

National Report on
Economic Reform of the
Product and Capital
Markets

Sweden

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I. INTRODUCTION

The aim of the reforms of the product and capital markets is to improve the functionality of the markets and thereby create favourable conditions for high and sustainable growth and full employment. The reforms also benefit consumers by contributing to lower prices and an increased supply of goods and services. EU finance ministers launched the Cardiff process in 1998 to promote product and capital market reforms.

1 The Work on Economic Reform in the EU

In 2003 EU finance ministers adopted the Broad Economic Policy Guidelines for the next three years, 2003-2005. The Broad Economic Policy Guidelines focus on how economic policy at both the national and EU levels can contribute to achieving the goals of the Lisbon strategy of high and sustainable growth and full employment. The Guidelines therefore include recommendations both at the EU and national levels. In the product and capital markets, it is recommended that Sweden strengthen competition in certain sectors and increase efficiency in the public sector.

The National Report on Economic Reform is a review and follow-up of the measures taken by Sweden in line with the Broad Economic Policy Guidelines with respect to the product and capital markets. In this year's national report on economic reform, the emphasis is on measures taken during the past year. In previous years' reports, reforms undertaken in the last few years and long-term developments in a number of markets were described in more detail. Next year's national report will provide a more exhaustive description of the situation in the product and capital markets, the problems that remain and the measures planned for improving market functionality. This corresponds to the change made whereby the Broad Economic Policy Guidelines are now in effect for three years. Therefore new recommendations will not be adopted until 2006.

II.A GROWTH AND PRODUCTIVITY IN SWEDEN

1 Evaluation of the Lisbon Goal

The Lisbon strategy aims to make the EU the world's most dynamic and competitive knowledge-based economy with sustainable economic growth, more and better jobs, and greater social cohesion. Sweden is well placed in the implementation of the Lisbon strategy. Sweden has distinguished itself, especially in areas such as investment in research and development, a high level of education, older workers' labour force participation and employment of women.

Table 1. Comparison of Structural Indicators in Sweden and Other EU Countries

Indicator	Sweden	EU-15	EU-25	Among the 3 best	Among the 3 worst
GDP per capita ¹	105.3	100	91.4		
GDP growth rate, %	1.6	0.7	0.9		
Employment rate ² , %	72.9	64.4	62.9	X	
males, %	74.2	72.6	70.8		
females, %	71.5	56.0	55.1	X	
older workers ³ , %	68.6	41.7	40.2	X	
older males, %	70.8	51.6	50.3	X	
older females, %	66.3	32.2	30.8	X	
Long-term unemployed ⁴ , %	1.0	3.3	4.0	X	
Labour productivity ⁵	96.2	100	93.3		
Price level ⁶	117.3	100	96.4		
Education level ⁷ , %	85.6	74.0	-	X	
Business investment ⁸ , %	12.6	17.2	18.0		X
R&D expenditure ⁹ , %	4.3	2.0	1.9	X	
ICT ¹⁰ investment ⁹ , %	4.4	3.0	-		

Note: Data for latest available year, - information not available, 1) forecast for 2004 purchasing power standards (PPS) GDP compared with the EU-15, 2) 15-64 year-olds, 3) 55-64 year-olds, 4) unemployed (≥ 12 months) as a percentage of the labour force, 5) purchasing power standards (PPS) GDP per hour worked compared with the EU-15, 6) compared with the EU-15, 7) education among 20-24 year-olds, 8) business investment in the private sector as a percentage of GDP, 9) as a percentage of GDP.

Source: www.europa.eu.int/comm/eurostat/structuralindicators. 2004-09-17.

However, there are areas where Sweden does not fare so well. For example, Sweden has a higher price level and less business investment compared with other EU countries. Swedish labour productivity per hour or per employee is above the average for the EU-25 but below the average for the EU-15.

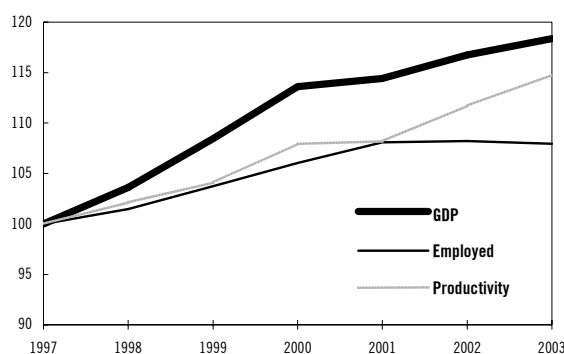
2 Economic Reform Results

Growth in the Swedish economy has been good relative to the EU since the beginning of the Cardiff process. Between 1997 and 2003, real GDP growth averaged 2.8 per cent annually. In comparison, growth in the EU in the same period amounted to 1.8 per cent in both the EU-15 and the EU-25.

Swedish growth has been propelled primarily by robust productivity growth while the contribution from employment has been weaker; see figure 1. Between 1997 and 2003, Swedish productivity, measured as GDP per hour worked, increased by an annual average of 2.3 per cent^{1,2}. The corresponding increase in employment was 1.3 per cent.

Figure 1. Growth in GDP, Employment and Productivity

1997=100



Note: GDP at base price from user's side, not adjusted for the number of working days. Productivity per hour worked.

Source: Statistics Sweden and Ministry of Finance.

A Government commission of inquiry (SOU 2002:118) estimated that the growth of multifactor productivity (MFP), which indicates how efficiently a given amount of capital and labour is used in production, increased from an average of 1.3 per cent annually in the 1980s to 1.6 per cent annually in the 1990s. Other analyses have arrived at similar results.³

Deregulation of product and capital markets, robust productivity growth in the ICT sector and increased use of ICT in the production of

other goods and services contribute to continued good productivity growth. The substantial increase in R & D investment, principally in the business sector, is another important factor pointing to continued good productivity growth.⁴ It is above all the production of ICT products that has contributed to Sweden's good productivity growth. But growth in other manufacturing industries has also been good and has exceeded that in the most important competitor countries. But productivity in sectors directed at the domestic market, such as the electric power supply, transport services and the construction industry have been on a par with or have done worse than the same industries in competing countries. However, there is a need for additional measures in these sectors that will make it possible to transform the effects of economic reform into increased productivity.

Even though the Swedish price level has converged toward the EU average since membership in 1995, it is still high. It is primarily in retail trade, the construction industry, transport services and housing that the price level exceeds the EU average. However, the price level in several of the deregulated sectors in network industries are well below the EU average. In this respect, economic reforms have clearly yielded positive results for consumers.

II.B Competition in Product Markets and the Completion of the Internal Market

1 Economic Integration

Sweden is one of the EU countries that have made the most progress in opening markets to competition.

¹ Ministry of Finance estimates.

² In the Swedish National Accounts, annual productivity growth in the public sector is, by definition, null per cent. This causes a systematic understatement of the productivity level in Sweden compared with those countries that reckon on positive productivity growth in the public sector.

³ OECD 2004, Economic Survey of Sweden.

⁴ See, for example, Donselaar, Erken and Klomp 2004, "R&D and Innovation: Drivers of Productivity Growth."

1.1 Implementation of the Internal Market

Effective implementation of the Community's directives is a matter of high priority for Sweden. According to the most recent Internal Market Scoreboard,⁵ Sweden's implementation deficit is 1.8 per cent, or twenty-eight unimplemented directives. The EU average is 2.2 per cent and the EU target is a maximum 1.5 per cent.

Sweden, as well as Spain, Denmark and Portugal, has met the target of zero tolerance for the implementation of directives more than two years late. Routines and planning in the Government Offices are to be tightened to ensure that implementation can be effected within the designated time. A project group in the Government Offices will review the possibilities of beginning the incorporation process earlier, clarifying who is responsible for the incorporation and improving the competence in all the ministries and the public authorities concerned.

Standardisation of methods for meeting safety standards has an important role in getting the internal market for goods to function better. Today 80 per cent of the standardisation work takes place at the European Community level instead of the national level. The Czech Republic, Estonia and Slovakia have taken the lead, with the highest number of European standards implemented nationally. Sweden is a close fourth, according to the Internal Market Scoreboard.

