

National Report on
Economic Reforms:
Product and Capital Markets
- Sweden

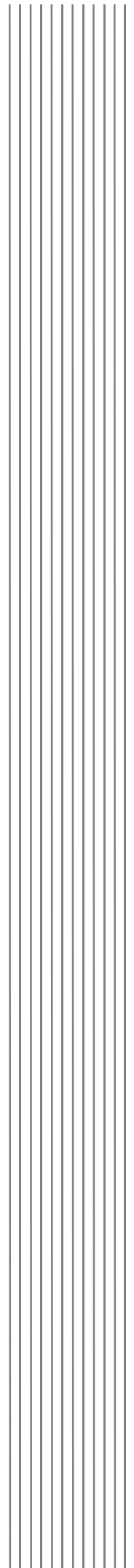
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National Report on Economic Reform: Product and Capital markets

Sweden

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FOREWORD

The national report on economic reform of product and capital markets is part of the EU "Cardiff process" under the ECOFIN Council.¹ The annual process begins with the national reports, which are followed by a Commission report that treats markets from a Community perspective. The national reports and the Commission's report constitute inputs in the preparation of the Broad Economic Policy Guidelines, BEPG, for member states and Community economic policy. The guidelines provide both general and country-specific recommendations for economic policy.²

The principal aim of the work on economic-reform in the EU is to complete the single market through more efficiently functioning markets. This promotes growth and increased employment, and lays the groundwork for social cohesion within the EU.

Economic reform of product and capital markets improves competition on the single market. A fundamental purpose of the reforms is to increase consumer utility through market improvements with lower prices, better quality and an increased choice of goods and services. Lower prices also contribute to lower inflationary pressures in the economy.

The work on economic reform also supports a common employment policy. A more efficient single market contributes to higher employment.

Progress in EU member states is evaluated through a structured follow-up of the Broad Economic Policy Guidelines. This focuses on the consequences of economic reform, and positive experiences can be transferred between member states. All participants in the single market benefit from this process.

¹ See Presidency conclusions from the Cardiff European Council of 15-16 June 1998 and the recommendation from the ECOFIN Council of 1 May 1998.

² Article 99 of the EC Treaty.

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I. INTRODUCTION

Reforms in product and capital markets to strengthen competition are an important element in the Swedish government's economic policy for growth and employment. Better functioning markets benefit consumers through lower prices, higher quality and an increased choice of goods and services. Reforms thereby also contribute to decreasing inflationary pressures in the economy.

The national report on economic reform describes the reform work in Sweden to render goods, services and capital markets more efficient. The present report is a follow-up of both last year's national report and the recommendations set out in the Broad Economic Policy Guidelines, BEPG. Sweden received the following country-specific recommendations with regards to product markets:³

1. Increase competition in retail and wholesale trade and in the construction sector, and implement changes in the Competition Act;
2. improve efficiency in the public sector;
3. continue work on reform of public utility services; and
4. reduce the effect of regulations in the food distribution sector that hinder competition.

Sweden has adopted measures in these and a number of other areas to improve competition. However, much work remains in completing the implementation of changes and evaluating if they have had the intended impact.

There are clear indications that continued improvements in the functioning of markets are important for Sweden. Even if there has been a price convergence toward the EU average within several sectors in recent years, the total price level in Sweden continues to be higher than in the EU.⁴ This is especially true for consumer prices, which indicates that the effects of the reforms have not yet reached consumers to a sufficient level.

A principal goal for Swedish reforms is to strengthen consumer interests and to ensure that lower prices and other effects from reform will benefit final consumers. The efforts of completing the single market and removing remaining barriers to trade and investment will continue. In addition, measures are underway to improve efficiency in the public sector and to utilise the positive effects of increased public procurement and greater competition. Continued reforms within the energy, telecommunications and personal transportation sectors will focus on following up the results of implemented reform, reducing the position of dominant

operators and improving access for new entrants to networks and other infrastructures. Finally, measures will be implemented to improve capital markets, such as providing better access to risk capital for small and medium-sized enterprises.

This report describes the functioning of different markets, which reforms have been implemented and possible remaining barriers to competition. Finally, the report presents ongoing and planned national measures to increase competition and strengthen the single market.

II. ASSESSMENT OF MARKET PERFORMANCE AND STRUCTURAL REFORMS

II.A. PRODUCT MARKETS

1. Opening new markets to competition and furthering economic integration

Sweden's participation in the single market has had positive effects for both business and consumers. Swedish price levels have converged toward the EU average since the membership in 1995, even though Swedish price levels are still relatively high. According to a report from the Swedish National Board for Industrial and Technological Development, NUTEK, economic integration with the EU has contributed to increased growth in Sweden.⁵

³ Council recommendation 1999/570/EC.

⁴ Prices are measured in terms of purchasing power, OECD Economic Surveys, Sweden, 1999.

⁵ "EU och den inre marknaden – effekter på den svenska ekonomin" [EU and the single market – effects on the Swedish economy], NUTEK 1998.

Trade in industrial products, cross-border investments and implementation of EU directives

Trade in goods

The Swedish government is working at both the national and EU levels to reduce remaining barriers to trade in goods within the union. The Swedish National Board of Trade, which is the national authority for trade policy issues, is the Swedish contact point for companies and individuals with problems concerning trade barriers. The National Board of Trade has received additional resources for 1999 to increase information about this activity.

Several problems reported to the National Board of Trade concern compliance with the principle of mutual recognition for trade in goods.⁶ Measures have been underway in the last two years to increase consciousness and knowledge regarding the principle of mutual recognition. Sweden has also given priority to the issue in its EU work. Another issue dealing with trade in goods in the EU concerns motor vehicle legislation, which is currently being reviewed. The Swedish regulations on automobile imports from EU countries have already been simplified, and this has contributed to increased private imports and reduced prices for used cars in Sweden.

The government is working at the EU level for a more open trade policy towards third countries, as this would favour European consumers and strengthen competition. Since the "Silhouette ruling" in 1998, Sweden has worked in the EU to allow the parallel import of trademark-protected products also from countries outside the EEA. For Sweden, the ruling has resulted in a limitation on parallel imports, with higher prices to consumers. According to a study by the Swedish Competition Authority, the limitation on parallel imports is estimated to have resulted in a total of nearly SEK 4 billion in higher prices to Swedish consumers.

⁶ This is the principle that all legally manufactured and marketed product or service can be freely traded on the single market. This issue is also relevant for services, including mutual recognition of degrees. Sweden has a constitutionally based freedom of trade, and it therefore has fewer regulated occupations than is the case in other member states.

Foreign investment

Sweden's policies of free trade and deregulation, together with the EU membership, have led to a strong increase in foreign direct investment. In the 1980s and 1990s, such measures as the review on acquisitions by foreign investors, the Act on Foreign Acquisition of Swedish Companies (SFS 1982:617) and the differences between restricted and free share capital were gradually removed. Furthermore, reforms in such sectors as telecommunications, transportation, energy, banking and financial services have opened previously closed markets to foreign investors. The total inflow of foreign direct investment between 1983 and 1990 amounted to approximately SEK 54 billion, while the total outflow amounted to approximately SEK 298 billion. Between 1991 and 1998, the corresponding capital movements amounted to SEK 484 billion and SEK 487 billion respectively. Thus, the inflow has increased significantly and there is now a balance between the inflow and outflow (see Figure A1 in the Annexes). In 1998, Sweden was the ninth largest recipient of foreign direct investment in the world.

Within the Government Offices a working group has been set up to identify and eliminate different barriers to foreign investment. It reports to the Minister for Trade every six months on such matters as tax regulations and other regulations, as well as the service level of government authorities.

Implementation of EU directives

According to the Commission's scoreboard for the single market in June 1999, Sweden holds fourth place among EU countries with regard to the implementation of directives for the single market. The share of non-implemented directives was 2.1 per cent for Sweden, compared to 3.5 per cent for the EU as a whole. This means that 29 directives remain to be implemented in Sweden and 49 directives on average for all EU countries. The average delay in the implementation of EU directives is nearly six months for Sweden, compared to more than 11 months for the EU as a whole. The delayed directives, for both Sweden and the other EU countries, concern primarily the telecommunications and transportation sectors. Tables A2 and A3 in the Annexes present the development over time and for different markets. It should be noted that Sweden holds a better position in all areas in

relation to the EU average for the implementation of directives.

Public procurement

Sweden is working at both national and EU levels to improve and simplify regulations for public procurement. However, an evaluation of the Public Procurement Act in 1998 showed that nearly one half of those units involved in procurement still did not comply fully with the regulations.⁷ According to the Public Procurement Act, only suppliers affected by the procurement can submit complaints regarding the application of the law by the units undertaking the procurement. Few suppliers are interested in bringing charges against potential customers.

