatives from the ISP, the Swedish Defence Research Agency, the Swedish National Defence Radio Establishment, the Swedish Military Intelligence Agency, the Swedish Security Service and the Swedish Customs. The purpose of the Council is to coordinate and allocate non-proliferation resources at the management level.

The Council meets two times per year and the ISP Director-General appoints its members.

Some facts

Number of employees: 25
Number of men/women: 13/12
Average age: 43 years
Number of cases: about 6 000/year
Budget: about 29 million SEK/year

Specific competence: engineers, political scientists and legal advisers

The authority was founded in 1996 and falls under the responsibility of the Swedish Ministry for Foreign Affairs.

A look forward



This section presents a description of future events and expectations with regard to Swedish and international export controls.

First a look back

Individual export transactions have historically had a large impact in specific years. Actual exports of SEK 8 billion in 2014 mean a continued decline in exports of military equipment.

In 1958, exports doubled due to the delivery of destroyers to Colombia. In the early 1970s, exports doubled due to deliveries of aircraft to Denmark and Finland and in 1979-1980 exports increased significantly with deliveries of boats to Malaysia and pieces of ordnance to the former Yugoslavia and Singapore. Exports rose considerably in the late 1980s due to an order for guns to India. There were few deliveries of larger systems during much of the 1990s.

The increase over the past twelve years is due to the fact that a number of larger systems have been delivered in parallel to Denmark, Finland, the Netherlands, Pakistan, Saudi Arabia, South Africa, Switzerland, Thailand and the United Arab Emirates. Delivery of all of these systems has now been completed. The large systems make up 42% of the actual income from exports between 2003 and 2014.

Over the coming years, supplies of new and upgraded vehicles and components for

the delivered systems referred to above will continue to contribute to export volumes. A large order for aircraft for Brazil will also dominate the statistics from around 2016. New transactions concerning existing large systems can also not be ruled out.

An amended control list has an effect

Export statistics are affected by the introduction of an amended list of controlled products.

In 1993, an expanded control list for military equipment was introduced. It was divided into military equipment for combat and other military equipment, where control of other military equipment in particular was increased. In that same year, exports increased by approximately SEK 1 billion compared to the previous year.

On 30 June 2012, the EU's military list was adopted as the control list, meaning that 2013 was the first year in which ISP could draw full conclusions from the expanded controls since such items as technical aid and armour plating were included on the list. ISP notes an increased export volume of approximately SEK 1 billion for 2013. The increase in the second half of 2012 was approximately SEK 130 million.

The corresponding figure for 2014 is around SEK 650 million.

The order for aircraft from Brazil will mean significant exports of technical assistance in the near future. Generally, this applies in all development projects with transfer of technology where ISP notes a number of such possible transactions in industry reports.

Leasing – a significant business concept

The restructuring of the Swedish Armed Forces with a focus on smaller volumes has meant that qualified military equipment has been "freed up" in terms of quantity. In connection with the operations in Iraq and Afghanistan, primarily the UK and the USA have leased Swedish equipment for immediate operational needs, where they themselves did not have access to the equivalent capabilities.

The surplus of aircraft and the recipient countries' request have led to the State entering into lease agreements with the Czech Republic and Hungary and sales to Thailand through the Swedish Defence and Security Export Agency.

ISP notes in industry reports that a number of lease agreements are being discussed or negotiated in the near future. Since exports of this kind are currently not included in the export statistics, this means that the statistics will be significantly affected.

A changed customer base for the industry

The changed view on security policy in Europe has meant that the EU States are reducing their national defences. At the same time, the view on security policy from a global perspective means, for example, that the Middle East and Asia are increasing their defence efforts. In sub-Saharan Africa, there is

a positive trend towards democracy that may increase the circle of recipient countries.

This trend is observed in Swedish export statistics for recent years. However, in 2014 exports to the EU+ (the EU, Norway and Switzerland) increased. The defence industry is also adapting its marketing to this change.