1.2 Remaining Obstacles to Trade

With the aim of designing a national strategy for developing the internal market in Sweden, the Government has commissioned the National Board of Trade (Kommerskollegium) to conduct three inquiries. The reports of these inquiries will be presented in 2004. The aim of the first is to propose co-ordinated and simplified EU information for companies.⁶ The second has the aim of identifying the advantages

that have resulted from the internal market as far as Sweden is concerned. The third is to map Swedish interested parties' knowledge and attitudes concerning the internal market.⁷ With these reports as its basis, the Government will propose measures aimed at improving knowledge of the internal market and the opportunities it provides.

The work for a co-ordinated and efficient internal market for services has come to fruition in the form of the Directive on Services.⁸ With the aim of generating a broad domestic discussion on how to improve the functioning of the future European market for services, Sweden has formed a working group with representatives from the social partners, the public authorities and the business community, as well as an internal working group comprising those parts of the Government Offices concerned with this issue.

An inquiry with the aim of strengthening the resources for market control was conducted in 2003 and early 2004 (SOU 2004:57). Among its proposals is the establishment in a regulation of a general goal for market control. A proposal will be submitted to the Sveriges Riksdag in the spring of 2005.

Harmonised common product standards with CE marking⁹ in effect in the entire EU help to improve and strengthen the free movement of goods in the internal market. In Sweden, special funds have been earmarked for a campaign for CE marking, which is in line with the work that the EU Commission has announced within the framework of the oversight of the new method.¹⁰

2 Regulatory Regimes' Impact on the Markets

The Government is currently working on capturing the results of the deregulations that

⁵ COM, "Internal Market Scoreboard", July 2004.

⁶ National Board of Trade's commission on proposals to co-ordinate and simplify EU information for companies, dnr 100-174-04.

⁷ The last two reports will be presented in december 2004.

⁸ COM (2004) 2 final.

⁹ The CE mark is a symbol affixed to products put on the market; it shows that the product meets the basic safety standards in one or more new method directives.

¹⁰ New method means that directives only contain concise and general safety requirements. Detailed information can be found in voluntary European standards prepared at the request of the Commission.

have been carried out and creating the appropriate instruments for maintaining markets that have been opened to competition. An active competition policy and a restrictive policy of state subsidies for individual companies and sectors are important framework conditions for well functioning markets.

2.1 Competition Policy

In the country-specific recommendations in the Broad Economic Policy Guidelines, Sweden is urged to *step up efforts to enforce competition in sectors where competition is inadequate*. The Government has previously pointed out that competition in the foodstuffs and construction sectors should be improved. As a way to increase competition in these sectors, the Government has appointed a commission of inquiry to review planning and construction legislation (Dir. 2002:97). The Commission is to submit its report at the end of 2004.

In Sweden, the average price level for everyday commodities and non-alcoholic drinks in 2003 was 24 per cent above the average for the EU-25.¹¹ Prices in Sweden are 16 per cent higher than prices in Germany and 17 per cent higher than in the Netherlands. Even after the deduction of the higher VAT in Sweden, large price differences remain. In the past two years there has been some increase in competitive pressure, primarily with the establishment of more internationally active chains of discount stores. However, this development has not so far had any noticeable impact on prices. The Swedish Competition Authority (Konkurrensverket) estimates that better competition would mean at least a 5 per cent reduction in food prices.¹²

In several of the construction sector's various market segments, there is strong ownership concentration, with both vertical and horizontal ties between companies. Suspected collusion to limit competition has been observed and some suspected cartels are currently subject of legal

proceedings. The Nordic Council has a project under way to increase supply in the construction sector between the Nordic countries, the Baltic countries and Poland.

One of the Government's most important instruments in promoting effective competition is the competition law. In September 2004, the Government decided to appoint a special investigator with an instruction to efficiate procedures under the competition law. One of the investigator's tasks is to consider whether it is feasible to reduce the number of instances. The special investigator is also to review the regulations in the competition law in light of the new European Union Merger Regulation. Reporting on the part of the inquiry concerning order of instance and merger regulations is due in July 2005 and the remaining parts in February 2006. As a result of the modernisation of the legal framework governing competition at the EU level, new regulations have also been introduced in Sweden (Govt. Bill 2003/04:80). From July 1, 2004, the possibility of applying for individual exceptions or negative clearance by the Competition Authority has been eliminated. The issue of the right to damages under the competition law has furthermore been examined by a special investigator (SOU 2004:10). The special investigator's proposals have been circulated for comment and are the subject of further analysis in the Government Offices.

In November 2003, the Government asked a special investigator to present a legislative model for the criminalisation of infringements of the prohibitions in competition legislation. The special investigator is to report the result of this work in December 2004 (dir. 2003:175). After the Riksdag's approval, the agreement on co-operation reached by the competition authorities in Sweden, Denmark, Norway and Iceland came into force on February 15, 2004. The agreement opens the way for closer co-operation between the Nordic competition authorities, including the exchange of information.

2.2 State Aid

To avoid distortion of competition, there is a restrictive policy on state aid to companies and individual sectors. Sweden is one of the most restrictive countries in the EU in this respect.

¹¹ Eurostat 2004, "Eating, drinking, smoking – comparative price levels in EU, EFTA and candidate countries for 2003".

¹² The Competition Authority report series 2004:2, "Konsumenterna, matpriserna and konkurrensen" (Consumers, food prices and competition).

According to the most recent compilation presented by the EU Commission, total Swedish state aid in 2002 amounted to 0.39 per cent of GDP. In comparison, the average for the EU-15 that same year came to 0.56 per cent.¹³ For Sweden, as well as for the EU-15 as a whole, there is a reduction in state aid compared to previous years.¹⁴

3 Public Utilities and Other Network Industries

Sweden was one of the first EU countries to open its energy, telecommunications and transport markets to competition. The reforms have on the whole generated positive economic effects, including greater freedom of choice for consumers. Providing consumers with better opportunities to act in markets newly opened to competition is of great importance.

In December 2003, the Government vested a special investigator with the task of analysing the long-term effects of regulatory reforms of certain markets for consumers, the business community, the economy and the labour market, based on evaluations that have been carried out (dir. 2003:151).¹⁵ The markets concerned are the telecommunications, electricity, postal, domestic airlines, taxi and railway markets. The special investigator is to report the result of this work no later than January, 2005. According to statistics that Statistics Sweden has produced at the request of the commission, consumer prices in five of the six deregulated markets increased more rapidly than did the general price level since the liberalisations began.¹⁶ However, there are many factors that have an important effect on prices. According to the Competition Authority, prices have fallen in those markets in which new companies have succeeded in challenging

established companies, such as the telecommunications market, but it can take a long time for new companies to secure a foothold in the market.¹⁷

3.1 Telecommunications

In the telecommunications market, the supply of various services and equipment has increased markedly in recent times and a new law, the Electronic Communications Act (Lagen om elektronisk kommunikation) (SFS 2003:389), came into force in 2003. With the new law, the regulatory authority the National Post and Telecom Agency [Post- och telestyrelsen (PTS)] has been given an expanded mandate.

In the Swedish market, there is a very large number of operators offering fixed-line telephone services. TeliaSonera is the biggest in the market but its market share continues to decline. Almost 43 per cent of private customers having fixed-line service have chosen a pre-selection operator other than TeliaSonera. Therefore less than one of every thousand ordinary fixed-line subscriptions is served by an operator other than TeliaSonera.¹⁸ In 2004 PTS has begun oversight of TeliaSonera in several respects. This oversight includes the pricing of installations and the rental of copper access, entry into TeliaSonera's telephone and telegraph offices and oversight of TeliaSonera's supply of products on the access net market on equivalent terms, irrespective of whether delivery is made to its own subsidiaries or to competing operators.

The use of mobile telephones has increased very rapidly in recent years. The total number of mobile telephone subscriptions per 1,000 inhabitants in Sweden increased from 889 in 2002 to 981 in 2003. However, it is not uncommon for a person to have more than one subscription.¹⁹

Third generation mobile networks got their first customers in the summer of 2003, but the number of customers is relatively few. Under

¹³ European Commission, State Aid Scoreboard, COM (2004)256 final.

¹⁴ In comparison with information reported earlier, it should be noted that support for the railway sector is now reported separately.

