

FOLLOW UP REPORT

DEADLY INVESTMENTS

**SWEDISH BANKS' FINANCIAL LINKS TO COMPANIES
INVOLVED IN CONTROVERSIAL ARMS TRADE**

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Any errors or omissions are the responsibility of the authors.

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SUMMARY IN SWEDISH

SVENSK SAMMANFATTNING

FYRA SLUTSATSER:

- Alla de sju granskade bankerna (Danske Bank, Handelsbanken, Länsförsäkringar, Nordea, SEB, Skandia och Swedbank) hade vid årsskiftet 2018/2019 fortfarande finansiella kopplingar till företag inblandade i kontroversiell vapenexport, bland annat till stridande parter i Jemenkonflikten.
- De sju bankernas totala investeringar i företagen uppgår till 4,6 miljarder kronor. SEB, Danske Bank, Nordea och Swedbank har även utestående lån och andra finansieringstjänster till företagen på totalt 20,7 miljarder kronor.
- Samtliga banker har förbättrat sina riktlinjer gällande kontroversiell vapenexport sedan vår förra rapport 2016 och de sammantagna investeringarna i den här typen av verksamhet har minskat.
- Länsförsäkringar, SEB, Skandia och Swedbank bedöms bryta mot principer i deras egna riktlinjerna gällande kontroversiell vapenexport.

1. INTRODUKTION

År 2018 var världens samlade militära utgifter hela 1 800 miljarder dollar.¹ Vapenhandeln genererar stora inkomster för inblandade parter. Samtidigt står världen inför skriande behov och utmaningar, inte minst att utrota fattigdomen och motverka klimatkrisen. Finansieringsgapet för att nå FN:s globala hållbarhetsmål beräknas till cirka 2 500 miljarder dollar årligen i utvecklingsländer.² Även om stater köper krigsmateriel i det som kan vara legitima syften att försvara sig, så är det ett faktum att vapenexport går till länder där mänskliga rättigheter kränks, till auktoritära regimer eller till länder med pågående väpnade konflikter och utbrett

könsbaserat våld. Kriget i Jemen är ett tragiskt exempel som orsakat en humanitär katastrof. Själva tillgången till vapnen bidrar också till att konflikter övergår i väpnad konflikt.

Givet riskerna med vapenexport så har stater ett ansvar att reglera den. Kryphål och olika tolkningar har dock lett till stora brister i hur lagstiftningen följs i praktiken. Exempelvis har media rapporterat om hur stridande parter i Jemenkonflikten köpt krigsmateriel från Sverige och hur detta fortgått under 2019.³

Företag har också ett ansvar för eventuella negativa effekter av sin verksamhet i enlighet med FN:s vägledande principer för företag och

1 SIPRI, 29 april, 2019: <https://www.sipri.org/media/press-release/2019/world-military-expenditure-grows-18-trillion-2018>

2 UNCTAD, 2014. World Investment Report 2014, Investing in the SDGs: An Action Plan https://unctad.org/en/PublicationsLibrary/wir2014_en.pdf

3 SVT Nyheter, 12 juli 2018: <https://www.svt.se/nyheter/inrikes/margot-wallstrom-har-mestadels-fel-om-att-svenska-vapen-inte-far-saljas-till-lander-i-krig> och TV4, 13 augusti, 2019: <https://www.tv4play.se/program/nyheterna/12489939>

mänskliga rättigheter. Investerare och banker har i sin tur ett ansvar att se till att det finansiella stöd de ger till företagen inte bidrar till kränkningar av mänskliga rättigheter och andra risker som följer med produktion och export av krigsmateriel.⁴

2. OM RAPPORTEN

Denna rapport analyserar de finansiella kopplingarna mellan Sveriges sju största banker⁵ och 15 företag inblandade i så kallad kontroversiell vapenexport, enligt definitionen i denna rapport. Det är en uppföljning av Diakonias och Fair Finance Guides rapport *”Bomber och granater – svenska bankers investeringar i kontroversiell vapenexport”* från 2016.⁶ Syftet är att undersöka om de finansiella kopplingarna finns kvar, samt om bankerna förändrat sina riktlinjer och om de följer dem.

Rapporten analyserar bankernas investeringar⁷ och finansiering⁸ av företag som under perioden 2014 – 2018 varit inblandade i vapenexport till kontroversiella destinationer. Det handlar om 49 mottagarländer som tydligast uppfyller ett eller flera av nedanstående kriterier. Dessa utgör inte en heltäckande lista utan ska ses som exempel på länder som enligt metoden är särskilt kontroversiella destinationer för vapenexport.⁹

Det är länder som:

- FN eller EU har satt under vapenembargo
- klassas som auktoritära regimer och som kränker mänskliga rättigheter
- är inblandade i väpnad konflikt
- har hög risk för korruption inom försvars- och säkerhetsinstitutioner
- klassas som instabila stater
- enligt FN:s Human Development Index har låg välfärd och som använder en opropor-tionerligt stor del av budgeten till militära utgifter

3. SLUTSATSER – BANKERNAS FINANSIELLA KOPPLINGAR

- Alla de sju bankerna har fortfarande finansiella kopplingar till företag inblandade i kontroversiell vapenexport.
- Det totala värdet av bankernas investeringar var 4,6 miljarder kronor vid årsskiftet 2018/2019. Det är en absolut minskning med 100 miljoner kronor jämfört med granskningen 2016. Tar man hänsyn till värdeförändringen på börsen så är minskningen betydligt större, drygt två miljarder.¹⁰ Det indikerar att bankerna tagit aktiva beslut att minska investeringarna i företagen.

4 UN Guiding Principles Reporting Framework: <https://www.ungpreporting.org/about-us/why-reporting-matters/#Investors>

5 Danske Bank, Handelsbanken, Länsförsäkringar, Nordea, SEB, Skandia och Swedbank.

6 *Deadly Investments, Swedish banks' investments in controversial arms trade*. Svensk sammanfattning: *Bomber och granater, svenska bankers investeringar i kontroversiell vapenexport*. Författare: Penny Davies och Jakob König. Publicerad av Diakonia och Fair Finance Guide Sverige 2016.

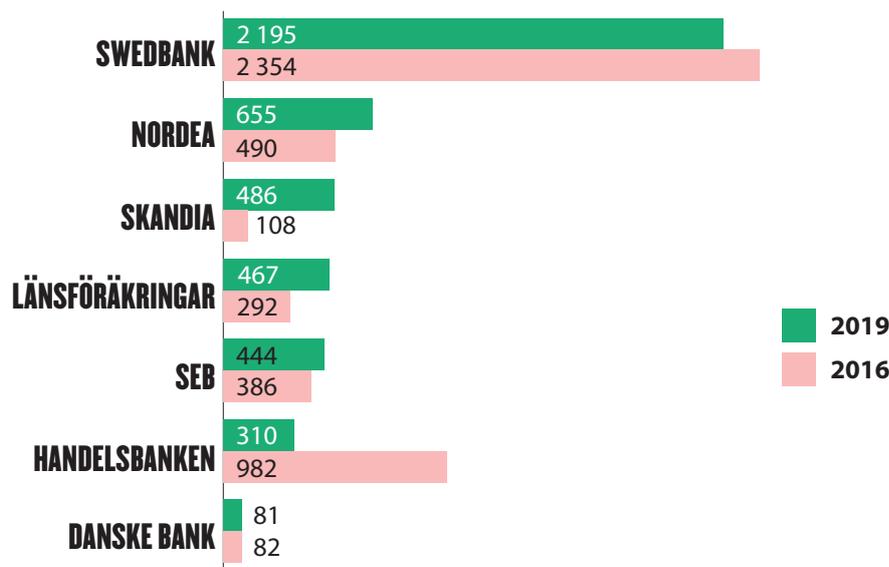
7 Investeringarna är avgränsade till aktier och obligationer hos bankernas fonder och innehaven kontrollerades vid årsskiftet 2018/2019.

8 I denna rapport ingår även en kartläggning av bankernas lån och finansiella stöd till företagen vid utgivningen av obligationer. Beloppen som anges avser den sammanlagda summan under perioden 2014 - 2018.

9 Metoden är baserad på en studie gjord av nederländska Fair Finance Guide från juni 2019 och utgår från principer i internationella överenskommelser och regelverk. I begreppet vapenexport ingår vapentyper i SIPRI:s databas: <https://www.sipri.org/databases/armstransfers/sources-and-methods>

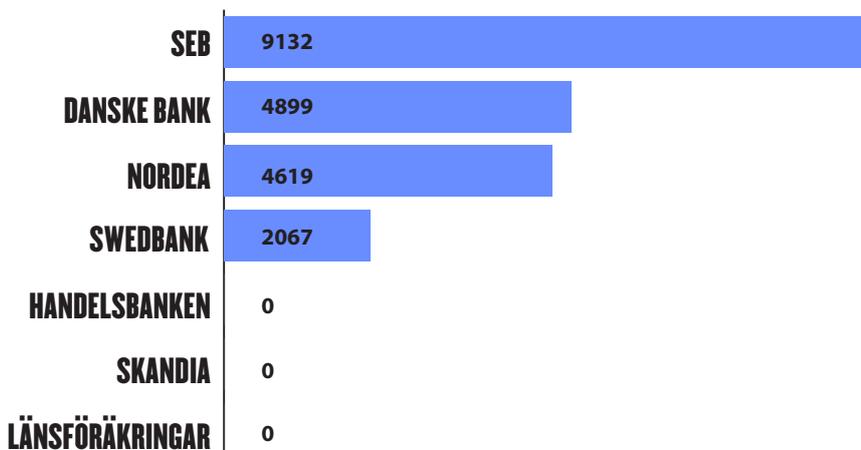
10 Bankernas investeringar på totalt 4,7 miljarder kronor 2016 skulle om bankerna inte gjort några förändringar av innehaven till 2019 ha ökat till runt 5,9 miljarder kronor bara genom värdeökningen som skett på börsen under perioden.