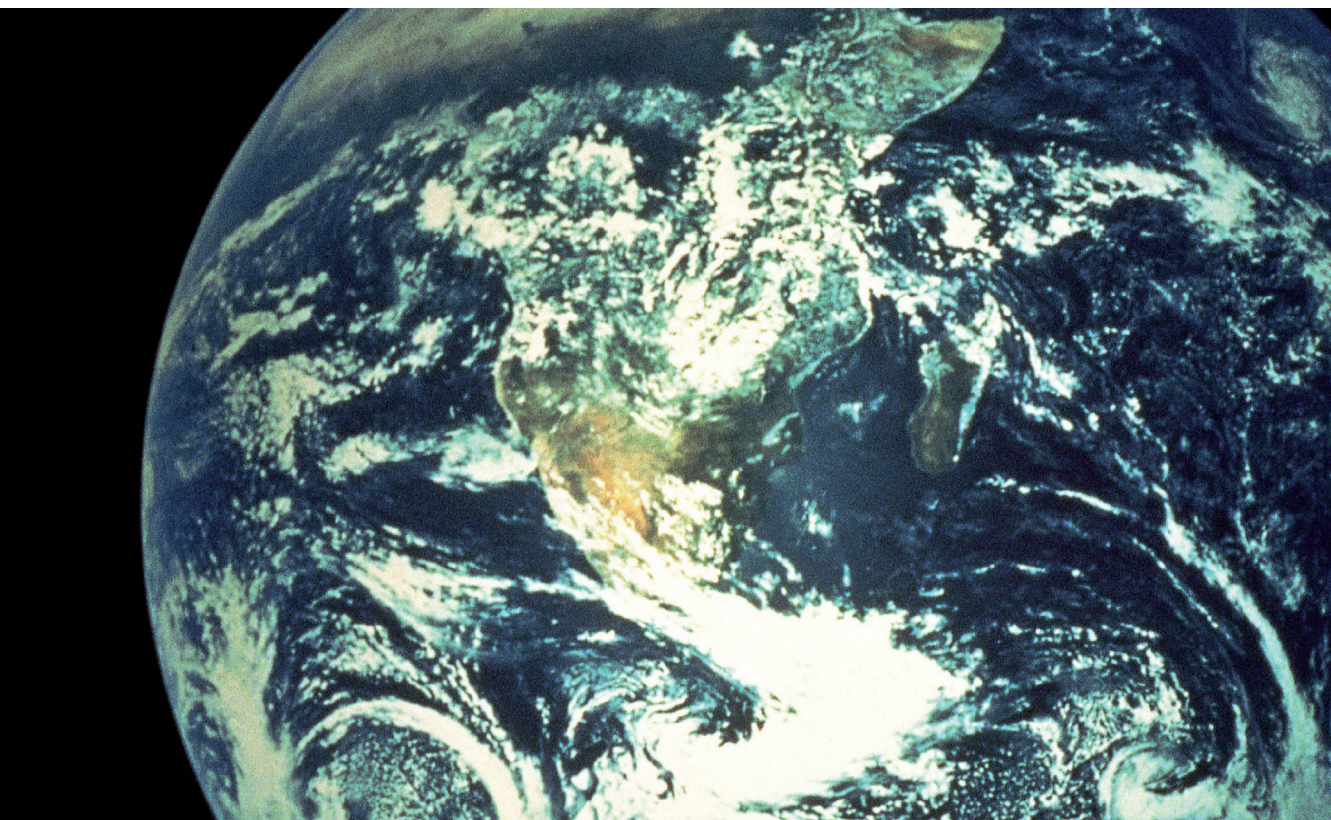
The number of consultations in the Export Control Council will increase in the near future due to the changes in the defence industry's marketing activities. At the same time, ISP observes that the results of the ongoing inquiry into the export of military equipment may affect this.

Continued development of controls within the EU/EEA

In 2009, Directive 2009/43/EC simplifying terms and conditions of transfers of defence-related products within the EU was drawn up. The Directive was implemented in Swedish legislation from 30 June 2012.

The Directive means an aligned structure for transfer of military equipment and an opportunity for military equipment companies to become certified as recipients of components. It also means that the EU's Common Military List provides the basis for controlled products and technical assistance. The European Commission has indicated that the practical implementation does not seem to follow what is intended in the Directive since only 42 companies, of which one company is located in Sweden, have been certified up to now.

