



## ISP 2000/2001



The yearbook 2000/2001 describes the development within the Inspectorate and its area of responsibility during the year 2000.

Information can also be found on our website —[www.isp.se](http://www.isp.se)—where laws, regulations and guidelines are available.

The national regulations on export controls are moving towards an international harmonization. Sweden is striving to influence this harmonization in a more restrictive direction. A harmonization is not only inevitable but also desirable within all fields of military equipment, from small arms to sophisticated weapons of mass destruction and dual-use items. It is only with a global, common opinion in these, for the world peace utmost important issues, that an efficient control of production, possession and proliferation of these products can be accomplished.

The National Inspectorate of Strategic Products (ISP) plays an important role in the process of international harmonization. The restrictive Swedish attitude towards export of military equipment and products that could be used for production of military equipment (dual-use items) and an administrative system for export control have in some cases proved to be a role model in the work of international harmonization and actions taken in other countries.

By participating in a number of multilateral arrangements and through bilateral contacts on export control, both inside Europe and outside, ISP has a unique competence suitable to support Swedish ambitions internationally, from policy making to practical administrative measures.

In parallel with this work, ISP is developing the national export control to become simpler and more efficient. ISP is striving towards reduced bureaucracy for Swedish industry, without losing focus on the aims of national or international export control.

ISP is working for an increased openness. Certain limitations, primarily of commercial or foreign political nature will always prevail but the goal is to present Swedish exports, within the jurisdiction of the Inspectorate, as openly, clearly and detailed as possible.

During the year 2000 a number of measures have been taken in this field. This yearbook presents the most important actions and is also a brief presentation of all other activities within ISP during the preceding year.



Stockholm, June 2001

Stefan Hanson  
Acting Inspector General of Military Equipment,  
Acting Director of the ISP

# 1. The National Inspectorate of Strategic Products—ISP

The ISP was established by Act of Parliament and came into operation on February 1, 1996. It assumed the tasks previously performed by the Inspectorate-General of Military Equipment and the Division for Strategic Export Controls at the Trade Department of the Ministry for Foreign Affairs. Its activities are governed by three legal instruments: the Military Equipment Act, the Act on the Control of Dual-use Items and Technical Assistance and the Chemical Weapons Convention.

The Director of the ISP is himself responsible for taking all decisions, but he must refer matters of principle or of particular importance to the Government for a decision.

The purpose of setting up the ISP was to save the Government a large number of routine decisions. This has worked well in practice, and only a few cases have been referred to the Government. One reason for this is the practice that has been established, especially with regard to military equipment, on the basis of detailed guidelines. Another important factor is that the ISP is supported by an advisory body, the Export Control Council, which consists of representatives of all the parties in Parliament. The Council gives the ISP valuable support in interpreting the guidelines in specific cases. This also permits greater transparency through parliamentary access and participation.

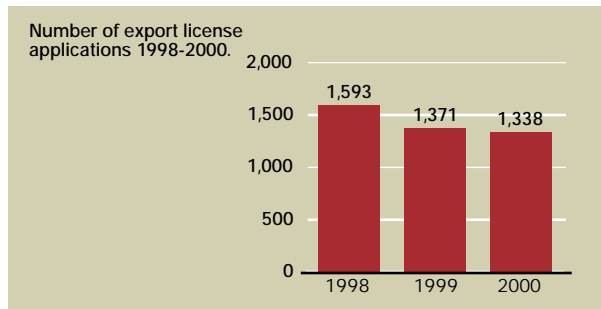
The ISP has a staff of 19. Their areas of expertise are administration, law, the armed forces, political science and technology. Resources are allocated to the various areas of operations as follows: 48% for matters relating to military equipment, 36% for dual-use items and 16% for the Chemical Weapons Convention. The ISP's budget for 2000 totalled SEK 18 million.



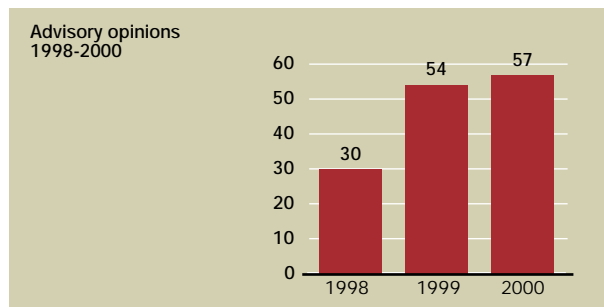
Standing left to right: Ulla Jagerstål, Christina Hedman, Egon Svensson, Ulrika Jansson (sitting), Stefan Karlberg, Ann-Katrin Gungörmez-Ohrn, Håkan Rooth, Inger Åseborn, Christer Ljungqvist (sitting), Lennart Wesshagen. Sitting left to right: Stefan Hanson, Christina Moquist Petersson, Annmari Lau Eriksson, Thomas Tjäder, Yvonne Eck, Magnus Danielsson. Missing: Ulla Bohm, Ulrika Malmberg.