Bankernas totala investeringar i företagen per årsskiftet 2018/2019 respektive. 2015/2016, miljoner kronor



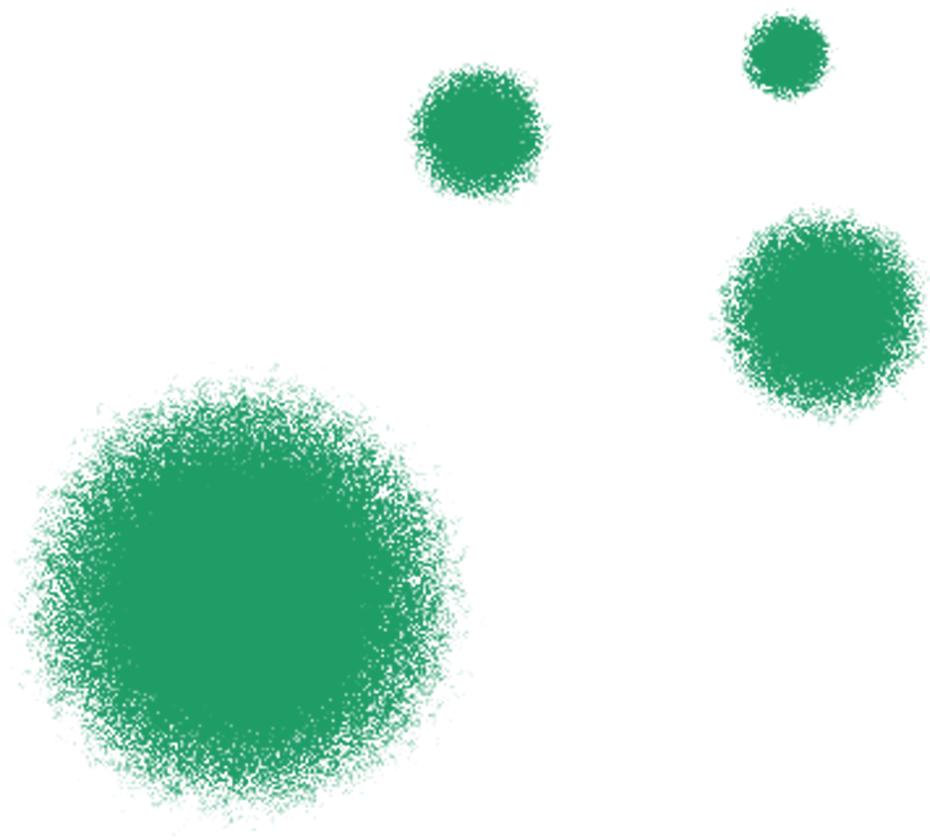
- Bankerna har investerat i 12 av de 15 företagens aktier och obligationer. 80 procent av investeringarna var i Saab AB.
- Swedbank har störst investeringar i företagen men har bara investeringar i tre av de 15 företagen. Länsförsäkringar och Skandia investerar i flest antal företag, med investeringar i nio av de 15 företagen.
- Danske Bank, Nordea, SEB och Swedbank har gett lån eller annat finansiellt stöd till företagen under perioden till ett värde av 20,7 miljarder kronor. Totalt handlar det om 43 lån eller utgivningar av obligationer till sju av företagen, varav knappt hälften skedde under 2017 och 2018. Det största finansiella stödet gick till Saab AB.

Bankernas utestående lån och utgivning av obligationer till företagen per årsskiftet 2018/2019, miljoner kronor



4. SLUTSATSER – BANKERNAS RIKTLINJER

- Alla de sju bankerna har riktlinjer på plats som i olika utsträckning adresserar kontroversiell vapenexport. I genomsnitt stödjer bankerna 39 procent av principerna i Fair Finance Guides internationella granskningsmetod som rör kontroversiell vapenexport, jämfört med 26 procent 2016.
- Danske Bank, Handelsbanken, Nordea och Swedbank har förbättrat sina riktlinjer gällande kontroversiell vapenexport sedan 2016. Störst förbättringar har gjorts av Swedbank som nu har de mest omfattande riktlinjerna. Riktlinjerna gäller hela den finansiella verksamheten och refererar till sex av Fair Finance Guides sju principer.
- Länsförsäkringar, SEB, Skandia and Swedbank har investeringar och/eller lån som Fair Finance Guide bedömer rimmar illa med de egna riktlinjerna.
- Alla bankerna exkluderar företag med hänvisning till kontroversiella vapentyper men ingen bank kunde påvisa något exempel där ett företag uteslutits på grund av kontroversiell vapenexport.
- En del banker hänvisar till att svenska och europeiska myndigheter har godkänt vapenexporten som en förklaring till det egna finansiella stödet till företagen.
- Flera av bankerna har gett lån till företag trots att de samtidigt haft dem svartlistade för investeringar på grund av kopplingar till kontroversiella vapentyper.



5. REKOMMENDATIONER TILL BANKERNA

1. Anta riktlinjer som förhindrar investeringar i, och finansiering av, företag inblandade i kontroversiell vapenexport.

Riktlinjerna bör täcka bankernas hela finansiella verksamhet. De bör som miniminivå förhindra investeringar i och finansiellt stöd till företag som levererar vapen till länder som, enligt principerna i Fair Finance Guides internationella granskningsmetod, är särskilt kontroversiella destinationer för vapenexport.

2. Utveckla metoder för att identifiera till vilka länder som vapenexport skulle bryta mot de egna riktlinjerna.

Det räcker inte att förlita sig på om svenska eller europeiska myndigheter godkänt exporten, eller om sanktioner från EU och FN finns mot länderna. Myndigheterna bedömer internationella regelverk olika och kritiseras för att inte i tillräcklig utsträckning ta hänsyn till vilka effekter vapenexporten har på exempelvis mänskliga rättigheter. Bankerna måste därför utveckla egna metoder för att bedöma om vapenexporten är förenlig med de egna riktlinjerna, innan de kan fatta beslut om investeringar och annat finansiellt stöd till företagen.

3. Utveckla verktyg för att granska företags inverkan på mänskliga rättigheter.

Granskningen bör baseras på bankernas riktlinjer enligt den första rekommendationen ovan. En så kallad Human Rights Due Diligence (HRDD) identifierar möjliga risker och förebyggande åtgärder med syfte att förhindra att ett företags verksamhet inverkar negativt på mänskliga rättigheter.¹¹ En HRDD bör täcka inverkan på mänskliga rättigheter på grund av företagets egna aktiviteter, liksom den inverkan andra aktörer kan orsaka vid användningen av företagets produkter.

4. Publicera en lista över företag som svartlistats på grund av inblandning i kontroversiell vapenexport.

Bankerna bör öppet redovisa vilka företag de uteslutit tillsammans med motiveringen bakom beslutet. Öppenheten ger kunder och andra aktörer möjlighet att kunna göra informerade val. Bankerna bör också informera de uteslutna företagen om beslutet och orsaken bakom, så att företagen förstår vilka åtgärder bankerna kräver av dem för att kunna få finansiellt stöd.

11 HRDD ingår i FN:s vägledande principer för företag och mänskliga rättigheter.

CHAPTER 1:

INTRODUCTION

In 2018 global military expenditure amounted to \$1.8 trillion, a figure on the rise.¹² Clearly, global arms trade is big business. The trade in arms is not like any other trade. As arms are developed to kill, injure or destroy arms export threatens our most fundamental right, the right to life. While states purchase arms to defend their territories and some states contribute to UN peace keeping missions, it is a fact that in many parts of the world arms are used by states and other actors to oppress people, to fuel conflicts and violate human rights. Arms export can also contribute to gender-based violence which is used as a weapon of war. The ongoing conflict in Yemen is a case in point, where years of war have created the world's worst humanitarian emergency, according to the UN and others.¹³ Furthermore, when military expenditure is compared with the financing needs to fulfill the Sustainable Development Goals (SDGs) - the annual SDG financing gap is estimated at \$2.5 trillion per year for developing countries¹⁴ - and to address the climate crisis, the opportunity costs become very clear.

Given the high risks and potential threats to human security associated with arms, states have a responsibility to regulate the arms trade.

At the same time arms producing and selling companies also have responsibilities for the impact of their products, as stipulated by the UN Guiding Principles for Business and Human Rights (UNGPs).

Investors, including banks, have a key role to play as they can choose to provide arms producing companies with loans and investment capital. They have a responsibility to ensure their financial support to the companies does not contribute to the violation of human rights and other risks associated with the sector. The UNGPs and the accompanying Reporting Framework provide key guidance in this regard also for investors.¹⁵ Investors and banks also have tools at hand and can either exclude arms producing companies or engage with them to try to change their behavior, if this is likely to have a positive impact. Fair Finance Guide International has developed a set of principles, based on international norms and conventions, with the objective to provide guidance for investors for how to avoid contributing to so called controversial arms trade.

12 SIPRI, 29 April 2019: <https://www.sipri.org/media/press-release/2019/world-military-expenditure-grows-18-trillion-2018>

13 UN News, 24 February 2019. "UN and partners to hold conference seeking urgently needed funds to save millions in Yemen from 'horrific' plight"; <https://news.un.org/en/story/2019/02/1033401>

14 UNCTAD, 2014. World Investment Report 2014, Investing in the SDGs: An Action Plan https://unctad.org/en/PublicationsLibrary/wir2014_en.pdf

15 UN Guiding Principles Reporting Framework: <https://www.ungpreporting.org/about-us/why-reporting-matters/#Investors>

1.1 OBJECTIVE

This report assesses the financial links between Sweden's seven largest banks and companies involved in controversial arms trade, as defined in this report (see further below). It is a follow up to a report launched by Diakonia and Fair Finance Guide Sweden in 2016.¹⁶ The previous report analyzed whether the banks invested in companies actively involved in controversial arms trade, to what extent the banks had policies in place that provided guidance in this area and, finally whether they complied with their own policies. The report concluded that all of Sweden's seven largest banks invested in companies involved in controversial arms trade, and most of the banks did not take a clear stand against different types of controversial arms trade.

The objective of this follow up report is to look at any evolvments that have taken place since 2016. The report aims to provide answers to the questions: 1) Do the banks still invest in companies involved in controversial arms trade? What if anything has changed? 2) Have the banks made any changes in their own policies of relevance? 3) Finally, similarly to the 2016 report, we try to provide answers to whether the banks follow their own policies in practice, or not.

The overall aim of the report, and FFG at large, is to contribute to the development of policies and practices that promote sustainable development and human rights. We welcome a constructive debate on the responsibility of the banks when it comes to controversial arms trade and hope our assessment will lead to further progressive steps being taken by the banks.

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 December 2019, FFGI is active in eleven countries. Fair Finance Guide Sweden was launched in 2015.

The coalition has jointly developed a comprehensive methodology for assessing and monitoring bank policies and practices. The methodology is reviewed and updated on a regular basis. In Sweden, FFG each year presents an assessment of the policies of the Swedish banks. Furthermore, the members of the coalition develop case studies on different topics which provide information on how the banks put their policies into practice, and which make recommendations to the banks. Fair Finance Guide Sweden also provide citizens with information about the banks and a web-based tool for engaging with the banks.

