

**National Report on
Economic Reform:
Product and Capital Markets**

Sweden

November 2000



FOREWORD

The principal aim of the work on economic reform of product and capital markets in the EU is to complete the internal market through more efficiently functioning markets. This work promotes growth and increased employment within the EU.

The conclusions of the Lisbon European Council point out that the EU's strategic goal is to become the most competitive and dynamic knowledge-based economy in the world within a decade.¹ Economic reform is an important means of realising this strategic goal. The European Council meeting in Stockholm 23-24 March 2001 will constitute the first annual follow-up of the strategic goal. The work on economic reform and a more efficiently-functioning internal market also supports the common employment policy.

The National Report on Economic Reform of the Product and Capital Markets forms part

of the "Cardiff process" under the ECOFIN Council.² The national reports are followed by a Commission report dealing with markets from a Community perspective. Both the national reports and the Commission's report provide input to the Broad Economic Policy Guidelines, BEPG, for member states and the Community. The guidelines provide both general and country-specific recommendations for economic policy.³

The national reports contribute to a structured follow-up of the implementation of the BEPG. The reports contain evaluations of the progress made in the EU member states. There is a focus on the consequences of economic reform, enabling examples of best practice to be transferred between member states. This work improves the conditions for a high and sustainable economic growth.

¹ See Presidency conclusions from the Lisbon European Council of 23-24 March 2000.

² See Presidency conclusions from the Cardiff European Council of 15-16 June 1998 and the recommendation from the ECOFIN Council of 1 May 1998.

³ Article 99 of the EC Treaty.

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I. INTRODUCTION

Reforms in product and capital markets aimed at strengthening competition are an important element in the Swedish government's economic policy for growth and employment. Consumers benefit from better functioning markets through lower prices, higher quality and a broader supply of goods and services. Reforms thereby also contribute to decreasing inflationary pressure in the economy.

The National Report on Economic Reform describes the reform work in Sweden to render product and capital markets more efficient. The present report is a follow-up of both last year's national report and the country-specific recommendations to Sweden in the Broad Economic Policy Guidelines, BEPG. For the year 2000, Sweden received the following three recommendations with regard to product markets:

- remove regulation that hinders or limits competition in retail distribution, construction and pharmaceuticals, and give the Competition Authority the power to enforce articles 81 (on cartels) and 82 (on abuse of dominant position) of the EC Treaty,
- continue improving competition in railways and air transport and
- continue to enhance efficiency in public procurement and the provision of public services.

Furthermore, Sweden received a recommendation regarding capital markets containing two parts:

- facilitate access to risk capital, particularly for small companies outside the high tech sector and
- revise the system of taxation for risk capital and promote innovative employee ownership schemes.

The report describes the developments in product and capital markets, the regulatory reforms and possible remaining barriers to competition. The areas commented on in the BEPG's country-specific recommendations are dealt with in greater detail. The report concludes with a reform agenda that presents ongoing and planned national measures. Additionally, there are three annexes; one on consumer benefits of economic reform, one on transition to a knowledge-based economy and one on statistics.

II. ASSESSMENT OF MARKET PERFORMANCE AND ECONOMIC REFORMS

Opening new markets and furthering economic integration improves competition in Sweden and in the internal market. One of the fundamental reasons for this reform work is that the effects of improvements in market functioning will benefit consumers.

A report from Statistics Sweden states that the Swedish consumer price level has fallen from 27 per cent above the EU average in 1996 to 21 per cent 1998.⁴ Approximately half of the remaining difference is estimated to be due to a lack of competition on the Swedish market.⁵ The government is endeavouring to continue strengthening competition so that consumer prices in Sweden will fall towards the average price level in the EU.

II.A. PRODUCT MARKETS

1. Opening new markets to competition and furthering economic integration

Sweden's membership of the EU and the realisation of the internal market, together with extensive deregulation and stable macro-economic conditions, have led to a continuing integration of the Swedish economy with the other EU member states. Swedish trade in goods with the EU has continued to increase during the late 1990s. In 1999, EU member states accounted for almost 60 per cent of the total exports and almost 70 per cent of the total imports.⁶ Further, direct investment between Sweden and the EU appears to have increased in scope over the past few years. During the period 1995 to 1998, direct investment from EU member states comprised on average 47 per cent of total direct investment in Sweden. At the same time, an average of 22 per cent of Swedish direct investment abroad was made in EU member states.

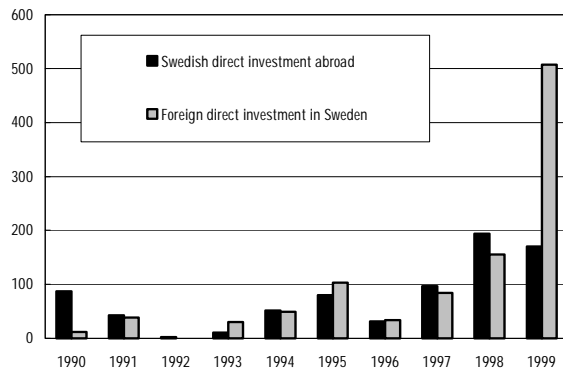
⁴ Statistics Sweden "Konsumentpriser i Sverige jämfört med övriga medlemsländer i EU" (Consumer prices in Sweden compared with other EU member states), 1999.

⁵ Swedish Competition Authority 2000:2 "Varför är de svenska priserna högre?" (Why are the Swedish prices higher?).

⁶ Statistics Sweden "Sveriges exportstatistik" (Swedish exports) 1995-1999.

Figure 1. Direct investment flows 1990–1999

SEK billion



Note: Approximately SEK 300 billion of the inflow of direct investment in 1999 is of a book-keeping nature and arises from the merger between Astra and Zeneca. A corresponding sum was at the same time entered as Swedish portfolio investment abroad. Disregarding this merger, the inflow of direct investment was still higher than in 1998.

Source: The Riksbank "Betälningsbalansstatistik" (Balance of payments statistics), August 2000.

Sweden's percentage of cross-border company mergers in the EU amounts to just over four per cent, which can be compared with Sweden's percentage of the total production in the EU, amounting to just under three per cent.⁷

1.1. Legal and administrative framework

In May 2000, Sweden held joint second place with regard to the implementation of internal market directives, according to the European Commission's scoreboard.⁸ The share of non-implemented directives amounted to 1.5 per cent in Sweden, compared with an average of 3.5 per cent for the EU as a whole.⁹ Sweden thus achieved the target of 1.5 per cent of non-implemented directives by December 2000, as set out in the Strategy for the Internal Market in 1999. Sweden will continue to aim at keeping the transposition deficit as low as possible.

Various information activities have been carried out to make the National Board of Trade more visible as the national contact point for problems in the internal market. These activities include advertising campaigns, regional EU seminars and information to companies. Given the fact that there is still insufficient knowledge

of, and interest in, the opportunities and rights provided by the internal market, a series of seminars aimed at Swedish consumers have been organised on this theme. Sweden is also participating actively on a European level to speed up the development of mechanisms for dispute resolution and various forms of administrative co-operation.

For several years now, Sweden has pursued the issue that market surveillance needs to be improved and conducted by all member states, as it comprises an important instrument in the completion of the internal market.¹⁰ There is a need for a review of the market surveillance undertaken by Swedish authorities.

1.2. Remaining barriers to trade

The free movement of goods and services in the internal market still does not work entirely as it should. This is largely due to the fact that the principle of mutual recognition in the non-harmonised area does not function satisfactorily.¹¹ There are still barriers in the service sector that hamper cross-border exchange, e.g. when an economic operator from one EU country wants to do business in Sweden, but cannot provide proof of equivalent competence. On the goods side, insufficient knowledge of the application of this principle among national authorities leads to problems. In-depth administrative co-operation between authorities has so far shown to create greater understanding between the member states and thus counteract problems that arise.¹²

The regulation on removing serious barriers on the internal market has so far only been applied to a limited extent, and only a few Swedish cases have been brought to light.¹³

The Swedish government has continued to pursue the issue of allowing parallel imports of trademark-protected products from countries outside the EEA. The current restrictions on

⁷ Thomas Financial Securities Data; and the European Commission "The EU Economy: 1999 review".

⁸ European Commission "Internal Market Scoreboard", May 2000.

⁹ This corresponds to 22 directives remaining to be implemented by Sweden.

¹⁰ By market surveillance is meant ensuring that products in the internal market fulfill the current requirements.

¹¹ This is the principle that a product or service legally manufactured or marketed in one member state can be freely traded in the internal market.

¹² In conformity with the Internal Market Council's conclusions 7582/00 MI 6I, ECOFIN 94.

¹³ According to the regulation on the intervention mechanism, a member state should report to the Commission as soon as an obstacle to free movement of goods arises (2679/98/EC).

parallel imports means that European consumers have to pay more for the same trademark-protected goods than consumers in countries outside of the EU.

Sweden has a close co-operation with Finland, Denmark and Norway on solving the remaining barriers to trade between the countries and furthering increased Nordic integration.

