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**Sweden's Bofors Arms Scandal:
A Summary of the Diversions, Investigations, and Implications**

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Summary

The lingering Bofors AB and Nobel Kemi AB arms scandals, which first came to light in 1984, owe to the failure of Sweden's private and public sector leaders to observe their own rules governing arms exports in an apparent effort to bolster the domestic arms industry.

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Numerous investigations were initiated to examine the complex web of bribery and arms diversions but, despite an admission from a key industry executive, only two individuals have been charged with violating Swedish law: a Nobel Kemi manager and a private arms trader. Stockholm has since called off the investigation of Bofors' bribery, probably in an effort to prevent future revelations of bribes to Indian officials that could embarrass Prime Minister Gandhi. Sidelights to the affair include the mysterious death of a customs official, a possible Iranian connection to the murder of Olof Palme, and a surge in Swedish investigative journalism.

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The scandal is likely to lead to a tightening of Swedish arms export restrictions in the near term, but little change in practice in the long term given Sweden's commitment to maintaining its own arms industry. While the affair will almost certainly benefit the Greens in the September 1988 election, neither Prime Minister Ingvar Carlsson nor the mainstream socialist and nonsocialist parties are likely to be seriously harmed by the scandal since all are culpable and will therefore refrain from making it a partisan political issue.

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Information available as of 3 March 1988 was used in its preparation. Comments and queries
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The Diversions

The Bofors AB and Nobel Kemi AB cases involve a number of business transactions in which Swedish arms manufacturing executives deliberately violated or circumvented prohibitions on arms sales to belligerents and on bribes to foreign officials. These include:

- Bofors AB selling over 300 **RBS-70 missile systems to Bahrain and Dubai** via Singapore in 1979. (The RBS-70 contains two US components: a gyroscope and a thermal battery).
- Bofors selling 22 **anti-aircraft guns to Thailand** via Singapore in 1985.
- Bofors selling **ammunition to Oman** via Italy.
- Bofors allegedly selling **RBS-70s to Iran** via Singapore.
- Bofors allegedly **bribing Indian middlemen and officials** in connection with New Delhi's \$1.5 billion purchase of 155mm howitzers.
- Bofors allegedly **bribing an official in Singapore** in connection with arms resales to other countries.
- Bofors allegedly selling **naval ordnance to Taiwan**.
- Bofors allegedly selling **explosives to East Germany** via Austria.
- Nobel Kemi AB--a subsidiary of Bofors--selling 2139 metric tons of **munitions to Iran, Iraq, Syria, Egypt and Burma** via Austria, East Germany, Italy, and Yugoslavia, with approximately two-thirds of these munitions going to Tehran.
- Private Swedish businessman Karl-Erik Schmitz acting as an international **broker for arms sales to proscribed countries**, including sales involving Swedish-produced weapons. [redacted]

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The Investigations

Since reports of the diversions began to spread in 1984--through a tip from former Bofors employee Ingvar Bratt to the Swedish Peace and Arbitration Association--a number of official inquiries have been initiated. Few of these have produced any tangible results. In approximate order of inception, the investigations are:

- **County Prosecutor:** Stig Age, the Prosecutor from Orebro County--where Bofors is located--began pulling together a case against the arms producer in 1984. He has not yet taken his findings against Bofors to court because new evidence continues to surface--even though Anders Carlberg, the head of Bofors' parent company, Nobel Industries, admitted in March 1987 that top Bofors executives Claes-Erik Winberg and Martin Ardbo deliberately skirted

Swedish law. Age is also responsible for prosecution in the case of illegal arms sales by Nobel Kemi--a Bofors subsidiary. In June 1987 he charged Karl-Erik Schmitz--a private arms trader--and former Nobel Kemi executive Mats Lundborg with illegal arms trafficking. No further details of court proceedings have been reported.