An analysis was delivered to the European Commission in 2014 on how the introduction of the Directive has progressed. The European Commission must return to the European Parliament and Member States by



30 June 2016 at the latest with proposals for a possible change of legislation.

Since the adoption of the Transfer Directive has not met expectations, new proposals on legislation cannot be ruled out. The defence industry also does not appear to see the benefits of certification in the current situation. The ongoing work of the LOI countries can hopefully lead to product lists that are better harmonised, which facilitates the industry's transfer between the EEA countries and the degree of utilisation of the general licences. The European Commission will also take steps to increase the rate of introduction.

American control with challenges

The US government's planned reform of US export controls has up to now involved the introduction of a new IT system and an enforcement agency. However, the introduction of one control list and a joint licensing agency appears remote.

As a first step in transferring to one control list, comprehensive work has been initiated to rewrite the military list and transfer the control of less sensitive products and components to the list of dual-use products. Additional elements of the revised control lists entered into force in 2014.

The US authorities have also announced



increased controls at foreign companies concerning products and components that have been exported from the USA with the new simplified regulations. The Swedish defence industry also continues to be dependent on imports from the USA with regard to high technology.

The increased US control of Swedish companies, including the import of technology, also demands that Swedish and European export control systems are reliable, robust and transparent.

European work on dual-use

The EU's work on export controls on dual-use products has for several years experienced problems with updating the dual-use list, i.e. Annex I of EU Regulation 428/2009

that describes the products and technologies that are subject to export controls. The list includes the products that were defined in the international export control regimes Nuclear Suppliers Group, the Australia Group, the Missile Technology Control Regime and the Wassenaar Arrangement, of which most EU Member States also form part.

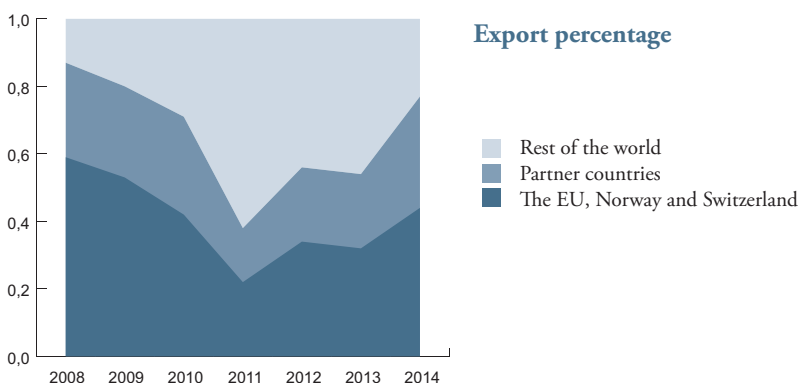
Due to a complicated procedure for implementing amendments to a Regulation, the EU has always lagged behind with updates to the dual-use list. A change in the procedure through the adoption of a "delegated act" that gave the Commission the right to introduce changes to the list quicker was proposed in 2012, but was subsequently blocked by the European Parliament for political reasons. At the end of December 2013, a solution was

found and the dual-use list was updated on 30 December 2014.

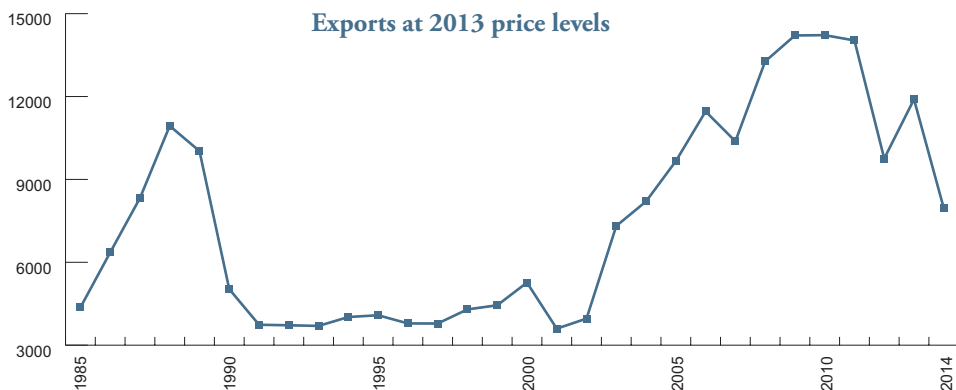
This means that the process for the review of the EU's export control system in Regulation No. 428/2009 that was initiated in 2011 on the initiative of the Commission was assigned limited resources in 2014. During the work on the process, a large number of issues from a political and legal standpoint have

been brought up by different Member States, by the Commission and by various interest groups, where clearly differing positions exist, and it will be a challenge to negotiate and implement changes in the regulation in future.