1.3. Monitoring of the regulatory burden on SMEs

According to the so called "Simplex regulation", Swedish authorities should apply special consequence analyses of the effects of new or altered regulations on small companies. An assessment for 1999 shows that there are considerable differences in the way various authorities apply the regulations, which indicates that there is a need for further information.¹⁴

In the work on simplifying regulations, priority is given to laws and regulations on tax and environmental issues.¹⁵ Ongoing simplifications include an Internet-based solution for company registration, simpler patent applications and improved information to companies. In addition, an Internet portal is being created, containing company information and services from authorities that should increase accessibility and facilitate contacts between authorities and entrepreneurs. Electronic signatures are to be made more secure and will promote the use of public authorities' e-services.¹⁶

The government has proposed a new authority structure to render central government measures in the trade and industry policy field more effective.¹⁷ The aim of this new structure is that a company would only need to have one point of

contact to gain access to the entire state support system, including company development, financing and information on entrepreneurship. Public authorities' contacts with foreign investors will be simplified in a corresponding manner.

1.4. Services

The BEPG's recommendations to Sweden for 2000 single out retail distribution, pharmaceuticals and construction as sectors where increased competition would lead to lower price levels and higher productivity.

Table 2. Competition limitations in selected sectors 1999

	The food trade	The pharmaceuticals trade	The construction sector
High concentration	X	X	X
Actions limiting competition	X	X	X
Regulations limiting competition	X	X	X
Barriers to entry and exit	X	X	X

Source: The Competition Authority 2000:1 "Konkurrensen i Sverige på 90-talet" (The development of competition in Sweden during the 1990s).

The food trade

Swedish food prices were 11 per cent higher than the EU average in 1998, but are approaching the EU average.¹⁸ In addition, there are considerable regional price differences between various parts of the country of up to 18 per cent. The most significant reason behind the regional price differences is said to be varying opportunities for local competition, including the starting-up of new businesses.¹⁹

The food trade in Sweden is characterised by a high level of concentration. The three leading chains in Sweden account for more than 90 per cent of the sales made through supermarkets.²⁰ While the degree of concentration within the industry has been stable over the past few decades, the major structural change in the industry has been where purchases are made. In

¹⁴ Report 1999/2000:148 "Regeringens redogörelse för regelförenklingsarbetet med särskild inriktning på små företag" (The government's account of the simplification of regulations with a particular focus on small companies).

¹⁵ Examples of commissions of inquiry include "Förenklingsutredningen" (The commission for simplification) and "Utredningen om reglerna för beskattning av ägare i fåmansbolag m.m." (The commission on regulations for taxation of owners in close companies) (Directives 1996:78, 1998:4, 1999:12).

¹⁶ The Swedish Agency for Administrative Development 2000:40 "Elektroniska signaturer och elektronisk identifiering för myndigheters e-tjänster" (Electronic signatures and electronic identification for public authorities' e-services).

¹⁷ Government Bill 1999/2000:71 "Vissa organisationsfrågor inom näringspolitiken" (Some organisational issues in trade and industry policy).

¹⁸ Statistics Sweden "Konsumentpriser i Sverige jämfört med övriga medlemsländer i EU" (Consumer prices in Sweden compared with other EU member states), 1999.

¹⁹ The Swedish Consumer Agency 1999:15 "Hushållens matkostnader" (Household food costs).

²⁰ Shops with sales of food as their core business and with a broad range of foodstuffs.

1998, hypermarkets accounted for 75 per cent of sales, compared with only 30 per cent in 1970.²¹

Foreign ownership in the food retail trade has been limited, but has increased markedly since the largest chain in Sweden signed an agreement with a Norwegian company in 1999 and a Dutch company in spring 2000 and is now registered as having foreign ownership.²² The second largest chain is also preparing for a merger with Danish and Norwegian counterparts.

There is a block exemption from the Swedish Competition Act's prohibition on anti-competitive co-operation. The Swedish Competition Authority believes that this block exemption reinforces the established chains' already dominant position. The government has observed this problem. Given that the EC's block exemptions are to be replaced by more general regulations, the Swedish group exemptions are also to be revised. This means that the current group exemptions will not continue in their present form after they expire in June 2001.²³

Different implementation of the Planning and Building Act between municipalities may limit competition as local authorities can prevent the establishment of retailers when stipulating the detailed land use plans.

Shopping over the Internet so far comprises only 1.6 per cent of the total turnover in the retail trade.²⁴ Almost 14 per cent of Swedish retailers have Internet sales.²⁵ A comparison between e-commerce and traditional retail trade for six product groups indicates that prices are on average 11 per cent lower in the Internet trading.²⁶

The pharmaceuticals trade

The pharmaceuticals market in Sweden is strongly concentrated. Prices for pharmaceuticals in Sweden were approximately 30 per cent higher than the EU average in 1997.²⁷

The government has decided that the retail monopoly for pharmaceuticals (Apoteket AB) shall remain for reasons of public health, but it judges that some changes to the current pricing system for pharmaceuticals in the pharmaceuticals benefit system would be appropriate. This also applies to a review of the fixing of Apoteket's trade margins and the application of the reference price system.²⁸ These and other related issues, such as a new pharmaceuticals benefit system, will be decided on by the government during spring 2001.

To facilitate for parallel importing companies, the Medical Products Agency is now looking into ways of reducing the administration time for obtaining approval for parallel imported pharmaceuticals. The share of these pharmaceuticals has increased from 2 per cent in 1997 to 9 per cent in 1999. They maintain a price level below that of the original pharmaceuticals and the saving for consumers is estimated at 1-1.5 per cent.²⁹

The construction sector

The Swedish construction sector is very concentrated and has both horizontal and vertical links. The development of construction costs is higher in Sweden than the EU average. Between 1995 and 1999, costs in Sweden rose by more than 10 per cent, compared with 6 per cent in the rest of the EU.³⁰

There are only three nationwide construction and civil works companies, which together account for 60 per cent of the market.³¹ Foreign competition in Sweden is almost non-existent since a Norwegian company was acquired by a Swedish firm in the summer of 2000.

There are monopoly and duopoly situations on several sub-markets in the building material industry. Import competition is still weak, as the harmonising of national regulations within the EU is progressing slowly.³² The government will work actively to develop the Construction

²¹ Hypermarkets have an area of at least 400 square metres.

²² According to the Riksbank's direct investment statistics, ICA is 50 per cent Dutch, 30 per cent Swedish and 20 per cent Norwegian.

²³ Government Bill 1999/2000:140 "Konkurrensolitik för förnyelse och mångfald" (Competition policy for renewal and diversity).

²⁴ The Swedish Research Institute of Trade, 2000.

²⁵ The Swedish Federation of Trade, May 2000

²⁶ The Swedish Research Institute of Trade, 2000.

²⁷ Statistics Sweden. Special order.

²⁸ Government Bill 1999/2000:140 "Konkurrensolitik för förnyelse och mångfald" (Competition policy for renewal and diversity).

²⁹ The National Social Insurance Board 2000:6 "Parallelimporterade läkemedel - inte till vilket pris som helst" (Parallel imported pharmaceuticals - not at all costs).

³⁰ EUROSTAT. "Monthly Panorama of European Business".

³¹ Swedish Government Official Reports 2000:44, appendix 3 "Byggekostnader och konkurrens" (Construction costs and competition).

³² The Competition Authority 2000:1 "Konkurrensen i Sverige på 90-talet" (The development of competition in Sweden during the 1990s).

Products Directive to bring about an efficient internal market.³³

The building materials trade in Sweden is also characterised by a high concentration, although foreign competition has increased in recent years. Three of the four largest building material distributors in Sweden are foreign. This change in the industry has led to increased price competition. The new building material distributors have on average 9 per cent lower prices than traditional distributors.³⁴

The government has indicated that special measures are required to influence the price and cost mechanisms within the construction sector.³⁵ The State Delegation on Construction Costs presented in its final report in May 2000 a large number of proposals on how the construction sector can become more competitive and reduce construction costs by 10 per cent, construction times by 10-20 per cent and quality errors by 20 per cent.³⁶ In October, the government presented a bill on housing supply issues, etc.³⁷ The bill describes a number of measures the government has taken with the aim of stimulating residential construction in growth regions. In addition, the government is creating a "Construction Costs Forum" to follow up the delegation's proposals.

The problems in the construction sector, together with the problems existing on certain housing markets, generate high housing costs for consumers. However, housing costs in Sweden have fallen from 40 per cent above the EU average in 1996 to 28 per cent above the average in 1998.³⁸ According to the Consumer Price Index, developments in housing costs have continued to be moderate in Sweden during 1999 and 2000.

³³ Directive (89/106/EEC); Government Bill 1999/2000:140 "Konkurrenspolitik för förnyelse och mångfald" (Competition policy for renewal and diversity).

³⁴ Swedish Government Official Reports 2000:44, appendix 3 "Byggkostnader och konkurrens" (Construction costs and competition).