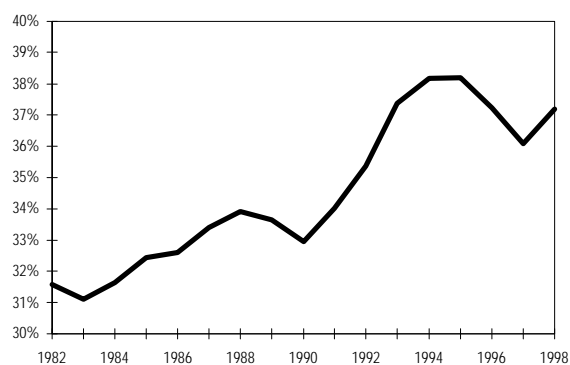
Taken together, these conditions mean that a large part of the economy is not encompassed by the single market and is not exposed to competition. Thus the national supervisory authority, the National Board for Public Procurement (NOU), has given priority this year to a more active supervision of the compliance with the regulations. Other ongoing initiatives include, for example, information to smaller enterprises and an evaluation of NOU.

Total public procurement in Sweden is estimated at approximately SEK 360 billion for 1997.⁸ This represents 20.7 per cent of GDP, which can be compared with the public procurement market for the entire EU region of approximately 11.5 per cent of total GDP. Another measure of the extent of public procurement is the value of public tenders above threshold values.⁹ For Sweden, this share amounted to 2.6 per cent of GDP, compared

with the EU average of 1.9 per cent.¹⁰ This indicates that a greater share of the market for public procurement consists of relatively small procurement volumes. A sign that cross-border public procurement still does not function satisfactorily is that only approximately 3 per cent of the contracts in Sweden involve foreign entrepreneurs.¹¹ An increase in procurement across borders probably requires simplified processes to stimulate tenders from foreign companies.

The public sector in Sweden is larger than the average in the EU (see Figure 2), but an even greater share of the public sector in Sweden is open to procurement. As shown in Figure 1, public procurement has increased in relation to general government consumption, and now includes approximately 37 per cent of general government consumption 1998.¹²

Figure 1. Public procurement in relation to general government consumption 1982-1998



Source: Statistics Sweden, National Accounts

An evaluation of the effects of the introduction of the Public Procurement Act estimates the savings effect in Sweden at SEK 3.3 billion annually, i.e. approximately 1 per cent of the value of total public procurement.¹³ Thus, there is a great need to further improve public procurement at both the national level and the EU level.

⁷ "Effekter av lagen om offentlig upphandling" [Effects of the Public Procurement Act], NOU, 1998.

⁸ The municipal sector and municipally-owned companies represent 58 per cent of procurement, the central government and state-owned companies represented 38 per cent, and the utility sectors (water, electricity, heat and transportation) accounted for the rest. One half of the procurements concerned services, 30 per cent concerned goods and 20 per cent concerned construction and building work. Source: Ministry of Finance.

⁹ Threshold values are converted from ECU and set for the following two years. As of 1 January 1998, the threshold value for goods and services is slightly over SEK 1.8 million and for building activities approximately SEK 46 million.

¹⁰ Single Market Scorecard, June 1999.

¹¹ However, the share of foreign entrepreneurs is likely to be higher, since affiliates to foreign companies in Sweden that have obtained procurement contracts are registered as Swedish and not as foreign companies.

¹² See also Table A4 in the Annexes for more detailed information regarding public procurement according to national accounts.

¹³ "Effekter av lagen om offentlig upphandling" [Effects of the Public Procurement Act], NOU, 1998.

Services

In the recommendations set out in the general guidelines for Sweden, the retail trade has been especially singled out as an area within the services sector where more effective competition is called for. Most goods markets are exposed to competition through a high level of imports. However, shortcomings in wholesale- and retail stages in certain markets hinder consumers from benefiting from potential price reductions that have arisen through increased internationalisation. Two markets where competition problems remain are the food trade and the pharmaceuticals trade. The general guidelines have also identified the construction sector as being a market with barriers to competition.

The food trade

As in other Nordic countries, the Swedish food retail trade has a high degree of concentration, which reflects the problems of small and sparsely populated markets. Horizontal and vertical integration is common in Sweden and three chains have together held approximately 70 per cent of the market in recent decades, compared with approximately 50 per cent on average for 10 EU countries.¹⁴ The share of the food retail trade represented by foreign chains in Sweden was estimated at only 1.5 per cent, which indicates insufficient international competition. A merger of a Norwegian and a Swedish chain within food retailing in 1999 is an example of a European trend toward increased cross-border market concentration, which, despite the increased size of the players, can lead to increased foreign competition in Swedish markets. It is too early to evaluate the effects of this type of merger on competition. The high degree of concentration has been a contributing factor to the relatively high food prices in Sweden. Margins in the food trade are on average slightly over 20 per cent.¹⁵

The Planning and Building Act (SFS 1987:10) can constitute a restriction to competition since municipal authorities can block the establishment of food stores when adopting local plans. This issue was also raised specifically for Sweden in the general guideline recommendations. The reason that municipal authorities can influence

the local planning of food stores is to reduce the negative environmental impact of transportation and to maintain a living urban centre environment. However, if municipal authorities block the establishment of large supermarkets outside of the town centres, this can lead to higher local food prices for consumers. For example, a research report shows that the presence of hypermarkets can have a downward pressure on prices.¹⁶ The number of hypermarkets in Sweden per inhabitant is below the average for Europe.¹⁷ A number of county administrative boards have been commissioned by the government to investigate how municipalities in the respective counties observe competition issues in the application of the Planning and Building Act. The county administrative boards state in their reports that the rule on local planning can result in weaker competition, but that the rule has not been in force for a sufficient period to determine the effects of local planning.

The pharmaceuticals trade

The state-owned Apoteket AB has a monopoly on the retail distribution of pharmaceuticals. As discussed in last year's national report, a study was conducted in 1998 on the distribution of pharmaceuticals. This study proposed that Apoteket AB should remain as a state-owned company, but that it should be exposed to competition by allowing the establishment of other distributors.¹⁸ The study also proposed that hospital administrators could choose a different distributor for hospital pharmacies. After the study report had been circulated for comment, the government nonetheless decided that retail competition for pharmaceuticals was not at present a current issue, since it would be difficult to maintain the principle of uniform retail prices across the country. This principle is a partial goal in order to achieve the comprehensive political

¹⁴ OECD, Economic Surveys, Sweden, 1998.

¹⁵ OECD, The economic and social impact of electronic commerce, 1999.

¹⁶ Hypermarkets have a surface area exceeding 2,500 square meters. Asplund, M. & Friberg, R., Retail price levels and concentration of wholesalers, retailers and hypermarkets, SSE/EFI Working Paper Series In Economics and Finance, No. 318, May 1999.

¹⁷ OECD Economic Study, Sweden, 1998.

¹⁸ "Läkemedel i vård och handel" [Pharmaceuticals in health care and trade], SOU 1998:28.

goal of health care on equal terms for the entire population.¹⁹

In the context of a continued retail monopoly in pharmaceuticals, the Swedish Competition Authority was commissioned by the government to analyse the prerequisites for other solutions for competition within the pharmaceuticals trade with the aim of reducing state expenses and the expenses of consumers. The resulting report, which is currently being processed in the Government Offices, includes proposals to facilitate parallel import of pharmaceuticals from EU countries and introduction of competition among pharmacies.²⁰

The construction sector

The Swedish trade in building materials is dominated by four national chains that together have a market share of nearly 60 per cent.²¹ However, competition in the metropolitan areas has increased in recent years due to the establishment of foreign building material distributors.²² The construction industry, which is also characterised by high concentration, has a great influence over the building materials industry, partly as dominant purchaser and partly as owner.

An important remaining barrier to increased competition within building materials is that the single market does not function efficiently in this area. According to the Construction Products Directive (89/106/EEC), the majority of construction products should meet European standards, but the standardisation work has so far progressed slowly, which means it has not been possible to implement the directive in practice. Therefore, Sweden is pursuing the issue that the standards in the Construction Products Directive should be less restrictive, and that the control requirements should be set in proportion to risks and costs. The government's view is that an overly stringent control of construction products will lead to a rise in costs and make it difficult for new companies to enter the market.

¹⁹ "Vissa förändringar i läkemedelsförmånen mm." [Certain changes in pharmaceutical benefits], Bill 1998/99:106.

²⁰ "Konkurrens vid försäljning av läkemedel" [Competition in the sale of pharmaceuticals], Swedish Competition Authority, 1999.

²¹ Små företag och konkurrenslagen [Small companies and the Competition Act], Ds 1998:72.

²² An estimate of market share for the foreign chains is 5 per cent. Source: Sveriges bygg- och trähandelsförbund.

The high price level in Sweden is an indicator of weak competition in the construction sector. Table A1 in the Annexes shows that consumer costs for housing did not converge with the EU average for the period 1996 to 1998. The state delegation on construction costs will deliver its final report in 2000. The goals of the delegation include promoting competition in the construction sector, and initiating research and development on construction techniques, planning, procurement and administration. The delegation has implemented a technology procurement for apartment buildings, where a close collaboration between the developer and the construction company has resulted in lower construction costs. The delegation will also propose improvements in competitive conditions. High construction costs, together with the dominance of public housing in the rental market and the system regulating rents, have resulted in a housing shortage in attractive areas and high living costs for citizens.