The Commission can be expected to work at a faster rate on the review of EU Regulation 428/2009 in 2015.



The view on security policy has changed globally, which means, among other things, that regions such as the Middle East and Asia are increasing their defence efforts.



Exports rose sharply in the late 1980s due to an order for guns to India. The last twelve years' deliveries of large systems have now been finally completed, which means that a downturn is observed. Exports are converted to 2013 price levels.

Communication activities



To increase knowledge of export controls and non-proliferation, ISP informs businesses, government agencies and other interested parties concerned about its activities in various ways.

Popular speakers

ISP's employees are engaged for seminars and conferences both nationally and internationally. During the year, ISP participated in the following contexts:

- The Swedish Export Control Society's training of export control administrators/managers
- Global Trade Controls Conference in London
- Chemicals Days 2014 in Stockholm
- Seminar on export controls at PWC
- Seminar on dual-use and sanctions at the Swedish-Russian Chamber of Commerce
- Seminar on dual-use and sanctions at the Western Swedish Chamber of Commerce

Important channel for information

One of ISP's most important communication channels for providing service, sharing knowledge and making operations more transparent and accessible is the external website. Information on such topics as

sanctions has been developed and clarified during the year.

Mailings to potential DU companies

As part of the efforts to raise awareness, information has been mailed to companies that could potentially be covered by the regulations on dual-use items.

ISP in the media

Export issues are occasionally addressed in the media and ISP's activities occasionally attract great interest from journalists.

This year there has been particular focus on issues relating to the Edge software because of a feature on an investigative TV programme.

Questions have also been asked concerning export legislation, exports to, for example, Saudi Arabia and certain decisions and statistics. Furthermore, ISP has participated in several debates and discussions on radio, television and in newspapers.

Statistical data

This section presents a sample of statistical data regarding the export of military equipment and dual-use items in 2014.

Export of military equipment

In 2014, the Swedish defence industry exported military equipment worth just under SEK 8 billion, a decrease of 33% compared to 2013.

Swedish exports of military equipment have been dominated in recent years by a number of large transactions that have had a major impact on the statistics. Delivery of several of these systems has been completed and consequently the value of Swedish exports is also now decreasing.

Approximately 78% of Swedish exports went to EU countries and traditional partner countries such as Canada, South Africa and the USA. As for the rest, 22% of the total export value went to some 20 countries, of which Thailand, India and Saudi Arabia were the three largest export destinations.

Largest export destinations

In 2014, the five largest export destinations for Swedish military equipment were the USA, Norway, Thailand, the UK and India.

Distribution of exports in 2014		
Area	SEK million	Per cent
The EU, Norway and Switzerland	3,560	45
Partner countries outside the EU (Australia, Canada, Japan, Republic of Korea, Singapore, South Africa, the USA)	2,654	33
Rest of the world (Of which India, Saudi Arabia and Thailand are the largest recipients)	1,744	22

Exports to the USA (SEK 1,451 million) included ammunition, marine sub-systems (weapons and management systems). Exports to Norway (SEK 1,298 million) consisted of delivery of combat vehicle 90. Exports to Thailand (SEK 532 million) consisted of a follow-on delivery of an aircraft system, robot 70, marine systems and ammunition. Exports to the UK (SEK 527 million) included spares for vehicles and ammunition and exports to India (SEK 468 million) consisted of follow-on deliveries for previously exported army equipment.

10 largest export destinations 2012–2014					
#	2012		2013		2014
1	India	1,438	Thailand	3,319	USA 1,451
2	Saudi Arabia	922	USA	1,206	Norway 1298
3	France	899	Norway	962	Thailand 532
4	Pakistan	615	Saudi Arabia	750	The UK 527
5	Thailand	600	India	709	India 468
6	Finland	535	The UK	605	France 453
7	Canada	457	Germany	533	Germany 402
8	Singapore	445	France	492	Australia 350
9	The UK	428	Australia	473	Canada 347
10	South Africa	403	Finland	395	Saudi Arabia 338

Exports to South East Asia and South Asia	
South East Asia	SEK million
Brunei	15
Indonesia	0.3
Malaysia	9
Singapore	158
Thailand	532
South Asia	SEK million
India	468
Pakistan	14

Exports to the Middle East and North Africa
With the exception of exports to Saudi Arabia (SEK 338 million) and the United Arab Emirates (SEK 41 million), Swedish exports of military equipment to the Middle East and North Africa were limited. Follow-on deliveries of maritime command and control systems and camouflage systems were exported to Algeria (SEK 192 million).