³⁵ Government Bill 1999/2000:140 "Konkurrenspolitik för förnyelse och mångfald" (Competition policy for renewal and diversity).

³⁶ Swedish Government Official Reports 2000:44 "Från byggsekt till byggsektor" (From construction sect to construction sector).

³⁷ Government Bill 2000/01:26 "Bostadsförsörjningsfrågor m.m." (Housing supply issues, etc.).

³⁸ Statistics Sweden "Konsumentpriser i Sverige jämfört med övriga medlemsländer i EU" (Consumer prices in Sweden compared with other EU member states), 1999.

2. Competition policy, taxation and public procurement

2.1. Competition policy and state aids

Competition policy

The BEPG recommend that Sweden gives the Competition Authority the authority to implement articles 81 (on cartels) and 82 (on abuse of dominant position) of the EC Treaty. The Internal Market Council's conclusions also give high priority to member states work on modernising their competition policy.³⁹

In May this year, the government presented a Competition Policy Bill, containing proposals for the orientation and priorities of competition policy in the 21st century.⁴⁰ Competition policy should be based on a consumer perspective and should contribute to the modernisation and development of society through efficient and open markets. The following principles among others should guide the competition policy:

- counteracting barriers to competition through effective tools for combating cartels,
- giving priority to consumers' interest in effective competition when formulating official regulations that affect the functioning of markets,
- ensuring that structures and regulations on new markets support well-functioning competition.

The Competition Policy Bill proposes that the Competition Authority, the Market Court and Stockholm City Court shall apply articles 81 and 82 of the EU Treaty. This proposal is expected to lead to a more efficient monitoring of competition and to economic and consumer policy gains. In addition, it is in line with the European Commission's white paper on modernisation of the EC's competition regulations.⁴¹

Sweden has a large public sector. The government's aim is to increase the share of the economy subject to competition.⁴² However, the question of increasing competition is to some

³⁹ Internal Market Council's conclusions 7582/00 MI 6I, ECOFIN 94.

⁴⁰ Government Bill 1999/2000:140 "Konkurrenspolitik för förnyelse och mångfald" (Competition policy for renewal and diversity).

⁴¹ European Commission programme 99/027.

⁴² Government Bill 2000/01:1 "Budgetpropositionen för 2001" (Budget Bill for 2001).

extent determined by the municipalities and county councils. The value of the public company portfolio comprises approximately 29 per cent of domestic industry, with state-owned companies accounting for 25 per cent and municipal companies for 4 per cent.⁴³ The state-owned company sector will be privatised when appropriate. Sales of state shareholdings during 1999 and the first half of 2000 amounted to just over SEK 60 billion.⁴⁴

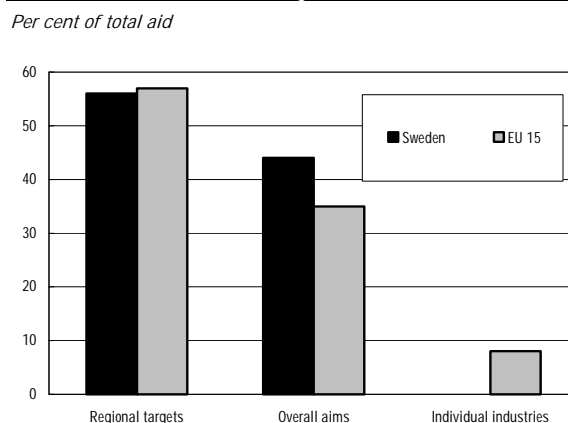
It is also important that public activities are carried out efficiently. The work on removing obstacles to competition between the public and private sectors is continuing. The government is to decide on the future regulations in this field in connection with the presentation of the experiences and proposals of the Council for Competition on Equal Terms between the Private and Public Sectors at the end of 2000.

State aid

The average annual state aid provided during the period 1996-1998 amounted to 0.78 per cent of GDP, which can be compared with 1.12 per cent in the EU as a whole⁴⁵. This is a slight increase on the period 1995-1997, and can be explained by increased expenditure on support for environmental measures. Sweden still belongs to those countries that provide relatively little state aid. The main focus for state aid is on measures of a general nature, in accordance with overall community interests.

As part of the process of following up on the development of EU regulations, the government put proposals for changes in legislation before parliament in spring 2000. These provide an opportunity for the European Commission to monitor the observance of the EC's state aid regulations on-site in Sweden. The new legislation is expected to come into force on 1 January 2001.⁴⁶

Figure 2. State aid to the manufacturing industry 1996-1998 divided according to area of use



Source: European Commission (2000) 205 "Eighth survey of state aid in the European Union".

2.2. Business taxation

Swedish business taxation is relatively low, in an international perspective, with a uniform tax rate of 28 per cent. The corresponding figure in the EU is 37 per cent. However, the effective tax rate, i.e. what the companies actually pay in tax, is somewhat higher in Sweden, 27.5 per cent, than the EU average of 26.9 per cent.⁴⁷ Over the past year Sweden has implemented a number of taxation measures to create a business climate that promotes the establishment of domestic and foreign companies as well as competition.

The Riksdag (the parliament) has adopted the proposal on exemption from coupon tax on dividends to foreign companies with business holdings. This measure places domestic and foreign companies on an equal footing as owners in Sweden. Companies have been given the opportunity to buy back their own shares and most of the "stop regulations" have been abolished.⁴⁸ In addition, the Riksdag has adopted proposals regarding, for instance, changes to deductions for increased cost of living during business trips to put the conditions for entrepreneurs and employees on the same footing. Another proposal is a more generous and clear interpretation of the rules for deductions in connection with costs arising from renovation for a new tenant, in order to enable a

⁴³ The Ministry of Industry, Employment and Communications "Företag med statligt ägande 2000" (Companies with state ownership 2000).

⁴⁴ Government Bill 2000/01:1 "Budgetpropositionen för 2001" (Budget Bill for 2001).

⁴⁵ European Commission (2000):205 "Eighth survey of state aid in the European Union".

⁴⁶ Government Bill 1999/2000:140 "Konkurrensolitik för förnyelse och mångfald" (Competition policy for renewal and diversity).

⁴⁷ Swedish Government Official Reports 2000:7 "Långtidsutredningen 1999/2000" (Long Term Survey 1999/2000).

⁴⁸ These regulations were implemented to assure that no tax evasion will arise in closely held companies.

more efficient use of existing commercial properties.⁴⁹

There is still some legislation that favour Swedish companies over foreign-owned companies and subsidiaries. A Government Committee Report describes the differences regarding dividends on business shares, distributions from economic associations, group contributions, companies acting as agents for other companies and the settlement regulation.⁵⁰ The report proposes that foreign companies domiciled in the EEA should be placed on an equal footing with Swedish companies. In addition, there are two ongoing Committees inquiring into international business taxation and reviewing the definition of business shares. A preliminary report is expected in January 2001.⁵¹

2.3. Public procurement

The BEPG's recommendations to Sweden for 2000 single out the continued process of rendering public procurement more efficient as a priority. The Internal Market Council's conclusions also emphasise public procurement as an important area.

The Public Procurement Committee estimates the total market for public procurement in Sweden to be worth approximately SEK 400 billion per year, which corresponds to just over 23 per cent of GDP.⁵² Both in terms of number and value, Swedish public procurement is dominated by simplified procurements, which account for approximately 95 per cent of the *number* of procurement procedures and 80 per cent of the *value* of procurement procedures. The remainder are directive procurement procedures, i.e. EC public procurement procedures. Foreign entrepreneurs account for approximately 3 per cent of these

EC public procurement procedures.⁵³ The Swedish government has allocated means to the project "Borderless Business" (Gränslösa affärer), which is based on a collaboration between trade and industry organisations, public authorities and private companies during the period 1998-2001. This is part of the government's endeavour to support Swedish trade and industry's participation in cross-border public procurement.

Sweden has incorporated all of the EC directives regarding public procurement into Swedish legislation.⁵⁴ However, it is difficult to monitor the level of compliance with these regulations. According to the Public Procurement Committee, a non-insignificant percentage of the approximately 10,000 procuring units in Sweden lack the resources and competence to follow the public procurement regulations. The committee believes this could be resolved through programmes to improve competence and quality work. But, it is more difficult to reach the procuring units that fail to apply the regulations for public procurement because of some degree of intention or by negligence. This question is being investigated further in the Government Offices.

The Public Procurement Committee presented an interim report in December 1999.⁵⁵ The government has taken a decision on some parts of the interim report and proposed a number of measures to simplify and improve the regulations regarding public procurement.⁵⁶ These measures include allowing tenders and applications for tender, both below and above threshold values, to be sent via Internet.

⁴⁹ Government Bill 1999/2000:100 "2000 års ekonomiska vårproposition" (Spring Bill 2000).

⁵⁰ Ministry Publications Series 2000:28 "Anpassningar på företagsbeskattningsområdet till EG-fördraget" (Adaptations to the EC Treaty in the business tax field).

⁵¹ Directives 1998:55 and 1998:74.