## 2. Military equipment

The Military Equipment Act prohibits the manufacture, trade and exports of military equipment and co-operation with foreign enterprises without prior permission. Consequently, the ISP's core activity is to review applications for export and manufacturing licences etc. and to grant or refuse them. A measure of its activities is therefore the number of export licences that are issued. However, the crucial issue is whether or not a product constitutes military equipment. Although the present list of military equipment has been in force since 1993, written inquiries concerning the classification of military equipment are still received, and 33 such inquiries were received in 2000.



Export licences are seldom refused. The reason is that the system is organised in such a way as to avoid this. Companies can request advance notification at an early stage as to whether an export licence is likely to be granted. Such notifications can be given verbally at the quarterly meetings held by the ISP to discuss their marketing operations. These verbal notifications are not recorded. The written inquiries related to the following subjects:

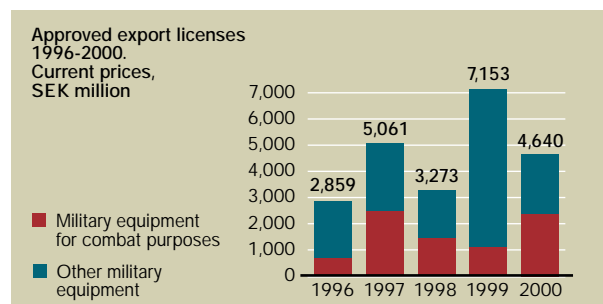


The diagram below shows the value of goods covered by export licences for each year since 1996. The totals are broken down into Military equipment for combat purposes and Other military equipment. A number of large business deals with deliveries in the years to come, such as Combat Vehicles from Hägglunds Vehicle AB to Switzerland or JAS Gripen to South Africa will lead to great fluctuations from one year to another. This concludes both the values of approved export licenses and actual exports. This is because the total is so small in relation to a single large purchase.

It is important to distinguish between export licences and actual exports. Companies apply for an export licence when they have concluded a contract. The licences refer to the amount stated in the contract. But deliveries, i.e. the actual exports, may take place over a number of years, and often no exports take place during the year when the contract is signed. The ISP records both the values of the goods covered by export licences and actual exports, since they relate to different things. Licences are an indication of the company's success in the market and, incidentally, of the ISP's operations, while exports represent the goods actually invoiced and supplied.

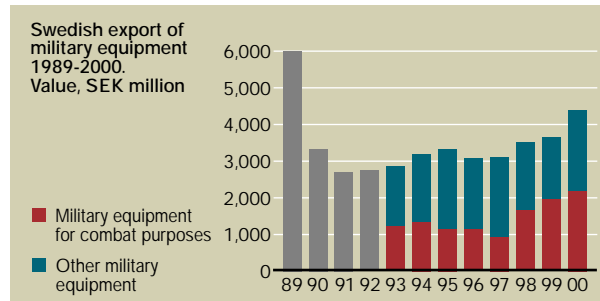


Combat vehicle 90 from Hägglunds Vehicle



Approved export licenses 1996-2000. Percentage variation.

Year	Total	Military equipment for combat	Other military equipment
1996	-56,3	-67,1	-51,5
1997	+77,0	+274,8	+17,4
1998	-35,3	-41,6	-29,3
1999	+118,5	-25,3	+232,8
2000	-35,1	+118,9	-62,6



Export values are not subject to the same fluctuations. They peaked for a few years in the 1980s due to Bofors AB's exports of howitzer systems to India. Subsequently, annual exports have totalled about SEK 3 billion, with somewhat higher figures for 1998, 1999 and 2000. The value of actual Swedish exports of military equipment in 2000 was 19,6% higher than the previous year, i.e. SEK 4 371 million.

Swedish export of military equipment 1989-2000. Value SEK million.

Year	Total	Military equipment for combat	Other military equipment
1989	-2,4		
1990	-44,6		
1991	-18,7		
1992	+1,8		
1993	+4,0		
1994	+11,1	+10,8	+11,4
1995	+4,1	-14,8	+18,0
1996	-6,8	-1,0	-9,9
1997	+0,5	-17,3	+10,8
1998	+13,3	+77,0	-14,3
1999	+4,0	+17,6	-8,2
2000	+19,6	+12,0	+28,4

The definition of military equipment was to a certain extent different before 1993. Any percentage comparison would be misleading.