¹⁵ The inquiry was extended by dir. 2004:134, "Tilläggsdirektiv till utredningen om utvärdering av vissa regelreformerade marknader" (Supplementary directive to the Commission evaluating certain markets after regulatory reform).

¹⁶ Ministry of Industry, Employment and Communications (Näringsdepartementet), Press Release 15-09-2004, "Regelutredningen" [Regulatory Reform Commission].

¹⁷ The Competition Authority 2004, "Monopolmarknader i förändring" (Monopoly Markets in Transition).

¹⁸ PTS 2004, "Svensk telemarknad 2003" (The Swedish Telecommunications Market in 2003).

¹⁹ Ibid.

the licensing terms, the four 3G operators were to have covered almost all the population by December 31, 2003, but none of those licensed have yet met the conditions of their license.²⁰

3.2 Energy

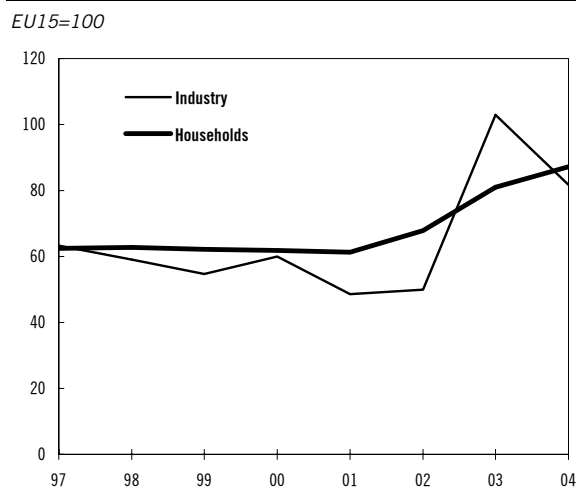
Electricity

The Swedish electricity market generally functions well. However, it is urgent that the regulation and supervision of the electricity market improve and become more efficient, as stressed in a report by the Swedish Agency for Public Management (Statskontoret)²¹ submitted to the Government in November 2003. This will also improve customers' confidence in the functioning of the electricity market.

The Electricity and Gas Markets Commission (El- och gasmarknadsutredningen) presented its interim report (SOU 2003:113) in December 2003. In autumn 2004, the Government intends to submit a bill to the Riksdag on the implementation of the EC's directive on common rules for the internal market in electricity and natural gas, etc. The other part of the commission's task is to conduct an analysis and present proposals no later than December 2004 on possible improvements to the Swedish electricity and natural gas markets (dir. 2003:22 and dir. 2004:104).

While the price on the electricity commodities exchange has varied considerably during the year and from year to year, owing in part to large fluctuations in the supply of hydroelectric power²², consumer prices for electricity have been more stable.²³ Sweden's electricity prices are generally below the average for the EU-15.

Figure 2. Swedish Electricity Prices Without Taxes in Relation to the EU Average



Source: Eurostat 2004, Structural Indicators.

Active consumers are a prerequisite of a well-functioning electricity market. In Sweden about 49 per cent of end users have changed electricity supplier or renegotiated the price with their existing supplier. This is an increase of 4 percentage points over last year.²⁴

There are physical limitations in the electricity supply network: bottlenecks, when electricity lines' technical capacity sometimes falls short of market demand for electricity transmission and thus affects the way in which the market functions. The Government has instructed the Swedish Energy Agency (Energimyndigheten) to make recommendations on how to manage the limitations in Sweden's electricity transmission network. The report is due in December 2004.²⁵

Natural Gas

Natural gas makes up 2 per cent of Swedish energy consumption. The natural gas network covers some thirty municipalities in the south-west of Sweden. There natural gas accounts for about 20 per cent of energy consumption, which is about the same as the EU average.

The Electricity and Gas Markets Commission has submitted its interim report (SOU 2003:113) with proposals for sweeping changes in the natural gas law in order to implement the new gas market directive. The new conditions in

²⁰ Ibid.

²¹ Swedish Agency for Public Management 2003, "Effektivare tillsyn över energimarknaderna" (More Effective Supervision of the Energy Markets).

²² The conditions for hydroelectric power production have considerable impact on the price of electricity on the Nordic Power Exchange since hydroelectric power makes up such a large part of Nordic electricity production.

²³ The end customer's total electricity costs consist of three items: the electricity fees, network tariffs and taxes.

²⁴ TEMO survey commissioned by Swedenergy (Svensk Energi), March 2004.

²⁵ Instructions to the Energy Agency, N2004/584/ESB.

the natural gas market will be addressed in a government bill to be presented in the autumn of 2004. The Commission will submit a further report at the turn of the year with other proposals for improvements in the natural gas market.

3.3 Transport

The Government is working to make the transport system more competitive both within a particular mode of transport and between different modes, but it is doing so in a controlled manner. Air traffic, shipping and road traffic are no longer governed by regulations that restrict the possibilities of establishing new businesses. Passenger traffic on railways is carried by SJ, which has sole rights on interregional lines. If SJ chooses not to carry traffic on an unprofitable line, it may be the Government's judgement that maintaining the traffic is warranted from a transport policy perspective. In such a case, competitive public procurement is used to decide the carrier.

Air Traffic

During the first half of 2004, international air travel increased by 8 per cent and domestic air travel by 1 per cent at airports operated by Luftfartsverket (LFV), the public authority with overall responsibility for civilian air transport in Sweden. A considerably greater selection of flights and low prices has stimulated demand for air travel. Budget airlines continue to expand in both the international and domestic air traffic markets, an expansion which has considerable importance for price trends. Compared with 2002 prices, real ticket prices fell in 2003. Domestic private travel prices fell by about 8 per cent, domestic business travel prices by about 13 per cent and international private travel prices by about 8 per cent.²⁶

Railway Traffic

The new railway law that came into force on July 1, 2004 deregulated freight transport on railways. Railway companies throughout the European

Economic Area (EEA) and in Switzerland have the right to compete for international freight transport and in some instances, they also have the right to conduct domestic traffic in Sweden. The state-owned Green Cargo [previously the State Railways' Freight Division (SJ Gods)] continues to have a market dominant position that could undergo change, owing to increased international competition.

The socially beneficial but unprofitable passenger traffic on railways has gradually faced increasing competition, even though the majority of railway passenger traffic is still carried by SJ. The increased competition in conjunction with public procurements, has led to lower costs for society and consumers.²⁷

The Railways Commission (Järnvägsutredningen) appointed by the Government presented its main report in November 2003 (SOU 2003:104), which proposed the deregulation of passenger traffic and the phase-out of SJ's sole right to commercially profitable traffic crossing county boundaries. The Government intends to act on the commission's proposals in a Government Bill in 2005.

3.4 Postal Services

Since the turn of the year 2002/2003, the number of operators active in the Swedish postal market has shrunk to 33 operators. Posten AB, which is the only company providing nationwide postal services, continues to have a dominant position, with about 93 per cent of the total letter delivery market.

When the postal market had been liberalised for ten years, the Government appointed a special investigator in October 2003 with the task of conducting an economic analysis to see if the aims of the liberalisation had been achieved and to evaluate the regulation and the exercise of public authorities' responsibility in the postal market (dir. 2003:117). The commissioner is to report on this task to the Government no later than January 2005.²⁸ The Government then

²⁷ Kommunikationsforskningsberedningen (KBT) 2000, "Spåren efter avregleringen" (Tracks after the Deregulation).

²⁸ This commission has been extended by Dir. 2004:94 "Tilläggsdirektiv till Post- och kassaserviceutredningen" (Supplementary directive to the Postal and Cash Services Commission).

²⁶ Luftfartsverket 2004, "Flygets utveckling 2003" (Aviation Developments 2003).

intends to follow up this report with a government bill in 2006.

3.5 Measures for Strengthening Consumers' Rights

It is very important to provide consumers with better conditions under which to act in markets recently opened to competition. In October 2004, a new price information law took effect (SFS 2004:347). It is a comprehensive framework law and applies to all goods, services and utilities marketed to consumers. Thus it also regulates price information in telecommunications, electricity, district heating and financial services. The new framework law is intended to make it easier for customers to make choices in a competitive market.