Smaller follow-on exports took place to Bahrain (SEK 0.6 million), Oman (SEK 2 million) and Qatar (SEK 0.2 million).

Export trend

The proportion of exports of military equipment for combat (MEC) in 2014 was 59% and the proportion of other military equipment (OME) was 41%.

Exports to the Middle East and North Africa	
Middle East	SEK million
Bahrain	0.6
United Arab Emirates	41
Oman	2
Qatar	0.2
Saudi Arabia	338
North Africa	SEK million
Algeria	192

Exports of large systems 2000–2014			
	Erieye	JAS 39 Grip.	CV 90
Denmark			2007-2009
Finland			2003-2007
UA Emirates	2010-2012		
Greece	2000-2008		
Netherlands			2006-2011
Norway			2013--
Pakistan	2006-2012		
Saudi Arabia	2011-2014		
Switzerland			2002-2005
South Africa		2002-2013	
Thailand	2010-2012	2011-2013	

Hunting and sports ammunition

Hunting and sports ammunition has been exported to twenty countries for a value of approximately SEK 179 million.

Small arms and light weapons

No small arms were exported in 2014. Light weapons and ammunition for both categories of about approximately SEK 2 billion were exported.

Largest exporters

The ten largest exporters have exported military equipment for a value of SEK 7 billion.

Total exports

Swedish exports of military equipment went to around 50 countries in 2014. The value of total exports by region and country is shown on the next page.

Light weapons	
Type of weapon	Export
Heavy machine guns (12.7 mm)	Ammunition to Norway
Hand-held barrel and mounted granade launchers (40 mm)	No export
Portable anti-tank guns	No export
Recoilless rifles	Anti-tank systems have been exported to Japan, Poland and the USA. Spare parts, training equipment, components and ammunition have been exported to Australia, Chile, Denmark, Estonia, India, Japan, Canada, Lithuania, Norway, New Zealand, Poland, Portugal, Thailand, Czech Republic, USA and Austria.
Portable anti-tank weapons	Anti-tank weapons has been exported to Argentina. Spare parts, training equipment and components have been exported to Argentina, Denmark, Finland, Indonesia, Norway and USA.
Mortars < 75 mm calibre	No export
Other	No export

10 biggest exporters 2014		
#	Exporter	SEK million
1	BAE Systems Hägglunds AB	1 680
2	Saab Dynamics AB	1 376
3	Saab AB, Electronic Defence Systems	1 177
4	BAE Systems Bofors AB	567
5	Saab AB, Security and Defence Solutions	526
6	FFV Ordnance AB	434
7	Swedish Defence Material Admin. (FMV)	377
8	Saab AB, Aeronautics	367
9	Norma Precision AB	280
10	EURENCO Bofors AB	206
Total		6 990

Export trend 2012–2014			
	2012	2013	2014
SEK	9 760	11 942	7 958
OME	6 014 (62 %)	6 388 (53 %)	3 258 (41%)
MEC	3 746 (38 %)	5 554 (47 %)	4 700 (59 %)

Small arms	
Type of weapon	Export
Revolvers and self-loading pistols	No export
Rifles and carbines	No export
Sub-machine guns	No export
Assault rifles	No export
Light machine guns	No export
Other	Small calibre ammunition has been exported to Belgium, Denmark, Estonia, Finland, Italy, Netherlands, Norway, New Zealand, Spain, The UK, Germany and USA. Production equipment for ammunition has been exported to Finland.