The internationalisation of the Swedish defence industry made a major impact on the ISP's activities in 2000. A question often asked when Swedish companies cooperate with foreign companies concerns the applicable rules in connection with exports to third countries. One alternative that has been discussed is to apply the rules of the country where the contract was concluded or final assembly took place. It now seems increasingly probable that another approach will be applied, i.e. the use of country lists of approved and prohibited destinations.

Once an application for a licence to export a certain product to a certain country has been granted and an agreement signed, the question of follow-on deliveries, mainly of spare parts, usually comes up. Such deliveries are normally authorised under the present guidelines. If the purchaser did not have the option of buying spare parts, there would probably be no sale in the first



Submarine Gotland from Kockums AB.

place. Follow-on deliveries are therefore important if Sweden wishes to operate in the military equipment market.

52 countries took delivery of Swedish military equipment in 2000. The figure in 1999 was 49. As before, the largest recipient was Norway. The greatest change was a year-on-year increase in exports to Asia from 5% to 16% and supplies to Western Europe decreased from 32% to 21%. As regards individual countries, the greatest changes were a fall in deliveries to France and Denmark and an increase in deliveries to Singapore and Mexico.

Since 1998 six European countries have taken part in negotiations concerning various measures calculated to facilitate co-operation in the defence industry. France, the United Kingdom, Germany, Italy, Spain and Sweden have discussed harmonized export rules, security of supply, research, technology etc. It has been decided on a preliminary basis within this framework to base future cross-border co-operation between companies on internationally agreed country lists. Transfers between the participating countries will be facilitated as much as possible.

### 3. Dual-use items

The Act on the Control of Dual-use items and Technical Assistance is one of Sweden's contributions to efforts to prevent the proliferation of weapons of mass destruction and to impede the build-up of destabilizing military capacity. The Act has a broad area of applications, from nuclear material to sophisticated machine tools. Many of these products are used for legitimate purposes, but can also be used in ways Sweden wishes to avoid. They are therefore called dual-use items.

On 22 June 2000 a new regulation in the field of export control was decided, Council Regulation (EC) No. 1334/2000 setting up a Community regime for the control of exports of dual-use items and technology. The regulation that entered into force on 28 September 2000 was followed up nationally with the new Act (2000:1064) and the new Ordinance (2000:1217) on the Control of Dual-use Items and Technical Assistance.

One of the major changes was the introduction of the Community general export authorisation No. EU001 which leads to that the trade in items covered by the authorisation in large is as free as the trade within the EU for those ten countries for which the authorisation is valid.

The free trade for cryptographic items within the EU together with the fact that these items are covered by the Community general export authorisation leads to great simplifications for many companies active in this field. The obvious result of this is the decrease in number of authorisations issued.

Another consequence of the new regulation is that all Member States now use the same form for the export authorisation which will facilitate the export when the export will take place from another country than the country where the exporter is established.

The ISP's assessments are based primarily on information exchanged within various international bodies: the Nuclear Suppliers Group (nuclear weapons and nuclear weapons technology), the Australia Group (biological and chemical weapons and equipment used to produce such weapons), the Missile Technology Control Regime and the Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies.

The ISP co-operates closely on these matters with other agencies that have their own information channels: the Swedish Security Service, the Swedish Military Intelligence and Security Services and the Swedish Customs. The ISP bases its decisions on talks with the Swedish companies concerned. The latter are usually just as keen as the ISP for Sweden not to contribute to arms build-ups. The ISP's assessments must be based on an analysis of whether the use of the equipment seems reasonable. Since such transactions are lucrative for the intermediaries involved, front men are sometimes used. Therefore it is often important to find out who is the end user; if this is not



Hot isostatic press from Flow Pressure Systems AB, here open with the furnace dismounted.

established, the destination may be a dubious one. The ISP carries out a thorough review of any indications of improper use of the product before prohibiting exports. The ISP discusses the matter with the company concerned before such a decision is taken.

The Inspectorate aims at a high level of service in relation to the industry, as a result of which the demand for the ISP's services in the dual-use items sector has increased. About 50 meetings with companies were held in 2000, at which matters relating to products, licensing arrangements and end users were discussed. Increasing globalization requires international co-operation in order to enhance skills and increase harmonization. The international Swedish companies showed growing interest during the year in building up secure electronic communications with foreign subsidiaries and partners.