The Swedish Consumer Agency (Konsumentverket) will co-operate with the Competition Authority and conduct systematic studies of past and future consequences of the newly competitive markets for consumers. By December 31, 2004, a summary of the experience gleaned will be completed and proposals for measures in the area for future studies will be submitted.

Beginning on April 1, 2004, sending unsolicited advertisements was forbidden (SFS 1995:450). The prohibition applies to SMS and MMS advertisements sent to mobile telephones as well as to advertisements in the form of e-mail, fax or automatic telephone calls. It is still permissible to send advertisements electronically, but only to recipients who have accepted receiving the dispatch beforehand. The Consumer Agency supervises the observance of the prohibition.

The commissioner on railways appointed by the Government has proposed a comprehensive law on terms of travel for railway traffic to ensure that transport services will take place if no other information is presented in a timely manner. The Government intends to submit a proposal to the Riksdag for such a law during 2005.

II.C The Business Climate and Public Sector Efficiency

1 The Business Climate

The Government is trying to develop favourable conditions for a competitive business sector. The areas with high priority are efforts to ensure supplies of capital, measures that increase entrepreneurship, better and more accessible information and advisory services, and simpler regulations for entrepreneurs. The direction of Swedish business policy is well in line with EU targets and guidelines under the Lisbon strategy.

The Ministry of Employment, Industry and Communications' latest study to benchmark business policy, ["Benchmarking av näringspolitiken" (Ds 2003:62)], compares Sweden with other countries on eighty some points. The comparison is based on a compilation of international statistics and Sweden ranks at or above the average for the majority of indicators.

1.1 Simplification of Regulations and Other Improvements for Small and Medium-Sized Businesses

It is the Government's goal to help make possible an increase in the number of start-up companies. In 2002 the number of start-up companies increased to 37,400. Between 1994 and 2001, the number of start-up companies remained stable at an annual level of about 36,000 companies. A report from the Swedish Institute for Growth Policy Studies [Institutet för tillväxtpolitiska studier (ITPS)] shows that 55 per cent of the companies that began operation in 1998 were still active three years after they started.²⁹

To make it simpler to start and run a business, the Government is working to simplify the rules and regulations and reduce administrative obstacles. In the autumn of 2004, the Government is to present an action plan for reducing the administrative burden. The plan includes about 300 measures that are to be implemented between autumn 2004 and the

²⁹ ITPS 2003, "Uppföljning av 1998 års nystartade företag – tre år efter start" (Follow-Up of Companies Begun in 1998 – Three Years After the Start).

autumn of 2006. Examples of measures are the simplification of regulations, a reduction in the requirements to submit information, increased possibilities of submitting information electronically and the provision of better service by public authorities.

In May 2004, the Swedish Business Development Agency [Verket för näringsutveckling (NUTEK)] reported on its task of elaborating on the ITPS proposals for a method for measuring companies' administrative burden and to implement a pilot measurement of the value-added tax law. According to the pilot measurement, it costs Swedish companies SEK 2.8 billion (EUR 217 million) a year to administer the value-added tax. This corresponds to an average cost of SEK 555 (EUR 60) per employee.³⁰ In the autumn of 2004 and the spring of 2005, the costs of administering the income tax act, the tax payment law and the annual reports act will be measured. The project is being conducted in close international co-operation with the Netherlands, Denmark, Norway and others. The measurements will be an important part of the work to set a quantitative target for a reduction in the administrative burden.

Furthermore in autumn 2004, the Government has commissioned ALMI Business Partners (ALMI Företagspartner AB) to propose measures for reducing administrative obstacles in hiring the first person in a company.

A large number of Swedish companies are facing a handover to the next generation in the next few years. The Government has therefore instructed NUTEK in co-operation with ALMI Business Partners and the Federation of Private Enterprises (Företagarna) to design a national programme to make it easier for small companies to change owners. On January 1, 2004 the easing of the regulations on the inheritance and gift taxes was broadened with the aim of facilitating the shift to the next generation in unlisted companies (Govt. Bill 2003/04:17). In the 2005 Budget Bill, the Government has also announced a complete abolition of the inheritance and gift tax as of January 1, 2005.

To increase interest in entrepreneurship, NUTEK, at the Government's request, has drawn up a proposal for an expanded entrepreneurship programme. The proposal, which was presented to the Government on September 1, 2004, contains a number of measures designed especially to increase interest in and knowledge about entrepreneurship on the part of teachers and students.

1.2 Corporate and Capital Taxation

The Government is striving to create tax rules that as far as possible are uniform and simple and provide good conditions for investment.

The work to make the so-called 3:12 rules³¹ more favourable for companies continues. In June 2004, a special expert group was instructed to analyse how the ongoing reform of the regulations should be made. Included in the task is a review of the ceiling rule, which governs how capital gains are to be taxed, and the testing of a system that means the exemption of partners from 3:12 taxation under certain conditions. A report on the work is to be made in the autumn of 2004.³²

Since January 2004 uniform rules for accumulated reserve and expansion fund transfers have been applied when a sole proprietor or partnership is reorganised to form a limited company (SFS 2004:498). The aim of these rules is to reduce the incentive to switch from one type of company to another for tax reasons.

Starting in the income year 2005, the Government intends to charge interest on the tax credit that arises when companies set aside profits in periodical reserves. The rules will not apply to sole traders and trading partnerships (Govt. Bill 2004/05:1). To facilitate the possibility of self-financing among co-operative economic associations, a deduction for dividends on issued investment capital has been introduced (SFS 2003:1075).

³⁰ NUTEK 2004, "Mätning av företagens administrativa börda" (Measuring Companies' Administrative Burden).

³¹ The special rules that apply to the taxation of income from closely-held companies when shareholders play an active role in the company. The rules decide how much of the company's profit will be considered capital and how much earnings when shareholders are to be paid a dividend.

³² Ministry of Finance, "Det fortsatta 3:12-arbetet – ett särskilt uppdrag" (The Continuing 3:12 Work – A Special Mandate), PM 040526.

1.3 Access to Risk Capital

From a European perspective, the activities in the Swedish risk capital market are still good. Measured as a percentage of GDP, Swedish investments exceed the average for the EU-15.³³ In 2003 SEK 18.3 billion (EUR 2 billion) in new risk capital was raised in the Swedish risk capital market. Two thirds of this capital originated abroad. Almost SEK 10 billion (EUR 1 billion) of the capital was invested during 2003. Of this, SEK 4 billion (EUR 430 million) was intended for companies in earlier stages of development. This corresponds to a 30 per cent increase over the amount invested in 2002.³⁴

In the autumn of 2003, the Ministry of Employment, Industry and Communications appointed a negotiator with the task of proposing a better system for risk capital to supplement the market in early phases. The aim was to use the capital in the public system in a more effective way and to create an organisational structure that is more integrated than the existing one. In June 2004, the negotiator presented a proposal for a programme of measures with the aim of getting a good grip on the funding of innovation in Sweden.³⁵ In the autumn the Government will prepare proposals so that a new funding structure can be implemented in the spring of 2005.³⁶

2 Public Sector Efficiency

The country-specific recommendations in the Broad Economic Policy Guidelines state that Sweden should *make further efforts to increase the efficiency of the public sector, inter alia by improving framework conditions for increased competition, promoting the benchmarking of public sector efficiency, and by increasing public tendering.*

Municipalities and county councils are responsible for a considerable part of public

activities in Sweden. They also have the legal right to decide how these activities are to be organised. At the same time, the central government has overall responsibility for efforts to improve the efficiency of public sector activities by such means as the design of regulatory regimes.

Given the challenges facing the public welfare systems in terms of demographic development and a rising standard of living, it is the Government's view that it is important to review the possibilities of improving and developing the organisation of the public sector. In a supplementary directive (dir. 2004:43), the Committee on Public Sector Responsibilities (Ansvarskommittén), appointed in January 2003, has been instructed to analyse and assess whether the structure and distribution of responsibilities within the public sector need to be changed in order to better meet future challenges to the welfare systems.

2.1 Alternative Methods of Operation and Fair Competition

The Government is of the opinion that efforts to develop alternative operating forms should be encouraged. At the same time, there is reason to exercise caution concerning welfare services. It is important that developments in health care, schools and social services are compatible with the basic principles that the activities are democratically governed, publicly financed and available to every citizen on equal terms.

