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REGERINGSKANSLIET

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Ministry of Finance

# National Report on Economic Reform: Product and Capital Markets

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## Foreword

In May 1998 the finance ministers of the EU Member States (the ECOFIN Council) agreed to intensify the cooperation concerning reforms of product and capital markets. The objective is to improve the functioning of markets and to strengthen the Single Market, in order to promote competitiveness and increase welfare and employment in the Union. Economic reforms to enhance competition benefit consumers through lower prices, increased choice and better quality of products and services.

This report is part of the new cooperation effort. At the end of each year the Member States and the Commission will present reports on product and capital markets. On the basis of these reports the Commission will prepare a document to be adopted by the ECOFIN Council and be part of the preparation of the broad guidelines of the economic policies of the Member States and the Community. The national reports will analyse how markets function and reforms already undertaken, identify remaining barriers to effective competition and present plans for further reforms.

Reforms to enhance competition play an important role in the Swedish Government's policy. However, in some cases remaining barriers imply that certain markets do not function adequately. It is therefore important to continue with the reform efforts. For a small open economy like Sweden, a well functioning Single Market is of vital importance. The cooperation at the EU level should facilitate the Member States' and the Commission's efforts to improve competitiveness and to complete the Single Market by exchange of information and peer pressure.

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## I Introduction

Economic reforms to bring about enhanced competition have as their aim to give consumers lower prices, increased choice and an improved quality of products and services. Competition policy is an important means of promoting efficiency in the economy and safeguarding welfare. At the same time deregulation and competition are not goals in themselves and some measures of regulation may be required for reasons such as consumer protection, health, safety and the environment.

Since the end of the 1980s, Sweden has undertaken reforms affecting large parts of the goods, services and capital markets. In most cases the reforms have had a positive impact on competition. However, not all reforms have had sufficient effect. Therefore, economic reforms will also be an important feature of government policy in the future.

Sweden has a strict competition legislation and has, in a number of areas, made more progress with reform than other countries. Sweden is taking an active part in the EU to promote enhanced competition in the Single Market, as well as to advocate a more liberal trade policy with third countries and the admission of parallel imports from countries outside the EEA. Furthermore, in Sweden's view it is important to pursue work within the EU to reduce government subsidies to industry and to liberalise agricultural policy.

## II Analysis of Domestic Market Functioning

The reforms began with the deregulation of the credit and foreign exchange markets in the 1980s, which was followed in the early 1990s by a new competition legislation and the introduction of a law on public procurement. Membership in the EEA and EU then followed and was accompanied by adjustment to the community legislation in a number of areas, as well as improved competition by means of integration into the Single Market.<sup>1</sup> Reforms implemented in the transport, communications, and energy sectors in the 1990s have led to increased competition. The reform of the banking sector and other parts of the financial markets continued in the 1990s.

### The New Competition Act

In 1993 stricter competition legislation came into effect in Sweden. The former law, which was based on the principle of 'abuse control', was

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<sup>1</sup> Although Sweden is a relatively new Member State, the degree of implementation of EU directives concerning the Single Market is greater than in most of the other Member States (*Single Market Scoreboard*, No 3, 1998).

replaced by prohibition oriented legislation modelled on the competition rules of the EU. The 1993 law entails principles prohibiting collusion among firms to restrict competition and abuse of a dominant position, as well as provisions regulating mergers and acquisitions. As a result of the amendment of the law, restrictions on competition in many areas have been reduced, both by formal decisions and through the signalling effect inherent in the strict prohibitions in the legislation. Deregulation, including the removal of certain monopolies – the transport sector being one example – has helped making the legislation effective.<sup>2</sup>

In a number of cases, the Competition Authority – either on its own initiative or as a result of complaints – has intervened against infringements of the prohibitions in the Competition Act. A significant proportion of these cases concern dominant actors in recently liberalised markets such as railways, domestic air traffic, telecommunications and postal services. In some cases the Competition Authority has gone to court for damages.

