

# DEADLY INVESTMENTS

SWEDISH BANKS' INVESTMENTS IN CONTROVERSIAL ARMS TRADE



diakonia

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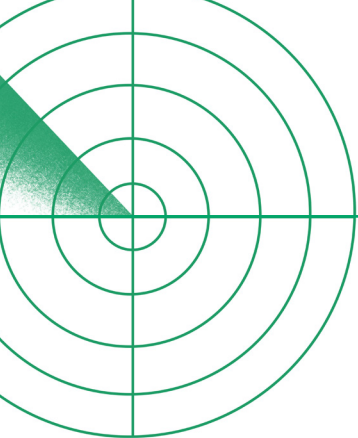
Any errors or omissions are the responsibility of the authors.

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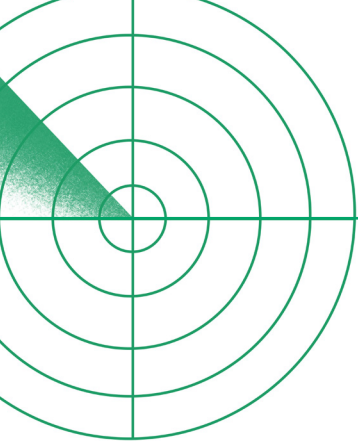
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# SUMMARY IN SWEDISH/ SVENSK SAMMANFATTNING

## OM RAPPORTEN

Denna rapport analyserar de finansiella kopplingarna mellan Sveriges sju största banker och 15 företag som exporterar vapen till länder som kan anses vara särskilt kontroversiella destinationer för vapenexport. Rapporten kartlägger även bankernas riktlinjer inom området och undersöker om bankerna följer dem. Målet med rapporten är att bidra till att bankerna utvecklar sina riktlinjer gällande kontroversiell vapenexport och följer dem i praktiken. Rapporten vill också bidra till ökad insyn i bankernas verksamhet och ge bankernas kunder större möjlighet att påverka hur deras sparpengar används.

Följande banker granskas i rapporten: Danske Bank, Handelsbanken, Länsförsäkringar, Nordea, SEB, Skandia och Swedbank. Undersökningen är begränsad till bankernas aktie- och räntefonder.

Undersökningsmetoden är baserad på en studie gjord av nederländska Fair Finance Guide från 2015. Rapporten granskar internationell vapenexport mellan åren 2010-2014 till 38 länder som kan anses vara särskilt kontroversiella destinationer för vapenexport. Urvalet av länder har gjorts utifrån principer i internationella konventioner, regelverk och standarder som Fair Finance Guides internationella granskningsmetod baseras på. Det är länder som:

- är satta under vapenembargo av FN eller EU.
- klassas som auktoritära regimer/icke fria vad gäller politiska rättigheter och medborgerliga friheter. Det handlar specifikt om regimer som kränker mänskliga rättigheter, eller där det finns en överhängande risk att vapnen kommer användas för allvarliga kränkningar av mänskliga rättigheter eller kränkningar av den humanitära rätten.
- är inblandade i väpnad konflikt.
- har hög risk för korruption inom försvars- och säkerhetsinstitutioner.

- är klassade som instabila stater.
- är kategoriserade som länder med låg välfärd enligt FN:s Human Development Index och som använder en oproportionerligt stor del av sin budget till militära utgifter.

Därefter har bankernas investeringar i 15 vapenproducerande företag, som varit involverade i vapenexporten till de 38 länderna, kartlagts. Resultaten har slutligen jämförts med bankernas egna riktlinjer för att se om de följer dem.

## SLUTSATSER

### OM BANKERNAS INVESTERINGAR OCH RIKTLINJER:

- Alla sju bankerna investerar i företag som är inblandade i kontroversiell vapenexport. Bland annat investerar de i företag som exporterar krigsmateriel till Saudiarabien, ett land som anses vara extra kontroversiellt på grund av bristande mänskliga rättigheter samt dess militära aktiviteter i Jemen.
- Alla sju bankerna investerar dessutom i företag som ingått avtal om att exportera krigsmateriel till Saudiarabien och Förenade Arabemiraten efter att konflikten med Jemen inleddes. Den Saudiledda koalitionen har anklagats för att bryta mot krigets lagar och den internationella humanitära rätten. Flera aktörer, däribland Europaparlamentet, har framfört ett krav på vapenembargo mot Saudiarabien på grund av detta.
- Det totala värdet av bankernas investeringar i företagen uppgår till knappt 4,7 miljarder svenska kronor. Danske Bank och Handelsbanken investerar i flest antal av företagen medan Swedbank investerar störst totalt belopp.
- Investeringarna i de granskade företagen hittades ofta i bankernas passivt förvaltade fonder där bankerna inte aktivt väljer vilka enskilda företag som ska ingå. Bankerna skulle däremot kunna plocka bort företagen ur

fonderna, vilket de i dessa fall inte har gjort.

- Hos Danske Bank, Handelsbanken och SEB hittades företagen även i fonder som säger sig ställa högre krav på etik och socialt ansvar, så kallade etikfonder.
- Sex av de sju bankerna har inte tagit tydlig ställning mot kontroversiell vapenexport i sina riktlinjer. Nordea saknar riktlinjer helt medan Danske Bank, Handelsbanken, Länsförsäkringar, Skandia och Swedbank endast ställer ett eller ett fåtal krav. Den vanligaste riktlinjen är att inte investera i företag som säljer vapen till länder som står under vapenembargo och/eller där vapnen riskerar att användas vid kränkningar av mänskliga rättigheter. För Swedbank gäller riktlinjerna inte bankens fonder.
- SEB har de mest omfattande riktlinjerna och de gäller hela bankens finansiella verksamhet.

#### OM BANKERNA ANSES FÖLJA SINA EGNA RIKTLINJER ELLER EJ:

- Fyra av bankerna har investeringar som bedöms rimma illa med deras egna riktlinjer: Danske Bank, Länsförsäkringar, SEB och Skandia.
- Handelsbanken investerar i ett företag som exporterar vapen till Egypten som står under EU:s vapenembargo, men eftersom det finns otydligheter i vapenembargot mot landet går det inte att säga att investeringen bryter mot bankens egna riktlinjer.
- Eftersom Nordea och Swedbank saknar riktlinjer för sina fonder gällande vapenexport finns heller inga egna riktlinjer att bryta mot.

TABELL ÖVER RESULTATEN

	Kontroversiell vapenexport hittades bland bankens investeringar	Banken har riktlinjer mot kontroversiell vapenexport	Bankens investeringar bedöms följa de egna riktlinjerna	Kontroversiell vapenexport hittades även i bankens etikfonder
Danske Bank	Ja	Delvis	Nej	Ja
Handelsbanken	Ja	Delvis	Ja	Ja
Länsförsäkringar	Ja	Delvis	Nej	Nej
Nordea	Ja	Nej	Ja	Nej
SEB	Ja	Ja	Nej	Ja
Skandia	Ja	Delvis	Nej	Nej
Swedbank	Ja	Delvis	Ja	Nej



## OM BANKERNAS RESPONS PÅ ANALYSEN AV DERAS INVESTERINGAR:

- Alla sju banker anser att deras investeringar stämmer överens med de egna riktlinjerna och/eller processer för att hantera avvikelser från riktlinjerna.
- Fyra av bankerna anser att investeringarna i företagen överensstämmer med kundernas förväntningar: Handelsbanken, Länsförsäkringar, SEB och Skandia.
- Ingen bank lovade att skärpa sina riktlinjer gällande kontroversiell vapenexport utöver att regelbundet se över sina riktlinjer.
- Danske Bank medger att investeringarna ”inte nödvändigtvis” stämmer med riktlinjerna, men uppger att banken försöker påverka företagen genom dialog. Fair Finance Guide anser att detta är ett svagt försvar eftersom vapenföretag är svåra eller nästintill omöjliga att påverka, även när företagens egna ägare ställer kraven. Istället för att försöka påverka genom dialog väljer därför banker oftast att svartlista vapenföretag om de bryter mot bankernas riktlinjer.
- Flera banker pekade på att vapenexporten godkänts av myndigheter i EU och/eller Sverige samt att den därför är i linje med gällande regelverk för vapenexport, som bland annat innehåller principer gällande mänskliga rättigheter. Samtidigt kritiserar myndigheter i EU-länder av det civila samhället för att inte ta tillräcklig hänsyn till principerna i regelverken. Dessutom gäller EU:s gemensamma regelverk endast företag baserade i EU-länder, vilket nio av de 15 vapenproducerande företagen inte är.
- Flera banker hänvisar kunder som tycker att frågan om vapenexport är viktig till att välja fonder som ställer högre krav kring etik och socialt ansvar, så kallade etikfonder. Granskningen visar emellertid att även etikfonder kan innehålla företag kopplade till kontroversiell vapenexport.

## TRE REKOMMENDATIONER TILL BANKERNA

Rapporten visar att de sju svenska bankerna har otillräckliga riktlinjer och processer för att säkerställa att deras investeringar inte kopplas till kontroversiell vapenexport. Vi ger därför följande rekommendationer till bankerna:

### 1. Anta och publicera riktlinjer mot kontroversiell vapenexport som vägleder hela bankens finansiella verksamhet.

Riktlinjerna bör omfatta alla typer av investeringar och finansiering, inklusive passivt förvaltade fonder och externt förvaltade produkter. Riktlinjerna bör därtill vara offentliga och publicerade på bankens hemsida. Rikt-

linjerna bör utesluta investeringar i, och finansiering av, företag som levererar krigsmateriel till länder som anses vara kontroversiella destinationer utifrån principerna som listas i Fair Finance Guides internationella granskningsmetod.

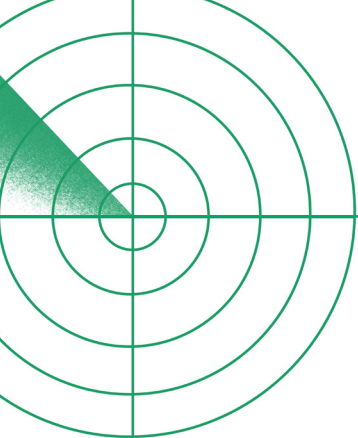
### 2. Utveckla en metod för att identifiera dels vilka länder som är kontroversiella destinationer för vapenexport och dels vilka företag som exporterar krigsmateriel till dessa länder.

Det räcker inte att förlita sig på svenska och europeiska myndigheters bedömningar om huruvida vapenexport till ett visst land är lämplig eller inte. Det faktum att vapenexport sker till icke-demokratiska regimer och regimer med omfattande och/eller allvarliga kränkningar av mänskliga rättigheter visar på både brister i regelverk och implementeringen av dessa. Bankerna måste göra en egen bedömning av både länder och företag innan beslut om investeringar fattas. Denna rapportens urvalsmetod, baserad på erkända internationella institutioners olika index, kan användas för att bedöma risken för företagens inblandning i kontroversiell vapenexport.

### 3. Publicera en lista över de företag som svartlistats på grund av sin involvering i kontroversiell vapenexport.

Öppenhet gällande vilka företag banken utesluter visar tydligare hur banken implementerar sina riktlinjer och gör det enklare för kunderna att jämföra bankerna. Det sätter även press på andra investerare att ta ställning.

När det gäller påverkansdialog skiljer sig vapenproducerande företag från andra branscher då vapenföretag är mycket svåra att påverka. I de sällsynta fall en bank ändå väljer att försöka påverka genom dialog bör banken offentligt motivera varför strategin anses kunna vara framgångsrik och regelbundet ge uppdateringar om hur processen fortlöper. Banken bör också sätta upp en tydlig tidsram för när företagen ska ha uppnått tillräckliga förbättringar, i enlighet med bankens riktlinjer.



# EXECUTIVE SUMMARY

## ABOUT THE REPORT

This report assesses the financial links between Sweden's seven largest banks (Danske Bank, Handelsbanken, Länsförsäkringar, Nordea, SEB, Skandia and Swedbank), and companies involved in controversial arms trade. The objective of the report is to assess whether the banks invest in companies that are actively involved in controversial arms trade, to what extent the banks have policies in place that provide guidance in this area, and whether they comply with their own policies.

The overall aim is to contribute to the development of policies and practices on the part of banks which ensure a responsible behaviour in this regard. The report also aims to contribute to increased transparency and possibility of bank customers to influence the way their savings are utilized. The research is limited to the investments by the banks' mutual funds.

The methodology is based on a study by the Dutch Fair Finance Guide and the research consultancy firm Pro-fundo, published in 2015. The report assesses arms trade during the past five years to 38 countries to which delivery of arms can be considered particularly controversial. The selection of countries is based on a number of international indices from well-renowned international institutions. The selection should be seen as a sample, rather than a comprehensive list.

Controversial arms trade in this report refers to the supply of (important parts of) weapons and weapon systems, military transport systems and other military goods to countries:

- placed under UN or EU arms embargo;
- classified as "unfree" i.e. that are authoritarian regimes and to regimes that violate human rights or where

there is an overriding risk that the arms will be used for serious violations of international human rights and/or humanitarian law;

- involved in armed conflict;
- with high corruption risks in defence establishments;
- considered to be fragile states;
- categorized as low human development countries that spend a disproportionate share of their government budget on military equipment.

The report analyses the banks' investments in 15 companies involved in the export of arms to the selected 38 countries. Finally the report analyses to what extent the investments align with the banks' own policies.

## CONCLUSIONS

The report concludes that all of Sweden's seven largest banks invest in companies involved in controversial arms trade. For example, all seven banks have made investments linked to controversial arms exports to Saudi Arabia – a case seen as particularly controversial due to the domestic human rights situation, and more recently due to the country's military engagement in Yemen.

The total value of the banks' investments in the companies involved in controversial arms trade amounts to a little less than 4.7 billion SEK. None of the investments align with relevant international principles and the indices of well-renowned international institutions underpinning these principles, according to our analysis. The investments were mostly found in passively managed funds but also in actively managed funds, and sometimes in ethical funds.

Six out of seven banks do not take a clear stand against

controversial arms trade in their policies. Nordea is the only bank that lacks a policy in this area. The bank with the most comprehensive policy is SEB.

Four banks' investments (Danske Bank, Länsförsäkringar, SEB and Skandia,) are considered not to follow their own policies according to our analysis. Still, all seven banks claim that their investments are in line with their own policies or the procedures to deal with deviances. Furthermore, a majority of the banks consider their investments to correspond with the expectations of their clients. None of the banks made a commitment to strengthen their policy on controversial arms trade, besides the regular updates of their policies.

### **THREE RECOMMENDATIONS TO THE BANKS**

The results clearly demonstrate that controversial arms trade is an area where the banks have not done enough to ensure their investments are responsible and in line with relevant international principles. Based on the results of our analysis we make the following general recommendations to the banks:

#### **1. Adopt and publish a policy against controversial arms trade that will provide guidance for all of the bank's financial activities.**

The policy should be comprehensive and apply group-wide to all financial services, credits and investments, including investments managed by third party and index funds. The policy should be publicly available on the bank's webpage. The policy should ban investments in, and financing of, companies that deliver weapons or military goods to destinations considered as controversial, based on the Fair Finance Guide responsible investment principles listed in this report.

#### **2. Develop a method to identify to which countries arms trade would violate the principles in the policy, and create tools that can be used for the screening of companies.**

It is not sufficient to rely on the assessments of export controlling authorities to judge whether arms trade is in line with the banks' policies or not. The banks should make their own assessments to identify to which countries arms trade can be considered controversial, based on a comprehensive policy. The banks should screen all companies involved in arms trade before investment decisions are taken. The independent indices of the international institutions referenced in this case study can be used in the screening to assess the risk of company involvement in controversial arms trade. The screening will help to ensure decisions are in line with the banks' policies.