In the past decade, the element of competition in the public services sector has increased significantly. In welfare services, the percentage of those employed in alternative forms of operation has more than doubled since the beginning of the 1990s (SOU 2001:52). In 2002, over a third of municipalities' operating costs consisted of the costs of goods, services and contracts that were produced by others than the municipality concerned.³⁷ In 2003 a higher percentage of children, pupils and elderly

³³ Eurostat 2004, "Structural indicators".

³⁴ NUTEK 2004, "Riskkapitalbolagens aktiviteter fjärde kvartalet 2003" (Risk Capital Companies' Activities, fourth quarter 2003).

³⁵ Better financing for the commercialisation of innovations; report from the Ministry of Industry, Employment and Communications' negotiator, Claes de Neergaard, June 2004.

³⁶ See also chapter IID, section 1.

³⁷ The Swedish Association of Local Authorities (Svenska Kommunförbundet) 2004, "Kommunernas marknadsanvändning år 2002" (Market use by local authorities in 2002).

received their care or education from a private actor than in 1998; see table 2.

Table 2. The Percentage of Children, Pupils and Care Recipients Serviced by Private-Sector Actors

Per cent	1998	2003
Preschool	13.3	17.0
Compulsory school	3.0	6.2
Upper secondary school	3.5	10.3
Home service	7.3 ¹	8.8
Special housing	11.3 ¹	13.4

¹ Refers to the year 2000.
Source: Swedish National Agency for Education (Skolverket) 2004, "Jämförelsetal för huvudmän, del 1" (Comparative indicators for principals, part 1), Swedish National Agency for Education, 1999, "Beskrivande data om barnomsorg och skola" (Descriptive data on childcare and schools), National Board of Health and Welfare (Socialstyrelsen) 2004, "National Action Plan for the Development of Health Care".

A study by the Competition Authority shows that the introduction of competition in the public sector has generally had a positive impact on the economy and consumers. However, with repeated procurements, the differences between various tenders have proved to be small. There are also signs that market concentration has increased with public procurement in markets where companies have few municipalities or county councils as customers.³⁸

The Competition Authority has presented an analysis of the competition in dental care.³⁹ According to the report, there are competition problems in this service and a number of measures have been proposed to foster improved competition. The National Board of Health and Welfare has conducted a survey⁴⁰ of the competition in eldercare. The survey shows that privately managed eldercare tends to increase pressure both in costs and in the number of people receiving help. However, in many respects, there is a lack of knowledge of the consequences of competition in eldercare. It is therefore not possible to draw any clear-cut conclusions about whether privately run eldercare would be of better quality and have a lower cost than eldercare that is publicly provided. According to the report, the lack of

accepted systems for following up on quality and cost is an obvious shortcoming in eldercare.

In future the Government will continue to address the competition situation between public and private actors. The Council for Competition on Equal Terms Between Public and Private Sectors (Rådet för konkurrens på lika villkor mellan offentlig och privat sektor) was dissolved at the turn of the year 2003/2004. The Competition Authority has been instructed to analyse and propose measures to make additional improvements to the way in which the market functions as far as competition between public and private actors is concerned, based on the experience gained from the Council. The Authority presented a detailed report in October 2004.⁴¹

2.2 Benchmarking

The Council for Municipal Analyses and Comparisons [Rådet för kommunala analyser och jämförelser (RKA)] was appointed in September 2002 with the aim of developing and making available key national indicators and supporting municipalities and county councils in the work on comparative analyses. Its chief means of doing so is its municipal database, which contains over 100 ratios in such areas as education and social services.⁴² The Council is to present its final report on its work in September 2005.

Since September 2001, the National Agency for Education has made available an Internet based information system on schools' results and quality.⁴³ The system has information describing quality improvements in municipalities and schools, statistics on schools' results and organisation, together with various analyses and evaluations. The information is at the national, municipal and school level, which makes it simple to compare schools' results on the school leaving certificate.

Healthcare Data in Focus is an interactive statistical database that has been available on the

³⁸ The Competition Authority 2002, "Vårda och skapa konkurrens" (Safeguarding and Creating Competition).

³⁹ The Competition Authority 2004, "Tandvård och konkurrens" (Dental Care Market in Sweden).

⁴⁰ The National Board of Health and Welfare 2004, "konkurrens-sättningen inom äldreomsorgen" (Competition in Eldercare).

⁴¹ The Competition Authority 2004, "Myndigheter och marknader – Tydligare gräns mellan offentligt och privat" (Public Authorities and Markets – Clearer boundaries between public and private).

⁴² www.kommundatabas.se

⁴³ http://siris.skolverket.se/pls/portal30/PORTAL30.siris_frame.siris.

Internet since November 1999.⁴⁴ It makes it possible to compare finances, hospital beds, and drug costs in different counties.

2.3 Public Procurement

In 2002 the market for publicly advertised government procurement came to 3.9 per cent of GDP, a slight decline from the previous year. The EU average was 2.7 per cent of GDP.⁴⁵

The Government has set up a commission tasked with presenting proposals on how the new EC directives on public procurement are to be implemented in Swedish law (dir. 2004:47). The commission is to present its proposals no later than February 1, 2005.⁴⁶

In a memorandum (Ds 2004:37), the Ministry of Finance has proposed increasing municipalities and county councils' means of co-ordinating procurement. The proposal is now being circulated for comment; the change is proposed to become effective in July 2005.

II.D The Knowledge-Based Economy

Innovations and technological change are an important source of growth. Investment in research and education is thus all the more important for a growth-oriented policy.

1 R & D and Innovations

Sweden's investment in research and development has long been among the highest in the world in relation to the size of the economy. In June 2004, the Minister for Industry and Trade and the Minister for Education and Science presented an innovation strategy for modernisation and increased growth (Ds 2004:36). This strategy noted that internationally Sweden's capacity for innovation is unbeaten, but this

capacity needs further honing. Sweden's innovative capacity is to be strengthened with a number of measures and more co-operation between research, business and the public sector. This will be accomplished by ensuring that Swedish education and research remain world class, by strengthening small and medium-sized businesses' innovative capacity, by using the public sector as a driving force for sustainable growth, and by stimulating entrepreneurship.

In September 2004, the Government appointed an innovation policy council as a forum for dialogue based on the innovation strategy, chaired by the Minister of Industry and Trade. Research policy issues will, as before, be discussed in the National Research Committee (Forskningsberedningen), which is chaired by the Minister of Education and Science.

In late 2004, the Government is planning to present a bill on research policy. While basic research is an important starting point for research policy, the bill will have a distinct growth and innovation perspective. In the 2005 Budget Bill, the Government has proposed giving Swedish research an additional SEK 2.3 billion (EUR 250 million) between 2005 and 2008.

The Swedish Agency for Innovation Systems [Verket för innovationssystem (VINNOVA)] has distributed SEK 30 million (EUR 3.3 million) in 2003 to develop a national incubator programme supporting the start-up and development of new research-based companies. The results thus far have been positive and the programme has therefore been extended to the end of 2004. Furthermore, in order to finance commercialisation of innovations, a long-term effort to supplement investment provided by the markets⁴⁷ is being planned, beginning in 2005. Future efforts will focus on continuing to develop the incubator systems and attracting early seed capital and commercialisation funds for the companies' early development.

The Government's goal is for better use to be made of research results and ideas and for their commercialisation, without researchers themselves having to become entrepreneurs. The Government has thus appointed a commissioner

⁴⁴ <http://www.lf.svekom.se/artikel.asp?C=1801&A=3768> 2004-08-17

⁴⁵ Eurostat 2004, "Structural indicators".

⁴⁶ Reporting on certain issues is to take place no later than June 1, 2005.

⁴⁷ See also chapter IIC, section 1.3.

who will review the teachers' exception, which means that the teacher alone owns the right to his or her inventions. The commission will make its report in March 2005 (dir. 2004:106).