⁵² Swedish Government Official Reports 1999:139 "Effektivare offentlig upphandling: För fortsatt välfärd, trygghet och tillväxt" (More efficient public procurement: for continued welfare, security and growth).

⁵³ The statistics applies for 1997 and only to goods. Foreign subsidiaries in Sweden are registered as Swedish and not as foreign-owned. Statistics Sweden, 1999.

⁵⁴ European Commission "Scoreboard for the Internal Market", May 2000.

⁵⁵ Swedish Government Official Reports 1999:139 "Effektivare offentlig upphandling: För fortsatt välfärd, trygghet och tillväxt" (More efficient public procurement: for continued welfare, security and growth).

⁵⁶ Government Bill 1999/2000:128 "Offentlig upphandling i informationssamhället" (Public procurement in the information society).

3. Public utilities and other network industries

Deregulation of public utilities has led to considerable economic gains. For instance, calculations from the Riksbank (the central bank) indicate that the deregulations of the telecommunications and electricity markets have contributed to lower inflation in 1999 by 0.3 percentage points, and is expected to contribute with the same amount this year.⁵⁷

3.1. Telecommunications

The Swedish telecommunications market has continued to develop in a positive way. Consumer utilisation of both fixed and mobile telephony is continuing to grow. In recent years, a number of measures have been taken to increase competition between telecom operators and safeguard consumer benefits of the reforms.

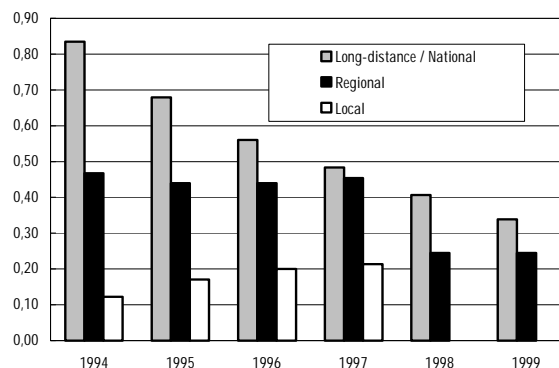
The telecommunications market has grown both in value and in number of players, from 33 companies in 1998 to 176 companies in 1999. During 1999, the market for fixed telephony services expanded by approximately 4 per cent, to SEK 26 billion. The market for national calls is dominated by the partly privatised Telia AB, which had 86 per cent of these calls in 1999, compared with 93 per cent in 1998. Prices for all categories of calls in the fixed networks have fallen during 1999.⁵⁸

The introduction of pre-selection on 11 September 1999 was a major change in the Swedish telecommunications market. Pre-selection means that the customer does not need to dial a prefix to reach the selected telecom operator's network. In terms of competition, this reform was a great success. Customers are moving over to alternative telecom operators to a much greater extent than before. Operators that previously had prefix customers gained a greater traffic volume after this simplification. At the end of last year, just over 1.4 million subscribers were pre-selection or prefix customers, which corresponds to 23 per cent of the total number of subscribers. Just over half of households that

have made pre-selection has chosen Telia as their operator and just over one quarter has chosen Tele2.⁵⁹

Figure 3. Telia's pricing for different categories of fixed telephony 1994–2000

Average price per minute for a three-minute call (SEK)



Note: From 1998 local and regional calls are priced the same.
Source: The National Post and Telecom Agency, 2000.

Access to the infrastructure is a prerequisite for telecom operators to be able to supply telecom services. The market for net capacity has developed positively with more companies and increased competition. However, Telia is the dominant actor. There are considerable problems pertaining the use of the access network and only a small percentage of the market is profitable for direct connection by an operator other than Telia.⁶⁰ The Swedish National Post and Telecom Agency (PTS) has presented a law proposal to the government regarding use of the access network. This proposal is under consideration.

During autumn 1999, the possibility was introduced for a subscriber to the fixed network to retain their telephone number when changing operator, which has promoted competition.⁶¹

The number of mobile telephone subscriptions increased by just over one million in 1999 and during the first quarter of this year the number of subscribers amounted to almost 5.4 million, corresponding to 0.6 subscriptions per capita. The mobile telephone market increased by approximately 20 per cent during

⁵⁷ The Riksbank "Inflationsrapport" (Inflation Report), October 2000.

⁵⁸ The National Post and Telecom Agency "Svensk telemarknad 1999" (Swedish telecom market 1999), June 2000.

⁵⁹ The National Post and Telecom Agency "Förändringar på teleområdet - mätning 3" (Changes in the telecom area - measurement 3), September 2000.

⁶⁰ The access network is the connection to the final consumer.

⁶¹ This applies when the customer is in the same area code region. Government Bill 1997/98:126 "Nummerfrågor" (Issues relating to telephone numbers).

1998 to SEK 18 billion.⁶² The market for mobile telephone services is dominated by Telia, which has 55 per cent of the market, although the competitors are increasing their market share. Telia lost 5 per cent of the total market value to competitors during 1999. Prices for mobile telephony had remained at the same level for some time, but then began to fall with effect from the second half of 1999.⁶³

Changes in the law have been implemented to promote competition on the market for mobile telephone services. License holders with a telephone network for mobile services are obliged, with effect from 1 May 2000, to offer overcapacity in their mobile telephone network to others.⁶⁴ This overcapacity should be supplied on request and on market terms. On 1 July this year, legislation was introduced on an obligation for operators that have been active for at least five years on the mobile telephone market to allow other operators to send and receive messages via their network, known as national roaming. National roaming provides an opportunity for operators that have a license for their own network, but lack coverage in a certain area, to operate throughout Sweden. The changes in legislation regarding national roaming have recently come into force and cannot be expected to show any concrete results until after the allocation of the new mobile telecom licenses. Four licenses for UMTS (IMT 2000), also known as the third generation of mobile telephony, will be distributed in November 2000 after investigation by the PTS.⁶⁵

On top of the legislative changes, an effective competition on the market is maintained by the PTS, which exercises continuous supervision of the telecom operators. This is a strong factor contributing to falling mobile telephony rates.

3.2. Energy

The electricity market was deregulated in 1996, which led to the introduction of competition in trade and production of electricity. The electricity grid is what is known as a natural monopoly and is regulated and supervised by the Swedish National Energy Administration.

On 1 November 1999, the requirement for a meter to measure electrical consumption per hour was removed, which means that all customers can change electricity supplier at no extra cost. This has increased competitive pressure to the benefit of customers with low electricity consumption. According to a report from the Swedish National Audit Office, around 10 per cent of electricity consumers have changed supplier.⁶⁶

At the same time as new companies have entered the market, the number of electricity trading companies has declined as a result of an increasing number of municipal and smaller energy companies being acquired by others, such as industrial companies, oil companies and professional and industrial organisations. In 1990, the ten largest electricity producers in Sweden accounted for approximately 95 per cent of electricity production, which can be compared with the situation in 1999, when six electricity producers accounted for an equally large share of total electricity production. On the joint Nordic electricity market, however, the percentage is lower, as Sweden's electricity production constitutes approximately 40 per cent of this market. Since 1996, foreign ownership among Swedish electricity producers has increased considerably.⁶⁷

Natural gas accounts for approximately 2 per cent of Sweden's total energy supply, which can be compared with approximately 20 per cent in the rest of the EU. A new Natural Gas Act came into force on 1 August 2000.⁶⁸ This act opens up the natural gas market, both for customers with natural gas-fired energy production and

⁶² The market value includes co-ordinated traffic charges.

⁶³ The National Post and Telecom Agency "Svensk telemarknad 1999" (Swedish telecom market 1999), June 2000.

⁶⁴ Government Bill 1999/2000:57 "Ökad konkurrens på mobiltelemarknaden" (Increased competition on the mobile telephone market).

⁶⁵ The National Post and Telecom Agency "Svensk telemarknad 1999" (Swedish telecom market 1999), June 2000.

⁶⁶ The Swedish National Audit Office 2000:20 "Kunden är lös! - konsumenternas agerande på de omreglerade el- och telemarknaderna" (Customers on the loose! - consumer behaviour on the reregulated electricity and telecom markets).

⁶⁷ Examples of this are the German PreussenElektra, French EdF and Finnish Fortum. The Swedish National Energy Administration "Elmarknaden 2000" (The electricity market 2000), May 2000.

⁶⁸ SFS 2000:599 "Naturgaslag" (The Natural Gas Act).

customers whose consumption exceeds 25 million cubic metres of natural gas. This means that approximately 47 per cent of the natural gas market will be opened up to competition. The government is expecting to be able to deregulate the entire natural gas market by 1 January 2006.