1.2 METHODOLOGY

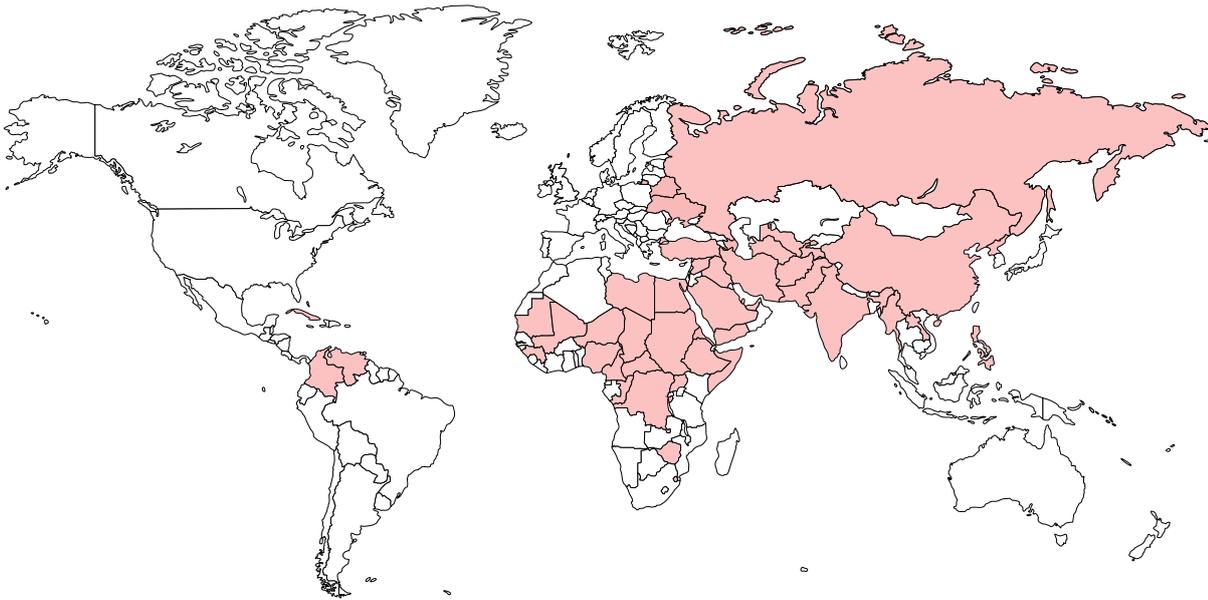
This report assesses the financial links between the following seven Swedish banks and companies involved in controversial arms trade: Danske Bank, Handelsbanken, Länsförsäkringar, Nordea, SEB, Skandia and Swedbank.¹⁷ The methodology of the report (similar to the previous 2016 report) is based on the methodology of a report published by the Dutch equivalent of Fair Finance Guide together with PAX.¹⁸ The sections below summarize the methodology.

¹⁶ Davies, Penny and König, Jakob, September 2016. *Deadly Investments, Swedish banks' investments in controversial arms trade*, published by Diakonia and Fair Finance Guide Sweden.

¹⁷ The selected banks are the same ones included in the Fair Finance Guide Sweden yearly annual policy screening. For more information see <https://fairfinanceguide.se/>

¹⁸ Eerlijke Bankwijzer and PAX, 6 June 2019. *Controversial Arms Trade and investments of Dutch banks, A case study for the Fair Bank Guide (Eerlijke Bankwijzer)*, <https://www.paxforpeace.nl/publications/all-publications/controversial-arms-trade-and-investments-of-dutch-banks>

Image 1: The 49 selected countries listed in Annex 1.



DEFINITION OF CONTROVERSIAL ARMS TRADE AND SELECTION OF COUNTRIES

There is no internationally agreed definition of controversial arms trade and this is an area subject to international debate. According to some, all trade in arms is controversial. This report takes as its point of departure the seven responsible investments principles regarding controversial arms trade included in the Fair Finance Guide International methodology (listed in Table 2). In order to select countries to which the delivery of arms can be considered particularly controversial, the seven FFG principles have been operationalized into selection criteria based on indices published by well-renowned international institutions. The principles and indices are described in the Dutch report.¹⁹

In short, controversial arms trade refers to the supply of arms and weapon systems, military transport systems, and other military goods to countries:

- placed under UN or EU arms embargo
- governed by authoritarian regimes with lim-

ited political and civil rights and that violate human rights

- involved in armed conflict, unless acting in accordance with a UN Security Council resolution
- with high corruption risks in defense establishments
- considered to have a failed or fragile state
- categorized as low human development countries that spend a disproportionate part of their budget on purchases of arms

The process resulted in a total selection of 49 countries (see map above). The countries are also listed in Annex 1 together with the indices that guided the selection.²⁰ It is important to stress that the final selection should be viewed upon as sample of countries to which the export of arms can be considered as particularly controversial, rather than an exhaustive list.

SELECTION OF COMPANIES

The report assesses the financial links between the seven Swedish banks and 15 listed compa-

¹⁹ Ibid.

²⁰ The principles and indices are described in the Dutch report which the methodology of this report is based on: Controversial Arms Trade and investments of Dutch banks, A case study for the Fair Bank Guide, published by Eerlijke Bankwijzer and PAX, June 2019.

nies involved in controversial arms trade, see Table 1. The companies are included in the latest version (March 2019) of the Stockholm International Peace Research Institute (SIPRI) Arms Transfers Database, which contains information on all transfers of so called major conventional weapons from 1950 until now. It should be noted that as there is no available comprehensive data for arms transfers of all types of military products, the analysis only covers transfers of major conventional arms. This will exclude companies involved in controversial arms trade of types of arms and military materiel not covered by the SIPRI database, for example small arms and light weapons.²¹ Initially the list included 28 listed companies (based on the selection criteria in the Dutch report), but this was narrowed down to 15 where links to the Swedish banks were found. The selected companies have delivered arms to at least one of the selected countries during the time period of January 2014 to December 2018.

Table 1: Selection of companies involved in controversial arms exports 2014-2018

Company name	Origin
Airbus	Netherlands/France
Aselsan	Turkey
BAE Systems	UK
Dassault Aviation	France
Embraer	Brazil
General Electric	USA
Honeywell	USA
Korea Aerospace Industries (KAI)	South Korea
Rheinmetall	Germany
Rolls-Royce	UK
Saab	Sweden
Singapore Technologies	Singapore
Thales	France
ThyssenKrupp	Germany
United Technologies	USA

THE BANKS' FINANCIAL LINKS WITH THE COMPANIES

The financial analysis looks into both the investments i.e. equity investments and bond holdings, as well as loans and underwriting services to the selected companies. The equity and bond holdings are limited to the banks' investment funds. The information on the holdings was retrieved from the funds' 2018 annual reports. Information on loans and underwriting services was retrieved from the financial databases Thomson Reuters Eikon and Bloomberg, and covers transactions until December 2018. Only transactions with a maturity date for the loan or bond that is December 2018 or later have been included. When information about the loan amount per bank was unavailable, the total loan amount was divided evenly among the participating banks. (Loans and underwriting were not included in the Diakonia/Fair Finance Guide 2016 report.) The report analysis is based on the banks' policies in place at the time of the holdings or transaction.

For the production of this report the banks were asked to verify the financial data and provide explanations to their financial links with the companies in relation to their policies. The banks were also given the possibility to read and comment on the draft sections of the report that mentioned each of them.

21 See SIPRI webpage: <https://www.sipri.org/databases/armstransfers>

1.3 ARMS TRADE – KEY INTERNATIONAL STANDARDS

Due to the risks associated with the export of arms, there are initiatives that aim to regulate arms trade. Two international standards that are important, which the banks in this study also refer to, are the Arms Trade Treaty (ATT) and the EU Common Position on Arms Export Controls. The ATT is a multilateral treaty, which regulates the international trade in certain types of conventional arms – from small arms to battle tanks, combat aircraft and warships.²² It was adopted by the UN General Assembly in 2013 and entered into force 24 December 2014. As of November 2019, 104 states have joined the treaty.²³ The treaty requires states to adopt common standards to be met before arms exports are authorized. Amongst other things, the treaty requires states to assess the potential that the arms exported would contribute to or undermine peace and security or could be used to commit or facilitate serious violations of international humanitarian law, or international human rights law.²⁴

The EU Common Position predates the ATT and was adopted in 2008 as a legally binding position for EU member states. It defines common rules governing the control of export of military technology and equipment, and has a wider scope than the ATT.²⁵ The Common Position stipulates that member states aim to “prevent the export of military technology and

equipment which might be used for internal repression or international aggression or contribute to regional instability”. It contains eight criteria, one of which refers to “Respect for human rights in the country of final destination as well as respect by that country of international humanitarian law” (criteria two).²⁶

1.4 ARMS TRADE – SWEDISH REGULATION AND DEBATE

Besides multilateral and regional regulatory policies, many countries have national export licensing policies and practices. In Sweden a new regulatory framework came into force in 2018 after debate and civil society criticism against the fact that the regulation in place did not prevent the export of military equipment to countries with extensive violations of human rights from taking place. In particular, criticism was put forward against Swedish military cooperation with Saudi Arabia. In May 2011, five parties in Parliament (FP, KD, MP, S and V) made a pledge together with civil society organisations (Amnesty, Diakonia, Svenska Freds and Sveriges Kristna Råd) “to work for a regulatory framework that in practice should not allow the export of military equipment to dictatorships or other countries where it risks being used to violate human rights.”²⁷

In 2012, the government at the time appointed a parliamentary review committee (Krigsma-

22 It should be noted that the treaty scope is not comprehensive. Ammunition, parts and components are not included in the treaty scope, nor are military material such as surface-to-air missiles, light artillery, tear gas and drones.

23 United Nations Office for Disarmament Affairs, <https://www.un.org/disarmament/convarms/arms-trade-treaty-2/>, visited 15 November 2019.

24 United Nations, *The Arms Trade Treaty*: <https://unoda-web.s3-accelerate.amazonaws.com/wp-content/uploads/2013/06/English7.pdf>, visited 15 November 2019.

25 Council Common Position 2008/944/CFSP of 8 December 2008 defining common rules governing control of exports of military technology and equipment: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32008E0944>. Latest consolidated version: 17/09/2019, and Common Military list of the European Union, adopted by the Council, 18 February 2019: [https://eur-lex.europa.eu/legal-content/ENG/TXT/PDF/?uri=CELEX:52019XG0312\(01\)](https://eur-lex.europa.eu/legal-content/ENG/TXT/PDF/?uri=CELEX:52019XG0312(01)), visited 15 November 2019.

26 Ibid

27 Dagens Nyheter 2011.05.17. DN debatt, ”Vi lovar att reglerna om vapenexport ska skärpas”: <https://www.dn.se/debatt/vi-lovar-att-reglerna-om-vapenexport-ska-skarpas/>

terielexportöversynskommittén – KEX) with the mandate to develop proposals for new arms legislation and to investigate how Sweden could tighten export controls to non-democratic regimes. The committee reported its findings in June 2015, but the process was thereafter delayed. The government proposition came in October 2017. The new regulatory framework entered into force in April 2018 after it was adopted by the Parliament.²⁸

The biggest change compared with previous regulations is the introduction of “the democratic status of the recipient state” as a central condition to be taken into account in the licensing process.

The new regulation has been criticized by human rights organisations for containing serious loopholes. For example, it does not cover subsequent deliveries (“följdleveranser” in Swedish) of trade deals made before the new regulation entered into force, which could go on for decades according to the Inspectorate of Strategic Products (ISP), the government authority in charge of export control. Furthermore, the new

regulation stipulates that an overall assessment should be done when granting exports, in which different policy interests should be weighed against each other. This balancing act contradicts the Swedish Policy for Global Development (PGD), according to Diakonia, and also risks putting into jeopardy the Sustainable Development Goals in Agenda 2030.²⁹ The PGD spells out that all Swedish policies should be guided by a rights perspective, based on international human rights conventions, and the perspectives of people living in poverty. Civil society organisations have several times pointed out that the PGD should also permeate the policies regulating the export of arms. The new regulation does however not ensure this. There is a lack of competence to make these assessments at ISP, according to civil society, as well as a lack of transparency in the decision-making processes of ISP.³⁰

In August 2019, Swedish media (TV4) exposed the fact that Swedish arms are used in the armed conflict in Yemen, and how export continues to the parties involved.³¹ The debate on Swedish export of arms is still ongoing.