2. Competition policy and Public utilities

Competition policy

The government is pursuing different measures to strengthen competition more generally, for example, a better compliance with the Competition Act, national implementation of EU legislation, and more efficient competition between the public sector and the private sector. The Swedish Competition Authority continues to work more actively and to increase its own initiatives. The number of initiatives undertaken within the framework of the Competition Act increased by approximately 50 per cent between 1997-1998, while the administrative handling time has decreased.

The Competition Act

The general guidelines contained a recommendation for Sweden to introduce national implementation of articles 81.1 (collusion) and 82 (abuse of dominant position) in the EC Treaty. A public inquiry is currently being undertaken to analyse the legal prerequisites for such implementation and it is estimated that the Official Report from this inquiry will be ready in January 2000. National implementation of these articles is expected to produce a more effective national

competition policy, and also to release resources within the Commission for cross-border competition issues. In addition, the government has presented a bill proposing simplification of regulations for mergers, including the removal of a requirement to notify acquisitions abroad that do not affect competitive conditions in Sweden. Preliminary contacts with the Swedish Competition Authority prior to planned mergers should become more common. Thus, the bill contains a proposal for stronger confidentiality requirements for information submitted during preliminary contacts. It is intended that the proposals enter into force from April 2000.

Competition between the private sector and the public sector

In order to identify and remedy competition problems in connection with the commercial activities of the public sector, the Council for competition on equal terms between the private and public sector has continued to handle reports and complaints from companies. The Council has issued recommendations related to specific issues and has held basic discussions on regulations with the aim of strengthening competition. It is still too early to see if the Council's recommendations will have adequate effect. The first preliminary report from the Council in spring 1999 indicates that a series of competition problems exists between primarily municipal companies and small private companies.

State aids

In order to avoid distortings to competition at the national level and the EU level, Sweden has followed a restrictive policy with regard to state aid to companies. Sweden belongs to the group of EU countries with the lowest levels of government subsidies in relation to GDP. Sweden's average state subsidy for the period 1995-1997 amounted to 0.76 per cent of GDP compared with 1.2 per cent of GDP for the entire EU.²³ A tight budget discipline concerning government finances also warrants a policy of restraint of state aid. Sweden strives to conduct a horizontal economic policy by giving priority to support measures that favour business generally

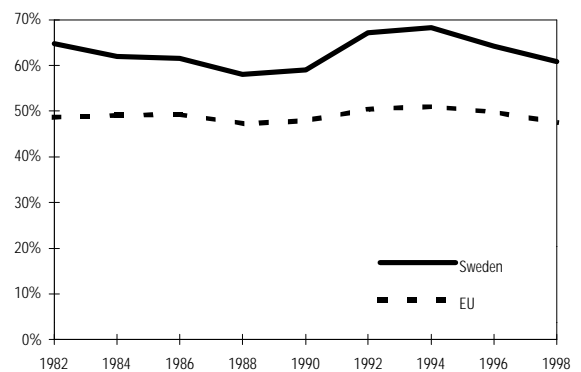
rather than being directed at any specific sector or company.

The exposure of the public sector to competition

Given Sweden's large public sector, it is important to improve efficiency in its various activities, which was also pointed out in the general guidelines for Sweden. The Swedish public sector's share of GDP is higher than the EU average (Figure 2). However, it should be noted that the Swedish public sector uses a gross system, which means that transfer payments are taxed. This results in an overestimation of the size of the public sector share in relation to the rest of the EU.

Figure 2. Size of the public sector in Sweden and the EU

Share of GDP in per cent



Source: OECD Economic Outlook, June 1999

However, since 1994 there has been a gradual decline in the public sector's share of GDP for both Sweden and the EU. This is due in part to a return to levels that were current prior to the economic crisis of the early 1990s. Other explanatory factors are the increase in public procurement and the reforms that brought competition to different activities that had previously been performed entirely or partially by the public sector. Taken together, these have created scope for expansion in the private services sector. Table 1 below illustrates this development over time in several sectors. In addition, the central government carried out a number of privatisations in the 1990s. The number of companies belonging to the state company sector, where ownership is at least 50 per cent, declined from 63 to 53. At the same time, employment in state-owned

²³ Seventh survey of state subsidies in the European Union in manufacturing and certain other sectors, KOM (1999) 148.

companies declined by 40 per cent between 1990 and 1997.²⁴

An increased proportion of privately run services is also visible in the core activities of municipalities. Privately managed services in special housing, such as apartments for the elderly and disabled, nursing homes, old people's homes and sheltered accommodation, have increased from 8 per cent in 1995 to 10.5 per cent in 1997. The share of private institutions within child care has increased somewhat between 1995 and 1997 to amount nearly 13 per cent (see Table A5 in the Annexes). Regarding local government core services, it is important to observe other political goals than purely economic ones. A fundamental aspect is the guarantee of a good and safe level of service to citizens.

Table 1. Share of private employees in certain services sectors

Per cent

| | 1994 | 1998 |
|--|------|------|
| Services sector, total | 40 | 46 |
| Transportation sector | 64 | 76 |
| Postal services and telecommunications | 10 | 16 |
| Bank and insurance | 82 | 92 |
| Real estate companies and management | 60 | 64 |
| Education | 13 | 19 |
| Health care, Elderly care | 5 | 7 |

Source: Statistics Sweden, CFAR

Public utilities

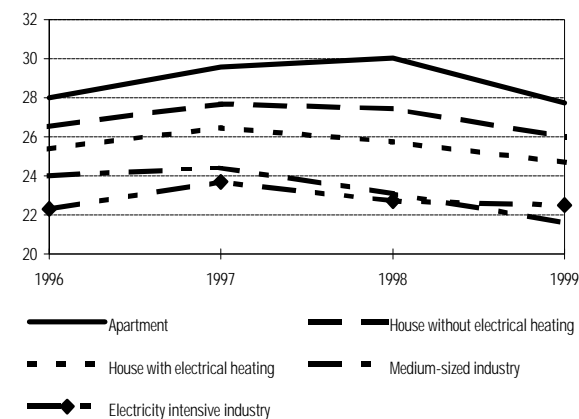
In recent years, the Swedish government has worked actively to further improve reforms in the energy, telecommunications and transportation sectors. In accordance with the recommendations set out in the Broad Economic Policy Guidelines, measures have been taken to reduce the dominant position of incumbents, increase access to networks, and ensure that the reform advantages benefit final consumers. Several of the problems identified in last year's national report have been remedied.

Electricity

The electricity market was deregulated in 1996, which divided it into two parts - the grid for the transmission of electricity, and trade in electricity. The grid is what is known as a natural monopoly; it is regulated and supervised by the Swedish National Energy Administration. A study is currently being undertaken to determine whether further measures are needed to regulate grid activities. The deregulation of 1996 gave all electrical customers the opportunity to choose their electrical utility supplier. Until November 1999, however, a meter to measure electrical consumption per hour was required in order to be able to change electricity supplier. This involved a fixed expense to consumers, which meant that customers with low electrical consumption lacked incentive to change supplier.²⁵ Hence, the requirement for hourly metering was removed as of November 1999 and consumption over time is now calculated based on an assessment.²⁶ This reform is expected to result in stronger price competition, where smaller clients will also have access to lower prices.

Figure 3. Average electricity price during supply concession

Ore/kWh



Note: Average price excl. electricity tax and grid fees, yearly and January 1999

Source: Swedish National Energy Administration, 1999 and Statistics Sweden, 1999

²⁵ "Elhandelspriser 1 jan 1996 - 1 jan 1999" [Electricity prices 1 January 1996 - 1 January 1999], Swedish National Energy Administration 1999 and "Utveckling på elmarknad 1998" [Developments in the electricity market in 1998], Swedish National Energy Administration 1999.

²⁶ "Förordning om mätning, beräkning och rapportering av överförd el" [Ordinance on measurement, calculation and reporting of transferred electricity], SFS 8 July 1999.

²⁴ Government documents 1991/92:20 and 1998/99: 20.

Figure 3 shows that the price level for smaller customers is relatively high. Prices continued to increase for this group until 1998 and price reductions were delayed by one year in comparison with other customer groups.

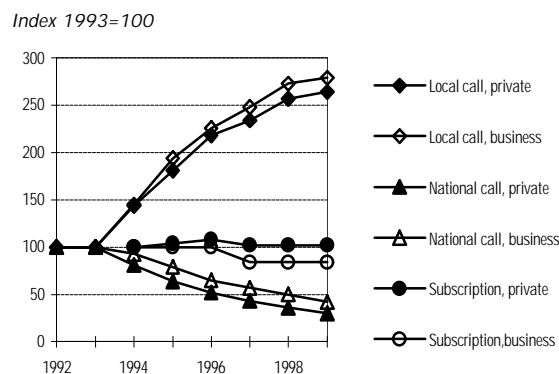
After the electricity market reform, market concentration in the production stage has increased through acquisitions and mergers.²⁷ It is important to monitor this development so that it does not block competition.