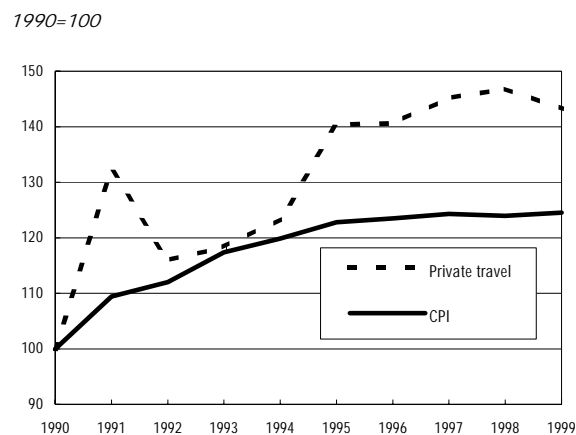
3.3. Transport services

The new competition situation on the transport markets has created a market with increasing consumer demand for better quality and service. The Riksdag has adopted in stages a transport policy that involves increased competition between the different transport sectors, as well as within each sector, to ensure that these requirements are met.

Air traffic

The BEPG recommend that Sweden improve competition in air transport. Since the deregulation of domestic air traffic in 1992, ticket prices have remained unchanged or have even risen. The partly state-owned air carrier SAS' position on the Swedish domestic market has been further strengthened in 1999 with the closure of Braathens Malmö Aviation's domestic routes from Arlanda Airport, Stockholm. This means that competition on the Swedish domestic market has almost disappeared.

Figure 4. Price developments for private travel using domestic airlines compared with the Consumer Price Index, CPI 1990–1999



Source: Statistics Sweden, 2000.

The Swedish Competition Authority, which is the supervisory authority, actively monitors developments in domestic aviation. In late 1999, the Competition Authority filed a process against SAS for abuse of dominant position after a complaint from Braathens Malmö Aviation. However, SAS has appealed against the decision and the Market Court has overruled the Competition Authority's decision until the appeal has been heard. The Competition Authority has also intervened against a suspected cartel formation between SAS and Skyways in August 2000.⁶⁹

Railways

The BEPG's recommendations to Sweden include improving competition in the railway sector. The market for passenger transport has undergone a gradual deregulation since 1988, and cargo traffic on railways has been completely deregulated. The Swedish State Railways (SJ) is currently subject to competition from other operators within the railways sector, as well as from other forms of transport. Furthermore, all passenger traffic which is unprofitable for SJ could be procured in competition.

The public procurement of unprofitable railway operations for the year 2000, indicates that the railway sector can be developed. The procurement resulted in three new operators on the market. However, one of the new operators was declared bankrupt in June. Following negotiations between the state and SJ, which resulted in SJ taking over the operation, it was nevertheless possible to minimise disruption to traffic and inconvenience to passengers. Given this development, the Riksdag resolved to adjust the current regulations, including a regulation that SJ can no longer automatically regain the right to operation after an agreement period has expired; there should be a new procurement process.⁷⁰

Competition in the railway sector has led to lower costs, and thus price reductions. SJ's share, of the number of kilometres based on individuals travelling on the railways, amounts to

⁶⁹ The Civil Aviation Authority "Flygets utveckling 1999 - en sektor-redovisning" (The development of aviation 1999 - a sector report), 2000.

⁷⁰ Government Bill 1999/2000:78 "Ändrad verksamhetsform för SJ m.m." (Altered operational form for SJ, etc.); Report 1999/2000:TU11, parliamentary communication 1999/2000:238.

approximately 70 per cent in 2000, compared with 97 per cent in 1999.⁷¹

Road transport

The supply of bus traffic remains largely unchanged since the large increase during the first half of 1999. However, there are indications that the amount of bus travel is gradually increasing. The four largest operators currently have around half of the bus traffic market. There are also a large number of small operators, while the number of medium-sized operators has declined drastically.

The majority of the bus traffic in Sweden is run in local and regional public transport, for which municipalities and county councils have a joint responsibility. The amount of local and regional bus traffic procured in competition has increased steadily during the 1990s. Today, more than 90 per cent of the traffic has been procured in competition between different operators. Public procurement has led to large cost reductions for those ordering the services and to benefits for consumers.

3.4. Postal services

The monopoly on the regular conveyance of letters ceased to exist in January 1993, which meant that the Swedish postal services market was completely liberalised. State-owned Posten AB is still the only operator with a nationwide distribution network, while other operators are relatively small and pursue local operations. In 1999, Posten had a 95 per cent share of the letter market. The situation for local postal operators stabilised during 1999 and by the end of the year, 64 companies had a license to pursue postal services.⁷²

Competition has led to better terms for the consumers in the form of lower prices, improved quality of services and a large range of services. The changes are most evident with regard to the segment for bulkmail, which is the area where Posten meets the greatest competition, primarily from CityMail Sweden AB. CityMail has

increased its share of the total letter market between 1998 and 1999 to almost 5 per cent.⁷³

The Swedish National Post and Telecom Agency (PTS) has gained an extended mediation role with regard to all of the distributors' access to parts of the infrastructure. In October 1999, the government gave PTS the task of taking the initiative to and organising negotiations with regard to the co-ordinated system for change of address, as well as the system for redirection of mail. PTS' efforts during the year can be said to have achieved a better joint usage of the postal infrastructure.⁷⁴

4. Research and Development

Sweden invests more in research and development as a proportion of GDP than other countries, approximately 4 per cent, compared with 2 per cent in other EU countries. Approximately three quarters of the R&D investments are made in the corporate sector, particularly in larger companies.

During the period 2000 to 2003, government funding of research will increase by about SEK 1.3 billion. A new agency structure for research funding will be established on 1 January 2001. The purpose of the new organisation is to further co-operation between research areas, to improve the spread of research results and to concentrate resources in priority areas such as bioscience, IT and educational science.⁷⁵

⁷¹ SJ "Årsredovisning 1999" (Annual Report 1999) and the Ministry of Industry, Employment and Communications.

⁷² The National Post and Telecom Agency "Service och konkurrens III" (Service and competition III), February 2000.

⁷³ Ibid.

⁷⁴ Government Bill 2000/01:1 "Budgetproposition för år 2001" (Budget Bill for 2001).

⁷⁵ Ibid.

II. B. CAPITAL MARKETS AND FINANCIAL SERVICES

The financial system should be efficient and satisfy both the requirements of society in terms of stability and the consumers' interest in sufficient protection. In line with these objectives, financial legislation has been reformed further during the year.

1. Legal and regulatory framework

1.1. Developments in legislation

New legislation regarding the insurance business came into force on 1 January 2000 with the aim of furthering competition and product development. It involves a modernisation of the business regulations and a refining of the supervision of Swedish insurance companies. In addition, the Riksdag has over the past year decided on some new regulations pertaining to insurance companies and benevolent societies. These companies' responsibility for financial stability has been clarified, while the capacity of the Swedish Financial Supervisory Authority to pursue group-based monitoring is strengthened. This leads to increased protection for insurance policy holders' assets and thus also ensures that insurance companies' commitments are increasingly met.⁷⁶

New insider legislation has been proposed, with the aim of strengthening the general public's confidence in the financial markets.⁷⁷ In terms of penal law, the changes involve both greater penalties and a broader definition of what constitutes criminal activities.

Over the year, the EC Directive on Settlement Finality in Payment and Securities Settlement Systems has been transposed into Swedish law.⁷⁸ The purpose is to strengthen the stability of the financial system by reducing legal risks when

settling liabilities on the financial markets. There has been an endeavour to make the Swedish regulations more general and not limited to players on the financial market.

Another measure that has improved the markets' functioning is that companies listed on the public stock exchange have the opportunity to buy back their own shares since 10 March 2000.

1.2. Changes in the supervisory framework

Since 1991, one single authority – the Financial Supervisory Authority – exercise supervision over financial companies in the insurance, credit and securities markets. There is currently a development in the financial sector towards large, internationally active financial conglomerates – i.e. groups including both banks and insurance companies. Another tendency is that these companies' risk management methods are becoming increasingly advanced. These changes require a more flexible supervision.

The Financial Supervisory Authority has therefore reorganised its activities over the past year, with the aim of developing an overall view of the financial strength and risk taking of financial sector companies. New, stricter regulation on capital cover and large exposures came into force on 1 July 2000.⁷⁹ In October 2000, the Financial Supervisory Authority signed a new co-operation agreement with its counterparts in Finland, Denmark and Norway, covering the entire financial sector.

2. Restructuring in the financial services sector

2.1. Market developments

The structural transformation of equity trading continues. In recent years, the OM Group, which was formed in 1998 through a merger of OM and the Stockholm Stock Exchange, has initiated a number of co-operation projects with other marketplaces around the world. OM also co-operates with the stock exchanges in

⁷⁶ These regulations involve the implementation of an EC directive on additional supervision of insurance companies that are part of an insurance group (98/78/EC).

⁷⁷ It is proposed that the legislation be divided between two acts: "Insiderstrafflagen" (Insider Trading Penal Act) and "Lagen om anmälningsskyldighet för vissa innehav av finansiella instrument" (The Obligation to Report Holdings of Certain Financial Instruments Act). Government Bill 1999/2000:109 "Ny insiderlagstiftning m.m." (New insider legislation, etc.).

⁷⁸ The Settlement Finality Directive (98/26/EC).