2 The Information Society

Sweden is very much an information society. In the spring of 2003, 77 per cent of the Swedish population between the ages of sixteen and seventy-four were using the Internet. In the EU-15, only 50 per cent of those in that age group were using the Internet. In that same period, 95 per cent of Swedish companies with ten or more employees used the Internet. Sixty-four per cent of Swedish companies had access to high-speed connections to the Internet. In the E-15, 41 per cent had such access.⁴⁸

The Swedish Institute for Growth Policy Studies [Institutet för tillväxtpolitiska studier (ITPS)], as instructed by the Government, evaluated IT policy and submitted a final report in November 2003.⁴⁹ ITPS is of the opinion that the vision of an information society for all should continue to be the benchmark in the long term. It is proposing the following three themes for IT policy: IT supported activity development for welfare and growth; from the broadband to the network society; and the information society as a learning society. The Government intends to act on the evaluation with a government bill on IT policy, planned for the spring of 2005.

In June 2003 the Government appointed an advisory group, the IT policy strategy group. During its first year of activity, the group has focused on four areas: IT and growth; accessibility and reliability; IT in health care and social services; and IT in schools and learning. The strategy group has formed working groups or other means of initiating activities in these areas.

Parallel to the strategy group's work, the so-called 24 hours delegation began its work. The delegation's starting point is to make it simpler for the individual and businesses to reach the

public sector via e-services. The delegation's task will take until autumn 2006 to complete. In May 2004 the delegation presented an interim report (SOU 2004:56).

During the years 2001 to 2004, the Swedish Business Development Agency [Verket för näringslivsutveckling (NUTEK)] has implemented the programme IT.SME.se to strengthen small business development and competitiveness by pointing out the strategic advantage of IT. Over 12,000 companies have participated in the programme and most of them have instituted a basic IT service in their firms.

3 A Skilled Labour Supply Able to Meet the Needs of Business

In 2003 there was also some expansion of basic higher education, an expansion that the Government has been funding since 1997.⁵⁰ The Government's long-term goal is that 50 per cent of those born in any given cohort shall have embarked on university level studies by the age of twenty-five. In 2002, 42 per cent of twenty-five-year-olds had begun such studies.⁵¹ The frequency with which young people enter university directly after upper secondary school is still low from an international perspective.

More applicants with a good basic education are needed to continue improving the supply of those with university training in the natural sciences and technology. In September 2004, the Mathematics Delegation, appointed in January 2003, reported on its efforts to increase interest in mathematics, technology and the natural sciences (SOU 2004:97). The Government Offices are currently processing the Delegation's proposals.

The Government is trying to put in place a resource distribution system that will make possible education that is of high quality and in demand by both students and the labour market. The Government has therefore appointed a commission to review the resource distribution

⁴⁸ Eurostat 2004, "Internet usage by individuals and enterprises".

⁴⁹ ITPS 2003, "En lärande IT-politik för tillväxt och välfärd" (A learning IT policy for welfare and growth).

⁵⁰ Govt. Bill 2004/05:1, "Budget Bill for 2005". In the academic year 2002/2003, there were 385,000 registered students, compared with 222,000 in the 1991/92 academic year.

⁵¹ SCB 2004, "Universitet och högskolor. Studenter och examina i grundutbildningen 2002/03" (Universities and Other Postsecondary Institutions. Students and Exams in Undergraduate Education).

system for undergraduate education (dir. 2004:49). It is to report on its work no later than March 2005. At the same time, the National Agency for Higher Education (Högskoleverket) has been instructed to examine how to decide the number of education places, based on such factors as labour market requirements.⁵²

There has been an extensive expansion of postgraduate education in recent years. In the 1990s the annual number of graduate degrees (licentiates and doctorates) awarded in Sweden doubled. In 2002, 2.8 per cent of the population⁵³ in Sweden had a graduate degree. This was the highest percentage in all the EU-15 and OECD countries.⁵⁴ It is the Government's view that a far-reaching examination of postgraduate education is urgent to ensure that there will be a new generation of researchers in universities, the business community and society in general.⁵⁵

In the past ten years the percentage of female students accepted for postgraduate studies has increased from 37 to 48 per cent.⁵⁶ However, the percentage of women doing postgraduate studies is smaller than the percentage of women in basic education (Govt. Bill 2004/05:1).

Better labour market integration of university educated Swedes with a foreign background is a considerable challenge. From 2002 to 2004, SEK 10 million (EUR 1 million) has been spent annually on special practical education for immigrants with a foreign education. In addition experiments are continuing (from July 2003 to December 2005) with job training in areas where there is a labour shortage for those who are already employed, where a high priority target group is those with a foreign background working in occupations for which they are overqualified.

⁵² Government Decision, April 2004. The task is an amplification of work for which the National Agency for Higher Education is already responsible.

⁵³ In a typical age group for the examination.

⁵⁴ OECD 2004, "Education at a Glance".

⁵⁵ A large number of Swedish researchers will reach retirement age in the next ten to fifteen years.

⁵⁶ The National Agency for Higher Education 2004, "Universitet och högskolor – Högskoleverkets årsrapport 2004" (Universities and Other Institutions of Higher Learning – The Agency's Annual Report 2004).

II.E The Integration of Environmental Issues

Sustainable development is a general goal of government policy. All policy decisions are to be designed in such a way that in addition to economic and social consequences, they also take environmental consequences into consideration.

1 A Sustainable Environment: Goals and Progress

The Environmental Objectives Council (Miljö-målsrådet) is responsible for all the follow-up of the 15 environmental quality objectives adopted by the Riksdag. The Council presented its third annual report in July 2004.⁵⁷ According to the report, eleven of the fifteen environmental quality objectives can be achieved in one generation, provided that several measures are introduced. It is still difficult to achieve the other four objectives: reduced climate impact, a non-toxic environment, zero eutrophication and sustainable forests.

The Government intends to develop the three strategies for measures that form the basis of environmental efforts. In addition the Government intends to present new interim targets and proposals for measures for achieving the general environmental objectives. A new government bill on environmental objectives is therefore being planned for early 2005.

1.1 Monitoring Environmental Sustainability

Greenhouse Gas Emissions

In 1990, the base year for the commitments made under the Kyoto Protocol and the national interim target, Swedish emissions of greenhouse gases were the equivalent of about 71 million tons of carbon dioxide. In 2002 emissions were 69.6 million tons, or about 3.5 per cent lower than emissions in 1990. The trend in emissions

⁵⁷ Environmental Objectives Council 2004, "de Facto 2004, Sweden's Environmental Objectives – Are We Getting There?".

can be compared to economic trends in Sweden. GDP growth has averaged 1.8 per cent a year between 1990 and 2002. Thus total emissions of greenhouse gases have not increased on a par with economic growth; instead the link between emissions and economic growth has been severed.

Energy Intensity in the Economy

Total energy use has increased in recent years, but there has been a gradual decline in relation to GDP. Between 1992 and 2002, energy consumption per krona of production value in industry fell by 35 per cent.

In spite of an increase in residential and office space and an increased number of energy-intensive machines, energy use in the housing sector has not increased. However, in the transport sector, energy use increased by 14 per cent between 1992 and 2002 and made up 23 per cent of total energy use in Sweden in 2002.⁵⁸

Transport Volume

Both passenger and freight transport has increased in absolute numbers since 1990, but declined relative to GDP. From 1990 to 2002, road transport, which accounts for 92 per cent of greenhouse gas emissions in the transport sector, increased its carbon dioxide emissions by slightly over 10 per cent.

Table 3. Energy Use, Carbon Dioxide Emissions and Transport Volume

	1990	2000	2001	2002
Energy use ¹ (TWh)	442	470	474	483
Energy intensity ² (Wh/SEK)	245	214	214	214
Carbon dioxide ³ (thousands of tons)	59 344	58 940	59 620	60 345
Passenger traffic (billions of person kilometres)	106.9	116.0	117.4	120.5
Freight transport (billions of ton kilometres)	77.5	91.4	88.9	88.6

¹ Total energy use excluding energy conversion losses in nuclear power plants.

² Energy intensity is measured as total energy use in relation to GDP in reference prices for the year 2000.

³ Includes bunkering for international air and sea shipments. Figures not adjusted to normal years.

Sources: The Swedish Energy Agency (Statens energimyndighet), Swedish Environmental Protection Agency (Naturvårdsverket), Statistics Sweden, (SIKA)

⁵⁸ Swedish Energy Agency 2004, "Energiläget 2003" (The Energy Situation in 2003).