The Act was amended in 1997 to simplify for small and medium-sized enterprises by allowing them an exemption from the obligation of reporting small mergers to the Competition Authority for investigation. Additional changes to the law made in 1998 mean that court procedures in competition cases will be shortened, that the processing of matters by the responsible authority will be made more efficient and that the protection of business secrets for companies involved in court cases will be strengthened.

### **Goods Markets**

Most of the goods markets in Sweden function efficiently, are exposed to international competition and are well integrated into the Single Market. This is particularly true for the Swedish manufacturing industry. Even though Sweden is a small country and there are few actors in some goods markets, domestic competition in many of these markets is ensured by imports and free entry of foreign producers. Sweden has been pursuing a policy favouring free trade for a long time and import penetration is generally higher in Sweden compared with other countries.<sup>3</sup>

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<sup>2</sup> In an evaluation it was shown that the application of these principles have resulted in the removal of barriers to competition and a regulatory regime that generally functions well, (SOU: 1997:20, *The Competition Act, 1993-96*).

<sup>3</sup> Import penetration in Sweden's manufacturing sector was 47 per cent, compared with 21 per cent for the other 21 OECD countries, according to an evaluation made in 1994. Sweden also experienced a significant increase in import penetration during the period, 1985-94 (OECD, *Science, Technology and Industry Outlook*, 1998).

Foreign competition has not had an equally significant effect on the distribution of goods, retail trade and other service sectors, even if there has been increasing internationalisation of these sectors over time. One indication that competition from imports is weaker in the service sector is the higher price level in the services sector in Sweden compared to the OECD average. At the same time the price level in the Swedish manufacturing sector is about the same as the OECD average.<sup>4</sup>

### *Retail Trade*

Some of the goods markets are functioning less efficiently as a consequence of limited competition which, for a variety of reasons, prevails in distribution and retail trade; for example the markets for *food, pharmaceutical products, cars* and *building materials*. The situation, which is similar to that found in other EU countries, can be explained in part by explicit regulations. With respect to pharmaceutical products regulation is motivated by social considerations. The Swedish retail food trade is highly concentrated compared to other countries.<sup>5</sup> Reforms to strengthen the position of consumers include price comparisons and a requirement for price information on foodstuffs. In addition, Sweden has few regulations concerning opening hours of shops.

However, it should be pointed out that in Sweden it has been shown difficult to establish competition in retail trade in all parts of the country owing to long distances, sparsely populated regions and small markets. It is true that the growth in productivity in Swedish retail trade sector as a whole has been above the average for comparable OECD countries. A partial explanation, however, is that market participants are larger and fewer in Sweden, a situation that in certain cases may have a negative impact on competition.

### *The Construction Sector*

Construction is one market in which competition continues to be limited, when it comes to both contractors and materials. The primary reasons are certain rules, previous high building subsidies and limited competition from imports. However, it should be pointed out in this connection that these rules and subsidies have been considered warranted in view of social and housing policy goals.

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<sup>4</sup> Performance and Regulation Patterns in OECD countries: Annex 1. Tables and Figures, 1998.

<sup>5</sup> The three largest distributors controlled 68 per cent of the Swedish grocery market. Of eleven EU countries evaluated, only Finland and Norway had a higher concentration (*OECD Economic Surveys, Sweden, 1998*).

However, restructuring within the industry is under way partly as a consequence of changes and reductions in government subsidies. Subsidies have occasionally sustained a strong demand for construction and have to some extent reduced the working of the price mechanism as the subsidies in the earlier system in practice increased with higher building costs. *Construction* today is carried out by a few large nationwide companies and many small local ones. In recent years a restructuring has taken place that has led to increased concentration and the majority of medium-sized participants have gone out of business, been merged or acquired. Today foreign competition is somewhat more prominent than earlier.