Telecommunications

A telecommunications Act entered into force in 1993 and has subsequently been amended several times. In an international perspective, Swedish prices for telecommunications are among the lowest in the OECD for residential users as well as business users.²⁸ Long distance calls and international calls have become cheaper.²⁹ However, in a general perspective, prices for local calls and private subscription have risen. Figure 4 shows the price development for Sweden's largest operator, Telia, for different types of calls after deregulation.

As Telia's charges to other operators for interconnection have decreased, the previously weak competition in the market for local calls has been strengthened. Telia still dominates the market for national calls, even though its market share has fallen from 96 per cent to 93 per cent between 1997 and 1998. Competition is stronger in the market for international calls; Telia's market share has fallen from 73 per cent in 1997 to 63 per cent in 1998.³⁰

Figure 4. Changes in Telia's prices by type of call



Note: Subscription charges are reported from 1994 due to structural changes.

Source: National Post and Telecom Agency, 1999

A reform in September 1999 has given consumers the opportunity to choose an operator using carrier pre-selection. This is expected to have significant effects on competition. More comparable product price information for different operators is required, however, if customers are to fully benefit from increased competition. Assuming that information to consumers functions well, a greater pressure on prices is expected in the markets for residential users.

A remaining barrier to competition is Telia's historical monopoly as network owner. Consequently, 98 per cent of all telephone customers were directly connected to Telia in January 1999.³¹

In the case of mobile telephony, the new market players have taken significant market shares. Table 2 shows the development for the three companies that supply mobile telephony, in terms of market value and the number of subscribers.

An important difference between mobile telephony and fixed telephony is that the presently active mobile operators have their own mobile networks.³² Despite a diminished market concentration, price changes in mobile telephony were marginal in the years 1995 to 1999. Swedish prices are higher in comparison with the other Nordic countries.³³ Lower interconnection charges are very significant for increasing

²⁷ "Avreglerade marknader i Sverige - en uppföljning" [Deregulated markets in Sweden - a follow up], Swedish Competition Authority report series 1998:3.

²⁸ Comparison of a basket of calls for companies shows that Sweden has less than one-half as high total costs as the average in the OECD. The cost in Sweden for private individuals is little more than one-half of the average cost in the OECD. It is primarily call charges that are cheap in Sweden. OECD Communication Outlook 1999.

²⁹ "Konsekvenser av den tekniska och ekonomiska utveckling på telemarknaden", [Consequences of technical and economic developments in telecommunications markets], National Post and Telecom Agency, February 1999, and "Teletillsyn 1997" [Telecommunication overview 1997], National Post and Telecom Agency. See Table A2 in the Annexes for a price comparison between telephone companies.

³⁰ "Den svenska marknaden för telecommunication 1998" [The Swedish market for telecommunications 1998], An analysis undertaken by Öhrlings Pricewaterhouse-Cooper (PwC) on behalf of the National Post and Telecom Agency, June 1999.

³¹ Ibid.

³² Four telephone companies hold licenses for mobile telephony, but only three actively operate (November 1999).

³³ OECD Communication Outlook 1999.

competition by facilitating new entry, since these charges can exclude smaller and new telephone companies from the market.³⁴ In 1999, the National Post and Telecom Agency recommended Telia to reduce its interconnection charges for the mobile telephone network. The charges shall be based on costs in accordance with EU requirements and Swedish legislation.

Table 2. Market share of mobile operators

Per cent

| | Share of market value | | Share of number of subscribers | |
|-------------|-----------------------|------|--------------------------------|------|
| | 1994 | 1998 | 1994 | 1998 |
| Telia | 87 | 63 | 85 | 54 |
| Tele2 | 7 | 17 | 10 | 31 |
| Europolitan | 6 | 20 | 5 | 15 |

Note: Share of market value does not include income from combined service fees. Tele2 is part of the NetCom group with the Tele2Mobil and Comviq trademarks. Source: "Den svenska marknaden för telekommunikation 1998" The Swedish market for telecommunications 1998], Öhrlings Pricewaterhouse-Cooper (PwC), June 1999. An analysis commissioned by the National Post and Telecom Agency.

Information to consumers needs to be improved, as in the case with markets for electricity and fixed telephony, since the numerous different combinations of subscriptions and services in the mobile telephony market makes price transparency difficult.

Postal services

The market for closed letter post items was deregulated in 1993, which put an end to the legal monopoly on conveyance of letters. The number of postal operators increased to 82 by the end of 1998, but despite the increased competition, Posten AB remains the totally dominant operator in the national market. The majority of the operators that entered after deregulation are small and operate locally. At the local level, newly established postal companies have lower average prices than Posten AB.³⁵

Posten AB, however, is obligated to provide a national postal service, which can limit its ability to act commercially. Since the other operators still have only a small share of the market, price cuts have not affected average postal prices so far (see Table A9 in the Annexes). In some parts of the country, Posten AB meets competition primarily from CityMail Sweden AB. This competition has produced price reductions on large deliveries, volume rebates and special agreements.³⁶

Amendments have been made to the Postal Services Act in order to facilitate additional operators' access to parts of the postal infrastructure. The amendments, which entered into force in July 1999, seek to create conditions for competitive-neutral, mutual utilisation of the existing infrastructure.³⁷ The government has commissioned continued reform work to further increase access to the postal infrastructure such as the co-ordinated system for change of address and redirection of mail.

Transportation sector

Important principles of the government's transportation policy are that; consumer should have the greatest possible freedom of choice, decisions on transportation issues should be made in a

decentralised form and an increased collaboration between the different modes of transportation shall be combined with an efficient competition between different transport companies and transport solutions.³⁸ This section discusses reforms and problems that remain in domestic aviation, railways and long distance buses.

The deregulation of domestic aviation in 1992 involved rights for Swedish airlines to traffic national routes. Two domestic carriers, SAS and Linjeflyg, previously had priority, which gave them a special position. However, the majority of the country's flight routes are still operated by only one airline. On average, prices have increased by about 50 per cent. During this

³⁴ "Sund konkurrens på framtidens mobiltelefonmarknad" [Sound competition in the future mobile telephone market], National Post and Telecom Agency, October 1999.

³⁵ "Postverksamhet 1997" [Postal activities 1997], Statistics Sweden and the Swedish Institute for Transport and Communications Analysis, 1999 "Avreglerade marknader i Sverige – en uppföljning" [Deregulated markets in Sweden – a follow up], Swedish Competition Authority report series 1998:3; "Rapport rörande förändring av servicenivån..." [Report on changes in service levels], National Post and Telecom Agency, February 1999, and "De lokala postoperatörernas priser och rabatter 1999" [The

local postal operators prices and discounts 1999], National Post and Telecom Agency, June 1999.

³⁶ "De lokala postoperatörernas priser och rabatter 1999" [The local postal operators prices and discounts 1999], National Post and Telecom Agency, June 1999, and "Rapport rörande förändring av servicenivån på post- och kassa servicen..." [Report on changes in postal and counter service levels...], National Post and Telecom Agency, 26 February 1999.

³⁷ Riksdag report 1998/99:105, June 1999.

³⁸ Bill 1997/98:56.

period, the consumer price index increased by about 6 per cent. Figures A1 and A2 in the Annexes present examples of this price development. There have not been any permanent price reductions, not even on routes where there is some competition. Price differentiation between business travel tickets and cheaper economy tickets has increased since deregulation.³⁹ The removal of the so-called ban on cabotage, which meant that foreign airlines were not allowed to fly domestic routes in any country other than their home country, has not yet increased the number of competing airlines. A remaining problem for competition is that SAS still has the majority of slots, at Arlanda airport. Competing airlines can therefore only gain access to slots that have not already been allocated. New regulations are currently being drafted within the EU.⁴⁰

In 1988, the existing Swedish State Railways (SJ) was divided into the National Rail Administration, which became responsible for the infrastructure, and the business unit SJ, which became responsible for rail traffic. The market share of SJ has gone from an absolute monopoly to approximately 50 per cent of the total rail traffic in Sweden. This is primarily the result of public procurement of unprofitable rail traffic for the year 2000 and SL's (Public Transport Authority in Stockholm County) procurement of commuter train traffic for the Stockholm region, with the result that other operators won the procurement tender.

Nonetheless, competition from other operators is limited, since SJ currently has sole rights to profitable inter-regional traffic on the main rail network. SJ alone decides which traffic is profitable or unprofitable, and the unprofitable traffic is subsequently submitted to the government for possible procurement. Public procurement of unprofitable traffic involves a tender procedure in accordance with existing procure-

ment and state subsidy regulations. SJ won the procurement for 10 of 13 routes for the traffic year 2000.⁴¹

The Parliament has stated that long distance bus traffic should be allowed to develop according to its own prerequisites. Thus, as of 1 January 1999, assessments of impact in relation to cross-county rail traffic were no longer taken into account in granting permits for bus routes. However, assessments of impact remain for rail traffic in counties where the Public Transport Authority has the right of traffic.