2 Market Based Instruments

Market-based instruments are important in order to achieve both national environmental policy objectives and the objectives of the EU's strategy on sustainable development. Environmental taxes have an especially important role, but fees, deposit systems and the so-called green electricity certificate are also used.

The predominant part of the revenues from the environmentally related taxes comes from the energy and carbon dioxide taxes. See table 4.

Table 4. Revenue from Environmental, Energy and Vehicle Related Taxes

Current prices, SEK billions (SEK 1= EUR 0,11)

	2001	2002	2003
Energy tax	36.4	37.1	36.4
Carbon dioxide tax	17.0	19.9	23.8
Sulphur tax	0.08	0.15	0.12
Special tax on electric power from nuclear power plants	1.9	1.8	1.8
Vehicle tax	7.0	7.4	7.7
Other environmentally related taxes	1.4	1.4	1.3
Total	63.9	67.9	71.2
% of total tax revenue	5.4	5.8	5.8

Source: Ministry of Finance.

An important part of the Government's green tax strategy is the income neutral tax shift that began in 2001. In the 2005 Budget Bill, the Government has proposed continuing the tax reform with a total of SEK 3.4 billion (EUR 370 million) in 2005. In addition the Government has announced plans for making a change to the environmentally aimed vehicle tax for light vehicles in accordance with the proposals in the final report of the Vägtrafikskatteutredningen [commission on road traffic taxation] (SOU 2004:63).

Emission rights trading can contribute to the achievement of the climate objectives in a cost-effective manner. In July 2001, the Government appointed a commission to develop guidelines for a Swedish system for applying the Kyoto Protocol's flexible mechanisms. In April 2004 this commission presented its third interim report (SOU 2004:62 and Govt. Bill 2004/05:1) which establishes the principles for the implementation of the EU's emissions trading system in Sweden and proposes the necessary legal amendments. The Commission has

approved the Government's national plan for distributing emission rights.

In May 2003, a system was introduced for trading with certificates for electricity from renewable energy sources⁵⁹. The aim of the system is to increase the percentage of electricity produced with renewable energy sources and thus reduce carbon dioxide emissions from electricity production.

3 Environmental Impact and the Product Markets

Market based instruments have been evaluated primarily with respect to their environmental impact and, to a lesser extent, with respect to the way in which the markets function. Environmental taxes have helped reduce emissions that are harmful to the environment.

In the Environmental Protection Agency and the Energy Agency's latest forecast, Swedish emissions of greenhouse gases are expected to fall by 1.3 per cent until 2010 relative to the emission level year of 1990. The forecast assumes that the environmental policy instruments currently in effect will be retained and the EU emissions trading system will be introduced in 2005.⁶⁰

The analysis, which was done before the evaluation of the Swedish climate objective, shows that emissions trading can be an efficient instrument. Estimates of the impact of EU emissions trading on Swedish companies have been made. According to these estimates, the impact on competitiveness will vary considerably from one sector to another. A large part of the energy intensive industry may be put in a considerably worse competitive position. However, at the sectoral level and in a long term perspective, there are a considerable number of substitution possibilities between fossil energy and other factors of production. Therefore, the

impact on competitiveness will be more limited.⁶¹

II.F Capital Markets and Financial Services

Efficient financial markets are very important for the creation of new companies and for growth in existing companies. In the EU an intensive effort is in progress to integrate the capital markets by implementing the action plans for financial services and risk capital. Sweden is working for a rapid implementation of these action plans.

1 Proposed Legislation and the Regulatory Regime

The financial system should be efficient and satisfy both society's need for stability and consumers' interest in good protection. Further reforms have been made to the financial legislation in line with these requirements.

1.1 Legislative Developments

The banks' monopoly on accepting deposits was abolished by law on July 1, 2004 (Govt. Bill 2003/04:139). Credit institutions and non-financial companies may now accept deposits from the general public, a change that is expected to strengthen competition.

On July 1, 2004 the law on covered bonds also took effect (Govt. Bill 2002/03:107 and SFS 2003:1223). Under this law, Swedish mortgage institutions are being given the opportunity to borrow on particularly favourable terms. Competition neutrality with other EU countries has thus been achieved.

As for securities, regulatory work is concentrating on creating a common securities

⁵⁹ Includes electricity produced with wind power, solar energy, geothermal energy, wave energy, biofuels, and small-scale hydroelectric power.

⁶⁰ Swedish Environmental Protection Agency and the Swedish Energy Agency 2004, Kontrollstation 2004, underlag till utvärdering av Sveriges klimatstrategi. Control Station 2004, Basis for evaluating Sweden's Climate Strategy.

⁶¹ ITPS 2004, "Basindustrin och Kyoto – Effekter på konkurrenskraft av handel med utsläppsrätter" (Basic Industries and Kyoto – The Impact of Emissions Rights Trading on Competitiveness).

market in the EU. Owing to the EC directive on markets for financial instruments, the Government has appointed a commission of inquiry to review matters concerning the legislation on securities institutions, stock exchanges and authorised market places (dir. 2004:90). In addition the Government, in view of the EC directive that has been adopted in this area, has appointed a commission of inquiry to review the legislation on prospectuses published for securities (dir. 2004:41).

Another commission of inquiry has been instructed to recommend how to incorporate the new EC directive on market abuse into Swedish law and how to tighten Swedish legislation on insider trading in general. The investigator submitted a report (SOU 2004:69) in July 2004.

Supervision of companies that are part of financial conglomerates will be expanded. The effort to implement the EC directive in this area is under way; the directive is expected to be implemented by July 2005.

The Government has presented proposals to tighten the Swedish legislation on money laundering (Govt. Bill 2003/04:156). The proposals are based on revised EC rules. Their aim is to extend responsibility for preventing money laundering to companies and persons that are active outside the financial sector.

The Government has appointed a special investigator to review the deposit-guarantee and investor protection schemes and to submit proposals on how to design Swedish legislation to better meet the differences in other European compensation schemes (dir. 2004:19).

The rules on insurance mediation are being revised with the aim of implementing an EC directive on this subject. Sound customer protection and good conditions for competition on equal terms are important basic requirements in designing the new legislation (Ds 2004:10).

On January 1, 2004 amended solvency rules for insurance companies came into effect (Govt. Bill 2002/03:94). Legislation is being prepared to implement two EC directives in the area. The aim of this legislation is to improve policyholders' protection through tighter solvency requirements and a clarification of the means available to the Swedish Financial Supervisory Authority (Finansinspektionen) to intervene against offending insurance companies at an early stage.

In addition new regulations aimed at strengthening policyholders' protection in life insurance companies took effect on July 1, 2004. (Govt. Bill 2003/04:109). The new regulation is intended to mitigate the risk of conflicts of interest between various interested parties in these companies and is a consequence of the turbulence in the life insurance market in recent years. As part of this work, the possibility of introducing a statutory right of portability of pension savings is also being examined. A memorandum on the subject has been circulated for comment.⁶²

In September 2004, the Commission on Insurance Companies (Försäkringsföretagsutredningen) presented an interim report with proposals on how to implement the EC directive on occupational pension funds in Sweden (SOU 2004:101).

The Government has also presented proposals to the Riksdag on how to adapt Swedish accountancy law so that it is in line with the so-called IAS regulation (Govt. Bill 2004/05:24).

1.2 Supervision of Financial Companies and Markets

The rapid growth of financial markets has increased the demands on financial supervision.

The Financial Supervisory Authority has developed a model for stability-oriented supervision that makes possible an annual total risk assessment of the risks in the financial system.⁶³ In 2003 its strategy for supervision was taken a step further when all companies supervised by the Authority were evaluated and assigned a risk category.

As a result of new regulations and the active part that a growing number of people are now taking in choosing what forms of savings they want, the Authority's responsibility for supervision with a market focus has become more pronounced. At the same time the demands put on the stability-oriented supervision have increased.

⁶² Promemoria om flytträtt för pensionssparande (Memorandum on Portability of Pension Savings) Ministry of Finance, June 2004.

⁶³ Financial Supervisory Authority 2003, "Finanssektorns stabilitet 2003" (The Stability of the Financial Sector 2003).