⁷⁹ Government Bill 1999/2000:94 "Moderniserade kapitaltäckningsregler m.m." (Modernised capital cover regulations, etc.).

Copenhagen, Oslo and Reykjavik (Norex). The aim is to create a Nordic platform for equity trading. The Baltic stock exchanges have also shown an interest in taking part.

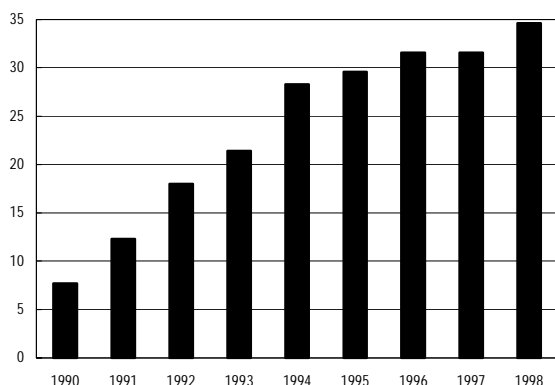
The Swedish state has divested its ownership in the Swedish securities register centre, (VPC). The new owners are the four major banks Föreningsparbanken, Svenska Handelsbanken, MeritaNordbanken and SEB.

During 1999, the total Swedish stock market capitalisation increased from SEK 454 billion to SEK 720 billion and net savings increased from SEK 41 billion to SEK 55 billion.⁸⁰ The increase in public interest in equities has been furthered by private persons being offered lower transaction costs via the Internet as well as improved access to market information, and by the positive market development of the Stockholm Stock Exchange.

Foreign ownership on the Stockholm Stock Exchange increased strongly during the 1990s, from 8 per cent of the total stock exchange value in 1990, to almost 35 per cent in 1998.

Figure 5. Foreign ownership on the Stockholm Stock Exchange, 1990–1998

Per cent



Source: Statistics Sweden.

2.2. Restructuring of the banking and insurance sectors

There is a continuing process of integration in the banking sector, primarily in the Nordic countries, but also within the broader Baltic region. The degree of concentration is high on

the Swedish market, with four major groups strongly dominating the market for banking services. However, increasing competition from smaller domestic actors and foreign banks and securities companies has led to the large banks' share in borrowing and lending being pushed back. Their share is now around 80 per cent, approximately 10 percentage points lower than in 1990. The four largest banks' share of the mutual fund trading fell by a couple of percentage points during 1999 to 83 per cent.

The Swedish banks are strongly developing their "home banking" sections, with a focus on the extension of Internet usage. Swedish banks are among those with the highest percentage of Internet customers in the world, and 27 per cent of Swedes use some sort of Internet banking.⁸¹

The reform of the Swedish pension system, with the introduction of the so called "premium pension system" this autumn has increased demand for capital management services. Another perceptible effect is that interest in investing in mutual funds abroad is increasing.⁸² Foreign mutual fund companies have also increased their penetration of the Swedish market. Almost half of the mutual fund companies in the premium pension system are foreign.

In recent years the insurance market has been characterised by significant structural change, which has resulted in a small number of companies taking a dominant position. In addition, the insurance market is characterised by major changes with regard to sales, marketing and distribution channels, with the Internet playing an increasingly important role. Many companies that are part of insurance groups now also offer some traditional banking services, often via the Internet. So far, foreign companies' interest in the Swedish market has been moderate. Nor have cross-border operations had any great scope.

⁸¹ Connectis, October 2000.

⁸² The share of foreign securities in Swedish banks' portfolios was 9 per cent in June 2000. The corresponding figure for insurance companies was 20 per cent.

⁸⁰ Institutional investors' investments in securities amounted to 38 per cent of GDP in 1999.

3. Access of SMEs to financing

The BEPG recommendations for Sweden were to facilitate access to risk capital, particularly for small enterprises outside the high tech sector, and to review the taxation situation for risk capital and promote innovative employee ownership schemes.⁸³ The conclusions of the Internal Market Council also emphasise that all member states should facilitate access to risk capital, particularly during the companies' start-up phase.

The entire Swedish venture capital market has grown strongly in volume and breadth in recent years and access to venture capital is assessed to be good. In 1999, Sweden had the highest increase in venture capital per capita among the EU countries, and more than 60 per cent of the venture capital investments were made in companies outside of the technology sector.⁸⁴ The number of venture capital companies has increased dramatically in recent years, and amounted to almost 200 in August 2000.⁸⁵ Together, these companies managed SEK 173 billion, of which SEK 81 billion was invested.⁸⁶

Private venture capital has increasingly found its way to early stages of business development and to new geographical regions – areas where interest previously came mainly from state-owned companies. However, the state-owned Sixth National Pension Insurance Fund is still one of the largest players on the Swedish venture capital market with managed assets of over SEK 20 billion. Total investments in enterprises in the seed and start-up phases increased tenfold between 1998 and 1999, which led to Sweden having the EU's highest percentage of venture capital invested in new companies in 1999.⁸⁷

The number of company incubators has also increased considerably.⁸⁸ However, the good access to venture capital, particularly in growth sectors, masks the problem for companies gaining access to "competent capital", where a transfer of financial capital is combined with a transfer of knowledge in technology and company management.

The government is now improving the institutional conditions in order to facilitate investments in shareholders' capital in small and medium-sized enterprises. The Budget Bill for the year 2000 contained a proposal for extending the possibilities for provision to tax allocation reserves, in order to improve the capacity to build up internal venture capital, particularly for small enterprises.⁸⁹ At the same time, there was a proposal that the reversal period, i.e. the taxation respite involved in the allocation of capital, should be extended from 5 to 6 years. Another proposed reform is that losses on market-listed part-ownerships should be included in the right of set-off against profits on unlisted shares.⁹⁰

In July 1998, the regulation for taxation of personnel stock options was altered, so that taxation now is postponed until the employee exercises or transfers his or her options.⁹¹ A possible increase in the value of the shares after the issue of the option and until the option is exercised is taxed as earned income.⁹² The employer's social security contribution of 33 per cent is imposed at the same time. If an employee moves away from Sweden after the time when the option can be exercised, he or she will be liable to pay tax regardless of whether the option has been redeemed. No further changes in regulations are indicated in this field.

⁸³ See also the recommendations in the European Commission's Risk Capital Action Plan, 1998.

⁸⁴ European Commission "Priority areas for Community financial action to support growth in the EU through innovation in the new economy", (ECFIN/514/00-EN), August 2000.

⁸⁵ Förvärv & Fusioner Förlag "Tjur-rusning på nya investeringar" (Rush for new investments), 2000.

⁸⁶ Veckans Affärer, no. 35, 2000 "Sveriges 200 riskkapitalbolag" (Sweden's 200 risk capital companies).

⁸⁷ According to the European Venture Capital Association, venture capital investments in Sweden amounted to just over SEK 11 billion in 1999. Just over 8 per cent of these went to companies in the 'seed' phase.

⁸⁸ Company incubator activities involve a venture capital company providing entrepreneurs with capital, joint premises, IT support, legal advice and other services to facilitate and expedite the building up of a company.

⁸⁹ Government Bill 1999/2000:1 "Budgetpropositionen för 2000" (Budget Bill for 2000).

⁹⁰ Government Bill 1999/2000:100 "2000 års ekonomiska vårproposition" (Spring Bill 2000).

⁹¹ Government Bill 1997/98:133 "Beskattning av personaloptioner" (Taxation of personnel options).

⁹² Most countries in the EU tax personnel options as earned income.

II. C. OTHER REFORMS AFFECTING PRODUCT AND CAPITAL MARKETS

1. Private Public Partnerships

The Arlanda Airport railway is so far the only project in Sweden where financing has taken place through what is known as a Private Public Partnership (PPP). At the beginning of the year, the government appointed a working group within the Government Offices to investigate the possibility of extending the use of alternative financing for other infrastructure projects. The government's goals for alternative financing include enabling a more effective risk allocation between the involved parties, enabling infrastructure investments to be made more quickly and also to be made with less budgetary burden both in the short and long term. The working group proposes that the Swedish National Road Administration and the Swedish National Rail Administration be given the task, aided by a special delegation, to begin the public procurement work on partnership solutions for four road and railway projects.

2. Environmental issues relevant for the internal market

Sweden has used economic instruments, in the form of environmental taxes and environmental charges, in its environmental policy since the start of the 1990s. The Spring Bill 2000 states that an increased focus of the tax system on the environment by means of a green tax reform is necessary to be able to realise the government's and parliament's goals in the environmental area. The Budget Bill for 2001 proposes this type of environmental focus in the form of higher taxes on energy and lower taxes on labour. The tax reform amounts to SEK 3.3 billion.