#### **3. Publish the list of companies that have been blacklisted by the bank due to their involvement in controversial arms trade.**

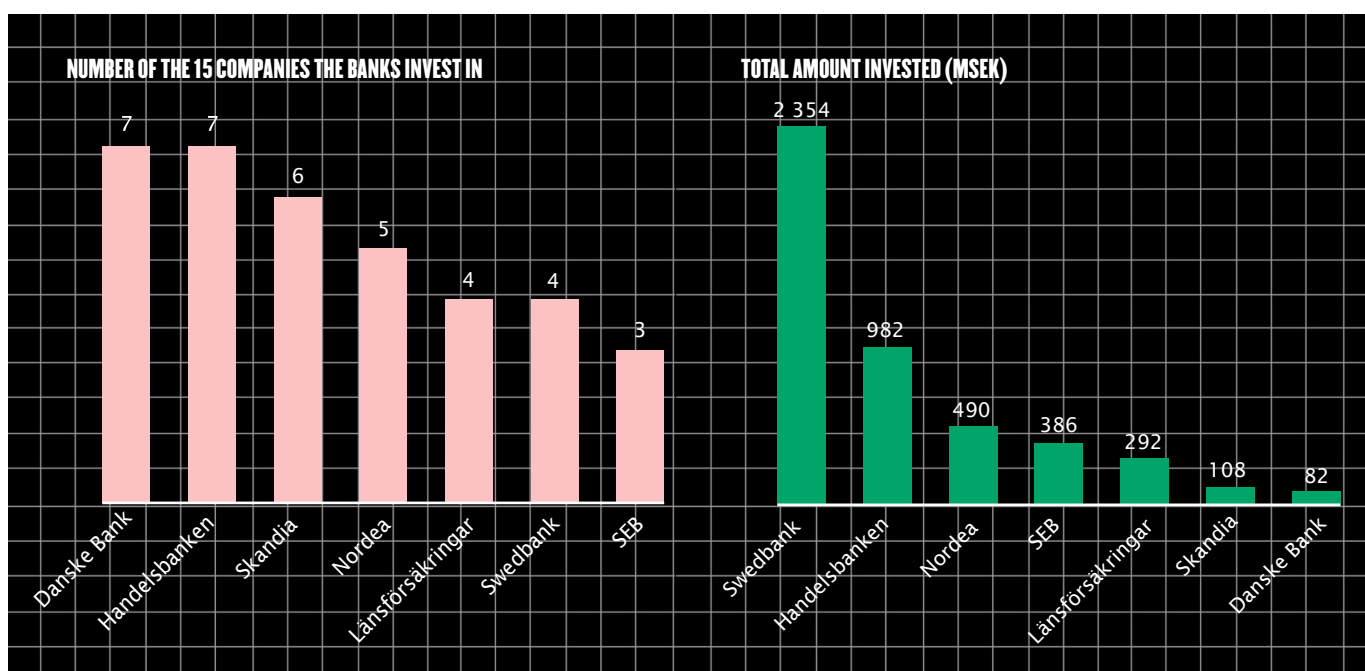
Transparency on company exclusion provides clarity about the implementation of the bank's policy and enables clients to make well-informed decisions about their bank. It also puts pressure on other investors to act.

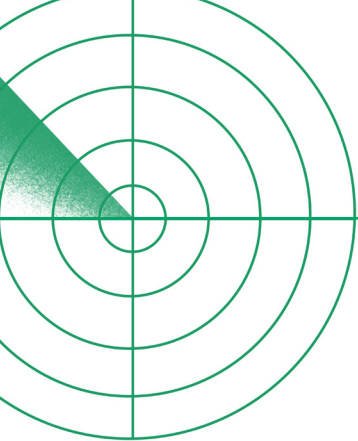
In the case where a bank has chosen engagement and active ownership to try to influence a company, the bank should provide a public explanation of why this strategy is considered to be successful and provide regular updates on the process. There should be a clear and limited time frame for bringing about changes that can be seen as improvements in line with the bank's policies.



## TABLE OF RESULTS

	The bank's investments are linked to controversial arms trade	The bank has a policy against controversial arms trade	The bank's investments comply with its own policy	Controversial arms trade found in the bank's ethical funds
Danske Bank	Yes	Yes, but weak	No	Yes
Handelsbanken	Yes	Yes, but weak	Yes	Yes
Länsförsäkringar	Yes	Yes, but weak	No	No
Nordea	Yes	No	Yes	No
SEB	Yes	Yes	No	Yes
Skandia	Yes	Yes, but weak	No	No
Swedbank	Yes	Yes, but weak	Yes	No





# CHAPTER 1: INTRODUCTION

## 1.1 FAIR FINANCE GUIDE – SCRUTINIZING BANKS TO SPUR ACTION

In January 2015 Fair Finance Guide Sweden was launched as a part of Fair Finance Guide International (FFGI). FFGI is an international civil society network that seeks to strengthen the commitment of banks and other financial institutions to social, environmental and human rights. As of May 2016, the network is active in eight countries, with more to join.

The FFGI coalition has collectively developed a comprehensive methodology to assess and monitor bank policies and practices related to sustainability and human rights. The monitoring is conducted using two different tools:

- 1) **annual assessments and scoring of banks' policies on a wide range of topics, based on international standards, conventions and norms; and**
- 2) **case studies on specific topics which aim to assess how well the banks comply with their policies in practice in the different financial activities they engage in.**

Through this two-pronged approach, the FFGI provides evidence-based research and analysis for critical dialogues with banks, for informing the public, and for ensuring better democratic oversight of financial institutions. In each country, the respective FFG civil society coalition sets up an online tool where customers and other interested parties can find out how well the banks take e.g. human rights issues into account. Based on this information they can then actively engage with their respective bank.

The aim of Fair Finance Guide is to create a race to the top between banks. If they take this challenge on board, banks can contribute with solutions that are needed to

confront the global social and environmental challenges we are facing. Vice versa, irresponsible behaviour or neglect on the part of banks risk aggravating these challenges.

## 1.2 OBJECTIVE OF THIS REPORT

This report is produced by Swedish Diakonia as a case study within the framework of Fair Finance Guide Sweden. The report assesses the financial links between Sweden's seven largest banks and companies that are involved in controversial arms trade. The objective is to assess whether the banks, in various ways, invest in companies that are actively involved in controversial arms trade, to what extent the banks have policies in place that provide guidance in this area and whether they comply with their own policies.

The overall aim is to spark a debate on the responsibility of banks in relation to the negative consequences of controversial arms trade, and ultimately contribute to the development of policies and practices on the part of banks which ensure a responsible behaviour in this regard. The report also aims to contribute to increased transparency and possibility of bank customers to influence the way their savings are utilized.

There is no internationally agreed definition of "controversial arms trade", and to which countries arms trade can be considered legitimate is subject to international debate. This report draws on the methodology used in a study carried out by the Dutch Fair Finance Guide in 2015.<sup>1</sup> In effect the report uses the same criteria for selecting countries to which the delivery of arms can be considered controversial. These criteria are based on a number of indices

<sup>1</sup> Controversial Arms Trade: A case study prepared for the Fair Finance Guide, 18 June 2015, published by Profundo and Eerlijke Verzekeringswijzer: <http://eerlijkegeldwijzer.nl/media/60776/case-study-controversial-arms-trade-150617.pdf>

## ABOUT FAIR FINANCE GUIDE

Fair Finance Guide International (FFGI) is an international civil society network that seeks to strengthen the commitment of banks and other financial institutions to social, environmental and human rights standards. As of May 2016, FFGI is active in eight countries (Netherlands, Sweden, Japan, France, Brazil, Belgium, Indonesia and Germany). The work is conducted by 34 civil society organisations. The FFGI coalition has collectively developed a comprehensive methodology to assess and monitor bank policies and practices. Through this, FFGI provides evidence-based research and analysis for critical dialogues with banks, for informing the public, and for ensuring better democratic oversight of financial institutions.

The monitoring results are presented by each national Fair Finance Guide platform in the form of a user-friendly web-based tool, where bank clients/citizens can see how their respective bank scores on a number of different themes. Feedback can be given directly to the banks via the webpage.

from well-renowned international institutions. Likewise, this report uses the same sample of companies involved in controversial arms trade to the selected countries. The criteria for the selection of countries and companies are explained further below in the Methodology chapter.

In short, in this report controversial arms trade refers to the supply of (important parts of) weapons and weapon systems, military transport systems and other military goods to countries: placed under UN or EU arms embargo; classified as “unfree” i.e. that are authoritarian regimes and to regimes that violate human rights or where there is an overriding risk that the arms will be used for serious violations of international human rights and/or humanitarian law; involved in armed conflict; with very high corruption risks in defence establishments; considered to be fragile states; categorized as low human development countries which spend a disproportionate share of their government budget on military equipment.

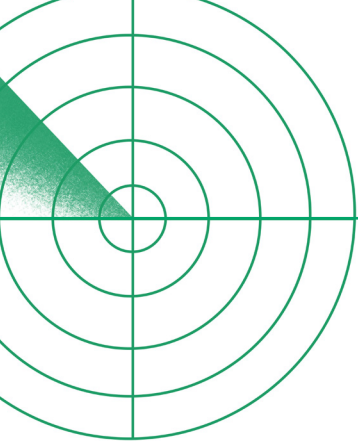
## 1.3 OUTLINE

Chapter two includes: a short overview of the negative effects that can be attributed to arms trade; global trends and the international standards that regulate the arms trade; and finally the Swedish regulatory policies and political debate on arms trade.

Chapter three is devoted to explaining the methodology of the report and is to a large extent based on the methodology chapter in the Dutch Fair Finance Guide report, mentioned above.

Chapter four provides the results of the financial analysis, assessing the seven largest Swedish banks with respect to their policies on arms trade and their financial links to the selected companies involved in controversial arms trade.

Chapter five presents conclusions and recommendations directed to the banks.



# CHAPTER 2: BACKGROUND

## 2.1 WHAT IS AT STAKE?

Because arms are developed to injure and kill, arms exports threaten our most vital human right: the right to life, as well as many other fundamental rights. Arms-producing countries argue that arms exports are an essential part of maintaining a functioning arms industry and securing a domestic arms supply. While states indeed have both the right and the obligation to protect their citizens and their security interests, military security cannot come at the expense of human rights in the buyer countries and regions. It is crucial to end the most controversial kinds of arms exports. The notion of “controversial arms trade” is explained further below in the chapter on Methodology.

Fundamentally, arms exports can fuel conflict because arms provide the technological means to engage in warfare and other forms of violence, turning conflicts into armed conflicts and prolonging existing armed conflicts. In this technical sense, arms can also strengthen dictatorships and contribute to human rights violations. But the implications of arms exports go beyond the merely technical. The political legitimacy that dictatorial regimes are endowed with when democratic countries agree to export arms to them is also problematic.

Moreover, arms exports can contribute to underdevelopment and poverty because of what is often referred to as the ‘opportunity cost’ of military expenditure, namely that arms purchases can crowd out public expenses such

as welfare provision and infrastructure investment.<sup>2</sup> High opportunity costs are particularly problematic in low-income countries, where the needs are massive but resources scarce.<sup>3</sup> Examples of low-income countries that spent a significant amount of their total government budget on military material in 2014 include South Sudan (20.8 %) and Guinea (12.6 %).<sup>4</sup> On average, low-income countries devoted 10.7 percent of central government spending to military expenditure in 2010, compared to an average of 9 percent for OECD countries.<sup>5</sup>

These opportunity costs become clear when military expenditure is compared with investments needed to reach the Sustainable Development Goals (SDGs) part of Agenda 2030 that world leaders have agreed on. Calculations show that eliminating extreme poverty and hunger by 2030 (SDG 1 and 2) would require additional annual public spending in the range of 156 – 214 billion USD, the equivalent of 9.5-13 percent of global military spending in 2015. Data presented by SIPRI suggests that “reallocating only around ten per cent of world military spending to finance key SDGs would be enough to achieve major progress...//”, supposing funds can be effectively channelled and major obstacles could be overcome.<sup>6</sup>

These negative effects can be further compounded if resource-constrained countries finance their military expenditures with external borrowing, given that this can hamper growth and contribute to debt crises.<sup>7</sup> The opportunity costs associated with military expenditure are fur-

2 Dunne, J.P, Smith, R. P. and Willenbockel, D. (2005) “Models of Military Expenditure And Growth: A Critical Review” in *Defence and Peace Economics*, 16:6, 449-461

3 Töngür, Ü. and Elveren, A. Y. (2012) *Military Expenditures, Inequality, and Welfare and Political Regimes: A Dynamic Panel Data Analysis*. University of Texas Inequality Project Working Paper No. 61.

4 SIPRI (2016). “Military expenditure by country as percentage of Government spending, 1988-2014” in SIPRI Military Expenditure Database: [http://www.sipri.org/research/armaments/milex/milex\\_database](http://www.sipri.org/research/armaments/milex/milex_database) Visited 24.02.2016.

5 World Bank (2016). “Military expenditure (% of central government expenditure)”. World Bank databank: <http://data.worldbank.org/indicator/MS.MIL.XPND.ZS/countries?display=default> Visited 19.02.2016.

6 SIPRI (2016) “Media Backgrounder, Military Versus Social Expenditure: the Opportunity Cost of World Military Spending”, 5 April. <http://www.sipri.org/media/website-photos/milex-media-backgrounder-2016> Visited 14.04.16

7 Dunne, J.P.; Perlo-Freeman, S.; Soydan, A. (2004). “Military Expenditure and Debt in South America” in *Defence and Peace Economics*, 15:2, pp.

173-187; Looney, R.E. and Frederiksen, P.C. (1986). “Defense Expenditures, External Public Debt and Growth in Developing Countries” in *Journal of Peace Research*, 23:4; (2004). Kollias, C.; Manolas, G.; Paleologou, S. (2004). “Military expenditure and government debt in Greece: Some preliminary empirical findings” in *Defence and Peace Economics*, 15:2

ther inflated because the global arms trade is permeated by corruption. Exact figures are difficult to ascertain given that the arms trade is linked to matters of national security and thus surrounded by opacity, but Stockholm-based research institution SIPRI estimates that as much as 40 per cent of corruption in global transactions can hail from the arms trade.<sup>8</sup> Even though this is only a tentative figure, it is significant because the global arms trade comprises less than one per cent of total global trade in merchandise.<sup>9</sup>

Lastly, high opportunity costs for military expenditure are problematic because they can fuel conflict indirectly. Namely, if poverty worsens as a result of high opportunity costs, grievances can take root and trigger socioeconomic unrest, which in turn can escalate to armed conflict. In sum, military expenditure can thus be a significant barrier to implementing the Sustainable Development Goals.

## 2.2 TRENDS IN THE GLOBAL ARMS TRADE

The global arms trade is dominated by a few arms exporting countries. During the 2010-2014 period, almost 74 per cent of the total volume of global arms exports originated from the United States, Russia, China, Germany and France. A significant change in recent years is that China has moved from being the world's ninth largest exporter during the period 2005-2009 to becoming the world's third largest exporter in 2010-2014. Between the two periods, China's arms exports increased by 143 per cent. In contrast, the total arms exports of EU member states decreased by 16 per cent between the two periods.<sup>10</sup>

The global arms trade is big business. In 2014, global military expenditure amounted to about 2.3 per cent of global GDP, or US\$ 1776 billion. With US\$ 610 billion in expenditure in 2014 (34 per cent of global military spending), the United States is the world's number one

military spender. The United States is followed by China (accounting for 12 per cent of global spending), Russia (4.8 per cent), Saudi Arabia (4.5 per cent) and France (3.5 per cent). Between 2013 and 2014, military expenditure increased the most in Central America and the Caribbean (9.1 per cent), Eastern Europe (8.4 per cent) and North Africa (7.6 per cent).<sup>11</sup>

Overall, the global arms trade is flourishing. The volume of major weapons<sup>12</sup> transferred was 16 percent higher during the 2010-2014 period compared to the 2005-2009 period. Between the two periods, arms imports increased in all regions except for in Europe, where arms imports decreased by 36 percent. Arms imports to Africa increased by 45 percent, to Asia and Oceania by 37 percent, to the Middle East by 25 percent and to the Americas by 7 percent. The biggest arms importers during 2010-2014 were India, Saudi Arabia, China, the United Arab Emirates and Pakistan. Together, these five countries accounted for 33 percent of all global arms imports.<sup>13</sup>

## 2.3 INTERNATIONAL REGULATIONS

Because of the risks outlined above, there are various international initiatives that aim to regulate arms trade. Moreover, states are also bound by different regional and national legal frameworks pertaining to the regulation and monitoring of arms manufacturing, stockpiling, transfer and use.

However, in many instances, governments and multilateral organs such as the UN Security Council fail to monitor that existing rules and regulations are adhered to, at times due to lack of means and mechanisms to do so. As demonstrated by civil society reports, arms-producing companies thus continue to supply arms to oppressive regimes and conflict zones across the world.<sup>14</sup>

8 Feinstein, A.; Holden, P.; and Pace, B. (2011). "Corruption and the arms trade: sins of commission" in SIPRI Yearbook 2011. Stockholm and Beijing: SIPRI.