28 Regeringskansliet, June 29, 2017. ”Skärpt kontroll av krigsmateriel”: <https://www.regeringen.se/rattsliga-dokument/laggradsremiss/2017/06/skarpt-exportkontroll-av-krigsmateriel/>

29 Diakonia 2017-10-13. “Nya lagförslaget om vapenexport urholkar politiken för global utveckling” <https://www.diakonia.se/om-oss/Nyheter-och-mediaservice/Nyheter-fran-Diakonia/nya-lagforslaget-urholkar-utvecklingspolitiken/>

30 Concord, Barometer 2018: <https://concord.se/wp-content/uploads/2018/05/barometer-2018-manskligsakerhet-rapport-concord-sverige.pdf>

31 Svenska Freds- och Skiljedomsföreningen webpage: <https://www.svenskafreds.se/upptack/vapenexport/nya-avslojanden-om-svenska-vapen-i-kriget-i-jemen/>

CHAPTER 2:

THE SWEDISH BANKS' POLICIES AND FINANCIAL LINKS TO CONTROVERSIAL ARMS TRADE

This chapter first looks at the banks' policies in place related to controversial arms trade. The policies are compared with the principles related to arms part of the Fair Finance Guide International methodology, which in turn are based on international norms and conventions (see Table 2). This is followed by a section taking note of policy improvements made by the banks since the 2016 report.

The policy analysis is followed by an analysis of the banks' financial links to the selected companies - equity investments and bond holdings as well as loans and underwriting. Any changes in

investments since the previous report are noted. As loans and underwriting were not included in the previous study, a comparison cannot be made with the 2016 report data.

The following section analyses to what extent the banks comply with their own policies, based on the previous data analysis.

Finally, reflections are made on some of the responses provided by the banks to Diakonia and FFG Sweden in the production of this report.

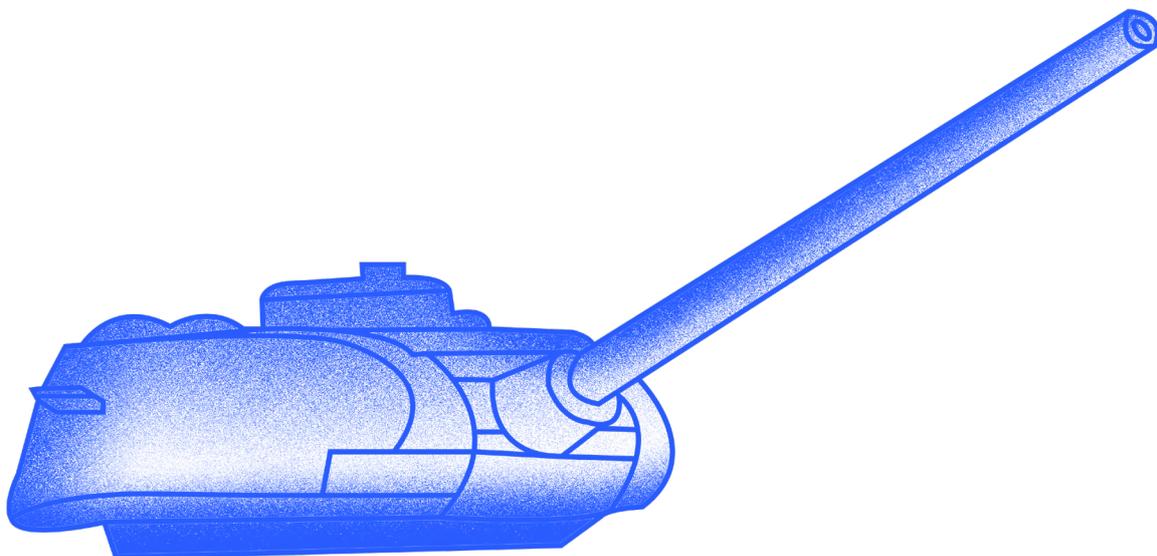


Table 2: Fair Finance Guide principles and the banks' policy commitments concerning controversial arms trade³²



		Danske Bank	Handelsbanken	Länsförsäkringar	Nordea	SEB	Skandia	Swedbank
8	Supply of arms and weapon systems, military transport systems, and other military goods to countries that are under a United Nations or relevant multilateral arms embargo, is unacceptable.	Yes	Yes	Partly (limited scope)	Partly (only trade finance)	Yes	Yes	Yes
9	Supply of arms and weapon 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 law.	Partly (limited scope)	Yes (but vague policy)	Partly (limited scope)	Yes (but vague policy)	Yes	Partly (limited scope)	Yes
10	Supply of arms and weapon systems, military transport systems, and other military goods to countries that severely violate human rights, is unacceptable.	No	No	No	No	Yes	Yes	Yes
11	Supply of arms and weapon systems, military transport systems, and other military goods to parties involved in conflict is unacceptable, unless to parties acting in accordance with a UN Security Council resolution.	No	No	No	No	Yes	No	Yes
12	Supply of arms and weapon systems, military transport systems, and other military goods to countries that are sensitive to corruption, is unacceptable.	No	Yes (but vague policy)	No	No	No	No	Yes
13	Supply of arms and weapon systems, military transport systems, and other military goods to countries having a failed or fragile state, is unacceptable.	No	No	No	No	No	No	Yes
14	Supply of arms and weapon 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	No	No

32 The table is based on Fair Finance Guide Sweden's assessment of the banks' policies in 2019: <https://fairfinanceguide.se/media/495457/betygstabeller-2019.pdf>

2.1 THE BANKS' POLICIES CONCERNING CONTROVERSIAL ARMS TRADE

All of the banks support principle 8 not to export arms in violation of an arms embargo. Nordea's policy only covers trade finance and Länsförsäkringar refers to the Arms Trade Treaty (ATT), which does not cover all arms types and therefore limits the policy scope.

All seven banks also support principle 9 to some extent, which states that it is unacceptable to export arms that risk being used for severe violations of human rights and humanitarian law. The policies of Danske Bank, Länsförsäkringar and Skandia have a limited scope since they refer to the ATT, which does not cover all arms types. Handelsbanken and Nordea have policies that do not clearly support the principle. Handelsbanken states that they "take account of the companies' guidelines for opposing human rights violations". Nordea's policy says that defence companies should be compliant with international conventions and mentions amongst others human rights.

SEB, Skandia and Swedbank are the only banks to support principle 10, which states that arms should not be exported to parties that severely violate human rights. Skandia and Swedbank explicitly spell out this principle in their respective position statements. SEB covers the principle by listing the principles in the European Council Common Position.

SEB and Swedbank are the two banks with the most comprehensive position statements that make clear references to most of the principles. Both banks support principle 11, which states

that arms should not be exported to countries involved in armed conflict (unless acting in accordance with UN resolutions). Swedbank is the only bank that supports principles 12 and 13, which state that arms trade with countries that are sensitive to corruption and failed or fragile states is unacceptable. Handelsbanken also partly supports principle 12 through a somewhat vague statement in its sector guideline to "take into account" how arms companies prevent corruption. SEB is the only bank that supports principle 14 which states that arms should not be exported to countries that spend a disproportionate part of their budget on arms.

In conclusion, the assessment shows that the banks still only support some of the principles relating to controversial arms trade in their investment and lending policies.

2.2 POLICY IMPROVEMENTS

Four of the banks (Danske Bank, Handelsbanken, Nordea and Swedbank) have improved their policies concerning controversial arms trade since the previous study in 2016. On average the seven banks now support 39 percent of the principles, up from 26 percent in 2016. All banks now have a policy in place that at least to some extent addresses controversial arms trade.

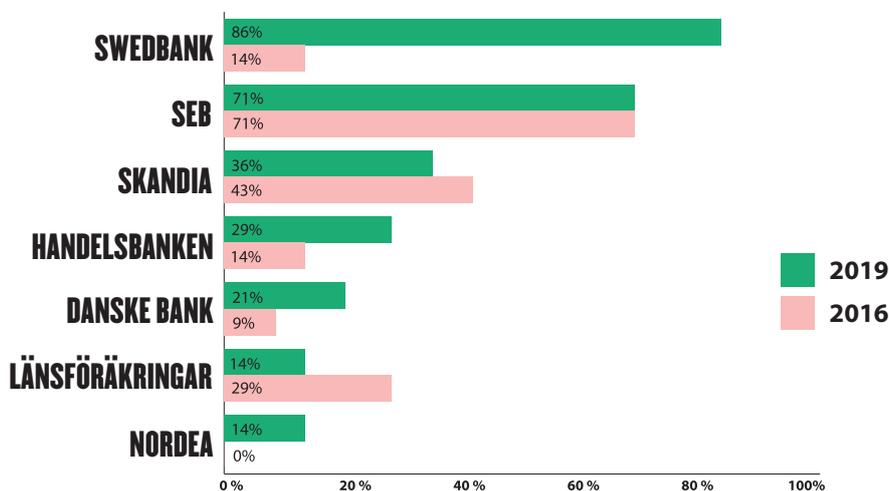
Swedbank has made the biggest improvement, which now is the bank with the most comprehensive position. In 2018 the bank added new positions relating to controversial arms trade in its position statement on defence equipment.³³ The positions clearly refer to six of the seven FFG principles and the position applies to all its financial activities.

33 Swedbank, 12 June 2019. "Instruction – Position Statement Defence Equipment" <https://online.swedbank.se/ConditionsEarchive/download?bankid=1111&id=WEBDOC-PPE1341797>

Previously Swedbank's public position statement only supported two of the principles and it only applied to its trade finance activities.

Swedbank has also incorporated further implementation criteria in its position and uses several of the methods used in the FFG reports.

Graph 1: The banks' policy commitments regarding controversial arms trade (2019 vs. 2016)



Handelsbanken has also adopted new commitments to consider corruption and human rights aspects in relation to arms trade. The policy statements are however quite vague and do not fully support principles 9 and 12. In addition, Handelsbanken in 2018 decided to phase out all investments in arms from its actively and passively managed investment funds as well as multi-asset funds (which also implies the same phasing out of investment in arms in externally managed funds), because of the sector's negative impact on the sustainable development goals. This readjustment will be completed during 2019.³⁴

Danske Bank has also added aspects concerning arms trade in its sector policy for investments and lending. The bank now supports principle 8 on arms embargos and also principle 9 when

lending to companies, but this is not applied to investments for some reason. Nordea has also improved as in 2016 it was the only bank lacking a policy in this area. The bank has now adopted a policy, which partly and in a somewhat vague manner refers to principles 8 and 9 respectively.

The other three banks have not made any significant changes of their policies. Länsförsäkringar and Skandia have slightly reduced scores in the FFG 2019 policy assessment, but this is not due to changes in their position statements but because Fair Finance Guide has revised its scoring when banks refer to the ATT as the treaty does not cover all arms types. SEB was in 2016 the bank with the most comprehensive policy and SEB has not made any changes since then.