The *building materials industry* has also undergone a transformation, with increased concentration as a consequence of the downturn in residential construction. The high degree of concentration within the industry is due, in part, to economies of scale. Strong ties between contractors and building materials manufacturers are another explanation. Furthermore, competition from imports has always been low, owing to different standards and requirements for the approval of construction in different countries and high transportation costs, among other things.<sup>6</sup>

### **Transport, Communication and Energy**

Important changes have taken place in the 1990s in the transport, communication and energy sectors. State monopolies have been abolished, entry regulations have been liberalised or removed and reforms as well as reregulation have been implemented. On the whole, the reforms have resulted in increased competition and efficiency. Efficiency in selected sectors compared with the OECD average is reported in Table 1. However, in some sectors the reforms have not had enough impact on competition and price formation (e.g. rail transport and domestic air traffic). As the majority of networks (e.g. electricity lines) are still natural monopolies, regulations will also be required in the future to enable access for other operators to the networks at a reasonable price. In some sectors, particularly telecommunications, technological innovation has implied that the network is no longer a natural monopoly to the same extent as earlier.

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<sup>6</sup> A trend towards concentration have also been observed in *the trade and distribution of building materials*. However the competition in large urban areas has increased with the establishment of foreign chains, but in other geographical areas one company may sometimes dominate the market.

TABLE 1. Efficiency Index for Selected Sectors in Sweden in the 1990s

| <i>Sector</i>            | <i>Labour<br/>productivity<br/>(OECD=100)</i> | <i>Total factor<br/>productivity<br/>(TFP)<br/>(OECD=100)</i> | <i>Price Level<br/>(OECD=100)</i> |
|--------------------------|---|---|-----------------------------------|
| Telecommunications       | 108   | 120   | 59                                |
| Electricity distribution | 154   | 131   | 42                                |
| Rail transport           | 150   | 366   | 142                               |
| Passenger flights        | 61  | 67  | 161                               |
| Road transport           | 525   | 369   | -                                 |

*Source:* Performance and Regulation Patterns in OECD countries: Annex 1. Tables and Figures, OECD, 1998.

### *Transport*

In the 1990s various segments of the transport industry have been reformed and reregulated in order to increase competition, among others railways, road transport, domestic air traffic, taxi and long distance bus transport. One important part of the reforms has been the separation of transport services and the operation of the infrastructure itself. Deregulation to allow foreign competition has also been implemented recently in certain subsectors.

In addition, the possibilities of municipal and county authorities to procure transport services to operate public transport have been transformed. A law came into effect in 1988 that permits municipalities and counties to procure transport services from external operators as an alternative to providing these services themselves. This change has resulted in considerable cost savings in the public sector and has also increased competition in the subsectors of the transport industry.<sup>7</sup>

The fact that Sweden is a small economy and sparsely populated can in some cases explain why there is limited competition, despite the reform of the sector that has taken place. In such cases it may be better to have competition *for* a transport line in a certain region, rather than establishing competition *between* several actors on the same line. Within a geographical area it may also be more important to encourage competition among various types of traffic rather than have, for example, several railway companies in competition with each other.

When it comes to *rail transport*, Sweden was one of the first countries to separate the management of tracks, traffic control and other

<sup>7</sup> Since public transport prices are largely regulated, such savings are found on the cost side. The cost savings in different cities and regions surveyed range between 5 and 45 per cent. By way of example, in Greater Stockholm the savings for bus and underground traffic was 18 per cent.



infrastructure from the operation of the trains themselves. According to an OECD study, Sweden's railway sector has one of the highest levels of both labour and total factor productivity. From 1989 to 1994 the greatest efficiency gains in the railway sector could be observed in Sweden. But it should be added that Swedish prices for train travel are still relatively high, which indicate that there is potential for increased competition (Table 1). However it should also be added that the lower prices in some other OECD countries can be partly explained by state subsidies.

Productivity and efficiency in Sweden's *road transport* sector are higher than in most other OECD countries, and a significant improvement could be observed from 1985 to 1994. Sweden is ranked among the countries with the fewest regulations in road transport. Moreover, international competition has increased sharply since foreign companies have been permitted to participate in the transport sector in Sweden.

The deregulation of *domestic air traffic* at the beginning of the 1990s gave any Swedish airline the right to operate domestic routes. In the beginning, positive effects could be observed but in 1995 there was a trend towards higher prices and fewer departures. Prices are high in Sweden compared with other OECD countries (Table 1). The prohibition against foreign airlines to operate domestic flights in Sweden was removed in 1997. This reform has created the conditions necessary for enhanced competition, but it is presently too early to evaluate its impact.