The removal of assessments of impact has led to the establishment of bus traffic on routes and at times that previously did not have bus traffic. The supply of bus traffic has increased by approximately 50 per cent since the beginning of the year. However, travel has so far increased only marginally. A preliminary conclusion is that deregulation of long distance bus traffic has had only small effects to date on the bus market and on travel by other means of transport.⁴²

Public Private Partnership in finance (PPP)

The Arlanda railway is the first project in Sweden where financing has taken place through what is known as a Public Private Partnership (PPP). During 1995-1999, a consortium without government ownership participation built a fast train connection between Stockholm and Arlanda airport at a cost of SEK 4.5 billion. The central government contributed SEK 850 million as a grant for extending the connection from Arlanda to the northern rail network and it also provided a loan of SEK 1 billion to the consortium. The consortium has a concession to conduct rail traffic between Stockholm and Arlanda for 40 years, with the possibility for the government to repurchase the concession in the year 2010. By using a PPP, the government has avoided significant risks in the project, such as rising costs, delays and income shortfalls. The only direct risk the government took is the loan to the consortium. A major investment in infrastructure with potential for significant economic benefit to the society has been made with a

³⁹ "Biljettprisutveckling i inrikesflyget; januari 1992 till september 1995" [Developments in ticket prices for domestic flights; January 1992 to September 1995], Civil Aviation Administration, 13 October 1995, and "Avreglerade marknader i Sverige - en uppföljning" [Deregulated markets in Sweden - a follow up], Swedish Competition Authority report series 1998:3.

⁴⁰ Unpublished information from the Civil Aviation Authority, 1999.

⁴¹ Ministry of Industry, Employment and Communications.

⁴² "Uppföljning av långväga buss" [Follow up on long distance bus traffic]; Swedish Institute for Transport and Communications Analysis, memo, 30 August 1999.

limited financial involvement and low financial risk for the government.⁴³

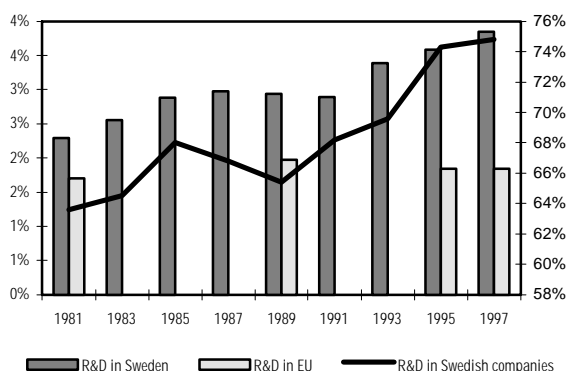
3. Other policies aimed at improving the functioning of product markets

R&D and innovation

The conditions for R&D and innovations in Sweden are favourable, which is reflected in the fact that Sweden invests more in R&D as a proportion of GDP than any other country in the world. Efficiency, measured as patents in relation to R&D investment, is high in international terms.⁴⁴ The overwhelming bulk of R&D investment in Sweden is concentrated in the corporate sector, particularly in larger companies, as is shown in Figure 5.

Figure 5. R&D investment in Sweden and EU relative to GDP (left axis) and R&D investment in Swedish companies relative to total R&D (right axis)

As a percentage of GDP and of total R&D investment



Note: Statistics for EU not available for all years.
Source: Statistics Sweden

Based on Sweden's already extensive R&D efforts, the government is taking a number of initiatives to increase the diffusion and adoption of the knowledge acquired through both private and public sector R&D activities. This involves the transfer of knowledge between universities/colleges and companies, and also the

dissemination of knowledge from larger to smaller companies. Measures to transfer knowledge between Sweden and the rest of the world and vice versa are also important. Past and current measures to increase knowledge transfer include university-related technology-bridge trusts and the establishment of industrial development centres to stimulate the transfer of knowledge to smaller companies.

Taxation issues relevant to the functioning of markets

An efficient single market requires common rules for both indirect and direct taxation to avoid distortions to competition between countries. The Swedish tax reform of 1991 facilitated the adjustment to the single market. The reform led to a widening of the tax base, a reduction in tax levels, a simplification of the rules and the abolition of a number of allowable deductions. In the past year, Sweden has implemented a variety of measures in the taxation field, which may contribute to improving the efficiency of both product and capital markets.

Cuts in tobacco duties and increases in the resources allocated to the Customs authorities have reduced smuggling and increased the percentage of legal goods, and this in turn promotes the functioning of the single market. Increased relief on the taxation of dividends and capital gains on unlisted shares was introduced with effect from the tax year 1998. This measure should improve the ability of unlisted companies to attract external capital on the pan-European venture capital market.

At the EU level, there is a need for improved information on the taxation implications of financial transactions between member states. Simpler and more transparent rules and the harmonisation of administrative regulations would help strengthen the single market

Legal and administrative environment and dismantling barriers for small and medium-sized enterprises

The simplification of rules to achieve predictability and transparency is an important element in the government's policy for promoting economic growth. Simpler and fewer rules benefit all companies, but are especially important for smaller enterprises. The government has, therefore, introduced a system to analyse the problems and consequences resulting from new

⁴³ Ministry of Industry, Employment and Communications, and Affärsvärlden, no. 39, 1999.

⁴⁴ "Economic and Structural Reform in the EU", Cardiff II, European Commission and "The Global Competitiveness Report 1999", World Economic Forum, 1999

or amended rules on small businesses.⁴⁵ A working group, SimpLex, has been set up within the Ministry of Industry, Employment and Communications, with operational responsibility for the simplification of rules. A business panel, "Nybyggarna", has also been linked to the Ministry of Industry, Employment and Communications with the aim of achieving a more demand-controlled and focused policy for small businesses.

Already implemented rule simplifications and those currently in progress include faster and easier registration of companies and company names, and improved information and service for newly-started enterprises. For example, there is a proposal to enable entrepreneurs to use the Internet to find out whether it is possible to register a particular company name. The Swedish process for registering companies is already competitive and the current initiatives are expected to improve the situation further. The minimum charter capital required to set up a private limited company in Sweden is on the level of the EU average, but registration involves fewer procedures, and the red tape takes less time (Table A10 in Annexes).

The government is also working on measures to increase business in European markets by small and medium-sized enterprises. The Swedish Trade Council, which is jointly owned by the government and the export industries, has been working in the past year to improve awareness among smaller enterprises of export opportunities and help them develop more effective trading techniques. In collaboration with other organisations, the Swedish Trade Council has set up regional export centres in over 20 locations in Sweden. Companies can also obtain information, for example on EU regulations and the single market, through the official Euro Info Center. In addition, the Government Offices provides small and medium-sized enterprises with information on how the Euro will affect them in practice.

To co-ordinate and improve the effectiveness of government efforts in this field, a committee has been appointed to oversee general govern-

ment players in the area of economic policy. One starting point is that, as far as possible, companies should have one "door" into the general government support system.

Environmental issues relevant to the single market

The Swedish government holds the view that economic policy must be combined with an effective environmental policy based both on clear legislation and the use of economic instruments. In Sweden, economic instruments have been used for some time in the form of environmental and energy taxes, as well as environmental fees, with the aim of internalising external environmental costs in the price of various goods and services. In the work of integrating sustainable development into the single market, Sweden is urging, among other things, the increased use of economic instruments and the development of a common EU product related environmental policy (IPP, integrated product policy) to clarify the environmental standards which should apply for products to be sold on the single market. The Swedish government intends to produce a national environmental products policy in the year 2000, which will cover such areas as environmental labelling, chemicals policy and producer liability. It is essential that environmental standards are integrated into the single market to ensure that environmental policy has a neutral effect on competition.

II. B. CAPITAL MARKETS AND FINANCIAL SERVICES

The aim of the financial system is that it should be efficient and should satisfy both the requirements of society in respect of stability, and the consumers' interest in sufficient protection. In line with these objectives, financial legislation has been reformed further during the year, with the aim of creating better conditions for competition and a more efficient single market.

1. Legal and regulatory framework

To create better conditions for competition and product development in the Swedish insurance market, the parliament has voted during the year to reform the legislation relating to insurance business. The reform is being implemented in

⁴⁵ The system has been incorporated through a decision to amend Kommittéförordningen (SFS 1998:1474) [Ordinance on Committees], a decision on special regulations relating to authorities (SFS 1998:1820) and a decision on guidelines for Government Offices.

accordance with the National Report for the preceding year. The changes will modernise the business rules and streamline the supervision of Swedish insurance companies. The new rules improve consumer access to information and give the insured greater opportunities to transfer their savings in pension policies to other insurers. A clearer distinction is also drawn between shareholders' capital and capital operating on behalf of the insured. This increases the incentive for shareholders and company managers to find cost-effective solutions.

During the year, the rules were also tightened regarding information provided to mutual fund investors on the total expenses charged by different funds. The changes mean that information must be sent annually to mutual fund investors and individual pension policyholders. The changes impinge on the Mutual Funds Act (SFS 1990:1114) and the Individual Pension Savers Act (SFS 1993:931) and were announced as a prioritised improvement measure in last year's national report.