Hunting and sports ammunition	
Country	SEK million
Andorra	0,3
Australia	2
Botswana	0,08
Chile	0,6
Ecuador	0,7
United Arab Emirates	0,8
Iceland	0,3
Japan	0,7
Canada	0,3
Kazakhstan	0,4
Namibia	0,3
Norway	29
New Caledonia	0,4
New Zealand	0,6
Republic of Korea	0,2
Russian Federation	3,4
Switzerland	1,3
South Afrika	4,8
USA	133
Zambia	0,1
Total	179

2014 export by region and country					
Region	Country	SEK million	Region	Country	SEK million
EU			South America		
	Belgium	22		Argentina	10
	Bulgaria	0,7		Brazil	79
	Denmark	140		Chile	7
	Estonia	8		Total	96
	Finland	260	North East Asia		
	France	453		Japan	40
	Ireland	49		Republic of Korea	135
	Greece	97		Total	175
	Italy	0,3	South East Asia		
	Croatia	1		Brunei	15
	Lithuania	4		Indonesia	0,3
	Luxemburg	0,4		Malaysia	9
	Netherlands	176		Singapore	158
	Poland	27		Thailand	532
	Portugal	11		Total	714
	Romania	0,2	South Asia		
	Slovakia	1		India	468
	Slovenia	0,3		Pakistan	14
	Spain	28		Total	483
	The UK	527	Middle East		
	Czech Republic	7		Bahrain	0,6
	Germany	402		United Arab Emirates	40
	Hungary	3		Qatar	0,2
	Austria	9		Saudi Arabia	338
	Total	2 227		Total	381
Rest of Europe			North Africa		
	Iceland	0,06		Algeria	192
	Montenegro	0,1		Total	192
	Norway	1 269	Africa south of Sahara		
	Switzerland	34		South Africa	167
	Turkey	0,5		Zambia	0,01
	Total	1 304		Total	167
North America			Oceania		
	Canada	347		Australia	348
	USA	1 318		New Zealand	3
	Total	1 665		Total	351
Central America			UN, United Nations		
	Mexico	25		UN	0,06
	Total	25		Total	0,06
Total*					7 778

* Export of hunting- and sports ammunition outside EU is described on the previous page.

Exports of dual-use items

A full account of exports of dual-use items similar to the report provided for military equipment is not possible because the area is based on free trade, with control only when justified.

A licence is not usually required for trade in these products within the EU, but it is required for exports to other countries.

Civil end-use Number of licences by 10 most frequent countries		
Country	Product examples	Num.
People's Republic of China	IR camera, protective clothing, filtration equipment, radar system, telecom, UAV, production equipment	168
Iran	Spare parts for dairy equipment	149
Russian Federation	Telecom, software, isostatic press, filtration equipment, IR camera, electronic components	81
India	Heat exchanger, filtration equipment, IR camera, electronic components	53
Israel	Filtration equipment, protective clothing, heat exchanger, telecom, stock system	53
Singapore	Telecom, production equipment, electronic components, filtration equipment	33
Taiwan	Production equipment, telecom, radar system, software, filtration equipment, IR camera	33
Brazil	Heat exchanger, telecom, UAV, production equipment	31
Mexico	Telecom, protective clothing, filtration equipment, electronic components	30
Republic of Korea	Heat exchanger, production equipment, radar system, filtration equipment, IR camera, software	28

When reasonable suspicion exists that a product may be used for the wrong purposes, exports are prohibited. The ISP evaluates the situation and considers the product itself as well as the end use and end user of the product.

This section presents a comprehensive view of the number of cases and the countries and type of products for which licences have been granted.

Military end-use Total number of licences by country		
Country	Product examples	Num.
Qatar	Telecom, IR camera	9
Saudi Arabia	Telecom	6
United Arab Emirates	Telecom, IR camera	4
Republic of Korea	Software, IR camera	4
Thailand	Telecom, IR camera, production equipment, electronic components	4
Bahrain	Telecom	3
Jordan	Telecom	3
Kazakhstan	Telecom, protective clothing	3
Kenya	Protective clothing	1
People's Republic of China	IR cameras	2
Turkey	Gyros, IR camera	2
Colombia	IR camera	1
India	Gas mask	1
Malaysia	Protective clothing	1
Montenegro	Telecom	1
Oman	Telecom	1
Singapore	Telecom	1

Closed cases 2012–2014			
Case type	2012	2013	2014
Product inquiries	201	180	224
Advisory decisions	162	127	183
Export licences	1 101	1 097	1 327
Catch-all	3	6	15
Financial/asset transfers to and from Iran	279	362	565
Denials	5	14	34



Inspectorate of Strategic Products
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