34 Handelsbanken, *Investerar i framtiden, Hållbarhets- och ägarstyrningsrapport 2018*: [https://www.handelsbanken.se/shb/inet/icensv.nsf/vlookuppics/a_fonder_fonder_hallbarhet_och_agarstyrningsrapport/\\$file/hb_fonder_hallbarhets_och_agarstyrning.pdf](https://www.handelsbanken.se/shb/inet/icensv.nsf/vlookuppics/a_fonder_fonder_hallbarhet_och_agarstyrningsrapport/$file/hb_fonder_hallbarhets_och_agarstyrning.pdf)

2.3 THE BANKS' FINANCIAL LINKS TO THE COMPANIES

The financial screening shows that all seven banks have financial links with the 15 companies involved in controversial arms trade. Equity investments and bond holdings are found in 12 of the companies, and loans and underwriting have been provided to seven of the companies.

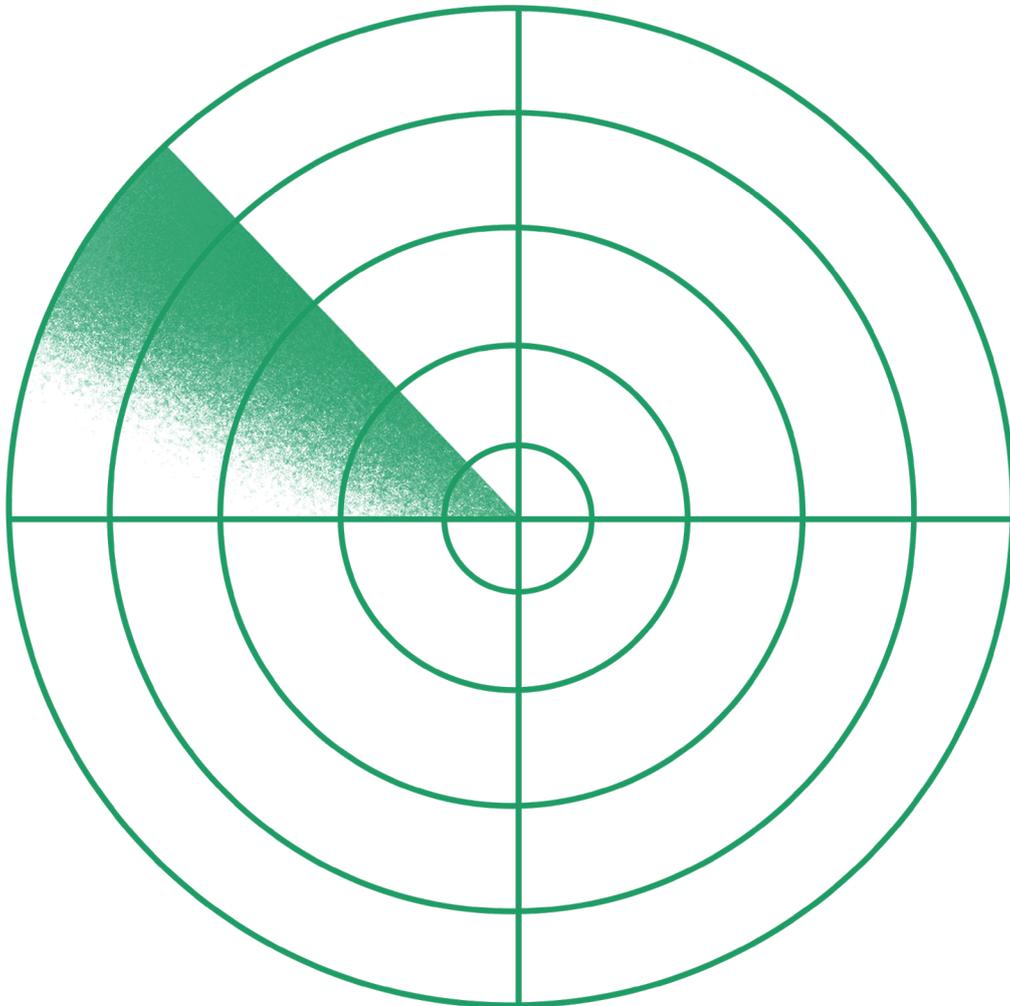
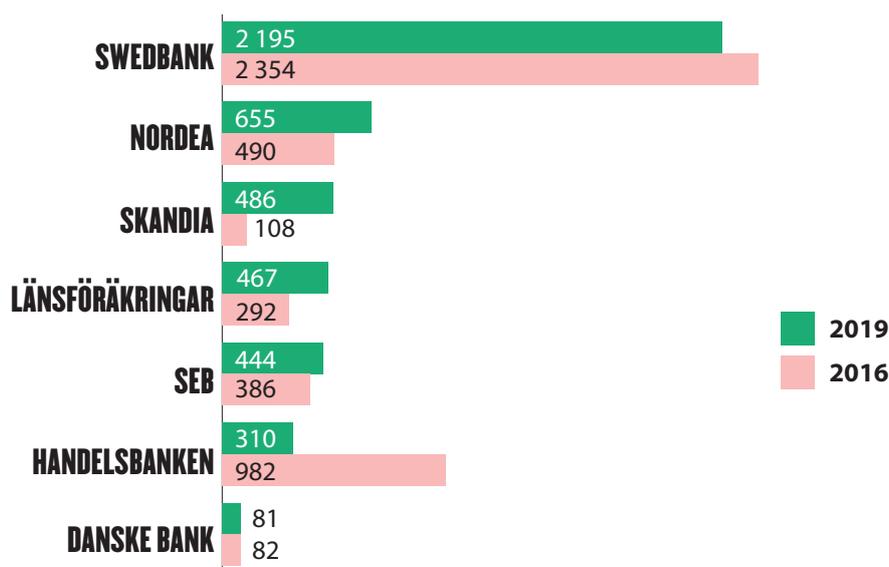


Table 3: The 15 companies involved in controversial arms trade and links to Swedish banks

Company	Country	Type of arms (examples)	Arms sales to	Violates the following principles	Swedish banks that invest in and/or finance the company
Airbus	Netherlands / France	Combat aircraft, helicopters, missiles	Egypt, China, India, Laos, Lebanon, Mali, Pakistan, Philippines, Saudi Arabia, Turkey, Turkmenistan, United Arab Emirates	Arms embargo Armed conflict Unfree country/Human rights Sensitive to corruption Fragile state Poverty and military spending	Danske Bank, SEB
Aselsan	Turkey	Target systems to Combat aircraft	Pakistan	Armed conflict Sensitive to corruption Fragile state	Handelsbanken, Länsförsäkringar
BAE Systems	UK	Combat aircraft, combat ships, cannons, missiles, rockets, naval guns,	Bahrain, Colombia, Egypt, India, Iraq, Lebanon, Pakistan, Saudi Arabia, Turkmenistan, United Arab Emirates	Armed conflict Unfree country/Human rights Sensitive to corruption Fragile state	SEB
Dassault Aviation	France	Combat aircraft	India, Egypt	Armed conflict Unfree country/Human rights Sensitive to corruption	Danske Bank, Nordea, Skandia
Embraer	Brazil	Trainer/combat aircraft, surveillance aircraft	Afghanistan, India, Lebanon, Mali, Nigeria, Philippines	Armed conflict Sensitive to corruption Fragile state Poverty and military spending	Handelsbanken, Nordea
General Electric	USA	Engines for: combat aircraft, combat helicopters, military ships	Egypt, India, Philippines, Saudi Arabia, Turkey	Armed conflict Unfree country/Human rights Sensitive to corruption	Danske Bank, Länsförsäkringar, Nordea, SEB, Skandia, Swedbank
Honeywell	USA	Engines for: combat helicopters, anti-submarine helicopters and military trainer aircraft	India, Israel, Turkey	Armed conflict	Danske Bank
Korea Aerospace Industries (KAI)	South Korea	Trainer/combat aircraft	Iraq, Philippines	Armed conflict Sensitive to corruption Fragile state	Länsförsäkringar
Rheinmetall	Germany	Anti-aircraft gun, fire control radar, armoured vehicles,	China, Egypt, Pakistan, Saudi Arabia	Arms embargo Armed conflict Unfree country/Human rights Sensitive to corruption Fragile state	SEB, Skandia
Rolls-Royce	UK	Engines for: combat aircraft, battle tanks, combat helicopters, military ships	Chad, China, Colombia, Egypt, India, Iraq, Israel, Nigeria, Pakistan, Philippines, Saudi Arabia, Turkey, Turkmenistan, United Arab Emirates	Armed conflict Unfree country/Human rights Sensitive to corruption Fragile state Poverty and military spending	Länsförsäkringar, Nordea, SEB, Skandia
Saab	Sweden	Surveillance aircraft, missile systems, radar systems	Pakistan, Philippines, Saudi Arabia, United Arab Emirates	Armed conflict Unfree country/Human rights Sensitive to corruption Fragile state Poverty and military spending	Danske Bank, Handelsbanken, Länsförsäkringar, Nordea, SEB, Skandia, Swedbank
Singapore Technologies	Singapore	Mortars, missile boats	Egypt, United Arab Emirates	Armed conflict Unfree country/Human rights Sensitive to corruption	Länsförsäkringar, Nordea, Skandia
Thales	France	Missile systems, fire control systems for combat aircraft and military boats, air search radars for combat vehicles	Colombia, Egypt, India, Philippines, Saudi Arabia, Turkey, Turkmenistan, United Arab Emirates	Armed conflict Unfree country/Human rights Sensitive to corruption	Länsförsäkringar, Skandia
Thyssen-Krupp	Germany	Attack submarines	Egypt, Israel, Turkey	Armed conflict Sensitive to corruption	Danske Bank, Handelsbanken, Länsförsäkringar, Nordea, SEB, Skandia, Swedbank
United Technologies	USA	Reconnaissance systems for combat aircraft, engines for combat aircraft and military transport aircraft	Afghanistan, Egypt, Equatorial Guinea, India, Iraq, Lebanon, Mali, Nigeria, Philippines, Saudi Arabia, Turkey, United Arab Emirates	Armed conflict Unfree country/Human rights Sensitive to corruption Fragile state Poverty and military spending	Länsförsäkringar, Nordea, Skandia

Graph 2: Total amount invested in the companies, 31 December 2018 (MSEK)



INVESTMENTS

The total value of the banks' investments in the companies was 4.6 billion SEK at the beginning of 2019. Investments in Saab AB account for the largest part, over 80 per cent of the total amount of the banks' combined investments. Investments in General Electric, United Technologies and ThyssenKrupp were the biggest among the other companies, but account for a much smaller share.

Just like in the 2016 report, Swedbank is the bank with the largest amount invested, in total 2.2 billion SEK, of which 95 per cent is invested in Saab AB. Swedbank invests only in three of the 15 companies, which is the fewest among the banks. Länsförsäkringar and Skandia invest in the largest number of companies, nine out of 15.

The investments were found in 60 of the banks' investment funds (see Annex 2). Half of the funds are actively managed, i.e. the fund manager actively chooses which individual companies to invest in. The other funds are passively managed, so-called index funds, or "close-to-index" funds, which means fund managers follow

an index and companies can only be removed if the index is changed. At Danske Bank and SEB some of the companies linked to controversial arms trade were also found in a few of their sustainability funds, which claim to take additional consideration to sustainability aspects.