With the aim of strengthening confidence in stock exchanges and the markets, the Securities and Clearing Operations Act (SFS 1992:543) has been amended. The changes affect, among other things, supervision, ownership and suitability testing, as well as the treatment of infringements of Stock Exchange rules. The Share Accounts Act (SFS 1989:827) has been replaced by a new statute, the Act on Bookkeeping of Financial Instruments (SFS 1998:1479), which came into force on 1 January 1999. An important change in the new Act is the abolition of the monopoly of the Swedish Securities Register Centre (VPC) regarding "paperless" securities. The intention is that the new Act shall be general and apply to the accounting of all types of financial instruments.

The dominant market for shares in Sweden, Stockholms Fondbörs AB, merged in spring 1998 with the derivatives market, OM Stockholm to form OM Stockholmsbörsen⁴⁶. One of the aims of the merger was to create a more efficient market by integrating the trading of shares and share derivatives. A common market for Sweden and Denmark has been established through collaboration in Norex

between OM Stockholm's exchange and the Copenhagen Stock Exchange. In August 1999, the Oslo Stock Exchange decided to join Norex. This creates a more efficient stock market with greater liquidity.

2. Restructuring in the financial services sector

Increased competition, internationalisation and high profitability requirements are the driving forces behind the structural changes the financial system is currently undergoing. Mergers are taking place in particular within Sweden, but also internationally. In the past years for example, Föreningsbanken has merged with Sparbanken, the Swedish Nordbanken has amalgamated with the Finnish Merita Bank, and SEB has bought a German bank. Mergers have also taken place between different branches of the financial sector, to give institutions the opportunity to offer their customers a comprehensive range of services in banking, insurance and investment. It should also be pointed out that the mutual funds market in Sweden is dominated by the major Swedish banking groups. In recent years, it has also become increasingly popular for the public to invest in mutual funds (see Figure A6 in Annexes).

Another important structural change taking place in Sweden is the substantial increase in the use of Internet banking by customers over the past twelve months. The number of customers had grown to 870,000 by August 1999, which is over double the figure of just one year before. Every month, an estimated 50,000 to 60,000 new customers sign up for Internet banking.⁴⁷

A far-reaching reform of the Swedish pension system has been carried out in the past few years. The new pension system was introduced in 1999. The aim of the reform is to create a pension system which can adapt to economic and demographic changes. The part of the pension system represented by individual fund saving has not yet been introduced, however. This part, the "premium pension system" will involve an increase in net saving in traditional mutual funds of SEK 15-20 billion per year over the next 10

⁴⁶ The new amalgamated Stock Exchange is owned by OM Gruppen AB.

⁴⁷ According to the Fond & Bank newsletter (9/99)

years. A large number of funds, both Swedish and foreign, are expected to participate in the premium pension system. A first selection of funds for pension contributors is expected to be made during 2000.

In connection with the Swedish pension reform, a comprehensive overhaul of the capital management of AP-fonden, the government-owned Pension Insurance Fund, has been proposed. AP-fonden constitutes a buffer in the pension system, and the reform will adapt it to the size and structure of the Swedish capital market. The reform of AP-fonden broadly means that four equally-large independent funds will be created, with the same investment rules, though these will be less restrictive than those in force today. Each fund will act independently, but on the basis of certain common goals. The reform will improve the functioning of the Swedish capital market.

3. Access of small and medium-sized enterprises to financing

In the latter half of the 1990s, there has been a major focus on the need for venture capital as a source of finance for small and medium-sized enterprises. The private market for venture capital has increased considerably in Sweden in recent years. In particular, the number of venture capital companies has increased dramatically. In the 1990s, the venture capital market in Sweden has grown from a handful of mostly general government players, to almost a hundred, mostly private, players. The supply of venture capital among these players is substantial. In 1994, venture capital companies had about SEK 10.9 billion at their disposal, compared with SEK 49.2 billion in 1998.⁴⁸

A problem that is considered to remain, however, is that enterprises in their very early stages, or enterprises not in growth sectors, still may have difficulties raising capital. General government is involved to some extent in the venture capital market, but mostly offers risk

capital loans to companies. The principal general government players in this field are NUTEK, ALMI, Industrifonden, Norrlandsfonden and Stiftelsen Innovationscentrum. Taken together, the increased number of private players, the increased supply of private capital, as well as the supporting state inputs and planned measures, all imply a striking improvement in the venture capital market.

There are, in principle, two types of measures that have been taken by the general government in recent years to make it easier for small companies to gain access to external share capital. Firstly, there are measures aimed at providing a more favourable climate in general for players supplying venture capital in the small company sector, e.g. support for the development of regional stock exchanges and double taxation relief. The second set of measures have involved direct and targeted intervention to supplement the private market. Both Industrifonden and 6:e AP-fonden have actively grasped the opportunity to take minority shareholdings in small and medium-sized companies, and this has put them among the largest players on the Swedish venture capital market. This has taken place primarily through indirect involvement via wholly or partly-owned venture capital companies. An agreement between ALMI Företagspartner and the European Investment Fund will increase ALMI's lending capacity by about SEK 300 million per year. The "five per cent rule" for insurance companies has also been abolished, and this will increase the opportunities for these companies to make venture capital investments in smaller companies.

III. CONCLUSION: MEASURES FOR FURTHER REFORM

The Swedish government intends to continue with reforms to improve the product and capital markets, as well as to work in the EU to strengthen the single market through increased co-ordination of reforms among member states. Measures currently in progress and those that are planned can be divided into five areas.

⁴⁸ "The Swedish Venture Capital Industry - An Infant, adolescent or Grown-up?", Çetindamar & Jacobsson, Chalmers University of Technology, 1999

1. Strengthening the consumer utility of reforms

The government will develop measures further to safeguard and follow-up reforms in progress and those already implemented, to ensure that they lead to lower consumer prices and greater consumer utility:

- The Competition Authority and the Swedish Agency for Administrative Development have been commissioned by the government to analyse the competitive conditions in both the private and public sectors, as well as the effects of EU membership on consumers and smaller enterprises. The government is considering following this with a Bill on competition policy in the year 2000, with concrete measures to increase competition and strengthen the position of consumers.
- Against the background of high Swedish price levels in certain sectors, Statistics Sweden has been commissioned to produce up-to-date consumer price statistics for a number of categories of goods, in order to identify high price markets and barriers to competition not explained by geographical factors.
- The Swedish National Energy Administration has launched a project to create uniformly laid-out electricity bills to allow consumers to see clearly the electricity companies' costs. The aim is to improve the flow of information to consumers, since, with the deregulation of the energy market, it has become difficult for consumers to compare prices and products among different operators.
- In its routine reports, the Swedish National Energy Administration will, among other things, follow up price changes resulting from the abolition of metering requirements and other reforms. Similarly, the National Post and Telecom Agency will in its reporting follow up the impact on prices to consumers of the pre-selection reform in land-line telephony, for example.
- In order to reduce the cost of housing for consumers and improve the efficiency of the construction sector, a public enquiry has been set up to investigate changes in the operational form of the public housing companies, and changes to, or the abolition of, the system regulating rents. Furthermore,

the state delegation on construction costs is working on drawing up proposals aimed at reducing construction costs.

- A parliamentary committee has been appointed to review the goals of consumer policy from an EU perspective, with particular focus on household finances, financial services, information technology, product and Internet security and market supervision. Sweden has also received an enquiry from the EU Commission on the setting up of an advisory bureau for consumer issues in Stockholm.

2. Promoting free trade and a more efficient single market

In order to strengthen competition and increase integration in the single market, Sweden will:

- Continue at the EU level to pursue the issue of free parallel imports of trademark-protected products from countries outside the EEA.
- In preparation for the coming WTO negotiations, pursue the traditional Swedish policies of lower customs duties to third countries, reform of the agricultural system, reduced use of anti-dumping instruments and the establishing of multilateral rules on investment and competition.
- Increase knowledge of the principle of mutual recognition through targeted training initiatives for ministries, authorities and the business community.
- Work within the EU to reduce the use of distorting national state aid to companies with the aim of attracting direct foreign investment, as well as work for a general reduction in state aid to the industry.
- Support the work within the ECOFIN Council on the code of conduct on corporate taxation.
- Support the new Strategy for the EU's single market.

3. Increasing efficiency in the public sector

The government is striving towards a more efficient public sector through utilising the positive effects of increased public procurement and more efficient competition with the aim of safeguarding the future needs of essential public

services. The following initiatives have been taken:

- In order to strengthen the observance of the Public Procurement Act, a parliamentary appointed committee is carrying out a review of the National Board for Public Procurement (NOU), to be completed by the end of 2000.
- An information and education project has been launched under the auspices of the National Board of Trade, with the aim of expanding the opportunities for smaller companies to take part in public sector tendering in Sweden outside their local market, as well as in public tendering within the EU.
- The regulatory changes required for electronic procurement below the threshold limit for public procurement are currently being reviewed, to allow suppliers to use electronic documentation and digital signatures.
- A working group has been appointed within the Government Offices to propose improvements for competition between private and public companies through possible amendments to the Local Government Act (SFS 1991: 900) and the Competition Act. This project is taking place in parallel with the activities of the National Commission for Competition on Equal Terms Between the Public and Private Sectors. In addition, the Swedish Agency for Administrative Development will evaluate the actions of general government authorities in competitive markets.