9 The share that the global arms trade has of total global trade has been calculated using SIPRI's estimate for the value of the global arms trade in 2013 and WTO's figure for total global trade in merchandise in 2013. SIPRI suggests that in 2013, the value of the global arms trade was probably at least US\$ 76 billion. However, SIPRI points out that this figure is probably underestimated and difficult to ascertain because of non-transparency and methodological challenges due to differences in how countries label their arms exports. According to the WTO, the value of total global trade in merchandise in 2013 was US\$ 18301 billion. Drawing on these two figures, the total global arms trade would represent 0.4 percent of total global trade in merchandise. Sources: WTO (2014). International Trade Statistics 2014. Geneva: WTO. Available at [https://www.wto.org/english/res\\_e/statis\\_e/its2014\\_e/its2014\\_e.pdf](https://www.wto.org/english/res_e/statis_e/its2014_e/its2014_e.pdf). SIPRI (2016). "The financial value of the global arms trade" on SIPRI's homepage: [http://www.sipri.org/research/armaments/transfers/measuring/financial\\_values](http://www.sipri.org/research/armaments/transfers/measuring/financial_values). Visited 25.02.2016.

10 Perlo-Freeman, S., Fleurant, A., Wezeman, P. D. and Wezeman, S. T. (2015). Trends in World Military Expenditure, 2014. SIPRI Fact Sheet, March. Stockholm: SIPRI. Wezeman, P. D. and Wezeman, S. T. (2015). Trends in International Arms Transfers, 2014. SIPRI Fact Sheet, March. Stockholm: SIPRI.

11 Ibid.

12 'Major weapons' is the term used in the Arms Transfer Database of the Stockholm International Peace Research Institute, which provided the data that this text is based upon. The term refers to aircraft, air defence systems, anti-submarine warfare weapons, armoured vehicles, artillery, engines, missiles, sensors, satellites, ships, turrets and air refuelling systems. Source: SIPRI (2016). "SIPRI Arms Transfers Database – Methodology": <http://www.sipri.org/databases/armstransfers/background> Visited 07.03.2016.

13 Ibid.

14 Amnesty International (2016). "Arms Control" on Amnesty's homepage: <https://www.amnesty.org/en/what-we-do/arms-control/>. Visited 26.02.2016. Perkins, Richard; & Neumayer, Eric (2010) The Organized Hypocrisy of Ethical Foreign Policy: Human Rights, Democracy and Western Arms Sales, *Georum* 41(2): 247-256.

A case in point is Saudi Arabia's leading role in what has been described by different actors, such as the UN Panel of Experts on Yemen, as widespread laws-of-war violations in Yemen since 2015. Human Rights Watch has called on countries to suspend all arms sales to Saudi Arabia. Amnesty International has called for an arms embargo and is "urging all states to ensure that no party to the conflict in Yemen is supplied – either directly or indirectly – with weapons, munitions, military equipment or technology that would be used in the conflict until they end such serious violations. This also applies to logistical and financial support for such transfers." The organization has stated that the supply of weapons to Saudi Arabia and its coalition partners for use in Yemen is "brazen in violation of the Arms Trade Treaty (ATT), in particular its human rights provisions."<sup>15</sup>

The EU Parliament has in a resolution called for an arms embargo. Similarly, the Dutch parliament has voted to impose an embargo and to ban all arms exports to Saudi Arabia. The Swiss government has blocked military exports to several Middle Eastern countries in order to prevent fuelling the war in Yemen, and two US Senators have introduced new legislation "to prevent the United States from continuing to support Saudi-led military campaigns in places like Yemen where Saudi Arabia's year-long campaign has led to a devastating humanitarian crisis."<sup>16</sup>

In sum, the Saudi case demonstrates how existing standards are not always sufficient to prevent the export of arms from contributing to different types of human rights violations and/or humanitarian crises.

The most important standards to regulate arms trade of relevance in the context of this report are described below.

### **THE UN ARMS TRADE TREATY (ATT)**

Under the ATT "countries regulate the international trade in conventional weapons – from small arms to battle tanks, combat aircraft and warships – and work to pre-

vent the diversion of arms and ammunition."<sup>17</sup> The ATT was adopted by the UN General Assembly and opened for signatures in 2013. It entered into force in December 2014 and as of March 2016 it is ratified by 81 states, including Sweden. The treaty establishes that states should refrain from exporting arms that violate Security Council arms embargoes, or that risk being used to: undermine peace and security; violate international humanitarian law or international human rights law; and facilitate organised crime, acts of terror or violence against women and children.<sup>18</sup> States that have ratified the ATT also commit to reporting transparently on their export and import of arms. However, what this means in practice is debated due to differences in views on the meaning of transparency. Although the ATT entered into force in 2014, it still needs to be comprehensively implemented across all signatory states.<sup>19</sup>

### **ARMS EMBARGOES**

Arms embargoes are defined by SIPRI as "one type of sanctions that can be used to coerce states and non-governmental actors to improve their behaviour in the interests of international peace and security." Embargoes can be legally binding or be based on a political commitment.<sup>20</sup> United Nations Security Council (UNSC) arms embargoes are imposed by resolutions adopted under the authority of the United Nations Charter (Chapter VII, Article 41) by at least 9 of the 15 members of the Security Council, with no vetoes by any of its five permanent members. UNSC embargoes can be mandatory or non-mandatory. UN members are legally obliged to enforce mandatory arms embargoes.<sup>21</sup>

As described by SIPRI, EU arms embargoes are imposed by EU Common Positions adopted unanimously by the Council of the EU in the framework of the EU Common Foreign and Security Policy (CFSP). They are immediately legally binding for EU member states. UN mandatory embargoes are translated into EU Common Positions to ensure timely and systematic implementation across the

15 Amnesty International, 29 February, 2016. Press release: "States must halt all arms flows to the Yemen conflict to stop serious violations": <https://www.amnesty.org/en/press-releases/2016/02/states-must-halt-all-arms-flows-to-the-yemen-conflict-to-stop-serious-violations/> Visited 26.02.2016.

16 Human Rights Watch, April 25, 2016: "Canada Ignoring a Commitment to Human Rights with Saudi Arms Sale" <https://www.hrw.org/news/2016/04/25/canada-ignoring-commitment-human-rights-saudi-arms-sale-0> and "MURPHY, PAUL INTRODUCE LEGISLATION TO SET NEW CONDITIONS FOR U.S. MILITARY SUPPORT TO SAUDI ARABIA", April 13, 2016: <http://www.murphy.senate.gov/newsroom/press-releases/murphy-paul-introduce-legislation-to-set-new-conditions-for-us-military-support-to-saudi-arabia> Visited 27.04.2016.

17 UNODA webpage: <http://www.un.org/disarmament/ATT/> and Arms Trade Treaty Secretariat <http://www.thearmstradetreaty.org/index.php/en/the-arms-trade-treaty> Visited 03.03.2016.

18 United Nations General Assembly (2013) Draft Decision of the Final United Nations Conference on the Arms Trade Treaty. A/CONF.217/2013/L.3. [http://www.un.org/disarmament/ATT/docs/ATT\\_text\\_\(As\\_adopted\\_by\\_the\\_GA\)-E.pdf](http://www.un.org/disarmament/ATT/docs/ATT_text_(As_adopted_by_the_GA)-E.pdf) Visited 03.03.2016.

United Nations Office for Disarmament Affairs (2013). Fact Sheet: the Arms Trade Treaty. New York: United Nations. Available at: [http://www.un.org/disarmament/HomePage/factsheet/cab/ATT\\_Fact\\_Sheet.pdf](http://www.un.org/disarmament/HomePage/factsheet/cab/ATT_Fact_Sheet.pdf) Visited 03.03.2016.

19 Amnesty International (2016). "Arms Control" on Amnesty's homepage: <https://www.amnesty.org/en/what-we-do/arms-control/> Accessed 26.02.2016. Saferworld (2016). "Arms Trade Treaty" on Saferworld's homepage: <http://www.saferworld.org.uk/arms-transfers/arms-trade-treaty-> Visited 26.02.2016.

20 SIPRI Arms Embargoes Database <http://www.sipri.org/databases/embargoes> Visited 09.03.2016.

21 SIPRI webpage on Multilateral arms embargoes: <http://www.sipri.org/databases/embargoes/research/armaments/transfers/controlling/embargoes> Visited 09.03.2016

EU. Furthermore, other EU arms embargoes implement UN embargoes but with additional EU specific requirements. The EU also imposes embargoes with no UN counterpart. In a few cases the EU member states have agreed to arms embargoes that are solely political commitments.<sup>22</sup>

There are also embargoes by other multilateral bodies including OSCE and Economic Community of West African States (ECOWAS).<sup>23</sup>

## EU REGULATORY POLICY

At EU level, efforts have been made to establish common criteria for member states to apply when issuing arms export licenses, and mechanisms for information exchange and consultation. In 2008, the EU adopted its Council Common Position 2008/944/CFSP which governs the control of exports of military technology and equipment, thus replacing the 1998 EU Code of Conduct on Arms Exports.<sup>24</sup> In 2012, a review of the EU Common Position coincided with criticism of EU member states' export of arms to the Middle East and North Africa in the years preceding the so-called Arab Spring. The events also led to some EU Member states reviewing their existing arms export policies, in particular to Arab countries, though often temporarily. Research suggests that on a pan European level, "there is little evidence to suggest that the events of the so called Arab Spring have led to fundamentally more restrictive arms export policies (with the exception of Libya) or to a significant deepening of harmonization of arms export control policies of the EU Member States vis à vis Arab customers."<sup>25</sup>

The 2008 Common Position stipulates among other things that "member states are determined to prevent the export of military technology and equipment which might be used for internal repression or international aggression or contribute to regional instability." The Common Position contains eight criteria, one of which refers explicitly to "respect for human rights in the country of final destination as well as respect by that country of international humanitarian law".<sup>26</sup>

The EU Common Position has been criticised by civil society among other things for leaving too much room for political interpretation resulting in member states applying it at random.<sup>27</sup>

## 2.4 SWEDISH REGULATIONS AND POLITICAL DEBATE

According to current Swedish arms regulation, export of arms should neither be granted if there are severe and extensive human rights abuses in the recipient country, nor if the country is involved in armed conflict. Export of the category "military equipment for combat purposes" should not be granted if the recipient country is involved in international conflict running the risk of turning armed, nor to countries with civil unrest.<sup>28</sup> The EU Common Position (see above) should also be taken into account, along with the UN Arms Trade Treaty which Sweden is a signatory to. The Swedish arms regulation however makes clear that defence and security interests in the export of military equipment should also be taken into consideration, and this is an area open to interpretation. Furthermore, there is little transparency regarding how different interests are weighed against each other in the licensing process. The Inspectorate of Strategic Products (ISP) is in charge of implementing the government's policies, as well as the control and compliance of defence material and so called dual-use products. The Export Control Council is an advisory body to ISP, consisting of twelve political party members appointed by the Government.

In 2003, Sweden's Policy for Global Development (PGD) was adopted by the Parliament. Its goal is to contribute to equitable and sustainable development, and this goal should apply to all policy areas. Accordingly, all Swedish policies should be guided by a rights perspective, based on international human rights conventions, and the perspectives of people living in poverty.<sup>29</sup> This on paper very progressive policy should also guide the policies regulating the export of arms. However, civil society evaluations of how well the government has managed to fulfil its own

22 Ibid.

23 Ibid.

24 SIPRI webpage on "EU Common Position: [http://www.sipri.org/research/armaments/transfers/controlling/eu\\_common\\_position](http://www.sipri.org/research/armaments/transfers/controlling/eu_common_position) Visited 17.03.2016.

25 Duquet, Nils (2014), Business as usual? Assessing the impact of the Arab Spring on European arms export control policies, Flemish Peace Institute, [http://www.vlaamsvredesinstituut.eu/sites/vlaamsvredesinstituut.eu/files/files/reports/report\\_business\\_as\\_usual\\_web.pdf](http://www.vlaamsvredesinstituut.eu/sites/vlaamsvredesinstituut.eu/files/files/reports/report_business_as_usual_web.pdf), Visited 14.05.2016.

26 Criterion number two, Council Common Position 2008/944/CFSP of 8 December 2008 defining common rules governing control of exports of military technology and equipment: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32008E0944> Visited 17.03.2016.

27 ENAAT – European Network Against Arms Trade webpage: "European Union common position on arms export": <http://www.enaat.org/eu/> Visited 17 March 2016.

28 Regeringens proposition 1991/92:174: [http://www.riksdagen.se/sv/Dokument-Lagar/Forslag/Propositioner-och-skrivelser/prop-199192174-med-forslag-t\\_GF03174/?html=true](http://www.riksdagen.se/sv/Dokument-Lagar/Forslag/Propositioner-och-skrivelser/prop-199192174-med-forslag-t_GF03174/?html=true) The Swedish Peace and Arbitration Society (SPAS) webpage: <http://www.svenskafreds.se/snabba-fakta-om-vapenexporten> Visited 21.04.2016.

29 Swedish Government webpage: <http://www.government.se/legal-documents/2003/05/200203122/> Visited 25.04.2016.

objectives show that export of arms is an area where challenges still remain as arms are still exported to states with severe and systematic human rights abuses.<sup>30</sup>

In 2012, the government at the time appointed a parliamentary review committee (Krigsmaterielexportöversynskommittén, KEX for short) with the aim to develop proposals for new arms legislation, and primarily to investigate how Sweden can tighten export controls to non-democratic regimes. The Committee reported its findings June 26, 2015.<sup>31</sup> The process has however been delayed and a government proposition is not expected until 2017.

The decision to tighten legislation was made by the Parliament after debate on Swedish arms exports that took off during the so called Arab Spring in 2011, and reports that Sweden had plans to assist Saudi Arabia in building a weapons factory in the country.<sup>32</sup> In March 2015, the Swedish government chose not to extend its military cooperation agreement with Saudi Arabia, after intense debate.<sup>33</sup> Those criticising the on-going military cooperation with the country referred to the poor human rights record of Saudi Arabia. The deputy prime minister stated that “this is a win for a clear foreign policy based on respect for human rights and a moral compass where this type of far-reaching military cooperation agreement simply does not fit.”<sup>34</sup> The decision does however not put an end to the export of arms to Saudi Arabia.

The parliamentary review committee in 2015 put forward proposals for how to tighten export controls in various ways. Among other things it suggested that the level of

democracy in the recipient state should be taken into account, and the introduction of a so called “democracy criteria”. Furthermore, the committee suggested measures to be put in place to increase transparency in the decision-making processes.<sup>35</sup> Civil society organisations, Diakonia included, have commented on the proposal and stated that the suggestions are too weak and will not put an end to exports to non-democratic states and states that commit severe human rights violations.<sup>36</sup> Furthermore concern has been expressed about the delay of the whole process and the fact that the export of arms to countries with a severe democratic deficit is still on-going.<sup>37</sup>

Civil society organisations have recommended the Swedish government to ensure that the two perspectives of the Policy for Global Development – the rights based perspective and the perspective of the poor – are explicitly included and safeguarded in the forthcoming Swedish arms legislation and in the risk assessments made before the export of arms is granted. Furthermore, the capacity and will of the recipient state to give priority to poverty reduction, the human rights situation and risk of violent conflict and corruption should be decisive factors to take into account. Increased transparency in the decision-making process of the ISP and the positions taken by the members of the Export Control Council are needed to enable accountability.<sup>38</sup>

30 For more information see Concord Sweden: <http://www.concord.se/vara-fragor/samstammighet/>, Visited 20.04.2016.

31 Swedish government webpage: <http://www.sou.gov.se/kex/> Visited 20.04.2016.

32 The Swedish Peace and Arbitration Society (SPAS) webpage: <http://www.svenskafreds.se/kex-krigsmaterielexportoversynskommitten> Visited 20.04.2016.

33 SVT, 28 March, 2015. <http://www.svt.se/nyheter/inrikes/bakgrund-saudiavtalet> Visited 20.04.2016.

34 “Saudi Arabia recalls ambassador to Sweden as diplomatic row deepens”, The Guardian, 10 March 2015: <http://www.theguardian.com/world/2015/mar/10/sweden-tears-up-arms-agreement-with-saudi-arabia-over-blocked-speech> Visited 21.04.2016.

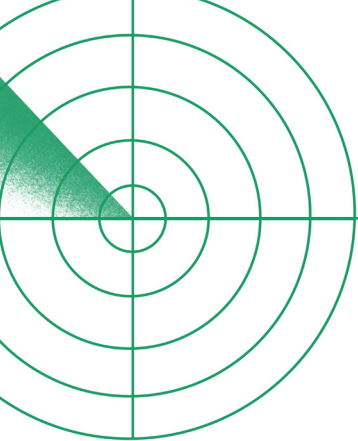
35 “UD 2012:01 Översyn av exportkontrollen av krigsmateriel”: <http://www.sou.gov.se/kex/> Visited 21.04.2016.