LOANS AND UNDERWRITING

Four of the banks (Danske Bank, Nordea, SEB and Swedbank) have provided loans or underwriting services to the companies during the researched period 2014-2018. In total 43 cases of new loans, outstanding loans or bond underwriting services to seven of the companies were found. Almost half of the financial support was provided by the banks in 2017 and 2018, i.e. after the previous Diakonia/FFG report in 2016. The total value of the financial support was 20.7 billion SEK and almost half of it was provided to Saab AB. SEB accounted for the largest total amount with over 9 billion SEK. No financing from Handelsbanken to the companies was identified. Länsförsäkringar does not provide financial support to these types of companies and Skandia does not offer loans to companies.

Graph 3: The banks' total amount of outstanding loans and underwriting to the companies, 31 December 2018 (MSEK)

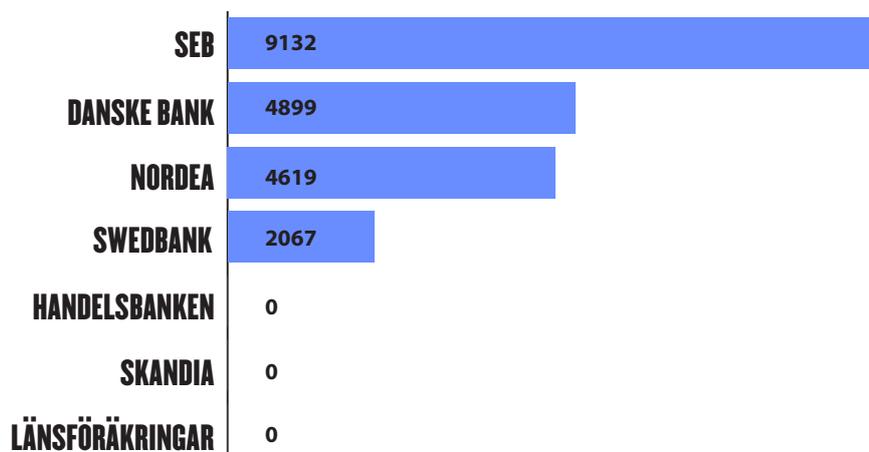


Table 4: The banks' total amount of outstanding loans and bond underwriting per company, 31 December 2018 (MSEK)

	Airbus	BAE Systems	Honeywell	Rheinmetall	Rolls-Royce	Saab	United Technologies
SEB	1117	2146	-	340	3738	1791	-
Danske Bank	1117	-	1991	-	-	1791	-
Nordea	-	-	-	-	583	3250	787
Swedbank	-	-	-	-	-	2067	-
Handelsbanken	-	-	-	-	-	-	-
Länsförsäkringar	-	-	-	-	-	-	-
Skandia	-	-	-	-	-	-	-

2.4 CHANGES SINCE 2016

In comparison with the previous study in 2016 there have been some improvements in terms of the number of companies and amounts invested in the companies. The banks no longer invest in four of the companies (BAE Systems, Boeing, Raytheon, Leonardo) that they did previously. This is however not due to the companies' involvement in controversial arms trade but because of their involvement in controversial arms types (for example nuclear weapons).

Another improvement is that the total invested amount has decreased, both in absolute terms but also due to a reduction in the banks' investments. In the previous study the total amount was slightly higher (4.7 billion SEK), which means an absolute decrease of 100 MSEK since 2016. The amounts are however not completely comparable and when taking other factors into account, most importantly changes in the share price and the exchange rates, which suggest that the decrease is much larger. An estimate shows that the value would have been 5.9 billion SEK if the banks' investments were unchanged since 2016. In addition to this, the 2019 study covers more companies (28 companies in 2019 compared with 15 in 2016) so the total value in 2016 would have been higher if it had covered as many companies. All the above indicates that the banks' have actively decreased their investments in companies involved in controversial arms trade by at least by 28 per cent, according to our calculations.³⁵

In 2019 there were also fewer cases of sustainability funds that invest in companies involved

in controversial arms trade. In 2016 three banks had such investments in their sustainability funds compared with two banks in this follow up study.

2.5 THE BANKS' COMPLIANCE WITH THEIR POLICIES

Four of the banks have investments and/or loans that according to our analysis clearly contradict the principles in the banks' own policies: Länsförsäkringar, SEB, Skandia and Swedbank.

Länsförsäkringar invests in several companies that export military products that breaches principle 9, to which Länsförsäkringar has partly committed by referring to the ATT. This is for example the case with Singapore Technologies that exports mortars to United Arab Emirates and three companies (General Electric, Rolls-Royce and United Technologies³⁶) that provide engines to fighter aircraft to Saudi Arabia amongst other countries. Länsförsäkringar also invests in Saab, which exports surveillance aircraft to the United Arab Emirates. Both countries are involved in the Yemen armed conflict in which severe human rights violations have been reported including indiscriminate and disproportionate attacks on civilians.³⁷ The ATT states that arms should not be exported if there is an overriding risk that they can be used for severe human rights violations. Mortars and key components for arms platforms are covered by the ATT.

Länsförsäkringar has responded that they use

35 Between 31 December 2015 and 31 December 2018, the S&P Aerospace & Defence Index has increased by 51 per cent, Saab's share has increased by 18 per cent and the Swedish currency has depreciated 7 per cent against the USD and 12 per cent against the EUR. If taking the large share of Saab into account and adjusting it with its share price development, and the remaining amount adjusted by the market index increase and ten per cent exchange rate increase (an average of the changes against the USD and EUR), the amount of the 2016 holdings would have increased to 5.9 billion SEK in 2019. 4.6 billion SEK is 28 per cent lower than 5.9 billion.

36 Länsförsäkringar has stopped its investments in United Technologies during 2019, but due to its involvement in nuclear arms.

37 For more information, see Human Rights Watch: <https://www.hrw.org/world-report/2019/country-chapters/yemen>

a norm-based screening service, which has not captured reports of severe impact on human rights directly related to military equipment associated with the companies in question. Länsförsäkringar explains that they only look at reported incidents rather than analyzing the risk of the companies' military exports contributing to violations, based on the circumstances in the recipient country. The scope of the research includes a) allegations of arms exports directly resulting in severe human rights violations b) arms exports in clear violation of UN or EU arms embargoes. A risk-based approach would be more in line with the ATT, which the bank has committed to, according to our analysis.

SEB finances and invests in several companies exporting military products that are in breach of principles 8, 9, 10 and 11, to which the bank has committed. SEB has provided several loans to Rolls-Royce, most recently in 2018, which provides engines to fighter aircraft in Saudi Arabia. The same year SEB provided a loan to BAE Systems, which exports rockets for combat helicopters to Bahrain. BAE's joint-venture MBDA also exports missiles to Saudi Arabia. Both Saudi Arabia and Bahrain are involved in the Yemen armed conflict (see above). In 2015 SEB arranged a loan to Rheinmetall that engages in military exports to China and Egypt, despite relevant EU arms embargoes.³⁸ Rheinmetall exports anti-aircraft guns and fire control radars to China and until 2015 the company provided armored vehicles to Egypt, a type that has been used in the repression against protesters.³⁹ SEB has also outstanding loans to Airbus, the latest issued in 2014, a company that exports military helicopters to China. SEB also has investments

in General Electric, Saab and ThyssenKrupp which export military products to countries that are involved in military conflict, such as Israel, Philippines, Pakistan and Turkey.

SEB has responded that they cannot comment on specific loans due to bank secrecy laws. The bank assures that none of their loans go to the development of arms types that are seen as particularly controversial. The bank also says that it does not finance controversial arms trade deals. But the bank did not respond to the questions about providing finance to companies involved in certain controversial arms trade, which the bank has a policy against. It is unclear how the bank could safeguard that the loans are not used for certain arms types since most of the loans are classified as general corporate purpose loans which are given to the company as a whole. Regarding the three companies that SEB invests in, the bank responded that they are currently on a watch list but gave no further explanation of the reason behind the bank's objectives.

Skandia invests in several companies that export military products that breach principles 8, 9 and 10, which Skandia supports. Skandia has investments in Rheinmetall, which has exported military equipment to China and Egypt despite relevant arms embargoes.⁴⁰ Rheinmetall exports anti-aircraft guns and fire control radars to China. Until 2015 Rheinmetall exported armored vehicles to Egypt, a type that has been used in the repression against protesters.⁴¹ Skandia also invests in three companies (General Electric, Rolls-Royce and United Technologies) that provide engines to fighter aircraft sold to amongst

38 The embargo against Egypt is partial and therefore not legally binding, but a political commitment. SIPRI "EU arms embargo on Egypt" https://www.sipri.org/databases/embargoes/eu_arms_embargoes/egypt/eu-arms-embargo-on-egypt The embargo against China is subject to different interpretations by EU Member States. SIPRI "EU arms embargo against China": https://www.sipri.org/databases/embargoes/eu_arms_embargoes/china

39 Spiegel 27.05.2013: <https://www.spiegel.de/politik/deutschland/ruestungsexporte-rheinmetall-panzer-ueberrollten-demonstranten-in-kairo-a-902052.html>

40 See footnote 38 above on SIPRI and EU arms embargoes to China and Egypt.

41 Spiegel 27.05.2013, as above.

others Saudi Arabia, a country involved in the Yemen armed conflict (see above). This therefore implies a high risk that the products are used in serious violations of human rights. Skandia also invests in companies exporting military products to countries that are among the world's most unfree, including Equatorial-Guinea, Turkmenistan and Saudi Arabia.

According to Skandia, the fact that companies violate its policy does not always lead to exclusion. At the same time Skandia responded that arms companies are difficult to influence, and Skandia therefore excludes many of them due to their involvement in controversial arms types. Skandia stated that it has not received information from service providers that the companies violate international norms or arms embargos.

Swedbank invests in several companies that export military products that breach principles 9, 10, 11, 12 and 13, to which the bank has committed. Swedbank invests for example in General Electric, Saab and ThyssenKrupp which are all involved in military exports to countries that are unfree and/or involved in armed conflict,

including Egypt, Israel, Pakistan, Philippines, Saudi Arabia and Turkey. The investments are also linked to military exports to countries that are sensitive to corruption or considered fragile states, through the companies Saab, General Electric and ThyssenKrupp. Swedbank's position statement was adopted in October 2018 and the investments in the identified companies were still ongoing as of June 2019. Swedbank has also provided loans and assisted in bond issuance to Saab during the four-year period, the latest in September 2018, which was just before the new position statement against controversial arms trade was adopted.

Swedbank has responded that its new position (2018) lists countries that are high risk concerning arms trade and that the position is under implementation. The bank does not comment on how the new position affects its analyses of the specific companies this report has identified investments in, or whether further loans to Saab will be granted. Swedbank states that several of the companies have been excluded due to their involvement in controversial arms types.

Table 6: The banks' financial links to the companies involved in controversial arms trade

	Number of companies that the bank invests in or lends to	Violates principles in its own policy	Companies were found in the bank's sustainability funds
Danske Bank	6	No	Yes
Handelsbanken	4	No	No
Länsförsäkringar	9	Yes	No
Nordea	8	No	No
SEB	7	Yes	Yes
Skandia	9	Yes	No
Swedbank	3	Yes	No

The other three banks' (Danske Bank, Handelsbanken and Nordea) financial links to the companies are not in clear breach of their own policies. Handelsbanken's policy is too vague regarding the principles that the companies breach. Nordea lacks clear policies against the type of exports that were identified. Danske Bank adopted its policy after the financial screening was done for this report, but if they continue to finance Airbus, Honeywell and Saab this could be considered to be in breach of their policy regarding arms embargos and commitment to the ATT.