4. More efficient public utility services

Sweden has implemented far-reaching reforms in energy, telecommunications and transportation sectors with good results. However, to ensure that the reforms achieve their full impact, further measures are necessary to reduce the position of dominant players and increase the accessibility of networks and other infrastructure for new operators.

- In September 1999, the National Post and Telecom Agency submitted a proposal to the government on changes to the Telecommunications Act (SFS 1993:596) to give other operators access to Telia's access network, i.e. to the telephone cables to the individual subscribers. A Bill has also been presented on access to the mobile network.

- The lack of competition and high price levels in domestic air travel will be investigated as part of the enquiry currently in progress into competition policy. A proposal will be incorporated in the bill the government is considering introducing in 2000.
- Private financing of infrastructural investments (Public Private Partnerships) will be considered in a number of areas, including several pending road projects, with the aim of utilising private sector expertise and reducing general government's risk exposure.

5. Improving provision of venture capital and more efficient capital markets

The government is working on a number of measures to strengthen the capital markets and to create better market conditions for the provision of venture capital to smaller companies. These include the following:

- With the aim of improving the efficiency of capital markets and concentrating regulatory efforts, there will be a reform of the regulations and the supervision of banks and credit market companies. The report of the Banking Law Committee, which was submitted to the government in January 1999, will constitute the basis for this reform.
- Changing the arrangements for provisions to encourage small companies to build up untaxed equity. The Budget Bill for the year 2000 includes proposals by the government to improve the opportunities to make transfers to tax allocation reserves. A review is in progress of rules 3:12, which govern the taxation of income from active business operations in closed companies, with the aim of encouraging expansion and investment.
- The abolition of coupon tax on business-related holdings means that foreign juridical persons will be able to receive dividends from subsidiary companies in Sweden without coupon tax being imposed.
- A bill relating to the accounting and denomination of share capital in foreign currency was laid before parliament in November 1999. As a first step, it makes possible accounting and denomination in Euro for the accounting year 2001. Thereafter, the government will consider permitting accounting and denomination of share capital

in certain other currencies from the accounting year 2002.

The measures currently in progress and those that are planned will further contribute to improving the functioning of product and capital markets. In this way, the reforms will stimulate growth and create conditions for increased employment.

IV. ANNEXES

Tables

Table A1. Consumer Price Index in Sweden and EU, 1996-1998

Annual average for main groups, Index 1996=100

| | Consumer prices total | | Food | | Housing, water, electricity and gas | | Health services | | Communications | |
|------|-----------------------|-------|--------|-------|-------------------------------------|-------|-----------------|-------|----------------|------|
| | Sweden | EU | Sweden | EU | Sweden | EU | Sweden | EU | Sweden | EU |
| 1996 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| 1997 | 101.9 | 101.7 | 101.0 | 100.9 | 103.7 | 102.6 | 101.7 | 103.6 | 99.8 | 99.5 |
| 1998 | 102.9 | 103.0 | 102.4 | 102.3 | 104.8 | 103.9 | 103.1 | 107.6 | 102.8 | 97.8 |

Source: Statistics Sweden, HICP

Table A2. Percentage of directives not implemented or delayed in Sweden and the EU November 1997-June 1999

Per cent

| | Nov 1997 | May 1998 | Nov 1998 | June 1999 |
|------------|----------|----------|----------|-----------|
| Sweden | 6.2 (8) | 2.0 (2) | 1.5 (2) | 2.1 (4) |
| EU average | 6.3 | 4.5 | 3.9 | 3.5 |

Note: Figures in parentheses indicate Sweden's position

Source: Single Market Scoreboard, November 1998 and June 1999

Table A3. Directives not implemented or delayed by sector in Sweden and the EU June 1999

Ranked by percentage of directives not implemented in Sweden

| | Sweden share in per cent | EU share in per cent |
|----------------------------------|-----------------------------|-------------------------|
| Telecommunications (16) | 25 | 59 |
| Transportation (59) | 14 | 52 |
| Energy (12) | 8 | 17 |
| Veterinary controls (198) | 4 | 17 |
| Chemical products (78) | 3 | 17 |
| Cosmetic products (38) | 3 | 11 |
| Environment (91) | 1 | 14 |
| Intellectual property rights (8) | 0 | 50 |
| Public procurement (11) | 0 | 36 |
| Social policy (39) | 0 | 28 |
| Food (103) | 0 | 14 |

Note: Figures in parentheses refer to the percentage of directives involved within each sector.

Source: Single Market Scoreboard, June 1999

Table A4. Public procurement according to the National Accounts, 1996

SEK billion

| | Central government | Municipalities | County Councils | Total |
|--------------|--------------------|----------------|-----------------|--------------|
| Services | 42.8 | 49.4 | 30.5 | 122.7 |
| Goods | 43.4 | 19.1 | 11.1 | 73.6 |
| Other | 2.9 | 10.5 | 3.2 | 16.5 |
| Total | 89.0 | 79.1 | 44.7 | 212.8 |

Note: In accordance with the National Accounts' definition of public procurement, public sector companies are not included. Nor do the figures include private companies in the supply sector which are subject to public law and which were established to supply needs in the public interest.

Source: Statistics Sweden

Table A5. Child care, schools and home assistance in private operation 1995 and 1997

Percentage of total operations

| | 1995 | 1997 |
|---|------|------|
| Day nurseries | 11.9 | 12.8 |
| After-school recreation centres | 4.5 | 4.6 |
| Registered child minders | 1.7 | 3.0 |
| Compulsory comprehensive schools (age 7-16) | 2.2 | 2.7 |
| Upper secondary schools | 2.3 | 3.1 |
| Special schools | 3.0 | 3.2 |
| Home Assistance | 4.4 | 4.2 |

Note: Remaining operations are run by municipalities. Upper secondary schools includes boarding schools and supplementary schools.

Source: Swedish Association of Local Authorities, "Konkurrens för fortsatt välfärd?" [Competition for future welfare?], 1999

Table A6. International comparison of Sweden's market structure for telephony

| | Sweden | OECD average | OECD weighted average ¹ |
|------------------------------------|----------------|--------------|------------------------------------|
| Fixed telephony | | | |
| Number of operators | 15 | | |
| Market share of largest operator | 83,0 % | 90.8 % | 75.4 % |
| Mobile telephony (analogue) | | | |
| Number of operators | 1 | | |
| Market share of largest operator | 100 % | 91.8 % | 73,6 % |
| Mobile telephony (digital) | | | |
| Number of operators | 4 ² | | |
| Market share of largest operator | 49,0% | 65.8 % | 52,5 % |

¹Weighted by the countries' income from the telecommunications market in relation to the income of the OECD as a whole..

²Four operators have permits, but only three operators are active.

Source: "Regulation, Market Structure and Performance in Telecommunications", Working Party No. 1 on Macroeconomic and Structural Policy Analysis, OECD 1999

Table A7. Prices for private customers from the three largest telecommunications operators

Price per call-minute including VAT

| | Telia | | Tele2 | | Telenordia | |
|---------------------------------------|-------------------------|---------------------|--|--|-------------------------|---------------------|
| | Weekdays 08:00-16:00 | Other times | Weekdays 08:00-16:00 | Other times | Weekdays 08:00-16:00 | Other times |
| Initial charge | 40 öre | 40 öre | 50 öre | 50 öre | 40 öre | 40 öre |
| Local call ¹ | 23 öre | 11.5 öre | 20 öre | 20 öre | 23 öre | 11.5 öre |
| National call (Price in January 1999) | 50 öre | 25 öre | 40 öre | 20 öre | 40 öre | 20 öre |
| National call (Price from March 1999) | 38 öre ² | 20 öre ² | 32 öre ³ | 18 öre ³ | 38 öre ⁴ | 19 öre ⁴ |
| Call to mobile phone | SEK 4.31 | SEK 2.88 | SEK 3.00 ⁵ SEK 3.70 ⁶ | SEK 2.00 ⁵ SEK 2.50 ⁶ | SEK 3.25 | SEK 2.25 |
| <i>International calls</i> | | | | | | |
| Nordic countries | SEK 1.50 | SEK 1.50 | SEK 1.32 | SEK 1.10 | SEK 1.13 | SEK 0.96 |
| France | SEK 4.00 | SEK 4.00 | SEK 2.94 | SEK 2.45 | SEK 2.53 | SEK 2.15 |
| UK | SEK 3.00 | SEK 3.00 | SEK 2.16 | SEK 1.80 | SEK 1.32 | SEK 1.12 |
| Germany | SEK 3.00 | SEK 3.00 | SEK 2.16 | SEK 1.80 | SEK 1.57 | SEK 1.33 |
| USA | SEK 3.00 | SEK 3.00 | SEK 1.80 | SEK 1.50 | SEK 1.44 | SEK 1.23 |

¹ Local calls with Telia and Telenordia mean calls to the same area dialling code and to adjacent area codes. Local calls with Tele2 mean calls within a "number area"; all calls which have the same first two digits in the area code, e.g. 08, 04, 03, etc.