36 DN, 26 June 2015. “Skarpare förslag om vapenexport behövs”: <http://www.svd.se/skarpare-forslag-om-vapenexport-behovs/om/debatt> Visited 21.04.2016.

37 Swedish Peace and Arbitration Society (SPAS), 2 March 2016. Pressrelease, “Svensk vapenexport fortsatt omfattande”, 2 March 2016: <http://www.svenskafreds.se/svensk-vapenexport-fortsatt-omfattande> Visited 21.04.2016.

38 Concord Sverige (2016) Barometer, Vägen framåt för Sveriges Politik för global utveckling, <http://www.concord.se/wp-content/uploads/PGU-Barometer-final.pdf>, Visited 20.06.2016.





# CHAPTER 3: METHODOLOGY

The methodology of this report is based on a study published in 2015 by the Dutch Fair Finance Guide and the research consultancy firm Profundo. That study assessed the largest insurance groups in the Netherlands and their investments in companies involved in controversial arms trade, covering a research period from 1 January 2010 to 31 December 2014.<sup>39</sup> The present Swedish Fair Finance Guide report is based on the same arms trade data and makes use of the same approach for selecting countries to which delivery of arms can be considered controversial.<sup>40</sup> It also uses the same sample of companies involved in controversial arms trade to those same countries. What is new is the research assessing the financial links between Sweden's seven largest banks and the companies that are involved in controversial arms trade. The sections below on methodology are an abstract from the Dutch report.<sup>41</sup>

## 3.1 SELECTION OF FINANCIAL INSTITUTIONS AND TYPE OF INVESTMENTS

This report looks at the investments of the seven largest banks in Sweden which are included in the regular assessments made by Fair Finance Guide Sweden: Danske Bank, Handelsbanken, Länsförsäkringar, Nordea, SEB, Skandia and Swedbank.<sup>42</sup> The research is limited to the investments by the banks' mutual funds, which is the

most common form of private long-term savings among Swedish citizens. Both equity and bond investments are included.

## 3.2 DEFINITION OF CONTROVERSIAL ARMS TRADE AND SELECTION OF COUNTRIES

The assessment methodology of Fair Finance Guide International includes seven responsible investment principles regarding controversial arms trade, as listed in Table 1 below. The principles are based on international conventions and frameworks on responsible arms trade.<sup>43</sup>

In order to select countries to which the delivery of arms can be considered controversial, these principles listed in Table 1 have been operationalized into six different selection criteria that are based on indices published by well-renowned international institutions. The following sections present the indices that have been used for each of the six defined criteria (based on the same editions of indices as used in the Dutch report). This is followed by a section presenting the list of selected countries considered controversial destinations for the export of arms in this case study. It is important to stress that the selection of countries is limited and should only be seen as a sample of more or less clear-cut controversial destinations.

39 Case study: Controversial Arms Trade: A case study prepared for the Fair Finance Guide, 18 June 2015, published by Profundo and Eerlijke Verzekeringswijzer. <http://eerlijkegeldwijzer.nl/media/60776/case-study-controversial-arms-trade-150617.pdf> Visited 03.03.2016.

40 There is one exception in relation to arms embargoes, see section 3.2.1. below.

41 Some of the indices have been updated since the publication date of the Dutch report in June 2015, but this is not taken into consideration in this research for the sake of consistency with the methodology of the Dutch report.

42 See [www.fairfinanceguide.se](http://www.fairfinanceguide.se) for information on the methodology of screening Swedish banks.

43 Fair Finance Guide International Methodology, Swedish bank policy scores 2015. Published October 2015: <http://fairfinanceguide.se/media/60883/ffg-sverige-policyrapport-2015.pdf> Visited 03.03.2016.

**TABLE 1: FAIR FINANCE GUIDE PRINCIPLES REGARDING CONTROVERSIAL ARMS TRADE**

No.	Principle	Selection criteria
8	Supply of arms and weapons systems, military transport systems, and other military goods to countries that are under a United Nations or European Union arms embargo, is unacceptable.	Arms embargo
9	Supply of arms and weapons systems, military transport systems, and other military goods is unacceptable if there is an overriding risk that the arms will be used for serious violations of international human rights and/or humanitarian law.	Unfree country
10	Supply of arms and weapons systems, military transport systems, and other military goods to regimes that violate human rights, is unacceptable.	Unfree country
11	Supply of arms and weapons systems, military transport systems, and other military goods to countries that are involved in armed conflict, is unacceptable.	Armed conflict
12	Supply of arms and weapons systems, military transport systems, and other military goods to countries that are severely corrupt, is unacceptable.	Corruption
13	Supply of arms and weapons systems, military transport systems, and other military goods to countries having a failed or fragile state, is unacceptable.	Fragile states
14	Supply of arms and weapons systems, military transport systems, and other military goods to countries that spend a disproportionate part of their budget on purchases of arms, is unacceptable.	Poverty and military spending

### 3.2.1 THE SIX CRITERIA

#### 1. Arms embargoes

The first criterion to determine which countries can be considered controversial destinations for arms export, refers to countries placed under an arms embargo by the EU or the UN during the period of study from January 2010 to December 2014. There are more organisations that issue arms embargoes but in this research we focus on UN and EU embargoes. During the period under study, 23 countries have been under EU and/or UN arms embargo. There are several overlaps between EU and UN embargoes, as demonstrated in Table 2. Nine of the countries have not been under embargo for the entire research period.

Embargoes do not always ban all arms exports to a country. Often the embargo is limited to a certain type of arms or a certain type of recipient in the country. When this is the case, we use the term “partial” arms embargo in this report. Only companies that can be considered to have violated the embargo as such, by exporting arms covered by the embargo with regard to the time of sale, type of arms, and the recipient, are considered to be in violation of the criterion. This approach is different from the Dutch report, which considered all companies that export arms to a country under any type of EU or UN arms embargo, to be in violation of the criterion.

#### 2. Unfree countries

The second criterion concerns whether or not a country can be considered to be “unfree”. The assessment is based

on the Freedom House Index and Economist’s Democracy Index, which are combined.

Freedom House is a US-based non-profit organization. Its annual report “Freedom in the World” assesses more than 200 countries and territories with regard to their political rights and civil liberties, which receive a score each. The least free countries scored 6.5 or 7 on political rights and civil liberties in the 2015 edition.<sup>44</sup>

The Economist’s Democracy Index provides a snapshot of the state of democracy worldwide for 165 independent states and two territories. This covers almost the entire population of the world and the vast majority of the world’s states (micro states are excluded). The Democracy Index is based on five categories:<sup>45</sup>

- electoral process and pluralism
- civil liberties
- the functioning of government
- political participation
- political culture

Countries are placed within one of four types of regimes: full democracies, flawed democracies, hybrid regimes, and authoritarian regimes. In this research the focus is on the countries with a score below four, as these are considered authoritarian regimes.

In order to create a selection of countries that is as complete as possible, the two aforementioned indices are combined and compared. The countries that have been incorporated in the final selection score both an average

44 Freedom House (2015, January), Freedom in the World 2015: [https://freedomhouse.org/sites/default/files/01152015\\_FIW\\_2015\\_final.pdf](https://freedomhouse.org/sites/default/files/01152015_FIW_2015_final.pdf), pp. 21-27. Visited 03.03.2016.

45 The Economist (2014), Democracy Index 2013: Democracy in Limbo, United Kingdom, London: The Economist.

of 6.5 or 7 on political rights and civil liberties in the 2015 edition of the Freedom in the World Index, and are considered authoritarian states, according to the Democracy Index of 2013.

### 3. Armed conflict

The third criterion concerns whether or not countries are involved in armed conflicts. Two datasets were used for the selection of countries. First, the Uppsala Conflict Data Program of Uppsala University was used to select countries involved in armed conflict for one or more years during the research period from 2010 to 2014.<sup>46</sup>

Second, the selection of countries was also based on the Global Peace Index of Vision of Humanity, an Australian research institute, which assesses the extent to which countries live in peace or are involved in armed conflicts. It uses 22 indicators for its assessments and is supported by a long list of Nobel Prize winners, politicians, academics, business people and civil society organizations. The Global Peace Index categorises the overall score into five levels of peacefulness, namely very high, high, borderline, low and very low.<sup>47</sup>

For this case study, the selected countries have both a 'low' or 'very low' state of peace according to the Global Peace Index 2014, and are mentioned in the Uppsala Conflict Data Program as a country involved in conflict in the years 2010, 2011, 2012 or 2013.

### 4. Corruption

The fourth criterion selects countries that can be found in the Government Defence Anti-Corruption Index of Transparency International (TI). The Government Defence Anti-Corruption Index is a global analysis of corruption risk in defence establishments worldwide. The index assesses and compares levels of corruption risk and vulnerability across countries. Hereby, it places countries in six different categories to indicate their level of corruption risk. The categories range from very low, low and moderate to high, very high and critical. In this research we focus on the countries with highest risk levels: very high or critical corruption risk.<sup>48</sup>

### 5. Fragile states

The fifth criterion lists countries with a fragile state. According to the Fragile States Index 2014, 34 countries can be identified as fragile states. This index is published by Foreign Policy magazine and the Fund for Peace, an American research institute. The Fragile States Index 2014 assesses 178 states, using twelve social, economic, political and military indicators in order to indicate which states are most vulnerable to violent internal conflicts and social decline. The Index differentiates between eleven categories: very sustainable, sustainable, very stable, stable, less stable, warning, high warning, very high warning, alert, high alert and very high alert.<sup>49</sup>

The selected countries are those countries which fall in the categories: alert, high alert and very high alert. According to the Index, the countries in these categories can be considered as fragile states.

### 6. Poverty and military spending

The sixth criterion selects low human development countries, according to the Human Development Index,<sup>50</sup> that spend a large share of their national budget on military expenditure. The data comes from the Stockholm International Peace Research Institute (SIPRI), which publish data on relative military spending. To indicate which countries spend a disproportionate share of their government budget on the military, the SIPRI military expenditure list is referred to. The SIPRI definition of military expenditure aims to include all spending on current military forces and activities.<sup>51</sup>

There is no international standard to define the threshold percentage above which governments' military expenditure harms the sustainable development of a country. This study applies a relatively high threshold of 7 per cent to limit the number of countries, identifying 17 countries with more than 7 per cent of total government spending on the military.

46 Uppsala University (2014), "Uppsala conflict data program": <http://www.pcr.uu.se/research/UCDP/> Visited 03.02.2015.

47 Vision of Humanity (2015), "Global Peace Index 2015": <http://www.visionofhumanity.org/#/page/indexes/global-peace-index>, Visited 03.02.2015.

48 Transparency International (2014), "Government Defence Anti-corruption Index 2013": <http://government.defenceindex.org/> Visited 03.02.2015.

49 Fund for Peace (2014), Fragile States Index 2014, United States, Washington: The Fund for Peace.

50 United Nations Development Programme (nd), "Table 1: Human Development Index and its components": <http://hdr.undp.org/en/content/table-1-human-development-index-and-its-components>, Visited 03.02.2015.

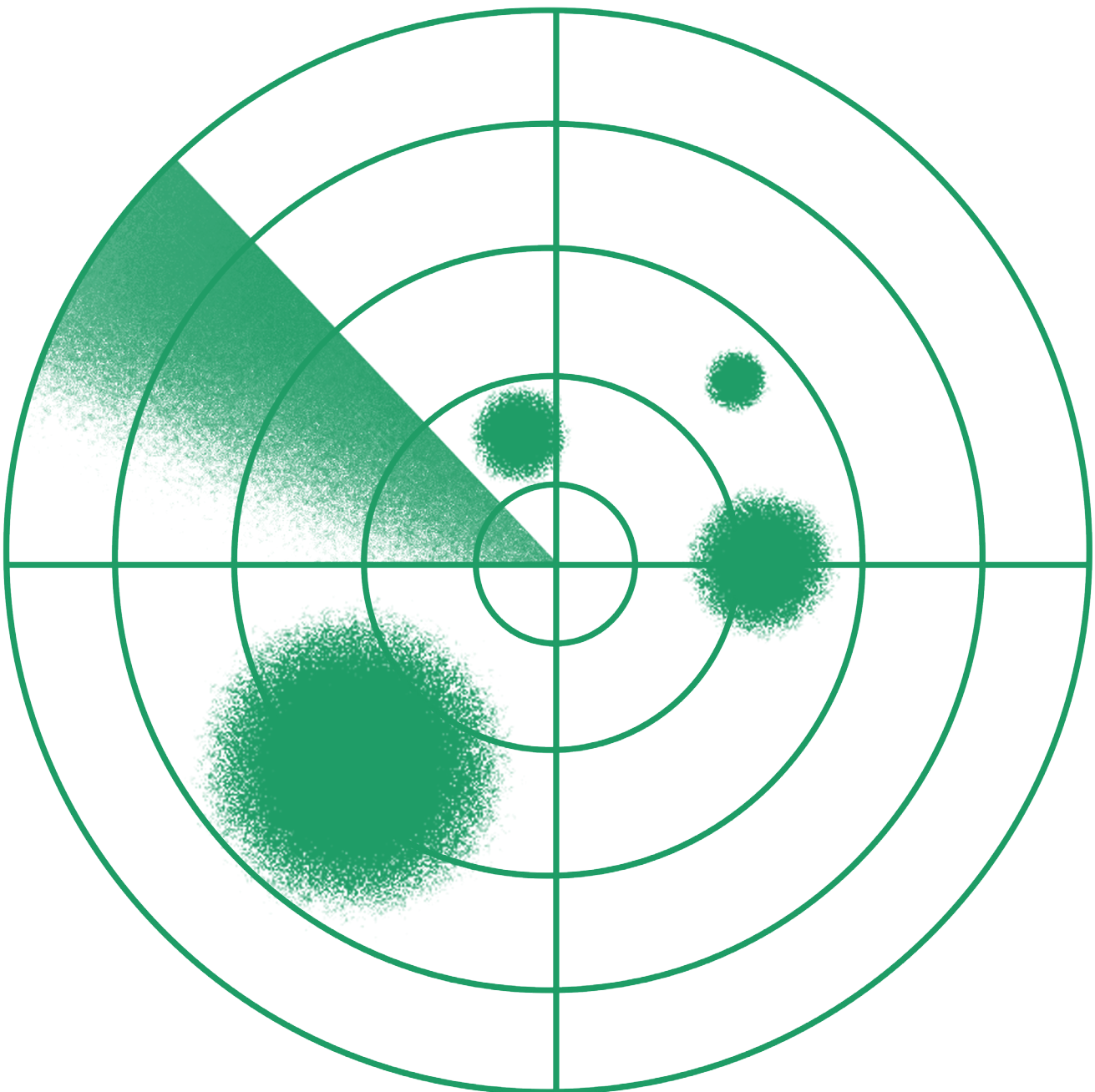
51 SIPRI, "SIPRI Military Expenditure Database": [http://www.sipri.org/research/armaments/milex/milex\\_database/milex\\_database](http://www.sipri.org/research/armaments/milex/milex_database/milex_database) Visited 03.02.2015

### 3.2.2 FINAL SELECTION OF COUNTRIES

In total, 38 countries have been incorporated in the final selection based on the three criteria arms embargo, lack of freedom or armed conflict, in accordance with methodology of the Dutch report. Thus the list only constitutes a very limited number of cases that can be seen as clear cut controversial destinations for the export of arms. Most of the 38 selected countries also meet one or more criteria related to corruption, fragile states and poverty and military spending as defined by the above mentioned international indices. Consequently, incorporating these selection criteria as well contributes to the legitimacy of

the final selection of countries. The 38 selected countries and the different indices are summarized in Table 2. The data in bold corresponds to the threshold set for each selection criterion.

As stated above, it is important to stress that the final selection of countries in no way claims to cover all controversial destinations for the export of arms. Rather the selection made serves the purpose of providing a sample which is used as a basis for the analysis of the financial links of Swedish banks to these cases. Hence, countries not included in the list should not automatically be seen as destinations that are suitable for arms trade.