1.3 Measures to Improve the Ownership Role in Corporate Governance

In September 2002 the Government appointed the Commission on Business Confidence (Förtroendekommissionen). It was instructed to establish a dialogue with the business community, examine whether there were confidence-shaking events in Swedish business, analyse the need for measures to strengthen and safeguard confidence in Swedish business and recommend any measures that needed to be taken (dir. 2002:115). In the course of the year, the Commission established the so-called Code Group which was asked to draw up a proposal for a Swedish code of corporate governance similar to existing codes in other countries. The Code Group presented its proposals in April 2004 (SOU 2004:46). These proposals are not intended to lead to legislation.

In April 2004, the Commission submitted its final report (SOU 2004:47). The report noted that there was no evidence of any general crisis of confidence in Swedish business, but in recent years there had been a considerable number of confidence-shaking events. To prevent such occurrences, the Commission was of the opinion that a large number of legislative measures should be taken alongside the proposed corporate governance code. The Commission's report has been circulated for comments and is now being processed in the Government Offices.

2 Market Developments

Prices quoted on the Stockholmsbörsen (the Stockholm Stock Exchange) continued to rise during the first half of 2004. In the same period, sales of shares averaged SEK 14.9 billion (EUR 1.6 billion) a day, the highest turnover since 2001.

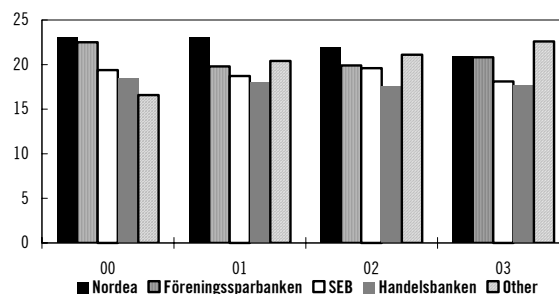
Seven new companies were listed on the Stockholmsbörsen. In comparison, there were no new listings during the first half of 2003.⁶⁴ At the same time, foreign ownership, reversing a trend, increased to 33.1 per cent after several years' decline.

⁶⁴ Affärsvärlden no. 22, May 26, 2004.

2.1 Structural Change in the Financial Sector

In December 2003 there were 127 banks in Sweden, an increase of four banks since 2000.⁶⁵ Between 2000 and 2003, the smaller banks continued to increase their market share at the expense of the large banks. The four largest banks' share of deposits and loans from the Swedish public was 77.4 per cent at the end of 2003, which is a reduction of six percentage points compared with 2000. Correspondingly, the four largest banks' share of loans to the Swedish public fell 4.6 percentage points to 72.7 per cent in this same three-year period.⁶⁶

Figure 3. Percentage of Deposits and Borrowing from the Swedish Public



Source: Swedish Bankers' Association (Svenska bankföreningen).

The number of Internet customers continues to increase. At the end of 2003, agreements with Internet banks totalled 5.2 million, a 14 per cent increase over the previous year. Business accounted for 22 per cent of this increase and private customers for 78 per cent.⁶⁷

The consolidation of the Nordic and Baltic securities markets that resulted from the 2003 merger between the Stockholmsbörsen and the Helsinki exchange has evolved and strengthened. The circle of members co-operating in NOREX⁶⁸ has thus widened and now covers all of the Nordic countries and Estonia and Latvia.⁶⁹

⁶⁵ www.bankforeningen.se.

⁶⁶ Swedish Bankers' Association, Bank and Financial Statistics, 2002 and 2003.

⁶⁷ Swedish Bankers' Association, appendix to press release, March 22, 2004.

⁶⁸ NOREX (Nordic Exchange) is a strategic alliance of the Nordic, Estonian and Latvian stock exchanges.

⁶⁹ NOREX press release, April 7, 2004.

In April 2004, an agreement on the merger between Sweden's Värdepapperscentralen (VPC) and its Finnish counterpart to form a common central securities depository and clearing organisation was announced. This will cover 70 per cent of the Nordic market for such services. The merger is expected to be completed in the autumn of 2004.⁷⁰

2.2 Measures for Strengthening Consumers' Rights

The Government's efforts in the financial area have led to the strengthening of consumer protection in several respects, not only through new legislation, but also through greater opportunities for consumers to get information about financial products. There continues to be intensive development of the financial area. It is therefore important to identify and attend to possible problems that may arise for consumers.

In July 2004, the act on financial advisory services to consumers took effect (SFS 2003:862). The act entails the introduction of a competency requirement for anyone providing advice, specifies that the advice must be documented, and makes advisors who have acted negligently liable for damages.

The Consumer Ombudsman's pilot project representing consumers against business interests in the general courts in cases that concern financial services has been evaluated.⁷¹ The Government has decided to extend the pilot project to the end of 2006 (Govt. Bill 2004/05:1).

Owing to the EC directive on distance contracts for financial services, the law on distance contracts will be supplemented with common rules for distance contracts for financial services. A government bill is to be submitted to the Riksdag in the autumn of 2004.

⁷⁰ VPC press release, April 22, 2004.

⁷¹ Dnr Jo2004/680.

Appendix 1 Co-ordination of the National Policy with the Lisbon Strategy

The Lisbon Strategy's broad reform agenda is very much in accordance with the Government's view of how efforts to promote growth should be conducted. It is the Government's view that the Strategy enhances Member States' efforts to increase growth. The extensive evaluations conducted at the EU level may provide lessons in this effort. By the exchange of best practice with other Member States, Sweden can receive help in fostering growth. The instruments used at the EU level can also be used to measure and evaluate the national policy. The effective integration of the Lisbon Strategy into national policy, especially economic policy, is thus a government goal.

Work with the aim of developing instruments to support greater co-ordination between national policy and the Lisbon Strategy was begun in the Government Offices in 2004. This work has been given high priority.

One example of the Lisbon Strategy's importance to Swedish policy is competition policy. The Lisbon Strategy is the general strategy driving the Community's competition policy and thus to a large extent the national effort in this area as well. The strategy is also used for guidance when priorities need to be decided, as well as a general policy goal of the work in the Competitiveness Council's area. The EU Commission's internal market strategy and the conclusions of the Competitiveness Council function as an umbrella strategy for the work on the internal market. The Strategy offers a clear and action-oriented instrument for the work on the reforms needed for the internal market between 2003 and 2006. The Government frequently refers to the strategy in its daily work, both to check how well what is actually achieved corresponds to the goals and to get a general view of what the Commission intends to do in various areas. The internal market strategy is also a useful instrument for maintaining a horizontal view of the work on the internal market in the Government Offices.

The Lisbon Strategy in the Budget Bill for 2005

A key part of the effort to integrate the Lisbon Strategy into national economic policy is linking

the EU dimension to the budget process more clearly. In 2004 the Lisbon Strategy's goals have for the first time been emphasised in the work on the budget. This work began prior to the 2004 Spring Budget Bill and has been further developed in the process of putting together the Budget Bill for 2005.

The Budget Statement

The Budget Statement in the Budget Bill for 2005 has a brief description of the measures and goals of the Lisbon Strategy. It is clear from the Budget Statement that Sweden's work with the Lisbon Strategy is an important part of national growth policy. It should also be noted that meeting the Strategy's goals yields important welfare gains for Sweden. In connection with the 2005 mid-term review of the Lisbon strategy, Sweden intends to work actively to improve Member States' implementation of the structural reforms needed to achieve the Strategy's goals.

Expenditure Areas

As a result of the work to integrate the Lisbon Strategy into the national policy, the national policy's linkage to the goals in the Lisbon Strategy is specified in a number of expenditure areas in the Budget Bill. Sweden's employment policy has an especially strong connection to the Strategy. There are also several examples in science and education policy, where the Strategy is linked to the work at the national level.

Information on the Lisbon Strategy

In the spring of 2002, the Government began publishing an annual brochure that explains in an easily accessible way the Lisbon Strategy, its goals, and the Government's view on how these goals are to be achieved. The brochure is aimed at the general public and is distributed to libraries, organisations and embassies. In addition there are theme pages on the Lisbon Strategy on the Government's web site.⁷²

⁷² <http://www.regeringen.se/sb/d/2504/a/13589>