² On 2 February 1999, Telia reduced the price of national calls.

³ On 8 February 1999, Tele2 reduced the price of national calls.

⁴ On 1 March 1999, Telenordia reduced the price of national calls.

⁵ Calls to Tele2Mobil- and Comviq-mobile telephone subscribers.

⁶ Calls to mobile telephone subscribers other than with Tele2Mobil and Comviq.

Source: National Post and Telecom Agency 1999

Table A8. Addressed items of mail by postal company, 1996-1998

| | Number of items of mail (millions) | | | Market share | | |
|---------------------------|------------------------------------|----------------|----------------|--------------|--------------|----------------|
| | 1996 | 1997 | 1998 | 1996 | 1997 | 1998 |
| Posten AB | 3 361.0 | 3 311.0 | 3 275.0 | 98.1 % | 96.0 % | 95.0 % |
| CityMail Sweden AB | 55.5 | 123.7 | 151.5 | 1.6 % | 3.6 % | 4.4 % |
| Svensk Direktreklam (SDR) | 4.5 | 4.8 | - ¹ | 0.1 % | 0.1 % | - ¹ |
| Other postal companies | 6.0 | 9.6 | 19.7 | 0.2 % | 0.3 % | 0.6 % |
| Total | 3 427.0 | 3 449.1 | 3 446.2 | 100 % | 100 % | 100 % |

¹ Svensk Direktreklam is included in figures for other postal companies 1998.

Source: National Post and Telecom Agency 1999

Table A9. Prices from Posten AB and the average of local operators' prices

Price in SEK including VAT

| Weight class (gram) | Local postage A-post | | Local postage B-post | | Local postage Club letters | |
|------------------------|------------------------------|-----------------|------------------------------|-----------------|------------------------------|-----------------|
| | Posten AB (national postage) | Local operators | Posten AB (national postage) | Local operators | Posten AB (national postage) | Local operators |
| 20 | 5.00 | 3.30 | 4.50 | 2.81 | 3.50 | 2.80 |
| 100 | 10.00 | 5.63 | 9.00 | 4.90 | 3.50 | 3.25 |
| 250 | 20.00 | 10.67 | 18.00 | 9.54 | 14.00 | 7.21 |
| 500 | 30.00 | 15.89 | 27.00 | 14.31 | 27.00 | 10.29 |
| 1 000 | 40.00 | 21.71 | 36.00 | 19.96 | 36.00 | 11.06 |
| 1 500 | 50.00 | 30.50 | 45.00 | 27.66 | 45.00 | 12.60 |
| 2 000 | 60.00 | 34.51 | 54.00 | 31.12 | 54.00 | 15.38 |

Note: Note that Posten AB does not have a special local postage rate. The prices for the local operators are estimated averages, and the spread between operators is large.
Source: National Post and Telecom Agency 1999

Table A10. Indications of administrative load, company registration

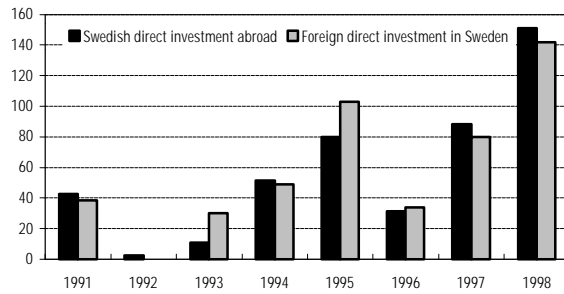
| | Minimum capital requirements for starting private limited companies (ECU) | Number of procedural steps required before and after registration | Average time delay for decision (weeks) |
|--------|--|---|--|
| Sweden | 12,000 | 6 | 3 |
| EU | 12,600 | 11 | 11 |

Note: Weighted average of 7 EU countries (France, Germany, Italy, the Netherlands, Spain, UK and Sweden)
Source: OECD Economic Surveys, Sweden, 1998

Figures

Figure A1. Flow of direct investment 1991-1998

SEK billion

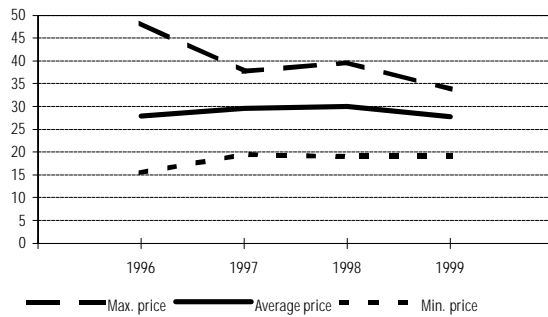


Note: Since Oct. 1997, short-term loans are included in the definition of direct investment. Short-term loans have been removed from the figures for 1997 and 1998 to provide comparative figures.

Source: Sveriges Riksbank, 1999

Figure A2. Difference in wholesale prices for electricity for apartments within the supply concession

Ore/kWh

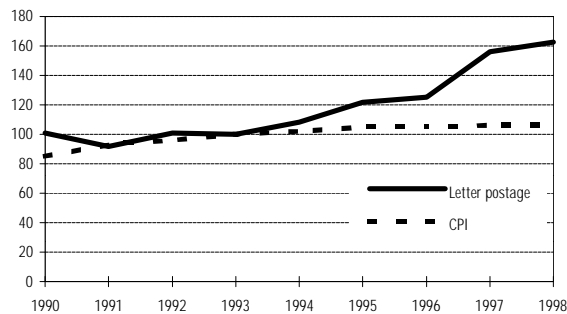


Note: Highest and lowest prices from different electricity companies, as well as average price in 1 January in each year.

Source: Swedish National Energy Administration, 1999

Figure A3. Price trends for domestic letters

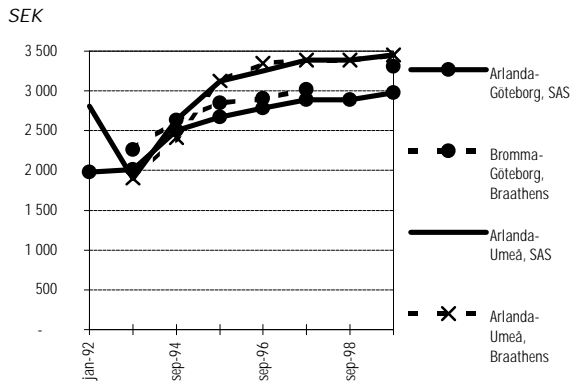
Standard postage, 20 gram, Index 1993=100



Note: The conveyance of letters was exempt from VAT up until March 1994, when VAT was introduced at a rate of 12%. In 1995, the VAT rate was increased to 25%.

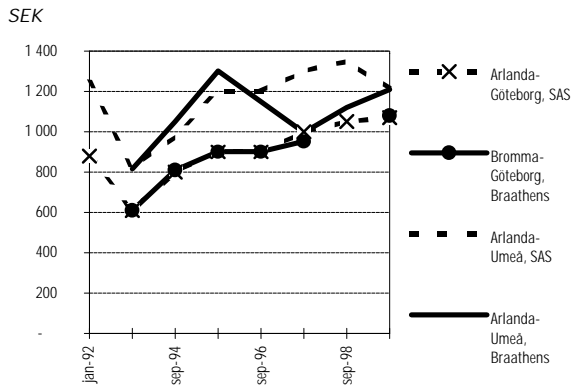
Source: Statistics Sweden

Figure A4. Domestic flights, return fares
normal price ticket excluding VAT



Note: During the period, the consumer price index increased by 6%.
Source: Swedish Civil Aviation Administration, 1999

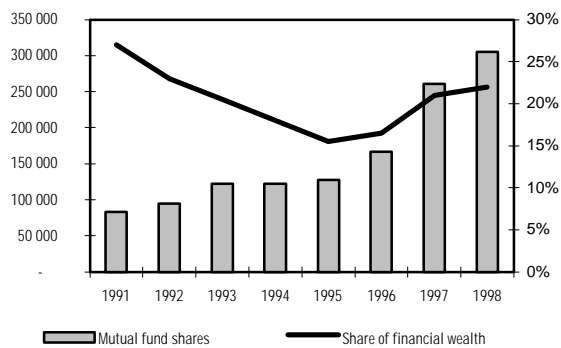
Figure A5. Domestic flights, return fares
budget price ticket excluding VAT



Note: During the period, the consumer price index increased by 6%.
Source: Swedish Civil Aviation Administration, 1999

Figure A6. Households' direct holdings of shares in mutual funds, and the mutual funds' share of household financial wealth

SEK million (current prices) and percentage



Source: Swedish Financial Supervisory Board / Statistics Sweden: Financial accounts 1997 and fourth quarter 1998



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