**TABLE 2: SELECTION OF COUNTRIES**

Institution	European Union & United Nations	Freedom House & The Economist*	Vision of Humanity & Uppsala**	Transparency International	Foreign Policy & The Fund for Peace	United Nations Development Programme / SIPRI***
Name of Index	Arms Embargo	Freedom & Democracy Rating	Global Peace Index & Conflict Data Program	Government Defence Anti-Corruption Index (Corruption risk)	Fragile State Index	Human Development Index & > 7% government budget on military spending
Afghanistan	No	6,0/AR	3,416	Very high	106,50	LHD/16,8%
Bahrain	No	6,5/AR	2,225	Very high	64,70	VHHD/11,4%
Belarus	EU	6,5/AR	2,078	Very high	75,00	HHD/3,0%
Central African Republic	EU/UN	7,0/AR	3,331	No data	110,60	LHD/11,7%
Chad	No	6,5/AR	2,558	No data	108,70	LHD/17,1%
China	EU	6,5/AR	2,207	Very high	79,00	HHD/8,9%
Colombia	No	3,5/FD	2,701	Low	83,10	HHD/12,2%
Côte d'Ivoire	EU/UN	4,5/AR	2,520	Very high	101,70	LHD/7,6%
Cuba	No	6,5/AR	1,986	No data	70,80	VHHD/No data
DRC	EU/UN	6,0/AR	3,213	Critical	110,20	LHD/5,4%
Egypt	EU	5,5/AR	2,571	Critical	91,00	MHD/5,9%
Equatorial Guinea	No	7,0/AR	2,097	No data	85,30	MHD/6,8%
Eritrea	EU/UN	7,0/AR	2,337	Critical	95,50	LHD/No data
Ethiopia	No	6,0/AR	2,502	Very high	97,70	LHD/6,5%
India	No	2,5/FD	2,571	High	76,90	MHD/9,7%
Iran	EU/UN	6,0/AR	2,437	Very high	87,20	HHD/10,0%
Iraq	EU/UN	5,5/HR	3,377	Very high	102,20	MHD/5,8%
Israel	No	1,5/FD	2,689	High	79,50	VHHD/13,6%
Laos	No	6,5/AR	1,723	No data	84,30	
Lebanon	EU/UN	4,5/HR	2,620	High	86,90	HHD/13,2%
Liberia	EU/UN	3,5/HR	2,014	No data	94,30	LHD/2,2%
Libya	EU/UN	4,5/HR	2,453	Critical	87,80	HHD/No data
Mali	No	4,5/HR	2,465	No data	89,80	LHD/6,7%
Myanmar (Burma)	EU	5,5/AR	2,473	No data	94,30	LHD/16,0%
Nigeria	No	4,0/AR	2,710	Very high	99,70	LHD/3,2%
North Korea	EU/UN	7,0/AR	3,071	No data	94,00	No data
Oman	No	5,5/AR	1,889	Very high	53,10	HHD/27,3%
Pakistan	No	4,5/HR	3,107	Very high	103,00	LHD/17,6%
Russia	EU	5,5/AR	3,039	High	76,50	HHD/10,4%
Saudi Arabia	No	7,0/AR	2,003	Very high	73,10	VHHD/23,1%
Somalia	EU/UN	7,0/AR	3,368	No data	112,60	No data
South Sudan	EU	6,0/No data	3,397	No data	112,90	No data/33,8%
Sudan	EU/UN	7,0/AR	3,362	No data	110,10	No data
Syria	EU	7,0/AR	3,650	Critical	101,60	MHD/14,7%
Turkmenistan	No	7,0/AR	2,093	No data	78,20	MHD/No data
Uzbekistan	No	7,0/AR	2,179	Very high	86,30	MHD/No data
Yemen	No	6,0/AR	2,629	Critical	105,40	LHD/6,8%
Zimbabwe	EU	5,5/AR	2,662	Very high	102,80	LHD/7,3%

\* The abbreviations stand for: authoritarian regime (AR); hybrid regime (HR); flawed democracy (FD).

\*\* The scores in the Global Peace Index that fall within the scope of this research correspond to the categories "low" and very low" state of peace ( $\leq 2.465$ ). However, in order to be incorporated in the final selection, a country must also be involved in armed conflict according to the Uppsala Conflict Data Program in the years 2010, 2011, 2012 or 2013.

\*\*\* The abbreviations stand for: very high human development (VHHD); high human development (HHD); medium human development (MHD); low human development (LHD).

### 3.3 SELECTION OF COMPANIES

This section contains an overview of the selected arms companies and their links to the 38 selected countries listed above. As stated above, the method for selecting companies is the same as the one used in the Dutch report, and hence the final list of companies is also the same. The guidance for selecting companies below is an abstract from the Dutch report.

The sources used to select companies include:

- Company websites;
- Exporting agencies reports;
- The SIPRI database;
- United Nations arms trade monitoring databases;
- Professional journals;
- Newspaper and online articles.

The financial analysis identified a large number of companies involved in controversial arms trade. However, this report's sample is limited to fifteen companies. Therefore, this list cannot be considered to be a comprehensive list of companies involved in controversial arms trade.

To select the companies, the following guidance was applied:

- The company has delivered arms to at least one of the 38 countries.
- The companies' shares are traded on a stock exchange.
- The company list consists of parent companies. If a subsidiary or joint venture is involved in controversial arms trade, the parent company is held responsible.
- If a deal is executed by a joint venture company with no majority shareholder, this is listed as additional information if the involved companies are already included in the study for other deliveries.

- The research focuses on arms deliveries in the period from January 2010 to December 2014. Arms deals where it is not clear whether the arms have already been delivered during 2014 or if the delivery is scheduled in 2015, are therefore not taken into account. However, for companies that are selected for a 2010 to 2014 delivery, the scheduled deliveries for 2015 (and onwards) are listed as additional information.
- In the case of second hand arms deliveries, the producer is not included in the study, as the producer is not directly responsible for second hand trade. However, if the company is involved in refurbishing or reselling the arms it is included in the research.
- Companies are only included if they in 2013 either had a total arms sale of more than US\$ 1 billion or if the value of their total arms sales as a percentage of the company's total sales exceeded 10 per cent.<sup>52</sup>

As more companies than expected were identified, additional criteria were applied to narrow down the sample:

- Companies involved in multiple controversial arms deliveries are selected over companies involved in a single controversial arms delivery.
- Companies involved in the delivery of weapon systems are selected over companies involved in the delivery of essential parts or maintenance of weapon systems.

After completion of the company selection, letters were sent to all the selected companies to verify the deliveries and to inquire if the companies have policies in place related to controversial arms trade.<sup>53</sup>

Table 3 lists the fifteen selected companies and also includes information on: which of the countries they have exported arms to during the research period 2010-2014; what types of arms were exported; and which principles this violated.

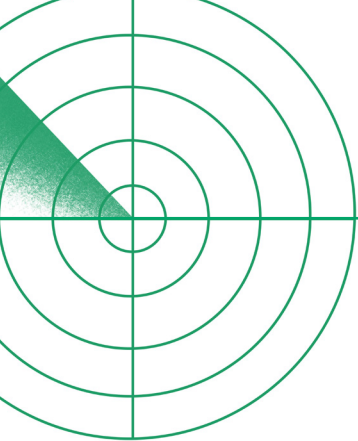
<sup>52</sup> SIPRI (2014), "The SIPRI top 100 arms-producing companies, 2013": <http://www.sipri.org/research/armaments/production/recent-trends-in-arms-industry/The%20SIPRI%20Top%20100%202013.pdf> pp. 3-6. Visited 03.02.2015.

<sup>53</sup> These letters were sent by the Dutch organisation PAX, as part of the production of the Dutch Fair Finance Guide case study, published in June 2015, which this report is based on.

**TABLE 3: SELECTION OF COMPANIES**

Company	Home country	Arms sales to	Type of arms exported	Principles violated regarding controversial arms trade
Airbus	Netherlands / France	Bahrain, Colombia, Egypt, India, Iraq, Libya, Pakistan, Saudi Arabia	Fighter jets, helicopters, missiles	Lack of freedom, Armed conflict, Corruption, Fragile state, Poverty and military spending
BAE Systems	UK	Bahrain, India, Libya, Pakistan, Saudi Arabia	Fighter jets, combat ships missiles	Lack of freedom, Armed conflict, Corruption, Fragile state, Poverty and military spending
Boeing*	USA	Egypt, India, Israel, Pakistan, Saudi Arabia	Fighter jets, combat helicopters, missiles, bombs	Lack of freedom, Partial arms embargo, Armed conflict, Corruption, Fragile state, Poverty and military spending
Finmeccanica	Italy	Bahrain, Egypt, Israel, Libya, Nigeria, Pakistan, Saudi Arabia	Fighter jets, helicopters, missiles	Lack of freedom, Armed conflict, Corruption, Fragile state, Poverty and military spending
General Dynamics	USA	Bahrain, Colombia, Iraq, Israel, Saudi Arabia	Tanks, gun towers, military vehicles	Lack of freedom, Armed conflict, Corruption, Fragile state, Poverty and military spending
Honeywell International	USA	India, Iraq, Israel, Saudi Arabia	Engines for tanks and fighter jets, navigations systems for military vehicles	Lack of freedom, Armed conflict, Corruption, Fragile state
Lockheed Martin	USA	Bahrain, Egypt, Iraq, Israel, Libya, Pakistan, Saudi Arabia	Fighter jets, helicopters, missiles	Lack of freedom, Armed conflict, Corruption, Fragile state, Poverty and military spending
Northrop Grumman	USA	India, Iraq, Israel, Saudi Arabia	Fire control radars, components for fighter jets, navigation systems for combat ships	Lack of freedom, Armed conflict, Corruption, Fragile state
Orbital ATK	USA	Lebanon, Saudi Arabia	Fighter jets, machine guns	Lack of freedom, Corruption
Raytheon*	USA	Bahrain, Egypt, India, Israel, Pakistan, Saudi Arabia	Missiles, bombs	Lack of freedom, Armed conflict, Corruption, Fragile state, Poverty and military spending
Saab*	Sweden	Pakistan, Saudi Arabia	Radar surveillance airplanes, missiles	Lack of freedom, Corruption, Fragile state, Poverty and military spending
Textron	USA	Afghanistan, Colombia, India, Iraq, Lebanon, Pakistan, Saudi Arabia	Military helicopters, missiles	Lack of freedom, Armed conflict, Corruption, Fragile state, Poverty and military spending
Thales	France	Colombia, Egypt, India, Saudi Arabia	Grenade launchers, military submarines	Lack of freedom, Armed conflict, Corruption, Fragile state, Poverty and military spending
ThyssenKrupp	Germany	Colombia, India, Israel, Saudi Arabia	Gun towers, military submarines	Lack of freedom, Armed conflict, Corruption, Poverty and military spending
United Technologies*	USA	Bahrain, Colombia, India, Israel, Pakistan, Saudi Arabia	Military helicopters, engines for fighter jets	Lack of freedom, Corruption, Fragile state, Poverty and military spending

\* = The companies have also pursued further contracts regarding the sale of military products to the countries involved in the conflict in Yemen, after the conflict started in March 2015 (which is outside the scope of the research period for this report). Sources: United Technologies: <https://www.flightglobal.com/news/articles/saudis-see-nine-more-sikorsky-black-hawks-417811/>, Boeing and Raytheon: <http://www.bloomberg.com/news/articles/2015-11-16/u-s-said-to-approve-selling-saudis-1-29-billion-in-smart-bombs>, Saab: <https://www.flightglobal.com/news/articles/uae-deal-drives-interest-in-saabs-globaleye-425684/>



# CHAPTER 4:

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# THE SWEDISH BANKS' POLICIES AND INVESTMENTS

This chapter analyses the banks' policies and positions regarding arms trade and lists which of the companies under study that each bank invests in. Furthermore, an analysis is made to what extent the investments align with the banks' own policies. As stated above, the research covers the investments by the banks' mutual funds. Both equity and bond investments are included.

In general, the Swedish banks under study have made much fewer commitments regarding controversial arms trade compared with controversial arms types, like nuclear weapons, cluster weapons etc. In Table 4, the principles regarding controversial arms trade in the Fair Finance Guide are listed together with an assessment of to what extent the banks have committed to them in writing as part of their policies. SEB has the most extensive policy while Nordea has no policy at all concerning arms trade. Danske Bank and Skandia published their policies regarding arms trade in early 2016.

A more detailed analysis of each bank's policy commitments and investments is made below. As part of the research process the banks were given the possibility to review the initial findings and respond to a number of questions with the purpose of: verifying the accuracy of this report's account of the banks' policies and investments; seeking information on whether the banks are planning on strengthening their policies on arms exports in the near future; seeking input on whether the banks believe the companies' activities are in line with their current policies and finally, whether their investments align with the expectations of their clients.

The analyses below include responses from the banks to these questions. The banks were also given the opportunity to submit a comment on the final analysis of their bank. The banks' comments can be found in the Annex.



TABLE 4: POLICY COMMITMENTS REGARDING ARMS TRADE



	Danske Bank	Handelsbanken	Länsförsäkringar	Nordea	SEB	Skandia	Swedbank
<b>Relevant principles in the Arms theme</b>							
8 Supply of arms and weapons systems, military transport systems, and other military goods to countries that are under a United Nations or European Union arms embargo, is unacceptable.	No	Yes (whole bank)	Yes (asset management)	No	Yes (whole bank)	Yes (whole bank)	Only export credits
9 Supply of arms and weapons systems, military transport systems, and other military goods is unacceptable if there is an overriding risk that the arms will be used for serious violation of international human rights and humanitarian rights.	Yes (asset management)	No	Yes (asset management)	No	Yes (whole bank)	Yes (whole bank)	Only export credits
10 Supply of arms and weapons systems, military transport systems, and other military goods to regimes that violate human rights, is unacceptable.	No	No	No	No	Yes (whole bank)	Yes (whole bank)	No
11 Supply of arms and weapons systems, military transport systems, and other military goods to countries that are involved in armed conflict, is unacceptable.	No	No	No	No	Yes (whole bank)	No	No
12 Supply of arms and weapons systems, military transport systems, and other military goods to countries that are severely corrupt, is unacceptable.	No	No	No	No	No	No	No
13 Supply of arms and weapons systems, military transport systems, and other military goods to countries having a failed or fragile state, is unacceptable.	No	No	No	No	No	No	No
14 Supply of arms and weapons systems, military transport systems, and other military goods to countries that spend a disproportionate part of their budget on purchases of arms, is unacceptable.	No	No	No	No	Yes (whole bank)	No	No

## 4.1 DANSKE BANK

### POLICY ON ARMS TRADE

In the annual Fair Finance Guide policy assessment in 2015, Danske Bank committed to 22 per cent of the international norms and conventions on responsibility in the arms sector, which covers two issues: controversial arms types and controversial arms trade. All of the bank's commitments concern controversial arms types, for example positions against cluster munitions and anti-personnel landmines.

In April 2016 Danske Bank published a new position statement, which to some extent also raises the issue of controversial arms trade. The policy refers to the Draft Framework Convention on International Arms Trans-

fers from 2002 and states that the bank will “take into account” if companies act in accordance with the convention.<sup>54</sup> The convention states amongst other things that arms should not be exported if they risk being used in serious violations of human rights or international humanitarian law, or if the arms risk affecting the political or regional security.

Danske Bank's policy applies to the whole bank and all investment and lending activities.

### INVESTMENTS IN THE ARMS COMPANIES

At the end of 2015 Danske Bank had investments in seven of the selected companies involved in controversial arms trade at a total value of 82 MSEK.

54 Danske Bank (2016). "Position statement - Arms and defence": [http://danskebank.com/en-uk/CSR/strategy-and-policies/Documents/DanskeBank\\_PositionStatement\\_Arms\\_and\\_defence.pdf](http://danskebank.com/en-uk/CSR/strategy-and-policies/Documents/DanskeBank_PositionStatement_Arms_and_defence.pdf) Visited 03.05.2016.