### *Telecommunication*

The telecommunications law that came into force in 1993 has been changed on various occasions in recent years. Among its provisions, the law contains rules on interconnection and its pricing. The obligation to offer interconnection applies to all telecommunications operators who supply telecommunications services over a network. Pricing for interconnection on established networks should be cost-based. The same applies to mobile telephone operators that have a significant influence in the market. The burden of proof is on dominant actors to show that prices are based on costs. In addition, the supervisory authority – the National Post and Telecom Agency – is obliged to establish a time limit on negotiations on interconnection fees if the parties so request. A ceiling on the subscription fees charged by dominant actors has also been introduced in order to guarantee that these fees are kept at a reasonable level. An OECD evaluation of the telecommunications sector in Member States places Sweden in the group of countries that has carried out the most extensive reforms. At the same time it gives high marks to the Swedish telecommunications sector

and notes a favourable improvement in efficiency over the years in comparison with other countries.<sup>8</sup>

### *Postal Services*

Mail delivery has been deregulated and many new firms have entered the market. However, in certain cases the dominant actor – the government-owned Sweden Post Ltd – has been reported to the Competition Authority.<sup>9</sup> However, it should be emphasised that Sweden Post Ltd, under the terms of its authority, is obliged to offer a nation-wide service and charging a uniform fee throughout the country for each letter and parcel presented to be forwarded and simultaneously conducting its activities according to commercial principles. As other participants are not bound by such obligations, Sweden Post Ltd continues to hold a unique position.

### *The Electricity Sector*

In 1996 Sweden carried out a reform of the electricity market. The new regulatory system introduced has led to competition in the electricity market. This has created conditions for downward pressure on prices and increased competition in the supply of electricity and greater freedom of choice for consumers. In addition, rules have been introduced to establish the maximum fee smaller consumers have to pay for measuring equipment and its installation. The electricity network is a natural monopoly that is regulated and supervised under the terms of the Electricity Act. One of the main principles of the reform is the existence of a sharp distinction between the production and sale of electricity on the one hand and its transmission on the other hand. The deregulation of the electricity market has meant that electricity production and sales have been transformed into competitive markets. However, the management of networks (operation, maintenance and making new lines available) is still a monopoly and subject to special regulation and control with respect to both the networks' accessibility to operators and trends in prices for access to network services.

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<sup>8</sup> Performance and Regulation Patterns in OECD countries: Annex 1. Tables and Figures, 1998.

<sup>9</sup> On a few occasions the Competition Authority has ordered Sweden Post Ltd, under penalty of a fine, to discontinue certain measures. Since Sweden Post Ltd is abided by these decisions, it has never led to a definitive ruling. In a few instances the company has won cases or agreed on settlement with other actors. The application of the competition rules in the postal services sector has thus been unclear and the participants and the authorities have been proceeding by trial and error.

Conditions in the electricity market as a whole have evolved positively and in line with the intentions underlying the reform. Moreover, competition in the electricity market has increased, owing to the improved opportunities to purchase from abroad, the establishment of new participants and increased flexibility among certain categories of customers. According to an OECD evaluation of the electricity sector, productivity in Sweden's electricity industry is higher than in most other Member States (Table 1). At the same time Swedish electricity prices have been low, especially prices for business customers.

### **Capital Markets**

The reforms began at the macroeconomic level, with the deregulation of the credit and foreign exchange markets during the second half of the 1980s. In conjunction with this deregulation, the financial services sector was opened to foreign entry. Subsequently, the regulations governing the banking sector and the securities markets were changed to promote competition. By and large all financial legislation has been reformed with the aim of increasing competition while maintaining stability in the financial system. The Swedish Financial Supervisory Board was established in 1991 by merging the boards for insurance and banking. Now a single authority is responsible for all financial firms requiring a licence which has resulted in increased efficiency.

During the past ten years a substantial domestic capital market has been created with a broad range of financial services for both households and businesses. The capital markets are generally functioning very well in the present situation, especially with respect to the cost of capital for businesses and other lending. Financial services aimed at commerce and industry are subject to enhanced competition since the financial firms and banks operating in this sector are more international. An incipient risk capital market has also been generating more and more capital for newly established enterprises as well as small and medium-sized enterprises.