- **Police Investigations:** Swedish police are conducting separate investigations into Bofors' and Nobel Kemi's arms sales to support Age in developing the court cases.
- **Constitutional Committee:** Because the Bofors case raised the possibility that government officials permitted illegal arms sales, the "Constitutional Affairs Committee"--made up of prominent Members of Parliament--began to oversee the Bofors and Nobel Kemi investigations. This is the same Committee that is overseeing the Palme murder investigation. Minister of Agriculture Mats Hellstrom was criticized by the Committee in May 1987 for misrepresenting facts surrounding Sweden's arms sales to Indonesia during his tenure (1982-1986) as Minister for Foreign Trade.
- **Parliamentary Arms Export Commission:** In February 1985 a special commission was established to report on arms export issues to parliament and provide guidance to the arms industry.
- **Advisory Committee:** The government established a separate committee of experts to recommend revisions in Swedish arms export laws that would provide for tighter enforcement. The recommendations were presented to the Social Democratic Cabinet in June 1987, but have not yet been formally presented to parliament.
- **National Audit:** As the police investigations revealed that Bofors may have bribed Indian middlemen and officials, the Swedish equivalent of the GAO conducted a national audit of Bofors' transactions with India. The audit, completed in June 1987, indicated that as much as \$40 million were paid in commissions to middlemen. Because the information was taken from Central Bank records, the exact amounts and recipients were not made public by the government. Bofors rejected the government's request to reveal this information, claiming such disclosure would jeopardize its credibility as an arms dealer. Both the government and Bofors have asserted, however, that the payments were made to close contracts with middlemen once Indian authorities insisted on excluding intermediaries, rather than as pay-offs to Indian officials.
- **Citizens Committee:** In order to bolster the credibility of Stockholm's account of the bribery case, a "citizens committee" was established to review the classified documents of the Bofors audit and determine whether the government was presenting an accurate picture. This committee has not yet submitted its findings.

- **Bofors bribery:** Following the national audit, Swedish police launched a separate investigation into Bofors bribery, which would have been illegal if payments were made to foreign officials. This investigation was terminated in late January 1988, following a trip by Indian Prime Minister Gandhi to Stockholm. Sweden claimed inability to track the payments through Swiss bank accounts after making a half-hearted request for Swiss assistance.
- **Indian inquiry:** The Indian government initiated its own parliamentary investigation into the possible use of payoffs to middlemen or government officials.
- **Singapore inquiry.** Singapore--a key transshipment point in the Bofors saga--also launched a bribery investigation and charged Tan Kok Cheng, former general manager of Allied Ordnance Singapore, with accepting over \$1 million in bribes from Bofors while working on behalf of Singapore's armed forces. (Bofors owned 40 percent of Allied Ordnance at the time of the transactions.)
- **MFA Demarche:** In support of the ongoing police investigations, the Swedish Foreign Ministry requested its Embassies abroad to ask host governments for permission to inspect their arms inventories in an apparent effort to look for Bofors equipment that may have been delivered in as yet undetected diversions. [redacted]

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Notable Sidelights

Beyond the diversions and investigations themselves, several other incidents may be related to the Bofors affair.

- **Algernon's death:** War Materiel Inspector Carl Algernon--the customs official responsible for monitoring arms exports--died when he was struck by a subway train in January 1987. He had met 30 minutes earlier with Anders Carlberg, head of Bofors' parent company, Nobel Industries. Algernon was a personal friend of former Bofors directors Claes-Erik Winberg and Martin Ardbo. Police believe he committed suicide, but accidental death and murder remain possibilities.
- **Did Iranians Murder Palme?** US media speculated in March 1987 that Olof Palme was murdered by an Iranian hitman in retaliation for Palme's alleged suspension of an arms shipment to Tehran. The media further contended that Algernon was killed because he intended to make public the illicit activities of Swedish arms producers and government officials. Swedish investigators consider this thesis unlikely, and it received little further notice until revived by US journalists in December 1987.
- **Press Activism:** The US press article on the Iranian connection--written quickly in Sweden using local sources--embarrassed the Swedish press, which had failed to turn

up the story in a year of investigative reporting following Palme's death. Since this episode, Sweden's media have doggedly reported on every lead and angle in the Bofors case, no matter how insignificant.

- **Export Ban:** Swedish arms sales to Singapore--the number-one importer of Swedish weapons from 1977-1986--were banned for a brief period in 1985 and have again been banned since early 1987.

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Filling in the Gaps

There is little evidence on which to construct an accurate picture of what actually occurred in the Bofors scandal. We believe the following scenario is the most plausible, but we must emphasize that it is only speculation and that other scenarios are quite possible.