In a document entitled "An environmentally-oriented product policy", the government describes a strategy as to how the continued work in this area should be pursued in Sweden, in the EU and globally.⁹³ The government also

considers that a common position should be taken with regard to IT and the environment. A special forum for IT and the environment is thus being appointed to make a survey of how IT applications can be used further to reduce environmental impact and promote a sustainable development.⁹⁴

III. MEASURES FOR FURTHER REFORM

Sweden has taken measures in the areas mentioned in the country-specific recommendations in the BEPG. However, some reform work still remains to be done in several areas. Ongoing and planned measures can be divided into five categories.

1. Lower consumer prices and increased consumer benefit

The government attaches great importance to the fact that reforms implemented in the product and capital markets should lead to lower consumer prices and increased consumer benefit.

- The Swedish Consumer Agency is being allocated a total of SEK 20 million over a three-year period to invest in Internet-based consumer information.
- SEK 10 million is being allocated during 2001 for activities such as consumer information aimed at immigrants, children and the disabled.
- The government will present a bill this winter containing proposals as to how consumer policy should be formulated over the next few years. In addition, this bill will comprise a national action programme for consumer policy.
- Sweden has decided to establish a "Euroguichet", i.e. an information centre for cross-border consumer issues.
- The Swedish Competition Authority, the National Board of Trade and the Swedish National Board for Industrial and Technical Development are to pursue a joint project to

⁹³ Written communication 1999/2000:114 "En miljöorienterad produktpolitik" (An environmentally-oriented product policy).

⁹⁴ Government Bill 1999/2000:86 "Ett informationssamhälle för alla" (An information society for all).

analyse actual price and cost differences between Sweden and the rest of Europe, for instance in the building materials field.⁹⁵

- Sweden and the UK will together implement an international price study for trademark-protected products, with the aim of increasing consumer interest in and awareness of the internal market.

2. Promote competition in Sweden and in the EU

Competition in Sweden and in the internal market needs to be strengthened further.

- Sweden will continue to pursue the issue of allowing free parallel imports of trademark-protected products from countries outside of the EEA.
- Comprehensive work on surveying and providing information on the application of mutual recognition has begun in public administration.
- The government has appointed a commission with the task of creating more effective rules for fighting restrictions on competition.⁹⁶
- The Swedish Competition Authority will in its competition analyses at local level draw attention to any existing obstacles to business establishment, e.g. in retail distribution and construction.⁹⁷
- The formulation of future regulations that will replace the present Swedish block exemption for retail chains is being investigated by the Government Offices during the autumn 2000.
- A Governmental Committee Report regarding public enterprises on markets subject to competition is being drawn up in autumn 2000.
- The Council for Competition on Equal Terms between the Private and Public Sectors is to report its experiences and proposals at the end of the year 2000.
- The Swedish National Financial Management Authority will be given the task of considering general regulations for

authorities' operations that are financed by fees and subject to competition.⁹⁸

3. Continued measures for more effective public utilities

Continued measures are required to ensure that the extensive reforms in the telecom, electricity, postal services and transport markets have a full impact for consumers.

- The SJ public services company will be reorganised into one or more public limited share companies, starting 2000/2001, in order to give SJ the opportunity to compete on equal terms with the new railway operators.⁹⁹
- This autumn, the government intends to formulate directives for a general review of the Railways Act due to increased competition and the internationalisation of the sector.
- The Swedish telecom legislation will be reviewed, facilitating the necessary adaptations to the new EU regulations on electronic communications by 2002.
- In accordance with a EU decision, the government intends to open up the access network on the telecom market to other operators with effect from January 2001.
- A Committee of Inquiry is currently investigating whether there is a need to change the regulations for electricity network operations and supervision of these operations. This applies in particular to drawing up clearer boundaries between network operations and operations subject to competition.
- The Swedish National Audit Office is planning to review the supervisory authorities' work on the electricity and telecom markets to improve consumer benefit even further.¹⁰⁰

⁹⁵ According to a government resolution in March 2000.

⁹⁶ Directive 2000:40.

⁹⁷ According to a government resolution in March 2000.

⁹⁸ Government Bill 1999/2000:140 "Konkurrenspolitik för förnyelse och mångfald" (Competition policy for renewal and diversity).

⁹⁹ Government Bill 1999/2000:78 "Ändrad verksamhetsform för SJ m.m." (Altered operational form for SJ, etc.).

¹⁰⁰ Swedish National Audit Office 2000:20 "Kunden är lös! - konsumenternas agerande på el- och telemarknaderna" (Customers on the loose! - consumer behaviour on the reregulated electricity and telecom markets).

4. Strengthened capital markets

A number of measures are being implemented to strengthen capital markets and to improve market conditions for enterprises.

- A government bill will be put before the Riksdag during winter 2000/2001. This bill will propose changes in the regulations on group contributions in order to put legislation for domestic and foreign companies on an equal footing.
- A special committee of inquiry is reviewing the standardised taxation of foreign liability insurance. It aims to propose an abolition of the current special regulation by January 2001, putting foreign and Swedish liability insurance companies on an equal footing.¹⁰¹
- A new authority for company development will be established on 1 January 2001. This authority will become a one-stop-shop for entrepreneurs seeking counselling, financing etc.¹⁰²
- A survey of the business regulations for insurance companies is currently reviewing obstacles that may arise from current supply regulations in a more competitive environment.¹⁰³
- A special commission has been appointed in 2000 to review current regulation for mutual investment funds and other forms of collective investment in the light of mutual fund's increasing significance for the savings of the general public.¹⁰⁴

5. Rendering public activities more efficient

Given the public sector's relative importance to the Swedish economy, measures to make public operations more efficient are being furthered.

- A benchmarking project was started in 1999 to create incentives for increased efficiency and productivity in the municipality sector. An evaluation has shown that there is a large

potential for substantial economic gains.¹⁰⁵ The Budget Bill for 2001 proposes that the project should be continued and extended.

- The final report of the Public Procurement Committee to be presented in December 2000 will describe what considerations a procuring unit should make when the unit is to adopt the most economically advantageous tender and to investigate the opportunities for local procurement.
- The Public Procurement Committee's proposals for more effective public procurement on opportunities for market compensation and suitable supervisory organisation are being processed in the Government Offices.
- The question of Private Public Partnerships for infrastructure projects will continue to be discussed within the Government Offices.

¹⁰¹ Directive 1998:11.

¹⁰² Government Bill 1999/2000:71 "Vissa organisationsfrågor inom näringspolitiken" (Some organisational issues in trade and industry policy).

¹⁰³ Directive 2000:15.

¹⁰⁴ Directive 1999:108.

¹⁰⁵ Ministry Publications Series 2000:48 "Snabbt och riktigt, utvalt och viktigt - förslag till kommunal databas" (Quick and correct, selective and important - proposals for a municipal database).

Annex A. CONSUMER BENEFITS OF ECONOMIC REFORMS

Economic reforms on the product and capital markets should increase competition, promote better functioning markets and stimulate greater efficiency. However, the ultimate aim is that these reforms will benefit consumers in the form of an increased range of products and services at a lower price and of better quality. Nevertheless, it usually takes a long time before an economic reform has a full impact for consumers. There is therefore a need to follow up and evaluate the implemented reforms. A successful reform should result in:

1. increased competition between players through reduced barriers to establish new businesses and to trade,
2. equal access to infrastructure for all operators and prevention of abuse of dominant positions and possibilities for cross-subsidising and
3. improved information to consumers to enable the increased supply to have an impact in terms of lower prices and better quality.

Competition policy and consumer policy aims at ensuring that the product and capital markets function for the benefit of consumers.¹⁰⁶ The responsible public authorities are working together to achieve this aim. During this year, a project is being conducted jointly by the Swedish Competition Authority and the Swedish Consumer Agency with the aim of promoting information on prices and costs in areas, such as financial services and electricity market.

Consumer organisations are important for the development of consumer policy, particularly as opinion-moulders in various subject areas. There is currently great breadth among the organisations that have consumer policy on their programmes, but there are also two umbrella organisations that work exclusively with consumer issues; the Swedish Consumers' Association and the Swedish Consumer Coalition. These organisations work actively on their own nationwide campaigns and are engaged in both EU issues and other international issues.

Swedish consumers have a relatively large amount of influence as bodies to which a

proposed measure is circulated for comments when new legislation is drawn up. Swedish legislation in the consumer field is largely based on EC legislation, and there are opportunities for Swedish consumer organisations to influence the work on producing directives and regulations through European co-operation. Swedish consumer organisations also have the possibility to participate in the national implementation of EC directives in the consumer field in various ways, e.g. as bodies to which a proposed measure is circulated for comments. The part of consumer legislation that is instituted in addition to EC legislation often comes from government commissions and committees, where consumer organisations normally participate.

The Consumer Policy Committee has been given the task of reviewing consumer policy as a result of the major changes undergone by society in recent years. Its final report, presented in April 2000, included a large number of proposals in various consumer policy areas.¹⁰⁷ These include consumer policy goals, municipal consumer activities, voluntary organisations, financial services, household economy analyses, consumer information on everyday commodities, advice on buying a home and consumer aspects on new markets exposed to competition. The government will present a bill this winter containing its position on the committee's proposals. The bill will also comprise a national action programme for consumer policy.