	Arms sales to	Type of arms	Principles violated	Funds that invest in the company
BAE Systems	Bahrain, India, Libya, Pakistan, Saudi Arabia	Fighter jets, combat ships missiles	Lack of freedom Armed conflict Corruption Fragile state Poverty and military spending	Danske Invest Global Index
Boeing	Egypt, India, Israel, Pakistan, Saudi Arabia	Fighter jets, combat helicopters, missiles, bombs	Lack of freedom Partial arms embargo Armed conflict Corruption Fragile state Poverty and military spending	Danske Invest Global Index
Finmeccanica	Bahrain, Egypt, Israel, Libya, Nigeria, Pakistan, Saudi Arabia	Fighter jets, helicopters, missiles	Lack of freedom Armed conflict Corruption Fragile state Poverty and military spending	Danske Invest Global Index
Honeywell International	India, Iraq, Israel, Saudi Arabia	Engines for tanks and fighter jets, navigations systems for military vehicles	Lack of freedom Armed conflict Corruption Fragile state	Danske Invest Global Index
Raytheon	Bahrain, Egypt, India, Israel, Pakistan, Saudi Arabia	Missiles, bombs	Lack of freedom Armed conflict Corruption Fragile state Poverty and military spending	Danske Invest Global Index
Thales	Colombia, Egypt, India, Saudi Arabia	Grenade launchers, military submarines	Lack of freedom Armed conflict Corruption Fragile state Poverty and military spending	Danske Invest Global Index
ThyssenKrupp	Colombia, India, Israel, Saudi Arabia	Gun towers, military submarines	Lack of freedom Armed conflict Corruption Poverty and military spending	Danske Invest Global Index Danske Invest SRI Global Global Corporate Bonds Class

## THE BANK'S RESPONSE

Danske Bank responded that a new policy has been published in 2016 and that it addresses principles 8, 9 and 10 in the Fair Finance Guide. The bank states that the above companies do “not necessarily” comply with their policy, but the bank in general prefers to address the issue through engagement and active ownership. The bank further believes that the policy is transparently communicated to customers so that they know what to expect, but the bank is also reviewing how the communication can improve so that the products are fully understood. Danske Bank did not respond to the question if clients are believed to make the same interpretation of the policy. The bank stated that the policy also applies to its credit activities but said this may not be clearly expressed in the policy. The bank responded that they will continue to review their policies and positions with input from external stakeholders.

## ANALYSIS AND CONCLUSION

Danske Bank's investments are linked to arms trade with countries that meet one or several of the following criteria (explained above in the chapter on Methodology):

- Lack of freedom
- Armed conflict
- Partial arms embargo
- Corruption
- Fragile state
- Poverty and military spending

Danske Bank's new arms policy is an improvement but the policy is not very clear regarding arms trade. The position and expectations on companies are much weaker regarding arms trade compared with other issues in the policy. The bank only “takes into account” if the companies act in accordance with the referenced convention

on arms trade, whereas companies are expected to act “in accordance” with the other listed conventions and frameworks in the policy. Furthermore, there is no clear statement in the policy that arms transfers should be limited to countries that respect human rights, nor that arms embargoes should be respected (Fair Finance Guide principles 10 and 8).

Danske Bank’s response that some of the companies might not comply with its policy but that the bank prefers to handle this through engagement is dubious. It is a common view in the responsible investment community that it is virtually impossible for investors to influence arms producing companies regarding their involvement in controversial arms. This is because it is sensitive for arms companies to take a stance that could conflict with defence agencies’ interests and positions, which are their only clients. The same sensitivity applies to conventional arms trade, which makes it unrealistic to expect any real impact from engagement.

The two most pressing examples were the investments in Raytheon and Boeing that do not align with the bank’s policy that arms should not be exported if there is a risk that they are used in violations of human rights or international humanitarian law. Both companies have exported missiles and bombs to Saudi Arabia for many years, including as late as 2015 for use in the country’s attacks in Yemen.<sup>55</sup> As stated above, the war has led to extensive civilian casualties and the Saudi-led coalition is accused of several indiscriminate attacks on civilians. Human Rights Watch and others have called for a suspension of all arms sales to Saudi Arabia.<sup>56</sup>

## 4.2 HANDELSBANKEN

### POLICY ON ARMS TRADE

In the annual Fair Finance Guide policy assessment in 2015, Handelsbanken committed to 48 per cent of the international norms and conventions on responsibility in the arms sector, which covers two main issues: controversial arms types and controversial arms trade. Most of the bank’s commitments concern controversial arms types, for example positions against cluster munitions and anti-personnel landmines.

Regarding arms trade Handelsbanken’s policy states that arms companies shall comply with “national legislation, intergovernmental regulations, international conventions and weapons embargoes issued by the UN Security Council and the EU”. The policy also concludes that there is a risk of corruption in the defence sector and that Handelsbanken must “evaluate and take account of the companies’ guidelines for opposing human rights violations and corruption, and must monitor and pay particular attention to how the companies comply with these guidelines”. The policy applies to all business relations and to all of the bank’s operations and business activities.<sup>57</sup>

Exemptions can be made regarding index funds according to the bank’s Policy for Responsible Investments “if the investment is important to the fund’s ability to reflect the underlying index”.<sup>58</sup>

### INVESTMENTS IN THE ARMS COMPANIES

At the end of 2015 Handelsbanken had investments in seven of the selected companies involved in controversial arms trade at a total value of 982 MSEK.

55 Bloomberg Technology, 16 November, 2015. “U.S. Said to Approve Selling Saudis \$1.29 Billion in Smart Bombs”: <http://www.bloomberg.com/news/articles/2015-11-16/u-s-said-to-approve-selling-saudis-1-29-billion-in-smart-bombs> Visited 24.02.2016.

56 Human Rights Watch, 22 March, 2016. “Q&A: Call for Arms Embargo on Saudi Arabia”: <https://www.hrw.org/news/2016/03/22/qa-call-arms-embargo-saudi-arabia>

57 Handelsbanken (2016). “Guidelines regarding business relations with the armaments and defence industry”: <http://www.handelsbanken.se> Visited 24.02.2016.

58 Handelsbanken (2016). “Policy for Responsible Investments”: <http://www.handelsbanken.se> Visited: 03.05.2016.

	Arms sales to	Type of arms	Principles violated	Funds that invest in the company
Airbus	Bahrain, Colombia, Egypt, India, Iraq, Libya, Pakistan, Saudi Arabia	Fighter jets, helicopters, missiles	Lack of freedom Armed conflict Corruption Fragile state Poverty and military spending	SHB Europafond Index
Boeing	Egypt, India, Israel, Pakistan, Saudi Arabia	Fighter jets, combat helicopters, missiles, bombs	Lack of freedom Partial arms embargo Armed conflict Corruption Fragile state Poverty and military spending	SHB MSCI USA Index
Finmeccanica	Bahrain, Egypt, Israel, Libya, Nigeria, Pakistan, Saudi Arabia	Fighter jets, helicopters, missiles	Lack of freedom Armed conflict Corruption Fragile state Poverty and military spending	SHB Europafond Index
Honeywell International	India, Iraq, Israel, Saudi Arabia	Engines for tanks and fighter jets, navigation systems for military vehicles	Lack of freedom Armed conflict Corruption Fragile state	SHB MSCI USA Index
Saab	Pakistan, Saudi Arabia	Radar surveillance airplanes, missiles	Lack of freedom Armed conflict Corruption Fragile state Poverty and military spending	SHB Bosparfond Bostadsrätterna SHB Svenska Småbolagsfond SHB Nordiska Småbolagsfond SHB Sverigefond SHB Sverigefond Index SHB Företagsobligationsfond
ThyssenKrupp	Colombia, India, Israel, Saudi Arabia	Gun towers, military submarines	Lack of freedom Armed conflict Corruption Poverty and military spending	SHB Europafond Index SHB Global Index Criteria
United Technologies	Bahrain, Colombia, India, Israel, Pakistan, Saudi Arabia	Military helicopters, engines for fighter jets	Lack of freedom Corruption Fragile state Poverty and military spending	SHB MSCI USA Index

## THE BANK'S RESPONSE

Handelsbanken responded that it believes the investments to be in line with the bank's current policies. The bank divested from two of the companies (Finmeccanica and Thyssen Krupp) in 2016. Regarding the investment in Boeing the bank refers to its advisory firm, which argues that the EU embargo against Egypt is political and not legally binding and should therefore not be seen as a strict ban on arms export. The advisory firm also argues that the embargo only applies to arms used for "internal oppression" and that the type of arms that Boeing has delivered [combat helicopters] are not typically used for internal oppression. Handelsbanken believes that the investments are in line with its clients' expectations and made no commitment to strengthen its policy.

## ANALYSIS AND CONCLUSION

Handelsbanken's investments are linked to arms trade with countries that meet one or several of the following criteria (explained above in the chapter on Methodology):

- Lack of freedom
- Partial arms embargo
- Armed conflict
- Corruption
- Fragile state
- Poverty and military spending

Handelsbanken's policy is very limited regarding controversial arms trade, and only has a clear position regarding arms embargos. The statement about the companies' guidelines for opposing human rights violations and corruption is rather weak as the bank only states that it will "take it into account".

In the application of the policy it is unsatisfactory that the bank distinguishes between political and legal arms embargoes since they are insignificantly different in spirit. It is true that the EU embargo only covers arms “for internal oppression” but, as stated by SIPRI, the EU has not clarified the definition of equipment which might be used for internal repression.<sup>59</sup> In the absence of further definition it is a matter of interpretation whether combat helicopters can be used to strengthen the military’s capability to oppress its population. However, due to the uncertainty of the embargo, it cannot be concluded that the investments are in breach of the bank’s policy.

## 4.3 LÄNSFÖRSÄKRINGAR

### POLICY ON ARMS TRADE

In the annual Fair Finance Guide policy assessment in 2015, Länsförsäkringar committed to 50 per cent of the international norms and conventions on responsibility in the arms sector, which covers two main issues: controversial arms types and controversial arms trade. Most of the

bank’s commitments concern controversial arms types, for example positions against cluster munitions and anti-personnel landmines.

Regarding controversial arms trade Länsförsäkringar screens its investments for violations of the Arms Trade Treaty (ATT). As discussed above, this treaty states that arms should not be exported if there is a risk that they “would contribute to or undermine peace and security” or could be used to commit or facilitate a serious violation of international human rights law. Nor should exports be authorized to countries under UN arms embargoes.<sup>60</sup> The bank also lists the Geneva Conventions but it is unclear if the bank applies any restrictions regarding arms trade based on this as the conventions contain no explicit principles regarding arms trade.<sup>61</sup>

### INVESTMENTS IN THE ARMS COMPANIES

At the end of 2015 Länsförsäkringar had investments in four of the selected companies involved in controversial arms trade at a total value of 292 MSEK.

	Arms sales to	Type of arms	Principles violated	Funds that invest in the company
Saab	Pakistan, Saudi Arabia	Radar surveillance airplanes, missiles	Lack of freedom Armed conflict Corruption Fragile state Poverty and military spending	Länsförsäkringar Småbolag Sverige Länsförsäkringar Trygghetsfond Länsförsäkringar Sverige och Världen
Thales	Colombia, Egypt, India, Saudi Arabia	Grenade launchers, military submarines	Lack of freedom Armed conflict Corruption Fragile state Poverty and military spending	Länsförsäkringar Global Index Länsförsäkringar Europa Index,
ThyssenKrupp	Colombia, India, Israel, Saudi Arabia	Gun towers, military submarines	Lack of freedom Armed conflict Corruption Poverty and military spending	Länsförsäkringar Global Index Länsförsäkringar Europa Index,
United Technologies	Bahrain, Colombia, India, Israel, Pakistan, Saudi Arabia	Military helicopters, engines for fighter jets	Lack of freedom Corruption Fragile state Poverty and military spending	Länsförsäkringar USA Aktiv Länsförsäkringar Pension 2010 Länsförsäkringar Pension 2015 Länsförsäkringar Pension 2020 Länsförsäkringar Pension 2025 Länsförsäkringar Pension 2030 Länsförsäkringar Pension 2035 Länsförsäkringar Pension 2040 Länsförsäkringar Trygghetsfond Länsförsäkringar USA Index Länsförsäkringar Global Index

59 SIPRI (2016) "EU arms embargo on Egypt", 9 March: [http://www.sipri.org/databases/embargoes/eu\\_arms\\_embargoes/egypt/eu-arms-embargo-on-egypt](http://www.sipri.org/databases/embargoes/eu_arms_embargoes/egypt/eu-arms-embargo-on-egypt) Visited 03.05.16.

60 United Nations (2014), "The Arms Trade Treaty": <https://unoda-web.s3.amazonaws.com/wp-content/uploads/2013/06/English7.pdf>

61 Länsförsäkringar (2016), "Lista över konventioner": <http://www.lansforsakringar.se/globalassets/aa-global/dokument/ovrigt/aa-om-oss/hallbarhet-lista-over-konventioner.pdf> Visited 03.05.16.

## THE BANK'S RESPONSE

Länsförsäkringar responded that the bank uses an external consultancy firm to screen companies and that they have so far not identified any breaches of the bank's policy. The bank made no commitment to further enforce its policy regarding arms trade and did not respond whether it believes that the investments align with its clients' expectations.

## ANALYSIS AND CONCLUSION

Länsförsäkringar's investments are linked to arms trade with countries that meet one or several of the following criteria (explained above in the chapter on Methodology):

- Lack of freedom
- Armed conflict
- Corruption
- Fragile state
- Poverty and military spending

When comparing the investments with the bank's policy we see clear inconsistencies. Several of the countries have a very poor rating in the Global Peace Index and/or are involved in armed conflicts according to the Uppsala Conflict Database. This is contrary to ATT's principle that arms exports should not undermine peace and security.

One of the arms deals by United Technologies is a planned delivery of military helicopters to Saudi Arabia in

2017. The country is since 2015 involved in armed conflict with Yemen, which has led to extensive civilian casualties and Saudi Arabia is accused of several indiscriminate attacks on civilians. As mentioned above, Human Rights Watch and others have called for a suspension of all arms sales to Saudi Arabia.<sup>62</sup> There is thus an imminent risk that the helicopters will contribute to military operations that violate international humanitarian law.

## 4.4 NORDEA

### POLICY ON ARMS TRADE

In the annual Fair Finance Guide policy assessment in 2015, Nordea committed to 18 per cent of the international norms and conventions on responsibility in the arms sector, which covers two main issues: controversial arms types and controversial arms trade. All of the bank's commitments concern controversial arms types, where the asset management unit has positions against cluster munitions, nuclear arms and anti-personnel landmines. Nordea has no policy that addresses controversial arms trade.<sup>63</sup>

### INVESTMENTS IN THE ARMS COMPANIES

At the end of 2015 Nordea had investments in five of the selected companies involved in controversial arms trade at a total value of 490 MSEK.

62 Human Rights Watch (2016). 22 March, 2016. "Q&A: Call for Arms Embargo on Saudi Arabia" <https://www.hrw.org/news/2016/03/22/qa-call-arms-embargo-saudi-arabia>

63 Nordea, "Responsible investment policy, Nordea Asset Management!" [http://www.nordea.com/Images/33-99083/RI\\_Policy\\_JAN2016\\_3.pdf](http://www.nordea.com/Images/33-99083/RI_Policy_JAN2016_3.pdf) Visited 03.05.16

	Arms sales to	Type of arms	Principles violated	Funds that invest in the company
Boeing	Egypt, India, Israel, Pakistan, Saudi Arabia	Fighter jets, combat helicopters, missiles, bombs	Lack of freedom Partial arms embargo Armed conflict Corruption Fragile state Poverty and military spending	Nordea Global Indexfond
Honeywell International	India, Iraq, Israel, Saudi Arabia	Engines for tanks and fighter jets, navigations systems for military vehicles	Lack of freedom Armed conflict Corruption Fragile state	Nordea US Equity Market Fund Nordea 1 - North American All Cap Fund Nordea Global Indexfond
Raytheon	Bahrain, Egypt, India, Israel, Pakistan, Saudi Arabia	Missiles, bombs	Lack of freedom Armed conflict Corruption Fragile state Poverty and military spending	Nordea US Equity Market Fund Nordea Global Indexfond
Saab	Pakistan, Saudi Arabia	Radar surveillance airplanes, missiles	Lack of freedom Corruption Fragile state Poverty and military spending	Nordea Avtalspensionsfond Midi Nordea 1 - Nordic Equity Fund Nordea 1 - Nordic Equity Small Cap Fund Nordea 1 - Nordic Equity Small Cap Fund Nordea Nordiska Länder Nordea Småbolagsfond Norden
ThyssenKrupp	Colombia, India, Israel, Saudi Arabia	Gun towers, military submarines	Lack of freedom Armed conflict Corruption Poverty and military spending	Nordea Global Indexfond Nordea Europa Indexfond

## THE BANK'S RESPONSE

Nordea has confirmed that it has no policy against controversial arms trade and that the identified investments comply with their policy as they are not involved in controversial arms types. The bank made no commitment to strengthen its policy regarding arms trade. Boeing is blacklisted by Nordea for its involvement in nuclear weapons, and the bank explains its investment in the company with reference to the fact that the bank's policy does not apply to passively managed funds. The bank did not respond if it believes that the type of investments is in line with clients' expectations. The bank recommends clients who are concerned about the issue to select funds that have stricter requirements.