## Cryptography

Cryptography consists of systems of principles, operations and methods for transforming data in such a way as to conceal their content. Either the same key is used both to conceal and to reveal the information, or different keys are used for these two purposes. The first type is called a symmetric key and the second an asymmetric key.

Export controls cover cryptographic products with a key length exceeding 56 bits for symmetric keys and 512 bits for asymmetric keys.

The regime for mass market products has also been relaxed. These are products that are sold direct to consumers and installed by them. As a result of the changes mass market products can now be sold in the EU without a licence irrespective of the key length. Outside the EU, mass market products up to a certain key length can be sold in a large part of the world under "open" general licences. Another change is that licences are no longer needed for exports of crypto products for personal use, for example to protect a company's business data.

## Other information about dual-use items

Open general licences also make it possible to export most dual-use items and products that are repaired in Sweden or are to be demonstrated abroad without a licence to Western industrial countries. The exporter can refer to the licence in connection with customs clearance.

Within the framework of the co-operation developed between the Swedish Customs, the Swedish Security Service, the Swedish Military Intelligence and Security Services and the ISP during the year, a review was made of the trade contacts between Sweden and certain "risk countries". Following this analysis, 10 visits to specific companies were made in 2000.

Advance notification with reference to dual-use items is not mentioned in the relevant legislation, but the system is applied nevertheless, since it is very useful for the companies to have an idea of their prospects of doing business with a "risk country" before the tendering procedure begins. Advance notification is given by the Inspectorate. Seven such advance notifications were given during the year.

Following a pilot project implemented at a company in 1998 and 1999 in which about one thousand licences were handled electronically during the year, the Government instructed the ISP to study the possibility of offering all interested companies secure electronic communications, including the handling of licence applications, through the ISP. A report on the study was presented to the Government in June 1999. During 2000 tenders have been asked for and have been submitted to the ISP.

A total of about 200 applications for export licences were processed during the year. This is slightly less than in 1999, which is due to the rationalization mentioned above. Most of these application procedures are relatively simple, but in some cases further consultations are called for. This applies, for example, to deliveries of dual-use items to military customers. According to the EU's Code of Conduct for Arms Exports, such transactions are to be assessed in accordance with the Code's eight criteria. In such cases it is a simple matter for the ISP to compare the outcome with a review pursuant to the Military Equipment Act.



Infrared camera from FLIR Systems AB.

## 4. CWC—the UN Convention on the Prohibition of Chemical Weapons

The ISP is the competent national authority under the Chemical Weapons Convention. The Convention entered into force 1997. The ISP is co-ordinating Swedish activities vis-à-vis the Organisation for implementation of the Convention, based in the Hague, and acts as point of contact with other States Parties. The Convention prohibits the development, production, possession and use of chemical weapons and the possession of production facilities for such weapons. All chemical weapons and their production facilities shall be destroyed by May 2007 with possibility for extension after decision by the Organisation.

A State Party undertakes to ensure that chemicals are only used for purposes not prohibited by the Convention. Chemicals covered by the Convention are grouped in lists that govern the kind of verification that is attributed to a certain chemical. Verification of chemicals and companies include declarations, inspections and export control vis-à-vis states not Party to the Convention. Companies that produce, process, consume, export or import chemicals that can be used as chemical weapon or used to produce chemical weapons must annually submit declarations to the ISP. Such declarations include annual declaration of activities during the past year and declaration of anticipated activities for the coming year. 145 companies submitted declarations to the ISP in 2000. The ISP prepares a summary of the declarations and forwards it to the Organisation. 37 facilities were declared to the Organisation in 2000.

Verification under the Convention includes inspections of Member States in order to verify that no chemical weapons are produced and that declarations submitted are accurate. The National Defence Research Agency produces very small quantities of chemical weapons for the purpose of developing means of protection against chemical weapons. This laboratory is under routine inspection by the Organisation. Furthermore, 31 of the declared industrial facilities are inspectable for the purpose of verifying that their declarations are accurate and that no chemical weapons are produced at the facility.

According to the Convention each State Party shall declare the kind of humanitarian assistance the State can offer in case chemical weapons have been used against another State Party. Sweden is active in this area and has declared assistance including equipment and personnel. The Swedish Rescue Services Agency has developed the concept “Chemical Support Team” that is self-sustaining for two weeks. Sweden supports the Organisation in developing the co-ordination of assistance from different States Parties. One person from the SRSA is made available to the OPCW for this purpose.