2.6 ANALYSIS OF THE BANKS' RESPONSES AND IMPLEMENTATION SYSTEMS

The banks' responses show that most of them still pay limited attention to controversial arms trade, despite having made relevant commitments in this regard in their policies. The banks' main focus is still on controversial arms types, all banks responded that they exclude a large number of arms companies for this reason. Some banks explain their investments in controversial arms trade by referring to the fact that national export control agencies have approved the exports, or to the absence of EU or UN sanctions. The banks do not seem to be aware of the risks of relying on these agencies, which have been criticized for their weakness in taking into consideration the impacts on human rights or military conflicts when approving exports. Furthermore, analysis shows that EU member states interpret the ATT and EU Common Position very differently, depending on their national laws, decision-making processes and political and economic interests. These differences have become particularly evident in the

escalation of the armed conflict in Yemen.⁴²

Only one bank, Danske Bank, explicitly said they have excluded companies because of their involvement in controversial arms trade. Since April 2019 Danske Bank has decided to stop investments in companies that export arms to Saudi Arabia. However, this reason is not mentioned on the bank's exclusion list of companies. This is also the case for Handelsbanken, which has also decided to exclude arms companies for sustainability reasons, but the companies are not yet mentioned on the bank's exclusion list.

When explaining the investments and how they relate to their policies the banks' responses could at times be seen as unclear or perhaps incoherent. For example, in some cases the banks argue that they excludes companies involved in controversial arms *types*, like cluster munitions, since these companies are not meaningful to engage with, in terms of convincing them to change. However, companies involved in controversial arms *trade* are also difficult to influence since they are governed by national interests and regulation. We therefore argue that it is incoherent by the banks not to also exclude companies involved in controversial arms trade.

Another conclusion is that the banks do not have the necessary proactive approach to address controversial arms trade. Länsförsäkringar explains for example that its analysis is based on reports of actual violations, not the risk of violations based on the type of arms and designated country. This is despite the fact that Länsförsäkringar refers to the ATT in its policy that specifically prescribes a risk-based approach towards arms exports. For example, according to Länsförsäkringar, no reports of severe impact on human rights directly related to military equipment associated with Saab have been cap-

42 Maletta, Giovanna, 28 June 2019. "Legal challenges to EU member states' arms exports to Saudi Arabia: Current status and potential implications". Published by SIPRI: <https://www.sipri.org/commentary/topical-background/2019/legal-challenges-eu-member-states-arms-exports-saudi-arabia-current-status-and-potential>

tured. This means that the reports on Saab's surveillance aircraft being used in the Yemen armed conflict are not interpreted as a sufficient basis to conclude that the company's equipment can be directly associated with severe human rights violations.

An interesting finding is also that several banks have provided loans to companies that at the same time were blacklisted from investments in the banks' asset management units due to their involvement in controversial arms types. In 2015 and 2016 Nordea provided loans to Rolls-Royce and United Technologies despite the fact that both companies were blacklisted due to their involvement in nuclear arms. Danske Bank provided a loan to Airbus in 2014 when the company was excluded due to its involvement in nuclear arms in 2013. SEB has provided loans to Airbus, BAE Systems and Rolls-Royce, the latest as recent as 2018, when the companies at the same time were excluded because of their involvement in nuclear arms.

All the banks have refrained from commenting on their loans due to bank secrecy regulation, but SEB said that the loans have not been used to finance the specific development of controversial arms types. It is however unclear how the bank would be able to control this since the loans are categorized as general purpose corporate loans, which means the funds are used to finance the company in general. This difference in practices between different financial activities is a typical consequence of policies that only cover certain financial activities, most often

asset management. In SEB's case, where the policy covers all financial activities, one could suspect that the loans provided were in violation of the policy, but it would require further insight in the transactions to draw a final conclusion.

Several banks do express that arms trade is a difficult area and acknowledge the fact that there are different views on what could be seen as a responsible conduct, and that this is a learning process.

Amnesty International shines a light on the controversy and complexity surrounding companies active in the defence sector in a report published in 2019.⁴³ The report reviews the human rights policies and practices of 22 leading defence companies against the UN Guiding Principles on Business and Human Rights (UNGPs). The report concludes that the companies did not address risks such as the use of company product in serious human rights violations and that they failed to conduct human rights due diligence as defined by the UNGPs. Amnesty argues in the report that properly human rights due diligence might require defence companies to go beyond what is legally required and refrain from engaging in business that are permitted under state licencing laws. This point is similar to the case made in this report targeting the Swedish banks, namely that it is not sufficient to rely on national export control agencies and the absence of any sanction or embargoes when assessing companies to invest in, or provide loans to.

43 Amnesty International, 2019. *Outsourcing responsibility, Human Rights Policies in the Defence Sector*, <https://www.amnesty.org/download/Documents/ACT3008932019ENGLISH.PDF>

CHAPTER 3:

RECOMMENDATIONS TO THE BANKS

On the positive side, the banks have made several policy improvements since our previous report in 2016. All banks now have a policy in place that at least to some extent addresses controversial arms trade. At the same time, the financial analysis shows that the banks still have financial links to companies engaged in controversial arms trade at a total value of 4.6 billion SEK (beginning of 2019). This represents a slight reduction, in comparison with the total value in 2016. However, it is clear that controversial arms trade is an area where the banks need to take a more proactive approach. This is crucial to be able to ensure their investments are responsible and in line with relevant international principles, as outlined in this report. In the report we also argue that the banks' financial links at time go against the policies they themselves have committed to. To ensure a more coherent approach the banks should take the below recommendations into consideration.

In this context, it should be noted that we, in other contexts, also have made recommendations to the Swedish government and decision makers to reform and sharpen the regulatory frameworks concerning arms trade. To ensure export of arms do not contribute to human rights violations, armed conflict and other negative impacts is a government responsibility. However, the banks also have a responsibility to ensure their financial activities are not in breach of relevant international principles.

We make the following recommendations to the seven Swedish banks under scrutiny in this case study. Some of them are the same as the ones we presented in 2016.

1. Adopt a comprehensive policy that bans investments in and the financing of companies involved in controversial arms trade.

The banks should adopt comprehensive policies that apply to all their financial activities, including assets managed for third parties as well as passively managed investments. The policy should effectively ban all investments in, and financing of, companies that deliver arms to countries:

- placed under UN or EU arms embargo
- governed by authoritarian regimes with limited political and civil rights and that violate human rights
- involved in armed conflict, unless acting in accordance with a UN Security Council resolution
- with high corruption risks in defense establishments
- considered to have a failed or fragile state
- categorized as low human development countries that spend a disproportionate part of their budget on purchases of arms

2. Develop a method for assessing to which countries arms trade would violate the principles in the policy.

The banks should develop their own method for assessing to which countries arms trade would violate the principles in their policies. It is not sufficient to refer to and rely on the assessments of national export controlling authorities, and the absence of EU and UN sanctions, to judge whether arms trade is in line with the banks' policies. Evidence shows how these agencies make very different interpretations of international regulations including the ATT and the EU Common Position. These assessments are for example often disputed and criticized for not taking human rights impacts sufficiently into account when approving exports.

3. Develop tools for screening companies that include human rights due diligence policies and procedures of the companies.

The banks should screen all companies involved in arms trade before investments decisions are taken and ensure the screening is based on a comprehensive policy as outlined in the first recommendation above. If third party service providers are used the banks need to make sure their methods and criteria are robust to identify and analyze the companies' links to controversial arms trade.

Furthermore, in line with the banks' responsibilities to abide by the UN Guiding Principles on Business and Human Rights, the screening should assess whether the companies have human rights due diligence policies and procedures in place. These principles and procedures should cover both the adverse human rights impact of the companies' own activities as well as those that are linked to the use of their products.

4. Report publicly on excluded companies and inform the companies about the decision and reason behind it.

The banks should publicly disclose which companies they have excluded due to their involvement in controversial arms trade. Public disclosure is important as this enables bank customers and citizens to access the information. The banks should also inform the excluded companies about the decision and reason behind it, so that the companies understand what it needs to change to make it investable.

ANNEX 1:

COUNTRY SELECTION

The methodology distinguishes between “primary” and “support criteria” to be able to prioritize the most imminent risks associated with arms export. This means that countries that surpass the established threshold for any of the following three primary criteria are selected: Arms embargo, Armed conflict and Human Rights violations. Countries that surpass the threshold for all three remaining support criteria are also selected: Corruption, Fragile states and Poverty and military spending.

Country names colored in red are included in the study. Dark red means the country scored above the threshold for the criteria.⁴⁴

44 Details on the thresholds can be found in the Dutch report *Controversial Arms Trade and investments of Dutch banks, A case study for the Fair Bank Guide*, published by Eerlijke Bankwijzer and PAX June 2019.

		Lead criteria (if <i>any</i> threshold is passed the country is included)			Support criteria (if <i>all three</i> thresholds are passed the country is included)		
	Institution	European Union & United Nations	Freedom House & The Economist Intelligence Unit	Institute for Economics and Peace & Uppsala	Transparency International	Foreign Policy & The Fund for Peace	United Nations Development Programme / SIPRI
	Name of Index	Arms Embargo	Freedom House Index & Democracy Index	Global Peace Index & Conflict Data Program	Government Defence Anti-Corruption Index	Fragile State Index	Human Development Index (low development) & SIPRI government budget on military spending
	Threshold	EU or UN arms embargo	6.5 or higher <i>and</i> Authoritarian Regime (AR)	> 2.300 <i>and</i> Listed as in conflict	Very high or critical corruption risk	>90.0	Low Human development <i>and</i> > 7% government budget on military spending
1	Afghanistan	No	5.5/AR	3.585 2014-2017	Very high corruption risk	106.6	LHD/3.6%
2	Algeria	No	5.5/AR	2.182	Critical corruption risk	75.8	HHD/16.1%
3	Azerbaijan	No	6.5/AR	2.454 2014 UN	Very high corruption risk	74.6	HHD/10.04%
4	Bahrain	No	6.5/AR	2.437 2015-2016	Critical corruption risk	64.4	VHHD/11.8%
5	Bangladesh	No	4.0/HR	2.084	High corruption risk	90.3	MHD/9.6%
6	Belarus	EU	6.0/AR	2.112	No data	70.5	VHHD/25.3%
7	Botswana	No		1.659	Very high corruption risk	62.0	HHD/9.2%
8	Burkina Faso	No		2.029	Critical corruption risk	86.5	LHD/5.1%
9	Burundi	No	6.5/AR	2.488 2014-2017 (UN) 2015	Very high corruption risk	97.4	LHD/8.3%
10	Brazil	No		2.160	Very high corruption risk	68.7	HHD/3.7%
11	Cambodia	No	5.5/AR	2.101	Critical corruption risk	84.0	MHD/9.0%
12	Cameroon	No	6.0/AR	2.484 2014-2017	Critical corruption risk	95.3	MHD/6.5%
13	Central African Republic	EU/UN	7.0/AR	3.236	Critical corruption risk	111.1	LHD/9.7%
14	Chad	No	6.5/AR	2.498 2014-2017	Critical corruption risk	108.3	LHD/13.8%
15	China	EU	6.5/AR	2.243	Very high corruption risk	72.4	HHD/6.1%
16	Colombia	No	3.0/FD	2.729 2014-2016	Low corruption risk	76.6	HHD/11.0%
17	Comoros	No	3.5/AR	No data	Very high corruption risk	82.6	LHD/No data