## ANALYSIS AND CONCLUSION

Nordea's investments are linked to arms trade with countries that meet one or several of the following criteria (explained above in the chapter on Methodology):

- Lack of freedom
- Partial arms embargo
- Armed conflict
- Corruption

- Fragile state
- Poverty and military spending

Nordea's investments are linked to controversial arms trade in several aspects but because the bank has not taken a stand on this issue, the investments are not in breach of the bank's current policy.

The bank's claimed exception for passively managed funds when it comes to the blacklisting of companies is not mentioned in Nordea's publicly available policy. Boeing and Raytheon both export missiles and bombs to Saudi Arabia for use in the country's attacks in Yemen.<sup>64</sup> The war has led to extensive civilian casualties and the Saudi-led coalition is accused of several indiscriminate attacks on civilians. As mentioned above, Human Rights Watch and others have called for a suspension of all arms sales to Saudi Arabia.<sup>65</sup>

## 4.5 SEB

### POLICY ON ARMS TRADE

In the annual Fair Finance Guide policy assessment in 2015, SEB committed to 81 per cent of the international norms and conventions on responsibility in the arms

64 Bloomberg Technology, 16 November, 2015. "U.S. Said to Approve Selling Saudis \$1.29 Billion in Smart Bombs" <http://www.bloomberg.com/news/articles/2015-11-16/u-s-said-to-approve-selling-saudis-1-29-billion-in-smart-bombs>

65 Human Rights Watch, 22 March, 2016. "Q&A: Call for Arms Embargo on Saudi Arabia" <https://www.hrw.org/news/2016/03/22/qa-call-arms-embargo-saudi-arabia>

sector, which covers two main issues: controversial arms types and controversial arms trade.<sup>66</sup>

SEB has a sector policy for investments in, and business relations with, the arms sector. The policy states that the bank expects arms companies to “conform with the relevant export regulations in the respective country as well as with Swedish regulatory limitations, when exporting armament products” and that arms trade shall comply with the eight criteria of the 2008 EU Council Common Position. As mentioned above, the position states that arms exports shall only be made to countries which: respect human rights and international humanitarian law; are not under an arms embargo by the UN or EU; are not involved in armed conflicts; do not spend a disproportionate share of their budget on arms. The bank applies these principles also to companies domiciled outside the

EU. SEB also expects companies to follow the Arms Trade Treaty, to have a policy against corruption and not to tolerate bribery.<sup>67</sup>

SEB’s policy applies group-wide and on all its investments, financing and advisory activities. SEB makes no exceptions regarding certain types of financial products or services. For legacy clients however, which existed before the policy was adopted, the bank “will engage and support progress along a credible, transparent and time-bound implementation plan.”

### INVESTMENTS IN THE ARMS COMPANIES

At the end of 2015 SEB had investments in three of the selected companies involved in controversial arms trade at a total value of 386 MSEK.

	Arms sales to	Type of arms	Principles violated	Funds that invest in the company
Airbus	Bahrain, Colombia, Egypt, India, Iraq, Libya, Pakistan, Saudi Arabia	Fighter jets, helicopters, missiles	Lack of freedom Armed conflict Corruption Fragile state Poverty and military spending	SEB Euroland Gratis C SEB Euroland Gratis CX
Saab	Pakistan, Saudi Arabia	Radar surveillance airplanes, missiles	Lack of freedom Armed conflict Corruption Fragile state Poverty and military spending	SEB Nordenfond SEB Sverige Indexfond SEB Dynamic Bond Fund ID
Thyssen Krupp	Colombia, India, Israel, Saudi Arabia	Gun towers, military submarines	Lack of freedom Armed conflict Corruption Poverty and military spending	SEB Ethical Global Index Fund D SEB Ethical Global Index Fund C SEB Ethical Global Index Fund IC P SEB Europe Index Fund ID

### THE BANK’S RESPONSE

SEB responded that it expects the companies to comply with its policy as they are EU based and thus regulated by the EU export code, which the bank refers to in its policy. Therefore SEB believes that the investments align with the bank’s policy. The bank further stated that the investment in Airbus is through an index fund and will cease during 2016 due to the company’s involvement in controversial arms types. Regarding the investments in Thyssen Krupp by the bank’s ethical funds SEB responded that it complies with the funds’ ethical criteria since the Thyssen Krupp derives less than 5 per cent of its turnover from defence products and the company does not violate any international conventions according to the bank’s research. The bank also believes that the investments are in line with their clients’ expectations and made no specific commitments to enforce its policies.

### ANALYSIS AND CONCLUSION

SEB’s investments are linked to arms trade with countries that meet one or several of the following criteria (explained above in the chapter on Methodology):

- Lack of freedom
- Armed conflict
- Corruption
- Fragile state
- Poverty and military spending

Although the bank has the most extensive policy of the seven banks, SEB lacks two policy commitments, namely pertaining to arms trade with countries that have high risks of corruption in defence establishments, and countries classified as fragile states.

66 <http://fairfinanceguide.se>

67 SEB (2014). "Sector policy – Arms and Defence": [http://sebgroupp.com/siteassets/about\\_seb1/sustainability/sustainability\\_governance/policies/sector\\_policy\\_arms\\_and\\_defence.pdf](http://sebgroupp.com/siteassets/about_seb1/sustainability/sustainability_governance/policies/sector_policy_arms_and_defence.pdf) Visited 03.05.16.



When comparing SEB's investments with the bank's policy there are inconsistencies. Several of the countries that the companies have exported arms to have a poor human rights record with extensive oppression of their populations. This does not align with the principle that recipient countries should respect human rights. Some of the countries are also involved in armed conflicts.

The fact that the bank seems to rely on the interpretation and decisions by European export controlling authorities is a clear risk as they are often criticized for a weak application of the EU Common Position. To ensure that investments align with the policy in spirit, the bank should make its own assessment of the companies and how their arms trade aligns with the bank's policy.

## 4.6 SKANDIA

### POLICY ON ARMS TRADE

In the annual Fair Finance Guide policy assessment in 2015, Skandia committed to 31 per cent of the interna-

tional norms and conventions on responsibility in the arms sector, which covers two main issues: controversial arms types and controversial arms trade.

Until 2015 Skandia's policy only banned investments in certain controversial arms types, but in early 2016 the bank published a new policy that also covers arms trade. The bank expects companies not to export arms to countries under EU or UN arms embargoes, or to countries that systematically violate human rights.<sup>68</sup> The bank also screens investments against the Arms Trade Treaty, which prohibits arms trade if the arms could be used to commit or facilitate serious human rights violations, or if there is a risk that they undermine peace and security.<sup>69</sup>

### INVESTMENTS IN THE ARMS COMPANIES

At the end of 2015 Skandia had investments in six of the selected companies involved in controversial arms trade at a total value of 108 MSEK.

	Arms sales to	Type of arms	Principles violated	Funds that invest in the company
BAE Systems	Bahrain, India, Libya, Pakistan, Saudi Arabia	Fighter jets, combat ships, missiles	Lack of freedom Armed conflict Corruption Fragile state Poverty and military spending	Skandia Europa Exponering Skandia Global Exponering
Finmeccanica	Bahrain, Egypt, Israel, Libya, Nigeria, Pakistan, Saudi Arabia	Fighter jets, helicopters, missiles	Lack of freedom Armed conflict Corruption Fragile state Poverty and military spending	Skandia Europa Exponering Skandia Global Exponering
Saab	Pakistan, Saudi Arabia	Radar surveillance airplanes, missiles	Lack of freedom Corruption Fragile state Poverty and military spending	Skandia SMART Offensiv Skandia SMART Balanserad
Thales	Colombia, Egypt, India, Saudi Arabia	Grenade launchers, military submarines	Lack of freedom Armed conflict Corruption Fragile state Poverty and military spending	Skandia Europa Exponering Skandia Global Exponering
ThyssenKrupp	Colombia, India, Israel, Saudi Arabia	Gun towers, military submarines	Lack of freedom Armed conflict Corruption Poverty and military spending	Skandia Europa Exponering Skandia Global Exponering
United Technologies	Bahrain, Colombia, India, Israel, Pakistan, Saudi Arabia	Military helicopters, engines for fighter jets	Lack of freedom Corruption Fragile state Poverty and military spending	Skandia SMART Offensiv Skandia Världen Skandia SMART Balanserad Skandia Nordamerika Exponering Skandia Global Exponering

68 Skandia (2016). "Ställningstagande - mänskliga rättigheter": [https://www.skandia.se/hem/Global/pdf/H%C3%A5llbarhet/St%C3%A4llningstagande\\_MR\\_91977.pdf](https://www.skandia.se/hem/Global/pdf/H%C3%A5llbarhet/St%C3%A4llningstagande_MR_91977.pdf) Visited 03.05.16.

69 Skandia (2016). "Normbaserad screening hos Skandia - konventioner och principer som Skandia använder i bolagsanalysen": <https://www.skandia.se/hem/Global/pdf/H%C3%A5llbarhet/Normer%20och%20konventioner%2020160208.pdf> Visited 03.05.16.

## THE BANK'S RESPONSE

Skandia responded that a new policy has been adopted in 2016. The bank states that there were no sanctions against the countries at the time of the arms transfers. Skandia did not respond to the question whether they consider the investments to align with human rights principles, nor does the bank specify any actions that are necessary to take to ensure the investments are in accordance with the policy. The bank refers to the Swedish government's policy and practices, for example that they have previously approved Swedish arms exports to Saudi Arabia. Skandia believes that the investments align with its clients' expectations and did not commit to strengthening the policy further, other than if the Swedish government changes its policy.

## ANALYSIS AND CONCLUSION

Skandia's investments are linked to arms trade with countries that meet one or several of the following criteria (explained above in the chapter on Methodology):

- Lack of freedom
- Armed conflict
- Corruption
- Fragile state
- Poverty and military spending

Skandia's 2016 policy on arms trade addresses several of the issues raised in this report. However, there are weaknesses in the application of the policy as several of the recipient countries in the above arms deals have very poor human rights records with extensive oppression of their populations. This does not align with the principle that recipient countries should respect human rights.

Some of the countries are also involved in armed conflicts, for example Saudi Arabia which is to receive military helicopters by United Technologies in 2017. Saudi Arabia is since 2015 involved in armed conflict with

Yemen, which has led to extensive civilian casualties and the country is accused of several indiscriminate attacks on civilians. As mentioned above, Human Rights Watch and others have called for a suspension of all arms sales to Saudi Arabia.<sup>70</sup> There is an imminent risk that the helicopters will contribute to violations of international humanitarian law.

## 4.7 SWEDBANK

### POLICY ON ARMS TRADE

In the annual Fair Finance Guide policy assessment in 2015, Swedbank committed to 53 per cent of the international norms and conventions on responsibility in the arms sector, which covers two main issues: controversial arms types and controversial arms trade.

Regarding controversial arms trade Swedbank's policy expresses a few restrictions, but these only apply to the bank's trade finance/export credits. The policy states that "Swedbank never finances nor facilitates the export of defence equipment or services to any country that is subject to EU or UN sanctions", and that the bank "always carries out assessments in all export credits with the aim of preventing that defence exports financed by Swedbank are used by foreign authorities to oppress their own populations or to support unjustified external aggression". The restrictions do not apply to other investment activities or financial services.<sup>71</sup> The bank's policy on arms mainly concerns restrictions regarding controversial arms types. However, the bank has responded that it also carries out human rights impact assessments when doing business with, or in, high-risk countries.

### INVESTMENTS IN THE ARMS COMPANIES

At the end of 2015 Swedbank had investments in four of the selected companies involved in controversial arms trade at a total value of 2354 MSEK.

70 Human Rights Watch (2016). 22 March, 2016. "Q&A: Call for Arms Embargo on Saudi Arabia" <https://www.hrw.org/news/2016/03/22/qa-call-arms-embargo-saudi-arabia>

71 Swedbank (2016). "Position Paper - Defence Equipment": <https://www.swedbank.com/corporate-sustainability/human-rights/position-on-defence-equipment/index.htm> Visited 03.05.16.

	Arms sales to	Type of arms	Principles violated	Funds that invest in the company
BAE Systems	Bahrain, India, Libya, Pakistan, Saudi Arabia	Fighter jets, combat ships, missiles	Lack of freedom Armed conflict Corruption Fragile state Poverty and military spending	Swedbank Robur Mixfond Pension Swedbank Robur Transfer 50-90 Swedbank Robur Access Europa
Saab	Pakistan, Saudi Arabia	Radar surveillance airplanes, missiles	Lack of freedom Armed conflict Corruption Fragile state Poverty and military spending	Swedbank Robur Sverigefond MEGA Swedbank Robur Ny teknik Folksam LO Sverige Folksam LO Västfonden Swedbank Robur Exportfond Swedbank Robur Småbolagsfond Sverige Folksam Robur Tjänstemannafond Sverige Swedbank Robur Sverigefond Swedbank Robur Mix Indexfond Sverige Folksam Förförvaltningsfond Swedbank Robur Företagsobligationsfond
Thales	Colombia, Egypt, India, Saudi Arabia	Grenade launchers, military submarines	Lack of freedom Armed conflict Corruption Fragile state Poverty and military spending	Swedbank Robur Access Europa Swedbank Robur Access Global
Thyssen Krupp	Colombia, India, Israel, Saudi Arabia	Gun towers, military submarines	Lack of freedom Armed conflict Corruption Poverty and military spending	Swedbank Robur Mixfond Pension Swedbank Robur Transfer 50-90 Swedbank Robur Access Europa Swedbank Robur Access Global

## THE BANK'S RESPONSE

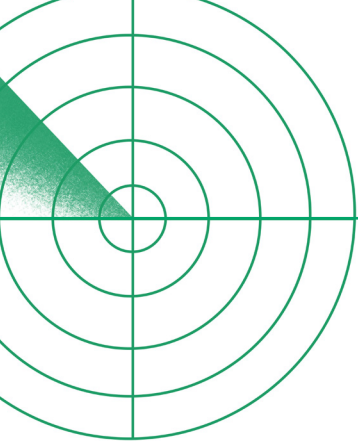
Swedbank responded that it believes that the investments are in line with its policies and that only Saab is actively invested in, the rest are held through passive funds or multi-funds. Swedbank also stated that it engages in dialogue with several of the companies regarding other sustainability issues like corruption. The bank focuses on banning investments in controversial arms types and has stated that they do not get many questions from clients on arms trade issues. Swedbank made no commitment to strengthen its policy on arms trade. The bank recommends clients who want to avoid investments in arms companies altogether, to choose among its sustainability funds.

## ANALYSIS AND CONCLUSION

Swedbank's investments are linked to arms trade with countries that meet one or several of the following criteria (explained above in the chapter on Methodology):

- Lack of freedom
- Armed conflict
- Corruption
- Fragile state
- Poverty and military spending

Since Swedbank has very limited commitments regarding controversial arms trade none of the investments clearly violate the bank's current policy. The bank's human rights policy is not clear enough to make any specific interpretation regarding arms trade.



# CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

## 5.1 GENERAL CONCLUSIONS

The objective of this report is to assess whether Sweden’s seven largest banks invest in companies that are actively involved in controversial arms trade, to what extent the banks have policies in place that provide guidance in this area, and whether they comply with their own policies.

The financial analysis has shown that all of Sweden’s seven largest banks invest in companies involved in controversial arms trade. Furthermore, the analysis has demonstrated that none of these investments comply with relevant international principles and the indices of well-renowned international institutions underpinning these principles, according to the methodology of this report.

The analysis and the responses from the banks have clearly shown that the banks in general lack a comprehensive policy covering controversial arms trade to guide their investments. In the one and only case where the bank has a more comprehensive policy covering this area, the bank’s investments do not align with the principles in the policy. In the three cases where the banks do not breach their own policy, these policies are either weak or in one case, non-existing.

The results, summarised in the table below, clearly demonstrate that controversial arms trade is an area where the banks have not done enough to ensure their investments are responsible and in line with relevant international principles.