Concerning financial services to the household sector, firms have become more customer-oriented; among other things this means that the consumers' power has been strengthened. One indication that the capital markets are functioning well is that households have increased their investments in shares and on the whole have become more diversified in their choice of savings products. To a larger extent households possess both domestic and foreign financial assets.

### *Securities*

A significant reform of the Swedish securities market was carried out at the end of 1992 and the beginning of 1993 when the monopoly of the Stockholm Stock Exchange was abolished. Simultaneously, the stock

exchange was reorganised into a profit-driven company. Another important reform occurred when foreign operators were given the opportunity of participating in trading on the Stock Exchange. The number of foreign participants on the Swedish securities market has increased steadily. In addition to the Stockholm Stock Exchange, a number of new markets for small and medium-sized companies have been established. Foreign investors have also been given the possibility to participate in clearing and account activities.<sup>10</sup>

### *Funds*

Deregulation has had an especially large impact on the securities fund market, owing in particular to foreign participation. Foreign fund management companies have concluded agreements with Swedish distribution networks, above all banks and insurance companies. Some independent fund management companies have also been established. However, setting up fund management companies (that are not owned by banks or insurance companies) has proven difficult due to the cost of establishing a distribution network and problems in obtaining access to already existing distribution channels.

### *Insurance*

There have been unit-linked funds in Sweden since 1990. The entry of these kind of insurance instruments has helped to increase the competition in the insurance sector. New activities have been inaugurated that have taken substantial market shares.

### *Banks*

Changes in banking regulations contributed to the launching of a number of 'niche banks'. Their establishment was partly due to the banks obtaining the right to sell government tax-subsidised pension insurance to the public. Another reason for bank start-ups was the change to the legislation whereby non-financial participants were allowed to own a bank. Some foreign banks were also established. However the niche banks did not become as profitable as expected, and recently a consolidation within the industry has taken place that has led to a higher degree of concentration. Participants in banking and insurance activities that cater to the household sector have thus increased in size and have become fewer in number.

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<sup>10</sup> In addition it should be stated that the monopoly of the Securities Register Centre (VPC) will be abolished at the end of 1998.

### III Identification of Remaining Barriers

The reforms carried out in the product and capital markets have generally speaking had a positive impact on competition, as was evident in the preceding section. However, in certain markets regulations restricting competition or other obstacles remain. In order to have a market that functions well, a series of complementary reforms are often required. In this section the most important barriers – domestic as well as on the EU level – are identified.

From a geographical perspective Sweden is a large and sparsely populated country. Therefore it can sometimes be difficult to establish a functioning competition in all parts of the country, even when a market has been completely deregulated. On markets with high start-up costs and economies of scale, combined with limited demand, there is risk of insufficient price competition. In such cases, the formulation of a regulatory regime requires high standards in order to promote *competition that functions as efficiently as possible*.<sup>11</sup> Concerning goods markets the issue of competition is less problematic, since import competition plays a greater role, given that retail and wholesale trade sectors are exposed to competition.

*State aid to industry* that could lead to distorted competition favouring certain firms and sectors (and also countries) is a limited problem in Sweden, compared to other countries.<sup>12</sup> Sweden is endeavouring to reduce state aid to industry. Even though state aid to industry in the EU is in certain respects horizontally formulated to promote, for example, research and development or regional political considerations, the effect will often be to favour particular sectors.

#### Goods markets

##### *Regulations of Retail Trade*

Most of the goods markets are functioning well in Sweden. However, certain regulations and occasionally the laws may in some cases limit competitive pressure in the distribution and retail trade sectors. The competition within the retail food trade is affected, for example, by the

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<sup>11</sup> Domestic air traffic is one example in which it, in some cases, would be more relevant to strive for *competition for the market*, instead of *competition in the market*.