18	Congo (Br)	No	6.0/AR	2.343 2015-2016 (UN) 2016	Critical corruption risk	93.1	MHD/17.9%
19	Côte d'Ivoire	EU/UN (lifted 2016)	4.0/AR	2.207	Very high corruption risk	94.6	LHD/5.1%
20	Cuba	No	6.5/AR	2.037	No data	62.9	HHD/No data
21	Democratic Republic of Congo	EU/UN	6.5/AR	3.251 2014-2017	Critical corruption risk	110.7	LHD/6.4%
22	Egypt	EU	6.0/AR	2.632 2014-2017	Critical corruption risk	88.7	MHD/4.6%
23	Equatorial Guinea	No	7.0/AR	1.946	Critical corruption risk	83.4	MHD/No data
24	Eritrea	EU/UN	7.0/AR	2.522 2016	Critical corruption risk	97.2	LHD/No data
25	Ethiopia	No	6.5/AR	2.524 2014-2017 2017 UN	Very high corruption risk	99.6	LHD/3.8%
26	Gabon	No	6.0/AR	2.099	Critical corruption risk	72.5	HHD/9.3%
27	Gambia	No	4.5/	1.989	Very high corruption risk	87.1	LHD/No data
28	Guinea	EU (lifted)	5.0/AR	2.101	Critical corruption risk	101.6	LHD/9.9%
29	Guinea-Bissau	No	5.0/AR	2.275	Critical corruption risk	98.1	LHD/No data
30	Haiti	No	5.0/HR	2.064	No data	102.0	LHD/0.0%
31	India	No	2.5/FD	2.504 2014-2017	High corruption risk	76.3	MHD/9.1%
32	Indonesia	No	3.0/FD	1.853	High corruption risk	72.3	MHD/4.8%
33	Iran	EU/UN	6.0/AR	2.439 2015-2017	Very high corruption risk	84.3	HHD/15.8%
34	Iraq	EU/UN (NGF only)	5.5/HR	3.425 2015-2017	Critical corruption risk	102.2	MHD/9.4%
35	Israel	No	2.0/FD	2.764 2014	No data	78.5	VHHD/11.5%
36	Jordan	No	5.0/AR	2.104	Very high corruption risk	76.8	HHD/15.8%
37	Kenya	No	4.0/HR	2.354 2014-2017 (UN)	High corruption risk	97.4	MHD/4.5%
38	Kuwait	No	5.0/AR	1.799	Critical corruption risk	55.9	VHHD/11.3%
39	Kyrgyzstan	No	5.0/HR	2.181	No data	78.6	MHD/7.8%
40	Laos	No	6.5/AR	1.821	No data	80.7	MHD/No data
41	Lebanon	EU/UN (NGF only)	5.0/HR	2.778 2014- 2015/2017	Very high corruption risk	86.8	HHD/15.6%
42	Liberia	EU/UN (lifted 2016)	3.0/HR	1.931	Very high corruption risk	92.6	LHD/1.7%
43	Libya	EU/UN	6.5/AR	3.262 2014-2017	Critical corruption risk	94.6	HHD/No data
44	Madagaskar	No	3.5/	1.766	Very high corruption risk	83.6	LHD/2.9%

45	Malawi	No	3.0/	1.811	Very high corruption risk	85.5	LHD/2.7%
46	Mali	No	4.5/HR	2.686 2014-2017	Very high corruption risk	93.6	LHD/12.7%
47	Mauritania	No	5.5/AR	2.355 2014- 2017 (UN)	Critical corruption risk	92.2	LHD/No data 2016: 10.3% ⁴⁵
48	Morocco	No	5.0/HR	1.979	Critical corruption risk	74.0	MHD/10.7%
49	Mozambique	No	4.0/	2.056	Very high corruption risk	88.7	LHD/2.5%
50	Myanmar (Burma)	EU	5.0/AR	2.302 2014-2017	Critical corruption risk	96.1	MHD/12.4%
51	Namibia	No	2.0/FD	1.806	High corruption risk	68.8	MHD/8.8%
52	Niger	No	4.0/AR	2.359 2014-2017 (UN)	Very high corruption risk	96.2	LHD/8.8%
53	Nigeria	No	4.0/HR	2.873 2014-2017	Very high corruption risk	99.9	LHD/4.1%
54	North Korea	EU/UN	7.0/AR	2.950	No data	93.2	No data/No data
55	Oman	No	5.5/AR	1.984	Critical corruption risk	52.6	VHHD/26.3%
56	Pakistan	No	4.5/HR	3.079 2014-2017	Very high corruption risk	96.3	MHD/16.7%
57	Philippines	No	3.0/FD	2.512 2014-2017	High corruption risk	85.5	MHD/6.9%
58	Qatar	No	5.5/AR	1.869	Critical corruption risk	48.1	VHHD/No data
59	Russia	EU	6.5/AR	3.160 2014-2017	High corruption risk	77.2	VHHD/12.0%
60	Rwanda	No	6.0/AR	2.140	Very high corruption risk	89.3	LHD/5.1%
61	Saudi Arabia	No	7.0/AR	2.417 2014 -2017	Very high corruption risk	70.2	VHHD/30.4%
62	Senegal	No	2.0/	1.849	Very high corruption risk	79.6	LHD/6.6%
63	Sierra Leone	No	3.0/HR	1.740	Very high corruption risk	89.1	LHD/4.6%
64	Somalia	EU/UN	7.0/No data	3.367 2014-2017	Critical corruption risk	113.2	No data /No data
65	South Sudan	EU	7.0/No data	3.508 2014-2017	Critical corruption risk	113.4	LHD/7.4%
66	Sri Lanka	No	3.5/FD	1.954	Very high corruption risk	84.9	HHD/11.0%
67	Sudan	EU/UN	7.0/AR	3.115 2014-2017	Critical corruption risk	108.7	LHD / 30.9%
68	Swaziland	No	6.5/AR	1.980	Very high corruption risk	87.5	MHD/5.5%
69	Syria	EU	7.0/AR	3.600 2014-2017	Critical corruption risk	111.4	LHD/No data
70	Tajikistan	No	6.5/AR	2.266	No data	79.5	MHD/No data

45 For Mali, no data is available on military spending in 2017. In 2016, military spending amounted to 10.3% of total government spending. We have included Mali based on 2016 data for military spending.

71	Tanzania	No	4.0/	1.837	Very high corruption risk	79.4	LHD/5.8%
72	Thailand	No	5.5/	2.259	Very high corruption risk	75.0	HHD/1.0%
74	Togo	No	4.0/AR	2.104	Critical corruption risk	85.2	LHD/6.3%
75	Tunisia	No	2.5/FD	1.998	High corruption risk	72.1	HHD/6.9%
76	Turkey	No	5.5/	2.898 2014 (UN) 2014-2017	High risk		HHD/6.4%
77	Turkmenistan	No	7.0/AR	2.283	No data	72.6	HHD/No data
78	Uganda	No	5.0/HR	2.168	Very high corruption risk	95.1	LHD/8.6%
79	Ukraine	EU (lifted)	3.0/HR	3.113 2014-2017	High corruption risk	72.6	HHD/7.8%
80	United Arab Emirates	No	6.5/AR	1.820	Very high corruption risk	42.8	VHHD/no data
81	Uzbekistan	No	7.0/AR	2.144	Very high corruption risk	79.1	HHD/No data
82	Venezuela	EU	5.5/AR	2.642	No data	86.2	HHD/1.5%
83	Vietnam	No	6.0/AR	1.905	No data	68.4	MHD/7.9%
84	Yemen	EU/UN	6.5/AR	3.305 2014-2017 2014 (UN)	Critical corruption risk	112.7	LHD/ No Data
85	Zambia	No	4.0/HR	1.822	Very high corruption risk	87.2	MHD/5.2%
86	Zimbabwe	EU	5.5/AR	2.326	Critical corruption risk	102.3	LHD/7.4%

ANNEX 2:

INVESTMENT FUNDS LINKED TO CONTROVERSIAL ARMS TRADE

The following investment funds at each bank had holdings in one or more of the 15 arms companies per 31 December 2018. Green text indicates an ethical/sustainability fund. For funds indicated with *, this means that the fund has removed the investment/s in the companies after the holding date.

DANSKE BANK	Danske Invest Global Index Danske Invest Stable Income Fund Danske Invest SRI Global Index
HANDELSBANKEN	Handelsbanken Emerging Markets Index Fund* Handelsbanken Sverigefond Index* Handelsbanken Nordiska Småbolagsfond* Handelsbanken Sverige OMXSB Index* Handelsbanken Europafond Index
LÄNSFÖRSÄKRINGAR	Länsförsäkringar Tillväxtmarknad Indexnära Länsförsäkringar USA Indexnära Länsförsäkringar Kort Ränta Företag Länsförsäkringar FossilSmart Länsförsäkringar Global Indexnära Länsförsäkringar Europa Indexnära Länsförsäkringar Sverige Indexnära Länsförsäkringar Kort Räntefond Länsförsäkringar USA Aktiv*
NORDEA	Nordea Global Passiv Nordea Europa Passiv Nordea Global Enhanced Nordea Global Small Cap Fund Nordea Latin American Equity Fund Nordea Fixed Income Credit Opportunities Nordea Småbolagsfond Norden Nordea Nordic Equity Small Cap Fund Nordea Sverige Passiv

SEB

SEB Nordenfond
SEB Sverige Indexfond
SEB Strategy Balanced
SEB Strategy Defensive
SEB Strategy Opportunity
SEB Strategy Growth
SEB European High Yield Fund
SEB Sustainable High Yield Fund
SEB Ethical Global Index Fund
SEB Sustainability Global Index Fund
SEB Europe Index Fund
SEB US All Cap

SKANDIA

Skandia Europa Exponering
Skandia Global Exponering
Skandia SMART Försiktig
Skandia SMART Offensiv
Skandia Global Exponering
Skandia Nordamerika Exponering
Skandia SMART Balanserad
Skandia Småbolag Sverige
Skandia Sverige Exponering
Skandia Sverige
Skandia Global Företagsobligationsfond
Skandia Världen

SWEDBANK

Swedbank Robur Access USA
Swedbank Robur Access Global
Swedbank Robur Räntefond Kort Plus
Swedbank Robur Småbolagsfond Sverige
Swedbank Robur Företagsobligationsfond Mix
Swedbank Robur Nordenfond
Folksam LO Västfonden
Swedbank Robur Sverigefond
Swedbank Robur Exportfond
Swedbank Robur Företagsobligationsfond High Yield