**TABLE 5: OVERVIEW OF RESULTS**

TABLE OF RESULTS				
	The bank’s investments are linked to controversial arms trade	The bank has a policy against controversial arms trade	The bank’s investments comply with its own policy	Controversial arms trade found in the bank’s ethical funds
Danske Bank	Yes	Yes, but weak	No	Yes
Handelsbanken	Yes	Yes, but weak	Yes	Yes
Länsförsäkringar	Yes	Yes, but weak	No	No
Nordea	Yes	No	Yes	No
SEB	Yes	Yes	No	Yes
Skandia	Yes	Yes, but weak	No	No
Swedbank	Yes	Yes, but weak	Yes	No

## 5.2 CONCLUSIONS ON THE BANKS' INVESTMENTS

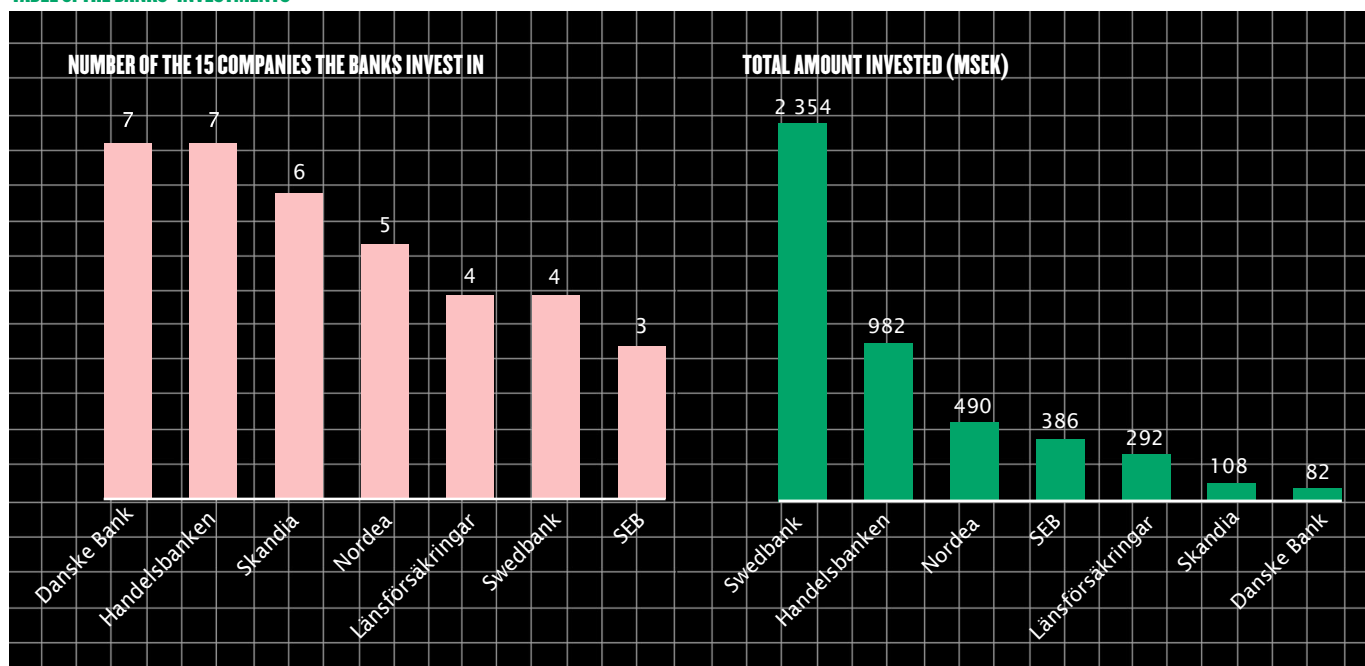
- All seven banks have invested in companies involved in controversial arms trade linked to the following criteria:
  - Lack of freedom
  - Armed conflict
  - Corruption
  - Fragile state
  - Poverty and military spending
- All seven banks have made investments linked to controversial arms exports to Saudi Arabia – a case seen as particularly controversial due to the domestic human rights situation,<sup>72</sup> and more recently due to the country's military engagement in Yemen.<sup>73</sup>
- All seven banks have invested in arms-producing companies<sup>74</sup> that have signed contracts with countries involved in the Yemen conflict after the conflict started.
- The total value of the banks' investments in the companies involved in controversial arms trade amounts to a little less than 4.7 billion SEK.
- Danske Bank and Handelsbanken invest in the largest number of companies (7).

- Swedbank has made the largest investment in the companies concerned (2.3 billion SEK).
- Several of the banks' investments are made through so-called index funds, where the banks are not actively involved in selecting which companies to invest in. However, it is possible to remove individual companies from the index that do not fulfil the banks' requirements and standards, which the banks have not chosen to do.
- Investments in the companies were also found in Ethical Funds at Danske Bank, Handelsbanken, and SEB.

## 5.3 CONCLUSIONS ON THE BANKS' POLICIES

- Six out of seven banks do not take a clear stand against controversial arms trade in their policies.
- Nordea is the only bank that lacks a policy in this area.
- Danske Bank, Handelsbanken, Länsförsäkringar, Skandia and Swedbank only make one or a few commitments concerning controversial arms trade in their respective policies. The policies do not accept arms trade in breach of arms embargoes and/or arms trade with countries where there is a risk that the arms will be used to commit human rights violations. The policy of Swedbank only covers export credits and not the bank's investment funds.

**TABLE 6: THE BANKS' INVESTMENTS**



72 Saudi Arabia is classified as an "authoritarian regime" according to The Economist's Democracy Index, and as one of the least free countries regarding political rights and civil liberties according to Freedom House, see Chapter 3.

73 See Chapter 2 for further information.

74 Raytheon, Boeing and United Technologies have exported arms to Saudi Arabia during the past year, or are in the process of doing so.

- SEB has the most comprehensive policy. The policy covers five of seven Fair Finance Guide principles regarding controversial arms trade that this research takes as point of departure (see Table 1, Chapter 3). Furthermore, all of the bank's financial activities are covered by this policy.
- All banks have taken a stand against certain types of controversial arms, for example cluster weapons, anti-personnel mines and nuclear weapons.

## 5.4 CONCLUSIONS ON WHETHER OR NOT THE BANKS FOLLOW THEIR OWN POLICIES

- Four banks are considered not to follow their own policies according to our analysis: Danske Bank, Länsförsäkringar, SEB, and Skandia.
- Handelsbanken makes a debatable interpretation of the EU arms embargo against Egypt. However as the state and scope of the measures in this embargo have become increasingly unclear, it is not possible to say that the bank's investments go against the bank's own policy.<sup>75</sup>
- Given that Nordea lacks a policy in this area altogether, and that Swedbank's policy does not cover its investment funds, their investments are not in breach of their own policies.

## 5.5 RESPONSES FROM THE BANKS<sup>76</sup>

- All seven banks consider their investments to be in line with their own policies and/or processes to deal with deviations from the policies.
- Four of the banks consider their investments to correspond with the expectations of their clients: Handelsbanken, Länsförsäkringar, SEB and Skandia.
- None of the banks made a commitment to strengthen their policy on controversial arms trade, besides the regular updates of their policies.
- Danske Bank responded that their investments are "not necessarily" in line with their policy but that they through active engagement try to influence the companies in question. This argument is dubious as it is very difficult to influence arms-producing companies even for the shareholders. This is the reason why these companies are often blacklisted when they do not fulfil the requirements from investors.

- Several of the banks referred to the fact that authorities within the EU and Sweden have given the green light to these exports, and that they therefore are in accordance with the EU's Common Position. However, these authorities are criticised by civil society organisations for not taking the Common Position sufficiently into account. Furthermore, the EU regulation does not regulate companies outside of the EU and 9 out of the 15 companies are not EU based.
- Several of the banks recommend customers who consider controversial arms trade to be an important issue, to select one of their so-called Ethical Funds. However, as mentioned above, in three cases investments in controversial arms trade were also found in Ethical Funds.

## 5.6 THREE RECOMMENDATIONS TO THE BANKS

Based on the results of our analysis we make the following general recommendations to the banks:

### 1. Adopt and publish a policy against controversial arms trade that will provide guidance for all of the bank's financial activities.

The policy should be comprehensive in the sense that it should apply group-wide to all financial services, credits and investments, including investments managed by third party and index funds. The policy should be publicly available on the bank's webpage.

The policy should ban investments in, and financing of, companies that deliver weapons or military goods to countries:

- placed under an EU or UN arms embargo;
- classified as "unfree", i.e. that are authoritarian regimes and to regimes that violate human rights or where there is an overriding risk that the arms will be used for serious violations of international human rights and/or humanitarian law;
- involved in armed conflict;
- with high corruption risks in defence establishments;
- considered to be fragile states;

<sup>75</sup> See further information in Chapter 4.

<sup>76</sup> As explained in Chapter 4, the banks were able to respond to a number of questions to be able to provide their view on the results of our analysis.

- spending a disproportionate share of the government budget on military equipment, and where this spending compromises efforts to reduce poverty and reach development goals.

## **2. Develop a method to identify to which countries arms trade would violate the principles in the policy, and create tools that can be used for the screening of companies.**

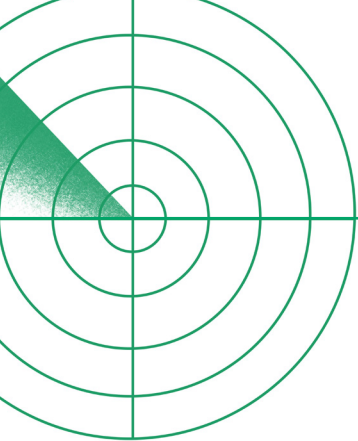
It is not sufficient to rely on the assessments of export controlling authorities to judge whether arms trade is in line with the banks' policies or not. Authoritarian regimes that violate human rights might be the legal recipients of arms deals due to weaknesses of policies or their implementation. Such political reality does not acquit banks of the responsibility to make decisions that prevent investments in companies involved in controversial arms trade. The banks should make their own assessments to identify to which countries arms trade can be considered controversial, based on a comprehensive policy.

The companies identified in this report only represent a small selection of all the companies involved in controversial arms trade worldwide. The banks should screen all companies involved in arms trade before investment decisions are taken. The independent indices of the international institutions referenced in this case study can be used in the screening to assess the risk of company involvement in controversial arms trade. The screening will help to ensure decisions are in line with the banks' policies.

## **3. Publish the list of companies that have been blacklisted by the bank due to their involvement in controversial arms trade.**

Transparency on company exclusion provides clarity about the implementation of the bank's policy concerning controversial arms trade, and enables clients to make well-informed decisions about their bank. It also puts pressure on other investors to act.

In the case where a bank has chosen engagement and active ownership to try to influence a company, the bank should provide a public explanation of why this strategy is considered to be successful and provide regular updates on the process. There should be a clear and limited time frame for bringing about changes that can be seen as improvements in line with the bank's policies.



# ANNEX: COMMENTS BY THE BANKS<sup>77</sup>

## DANSKE BANK

“The arms and defence industry is complex, and Danske Bank acknowledges that the industry entails elevated Ethical, Social and Environmental (ESG) risks related to various types of weapons and their potential use.

For this reason, since 2014 Danske Bank has had policies in place for our investment and lending processes in this sector. In April 2016, we published our first Position Statement on Arms and Defence to clarify how Danske Bank works and to establish a shared framework for dialogue about potential risks and opportunities with our customers, business partners and the portfolio companies we actively invest in.

When discussing our investment and lending products with potential and current clients, it is very important to us to ensure transparency, so that our products are fully understood. We continue to review our positions, and how we can improve our policies and communicate them in the future. In this process we also take into account input from stakeholders, Fair Finance Guide included, in order to ensure that we live up to stakeholders’ expectations.”

## HANDELSBANKEN

Handelsbanken did not comment.

## LÄNSFÖRSÄKRINGAR

“Vi har tagit del av Fair Finance Guides slutsats rörande våra investeringar, policyer och konventionen ”Arms Trade Treaty (ATT)”. Länsförsäkringar ABs arbete med ansvarsfulla investeringar utgår från de internationella konventioner rörande miljö, affärsetik, mänskliga rättigheter, arbetsrätt och kontroversiella vapen som Sverige har skrivit under. Vi anlitar en extern konsultfirma för att identifiera bolag som bryter mot dessa konventioner. Analysen syftar till att identifiera företag som direkt kan kopplas till brott mot internationella konventioner. För att säkerställa en konsekvent och systematisk bedömning av vad som utgör kontroversiell vapenexport i förhållande till ATT, utgår vår analys från den analys som görs av FN och EU av situationen i enskilda länder, och som ligger till grund för restriktioner kring export av vapen och krigsmaterial i form av vapenembargon. Inom analysen identifieras de bolag som direkt bryter mot FN- och/eller EUs vapenembargon. Enligt vår analys har de fyra bolagen som anges i rapporten i dagsläget ingen export till något av de länder där det finns ett FN- och/eller EU embargo (<http://www.isp.se/sa/node.asp?node=1347>) Vi har inte heller identifierat någon direkt koppling till kränkning av andra konventioner, till exempel mänskliga rättigheter, rörande de fyra bolagen som nämns i rapporten. Om vi får ny information som kan koppla ett bolag till kränkning av en konvention kommer vi ta med den informationen i vår analys och inleda en undersökning och dialog med bolaget. Ett bolag exkluderas från våra investeringar om de kopplas till kontroversiella vapen eller om de kopplas direkt till en kränkning av konventioner och där en dialog inte leder framåt.”

<sup>77</sup> As mentioned in the methodology chapter, the banks were given the opportunity to comment on the final analysis of their banks. The comments they provided are published in full, in this Annex. Some are in Swedish and some in English, in accordance with the response they chose to send.



## NORDEA

”Nordea uppmuntrar och stödjer granskning av finanssektorns ansvar i relation till relevanta miljö, sociala och ägarstyrnings aspekter (inklusive MR samt respekt för internationella konventioner) som påverkas av bankens och kapitalförvaltningens verksamhet. I Fair Finance studie gällande utveckling samt försäljning av konventionella vapen riktas fokus mot företaget, samtliga utomnordiska, och inte på suveräna stater som i själva verket står för försäljningen av konventionella vapen system och materiell och är den avgörande mellan-handen vid export och försäljning av konventionell vapen och materiell. Således missar studien att adressera den viktigaste aktören i relation till export och försäljning av konventionell vapen, nämligen suveräna stater, samt investeringar i stats-obligationer från dessa suveräna stater. (Sverige, UK, USA, Frankrike, etc). Policy dokument som efterfrågas av Fair Finance löper risk att enbart adressera börslistade företag som tillverkar konventionella vapen i länder där tillverkningen är laglig och enligt dessa länders lagar tillåtet att exporteras. Exporten per sig (alltså inte smuggling) skötts av myndigheter i dessa länder på uppdrag av regeringar.

Vi anser inte att vi är i position att kunna bedöma ansvarfördelningen mellan respektive företag och respektive regeringen i relation till export och försäljning av konventionella vapen. I dem fall där företag eller land (FN sanktioner) verifierats för brott mot internationella konventioner är Nordeas Policy att agera tydligt i både utlåningen och investeringar (genom utslutningar, engagement, påverkan).”

## SEB

“SEB screens its funds on a regular basis to review alignment with international conventions and guidelines as well as our own policies. This includes a review of adherence to the EU Council Common Position on export control. Our ambition is to identify all relevant information relating to our portfolio companies. We do our own analysis which is complemented by external research and other sources of information. Issued identified are investigated. We have dialogues with companies to address issues and/ or potential non-alignment with our policies. This could be done by us and/or in cooperation with

other investors. The arms and defence industry is complex and we therefore follow policy developments closely. SEB expects that EU countries comply with EU laws and regulations applicable to export of military technology and equipment. Consequently, we expect European companies to adhere to EU laws and regulations. In line with SEB’s sector policy for the Arms and defense industry, we do not invest in companies that produce or develop controversial weapons.”

## SKANDIA

”Skandias ställningstaganden kring mänskliga rättigheter, miljö, arbetsvillkor respektive affärsetik uttrycker vår syn på en rad frågor och vår förväntan på hur bolag ska agera i dessa frågor. Dokumenten ger vägledning avseende ”best practice” och används bland annat som grund för dialog med såväl bolag som förvaltare. En avvikelse innebär inte per automatik att bolagen underkänns och säljs av, men i vissa fall kan det vara en sista utväg. Vi publicerar underkända bolag på vår hemsida. De bolag som Fair Finance Guide identifierat i denna rapport har inte underkänts för investering. Det bör dock noteras att de främst återfinns i våra indexnära produkter där investeringsstrategin är att följa index.”

## SWEDBANK

“Our investments are in line with our policies. We are annually reversing our policies and position papers and are currently developing our communication to stakeholders with regards to how sustainability consideration is integrated in to business decisions. We recommend clients that want to avoid investments in all types of arms companies to choose among our sustainability funds and sustainability SPAX.

Saab is actively invested in within Swedbank Robur, the rest are held through passive funds or multi-asset-funds. We engage in dialogue with several of the companies regarding sustainability issues such as corruption, sales practices etc. Swedbank Robur decided in May to disinvest from BAE Systems after new information regarding the companies links to nuclear weapons production.”