<sup>12</sup> Among the EU countries Sweden gave the least aid at the national level to manufacturing firms, measured as aid in proportion to the value added for the period, 1994-96 (about 1 per cent for Sweden, compared with an average of about 3 per cent for the EU as a whole). Sweden also had one of the lowest levels of state aid when measured as aid per employee (European Commission, *Sixth Survey on State Aid in The European Union*, 1998).

provisions of the Planning and Building Act, which mean that the municipal authorities have the right to decide on the establishment of grocery stores.<sup>13</sup>

Another area that is regulated is the *distribution of pharmaceutical products*, for which the government-owned Apoteket AB possesses a monopoly. In addition the pricing of pharmaceutical products is regulated in Sweden and other EU countries. The regulations covering pharmaceuticals have the overall aim of guaranteeing patients' health and safety. At the EU level the *retail trade in automobiles* functions less efficiently as a consequence of national rules and the lack of harmonisation at the EU level. By way of example, the possibilities for commercial parallel imports of automobiles are still limited.

### *The Functioning of the Single Market*

In spite of high ambitions to improve the functioning of the Single Market, some unwarranted restrictions remain in place in EU countries. At the same time the implementation of Single Market directives has not been fully completed in all Member States. These hindrances have a dampening effect on the competition in several Swedish markets and are partly responsible for obstructing the realisation of the considerable potential of the Single Market. As Sweden is a small open economy that depends heavily on foreign trade, a well functioning Single Market is especially important.

Deficiencies in the development of *standards* has made the common building and construction rules in the EU difficult to apply.<sup>14</sup> Thus the import of building materials and building services is limited, which restrains competitive pressure in the Swedish market. The application of *the principle of mutual recognition* needs to be improved. The principle works poorly, both in the non-harmonised areas and in harmonised areas involving mutual recognition of tests and controls.<sup>15</sup>

Moreover, *public procurement* is a large and important area in which there are still deficiencies at the EU level. Public procurement amounts to substantial sums in the Member States and embraces a number of sectors. However, there is limited participation in procurement by companies from other Member States in the Single Market. The reason

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<sup>13</sup> Limited access to attractive locations for a shop is in many cases a factor that makes it difficult for new entrants to establish themselves.

<sup>14</sup> The EU's directive on building materials, which came into effect in 1991, has not been fully implemented. The directive calls for building materials to meet requirements specified in European standards or to have European approval.

<sup>15</sup> One example is the distinction drawn among foodstuffs, food supplements and pharmaceutical products. The definition varies among the Member States.

is partly that the procedures are not well known, owing to complicated regulatory regimes, and partly that there is insufficient information regarding ongoing procurements. In addition, national preferences have been a contributing factor. An increased transparency in public procurement procedures should lead to increased trade within the EU.

## Transport, Communication and Energy

Three factors still restricting the possibilities for increased competition in the transport, communication and energy sectors are the regulation of network access and pricing, remaining dominant actors and obstacles that make the market function less efficiently for small customers.

### *Network Access and Pricing*

In several market segments, the pricing and regulation of operators using networks have proved to be difficult, above all when it is a question of networks that are pure natural monopolies. The problem is intensified in the case when sparsely populated markets are functioning less efficiently. By way of example, in follow-ups to the *reform of the electricity sector* it has been found that electricity companies have sometimes organised the operation of networks in a way that has not been in compliance with the aim of the directives on the separation of network operations and electricity sales. This has led to a risk of cross-subsidisation between electricity sales and purchases, which are subject to competition, and network operations. A similar example concerns one of the operators in the *domestic air traffic market*, who, after deregulation, was allowed to continue distributing takeoff and landing rights.<sup>16</sup>

### *Actors in a Dominant Position*

Achieving increased competition may be a problem after a deregulation because the previous monopolist still holds a dominant position, even though, for example, direct entry barriers have been removed. Firms that were on the market before deregulation often have a competitive advantage over new entrants. Therefore, it is important to consider measures to offset unwarranted advantages.<sup>17</sup> A market structure with a dominant player may also be reinforced by obligations stipulated by the State. This is the case with the market for postal services, in which the government-owned Sweden Post Ltd has a number of obligations, e.g.

