

Opinion **Inside Business**

As Ukraine tensions mount, concerns rise over defence and ESG

Now is not the time to desert companies we rely on for our security, warns Latvian deputy prime minister

RICHARD MILNE



A Latvian soldier during the NATO annual military exercise in November 2021 © Gints Ivuskans/AFP/Getty

Richard Milne 11 HOURS AGO

Artis Pabriks is not one to mince words. With European military and security tensions at their highest in decades, Latvia’s defence minister used an [interview](#) with the Financial Times last week to eviscerate Germany for its “immoral and hypocritical” relationship with Moscow, daring to utter out loud what many in eastern Europe feel.

But the Latvian deputy prime minister also took aim at a more unusual target in the same interview: Swedish banks and investors.

He explained how he had seen an email a few months earlier from an unidentified Swedish bank — Swedbank and SEB dominate Latvia’s financial sector — refusing to give a loan to a Latvian defence company due to “ethical standards”. That follows a pattern of banks and investors, not just in Sweden but across Europe, [refusing to back defence companies](#) as it goes against their environmental, social and governance policies.

Pabriks was apoplectic. “I got so angry. How can we develop our country? Is national defence not ethical? How is the Swedish defence industry financed — by Martians?” he asked. Behind the outrage, Pabriks makes two big points worth pondering.

As Russia amasses more than 100,000 troops on its border with Ukraine and [makes threats](#) not just against the Baltic country but the entire European security architecture, how can banks and investors fail to support companies helping protect

or lesser extent, but Sweden is one of the countries leading the way. The decision to blacklist certain companies or industries such as tobacco is pretty standard in many areas. But defence companies pose banks and investors an especially tough dilemma. Norway's [\\$1.3tn oil fund](#) has [long banned](#) those companies active in making parts for nuclear weapons, leading it to [exclude](#) several big names such as Airbus, Boeing and Honeywell.

But others have gone further and de facto banned the entire sector, under pressure from some NGOs and customers who argue that lethal weapons should play no part in society. There have also been long-held worries about corruption in the sector.

Sweden, long known for its neutrality, has for an equally long time made having a national defence industry a strategic value. Saab, which is listed in Stockholm, makes fighter jets, submarines, sensors and more for the military, both at home and abroad.

Christian Luiga, Saab's chief financial officer, says companies like his are being squeezed by investors, banks and suppliers over ESG concerns. He adds that "some Swedish funds are more hesitant in investing in Saab, because we're the only defence company on the Stockholm stock exchange".

Luiga and others are asking politicians to help classify defence companies as sustainable, as he argues many risk-averse financial institutions want official approval to support such companies.

SEB and Swedbank both say they recognise the defence industry is "legitimate" but add they refuse to back companies involved in "controversial weapons" such as nuclear or chemical, and that they acknowledge some customers have concerns about the entire sector. Swedbank adds that in fund management it has a general rule allowing investment in defence companies, but that several of its funds ban such companies completely.

Pabriks' second point on Swedish banks is also worth considering. The financial system of Latvia — as well as Estonia and Lithuania — suffered from corruption and nepotism in the 1990s so all three Baltic states turned to Nordic banks and particularly those from Sweden to reform their banking sector.

The likes of SEB and Swedbank did so and together have a joint market share in Latvia in deposits of about [50 per cent](#), but there are [growing worries](#) in Tallinn, Riga,

It may well be another reason for countries to consider the need to have strong national names in finance.

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