- **Sell them anyway:** Swedish arms manufacturers, experiencing financial difficulties in the late 1970s and early 1980s, determined they needed to sell arms to proscribed countries in order to remain financially viable. Government officials acquiesced, concerned that Swedish military reliance on foreign arms suppliers--instead of domestic producers--would undermine Sweden's policy of neutrality. Moreover, officials feared that low export levels would lead to lay-offs in the already ailing region of central Sweden where most arms manufacturers are located.
- **Damage control:** When former Bofors employee Ingvar Bratt provided information to the Peace and Arbitration Society, government officials attempted to preempt criticism of their past acceptance of questionable arms deals by claiming they had just learned of Bofors' activities and were beginning an investigation. Bofors was intended to serve as a scapegoat company that had circumvented--but not broken--Swedish law, and no one would be arrested.
- **Breakdown:** As the Bofors investigation plodded along at a pace designed to dampen public interest in the case, new information continued to surface about potentially illegal transactions conducted by Bofors and its subsidiary, Nobel Kemi. The Peace and Arbitration Society kept the case in the public eye. Hoping to defuse the public outcry over the case, Bofors Chairman Winberg--and, later, his successor, Ardbo--resigned. Nobel Industries' takeover of Bofors in 1985 also failed to put the perception of scandal to rest. The government began to lose control of the case.
- **Resurrection:** Anders Carlberg, head of Nobel Industries, insisted on a new approach. Bofors would still be blamed for using third countries to reexport weapons. Nobel Kemi executive Mats Lundborg and private trader Karl-Erik Schmitz, moreover, would be put on trial in an effort to avoid a public outcry if no one was prosecuted. Winberg and Ardbo might also go to trial, but would be acquitted for having stayed within the letter, if not the spirit, of the law. The

government would introduce legislation that would give the appearance of tremendous tightening in arms export laws, but would in fact continue to leave much to the discretion of the Cabinet. Over time, the government would reduce the number of proscribed recipients of Swedish arms exports. With Carlberg holding information on official involvement in the illegal dealings, the government acquiesced in Carlberg's expanded strategy.

- **Suicide:** In January 1987, Carlberg presented his strategy to Algernon--who had condoned the Bofors and Nobel Kemi transactions. Despite possible promises by Carlberg to protect him, Algernon believed the new strategy would eventually expose his failure to stop the deals arranged by Schmitz and Nobel Kemi. He probably committed suicide.
- **Bribery:** Bofors almost certainly made payments--either straight to Indian officials, or to middlemen who in turn paid off officials--to secure the \$1.2 billion sale of howitzers. Word of the pay-offs leaked, sparking domestic difficulties for Indian Prime Minister Rajiv Gandhi. Stockholm wanted to save Gandhi the troubles caused him by the Swedish leak, and Nobel Industries wanted to avoid a bribery indictment. The two sides cooperated, therefore, on a scheme to keep details of the payments secret. Stockholm eventually called off the entire bribery investigation.

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Outlook

The Bofors affair is likely to have a significant short-term impact on Swedish politics and arms export practices, but little effect in the long term.

- **Export policy:** The Advisory Committee's recommendations for revised legislation will almost certainly reach the floor of Parliament. A key variable, however, is how much discretion will be given the government in determining whether particular countries are suitable recipients of Swedish arms. Because the opposition Conservatives are probably even more concerned about the viability of Sweden's defense industries than the ruling Social Democrats are, we suspect that the legislation finally approved in Parliament will continue to give the government great leeway in managing arms export restrictions. The government may also propose some bureaucratic reorganization of the export enforcement apparatus to bolster its credibility in managing export policy. In the first few years under new legislation, controls will probably be tight. Over time, however, the government will probably begin to approve exports to a broader range of recipients in order to keep the arms industry afloat.
- **1988 Election:** Having governed from 1976 to 1982--when a number of the reported arms diversions took place--the opposition parties are nearly as vulnerable as the Social Democrats to charges they condoned Bofors' and Nobel Kemi's activities. Although questions about the Social Democrats' role in the Bofors scandal will almost

certainly be raised in the runup to the September 1988 election, we do not expect any of the major parties to put the Bofors scandal in the forefront of its election campaign. To date, Prime Minister Ingvar Carlsson has weathered the scandal virtually unharmed. The Greens--who are expected to win their first seats in parliament in the 1988 election--stand to gain the most from the Bofors affair by picking up support from voters disillusioned with the traditional parties and opposed to exporting arms to countries involved--or likely to become involved--in a military conflict. _____

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