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<sup>16</sup> There are similar problems related to *Sweden Post Ltd* concerning the access to post boxes and register of changes of address. In the postal area, reforms have been initiated to reduce these hindrances.

<sup>17</sup> When the Swedish taxi market was deregulated, the established companies were, for example, allowed to retain their old telephone numbers, which were well-known to customers.

offering nation-wide counter service and mail delivery. As long as those who were previously monopolists still have these obligations, they will retain in part their unique position.

### *Small Customers*

In the electricity market, for instance, many larger business customers have been able to lower their electricity costs, while the competition concerning supply of electricity to households is still inadequate, above all because of the costs of changing meters.<sup>18</sup> Thus there is a risk of income transfers from small to large electricity customers. In order for the electricity market to function more satisfactorily, competition among the sellers and flexibility on the part of the buyers needs to increase.

### **Capital Markets**

Capital markets in most cases are functioning very well. Remaining obstacles, discussed in following sections, comprise access to certain payment systems; domestic customers' limited mobility between banks, funds and insurance companies; and factors related to the Single Market.

### *Access to Payments Systems*

Limited access to payments systems, e.g. transfers, automatic teller machines and giro, may constitute a barrier to competition for smaller niche banks. These systems have been developed jointly by the large banks over a long time, and the new smaller banks argue that the established banks are demanding too high a price for being allowed access to the systems. This competition problem is similar to access and pricing problems of networks in, for example, the transport sector.

### *Household Market*

One sign of insufficient competition in the banking and insurance markets is that customers do not change supplier of financial services. An explanation for bank customers not changing banks may be cultivated relationships and the difficulties and costs in comparing various alternatives. Greater mobility among bank customers and mutual fund savers would increase competition and thus would very likely lead to better and cheaper customer services. One reason why the price does

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<sup>18</sup> In 1997 a price ceiling of SEK 2500 on time-registering meters and their installation were introduced. However this was still viewed as a relatively high cost; the Committee on Industry and Trade in the Parliament is presently pursuing the issue of abolishing the meter requirements for households, and, in the long run, for smaller companies as well, with the aim that this change would give them incentives to seek alternative suppliers offering a lower price.



not appear to be determining the choice of fund may be that customers often have ties with their bank in the form of loans and deposits and therefore also buy other services from the same bank.

The capital gains tax on trading in fund shares may be another reason for limited mobility between different funds. This may signify that the price as a competitive device is not functioning satisfactorily. However changes in the form of deferment of the capital gains tax to increase mobility would not be consistent with the demand for uniform taxation of income and capital.

In the life insurance sector there are remaining pricing and product regulations, and entry barriers in the form of a prohibition on life insurance to pay company dividends. The opportunity for the insured to change insurance companies is strictly limited. The regulation of the insurance industry was developed to protect consumers, but it has in effect protected the insurance companies from competition. This may result in efficiency losses that, in the end, also affect the consumers.

#### *Harmonisation of Rules*

The capital markets, like a number of product markets, also still have some problems that hinder the free movement of goods and services associated with the Single Market from taking full effect. Bankruptcy laws are one example. If a financial business with activities in several different Member States ends up insolvent, it would, under the current rules, pose a major problem, as the bankruptcy rules have not been harmonised.

## **IV Conclusions**

The Swedish Government intends to proceed with the reforms in the product and capital markets in order to enhance competition and complete the Single Market. The objective is that the reforms should lead to lower prices, wider selection and better quality products and services for the benefit of consumers. This section gives a summary of the more important work that is under way.

#### *Application of the Competition Act*

- In 1998 the Competition Authority began to apply the Competition Act more actively. The Authority will henceforth endeavour to act more on its own initiative to bring to light and intervene against unlawful restrictions on competition.

### *Competition Between Private and Municipal Enterprises*

A number of studies and measures have been initiated to overcome the problem of competition that exists between the private and public sectors.

- The Government has established a National Commission for Competition on Equal Terms Between the Public and Private Sectors. The Commission will handle complaints on distortions of competition and establish long-term rules. An impartial chairperson will lead the Commission, and its members will be from the private as well as the public sector.
- The proposal made by a commission regarding competition in the distribution of pharmaceutical products is being circulated for comments.

### *Network Access and Pricing*

- The National Post and Telecom Agency supervises the observance of the Telecommunications Act, including questions relating to the requirement for cost-based pricing for network access charges.
- To improve competition in the postal services sector, work is under way to secure uniform conditions for access, inter alia, to post boxes, change of address systems, and postal codes.
- The Electricity Authority Board is working on similar issues for the electricity sector in order to establish a pricing system that will benefit new entries to the market and that may lead to increased competition.
- At the EU level Sweden is taking an active part in the work to harmonise the rules on access to transportation networks, such as railways, and the fee system for these networks. The work on fees covers both fee levels that exclude monopoly pricing and harmonisation of the system for collecting road transport charges.

### *Reducing the Unique Position of Dominant Actors*

- The National Post and Telecom Agency has during the spring 1998, on behalf of the government, presented an investigation which includes proposals concerning the future management and safeguarding of the postal infrastructure, i.e. those system and facilities that are required to maintain efficient and dependable postal services. On the basis of this investigation, the government is currently considering measures to enable a more efficient shared utilisation of the postal infrastructure, and to promote neutral competition between different actors on the deregulated market for postal services.

### *Improvements of the Capital Markets*

- A new pension system will come into effect in Sweden on January 1, 1999. Thirteen and a half per cent of the old-age pension premium will be placed in a funded premium reserve system. People will be able to choose investment alternatives for these premiums in both domestic and foreign 'UCITS' funds. The funds market will therefore probably experience more competition.
- To improve the information to mutual fund investors, the Government has submitted a proposal to the Parliament that Swedish fund management companies would be required to report annually to every mutual fund investor the costs in SEK charged to their savings.<sup>19</sup>
- The Government has announced that it will present a bill in spring 1999 on new regulations for life insurance companies. The aim is to provide the possibility for life insurance companies to issue dividends and remove the remaining rules with respect to prices and products. Promoting good financial transparency on the part of insurers and a clearer division between policyholders' money and insurance companies' risk capital will protect the interests of consumers.
- The Bank Act Commission is working on proposals on operating rules for banks. The purpose is to identify the economic functions of vital importance performed by the financial system and to concentrate the regulatory and supervisory efforts in those areas, to the extent that they deserve protection. This functional approach increases the scope for different financial firms to specialise, which in turn could lead to strengthened competition.

### *Single Market Issues for Enhanced Competition*

- In the light of an expiring Single Market Action Plan in 1998, it is important for Sweden that in the future a new instrument will likewise be able to identify and find solutions to remaining problems within strictly defined time limits. In this context *The Single Market Scoreboard* presented by the Commission is one of the new instruments that is expected to play a significant role. The scoreboard could provide an important link between the work on economic reform that is under way for the ECOFIN Council and the work being pursued by the Internal Market Council.
- Sweden is working actively on both the national and the EU level to improve and simplify the regulatory structure concerning public procurement. The independent authority, the Public Procurement Board, is under review, and funds have been earmarked to increase Swedish companies' knowledge of public procurement.
- Sweden has expressed the view that the regulations governing public procurement should be analysed with respect to environmental issues

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<sup>19</sup> Sweden intends to pursue this issue at the EU level as well.

and whether the regulations conform to the EU's goal of sustainable development.

- Recently a number of initiatives for simplifying national rules have been taken. These initiatives form an important part of the Government's policy for economic growth. Sweden is also actively participating in the work under way at the EU level. For Sweden's part, it is very important that the rules agreed both at the EU level as well as at the national level meet the requirements of predictability, objectivity and transparency.

#### *Other Issues at the EU level*

- Sweden has traditionally pursued a free trade oriented policy and is of the opinion that competition and economic development within the EU would benefit from a more liberal trade policy towards third countries. In addition, Sweden has pointed out at EU level that parallel imports of brand name products from countries outside the EEA area should be permitted back in, as this action would force consumer prices down.
- Other issues that Sweden is actively pursuing at the EU level are the effort to reduce the total levels of state aid to industry, as this support risks distorting competition and finally, to achieve a reform of the Common Agricultural Policy.