The overall aim at EU level is that consumers will have a strong position in the internal market and that consumer interests and influence will be furthered in an integrated Europe. Sweden has therefore decided to establish a "Euroguichet", i.e. an information centre for cross-border consumer issues. In addition, the government has presented a bill that would allow foreign consumer organisations in an EEA state to bring a case before a Swedish court.¹⁰⁸ The purpose of this is to strengthen consumer protection with regard to cross-border violations. It is proposed that the new legislation should come into force on 1 January 2001.

¹⁰⁶ Government Bill 1999/2000:140 "Konkurrensolitik för förnyelse och mångfald" (Consumer policy for renewal and diversity).

¹⁰⁷ Swedish Government Official Reports 2000:29 "Starka konsumenter i en gränslös värld" (Strong consumers in a borderless world).

¹⁰⁸ Government Bill 2000/01:34 "Talerätt för vissa utländska konsumentmyndigheter och konsumentorganisationer" (The right for certain consumer authorities and organisations to plead before a Swedish court).

Annex B. TRANSITION TO A KNOWLEDGE-BASED ECONOMY

The transition to a knowledge-based economy comprises many different aspects. This annex focuses on developments in information and communications technology (ICT).¹⁰⁹

1. Sweden's ICT development: random development or far-sighted policy?

Developments in the information and communications technology sector in Sweden over the past five years have been remarkable. A large number of new companies have been established and employment has increased markedly. The number of ICT companies on the stock exchange increased from 12 in June 1996 to 76 in December 1999. On the household side, the number of users of the Internet and mobile telephones has increased strongly and technology penetration in Sweden is currently among the highest in the world. Sweden invests 8 per cent of GDP in ICT, which is more than any other country in the world.¹¹⁰

Table 1. Different forms of technology penetration 1999

Per 1000 inhabitants

	Mobile telephone subscriptions	Computers	Internet hosts
Sweden	606	510	65
EU	396	306	20
USA	315	539	137

Sources: IMD and the National Post and Telecom Agency, 2000.

The developments in Sweden have received considerable attention from both national and international media. According to the IDC's World Time Index Survey, Sweden was the world's leading IT nation in February 2000. This position is primarily explained by a high Internet penetration and a well-developed computer and IT culture.¹¹¹ There are a number of possible explanations, at various levels, for these strong developments.

Economic policy explanations

A number of economic policy decisions have improved the conditions for businesses during the 1990s. Sound public finances, low inflation and low interest rates have furthered investments. The EEA agreement, followed by EU membership and an international development in line with Sweden's tradition of free trade, have provided both entry to the EU's internal market and made other markets more accessible to Swedish trade and industry. On a micro level, these developments have benefited from deregulation, more stringent legislation on competition, a comprehensive tax reform and new regulations for more efficient capital markets.

An explicit inflation target and an independent Riksbank (central bank) have meant that the inflation rate has fallen markedly from the level of previous decades and the Swedish economy is currently characterised by price stability.¹¹² This has in turn led to that improvements in profitability must come from internal efforts such as rationalisation. Together with intensified domestic and foreign competition, this has contributed to increased cost consciousness.

Sweden-specific explanations

Sweden is a technology-oriented country. The use of computers and the Internet has been given strong emphasis in the education system. About 85 per cent of all compulsory schools have access to the Internet and there are fewer than ten pupils to one computer.¹¹³ The strong developments in ICT have also been facilitated by the fact that a larger percentage of university graduates are scientists or engineers than the EU average. This number has increased from one in ten graduates to one in four graduates over a period of fifteen years. Adult education has also become more oriented towards ICT. Within the Adult Education Initiative, which corresponded

¹⁰⁹ By ICT sector is meant the manufacture of computer and communications equipment, trade in ICT products, net operators and computer consultants, as well as computer services.

¹¹⁰ European Technology Observatory (EITO).

¹¹¹ International Data Corporation, 2000.

¹¹² According to this, inflation was on average 1.1 per cent per year, when measured as CPI, during 1995-1999. OECD "Economic Outlook", June 2000.

¹¹³ The National Agency for Education Report no. 176 "Skolans datorer 1999 - en kvantitativ bild" (Computers in schools 1999 - a quantitative picture).

to just over 100,000 study places last year, 12 per cent were studying computer science and 6 per cent were studying computer technology in autumn 1999.¹¹⁴ During the 1990s, the wage premiums for higher education have increased, i.e. the economic incentives for education have been strengthened.¹¹⁵

Furthermore, investments in R&D as a percentage of GDP are high in Sweden, with most investments being made in the private sector. This has probably contributed to the fact that many Swedish companies have been able to be at the forefront of technological developments, and have led to investments in both new technology and staff educational and training programmes. Another possible explanation for large investments in R&D in Sweden is that highly educated personnel are inexpensive from an international point of view. This does not only apply to research personnel. Company costs for employees with an university degree in Sweden are lower than those in many other EU countries. The average total cost for the employer of a technical engineer in Sweden is 25-30 per cent lower than in Germany and France, for instance.¹¹⁶

Table 2. Total investments in R&D 1998 and invested venture capital 1999

	Total investments in R&D, per cent of GDP	Invested venture capital, euro per inhabitant
Sweden	3.9	88
EU	1.9	32
USA	2.7	160

Sources: Eurostat and IMD 2000, European Venture Capital Organisation and US National Venture Capital Association.

Sweden currently has more venture capital per inhabitant than any other country in the EU; almost three times as much as the EU average. Sweden is also the country with the most venture capital invested in high tech companies at the initial stage.¹¹⁷ Today there are an estimated 200

venture capital companies in Sweden who manage almost SEK 200 billion.¹¹⁸ The strong increase in venture capital volumes can be explained by the large increase in value of many companies in recent years, particularly in the ICT sector. Another contributory factor to the access to venture capital is the regulatory changes allowing institutional investors to invest in companies not listed on the stock exchange.

The flat, non-hierarchical organisational structure characteristic of Swedish companies has probably contributed to the entrepreneurial spirit pronounced today in the ICT sector. A further explanation for the entrepreneurial spirit is that Sweden ranks highly in international studies with regard to the administrative process and financial costs for establishing a company.¹¹⁹ Together with increased education premiums, a strongly increasing interest in shares and the capital market, has implied clearer and greater economic incentives for ICT entrepreneurs.

Sector-specific explanations

It is also possible to point out a number of more specific explanations for the positive development in the ICT sector. The Swedish telecom company Ericsson has been world leader in its field for the past century. However, the company has been particularly successful during the 1990s with regard to establishing itself as a leading supplier of mobile telecom technology, especially GSM equipment for telecom operators.

In the wake of Ericsson and its successes, a "cluster" has been created in the ICT sector, particularly in the Stockholm region. Examples of this are that several American companies in the sector have established themselves in the region in recent years, e.g. Microsoft, Oracle and IBM. Cluster formation can in many cases facilitate the spread of knowledge and technology between companies in the same industry, which speeds up technological developments. Given this, one could almost say that developments in Sweden in recent years are

¹¹⁴ The National Agency for Education "Halvtid i Kunskapslyftet, hösten 1999" (Half-way through the Adult Education Initiative, autumn 1999), May 2000, and the Ministry of Finance/Ministry of Industry, Employment and Communications "Sveriges handlingsplan för sysselsättning 2000" (Sweden's action plan for employment 2000).

¹¹⁵ See e.g. Swedish Government Official Reports 2000:7 "Långtidsutredningen 1999/2000" (Long Term Survey 1999/2000).

¹¹⁶ Invest in Sweden Agency, 2000.

¹¹⁷ European Commission "Priority areas for Community financial action to support growth in the EU through innovation in the new economy", (ECFIN/514/00-EN), August 2000.

¹¹⁸ Veckans Affärer, no. 35, 2000, "Sveriges 200 riskkapitalbolag" (Sweden's 200 risk capital companies).

¹¹⁹ See e.g. NBER Working Paper 7892 "The regulation of entry", September 2000.

partly due to chance events. The country has the technical know-how and scientific developments are currently making rapid progress in the specific field of ICT.

Usage of mobile telephones was spreading as early as the 1980s. This was partly due to the relatively large number of company cars and to legislation where the so called benefit value was based on the car's basic design. Additional equipment did not cost the company car user anything extra, with the result that mobile telephones became a common feature. The development and use of mobile telephones occurred parallel to the state-owned telecom company Telia building up a nationwide mobile telephone network (NMT). Telia and other service providers have since continued to make major investments in modern mobile networks (GSM).

Developments were given a further boost when the telecom market was deregulated in 1993. This led to a number of new operators entering the market and to an increase in competition. The telecom operators' investments have thus made a considerable contribution to the high penetration rate of mobile telephones.

The use of ICT in the household sector has been precipitated by the government's programme allowing employees to rent a computer from their employer for personal use at home. If the rent is paid in the form of a deduction from the gross salary, then no tax is paid. This has contributed to a high penetration, in international terms, of computers and Internet connections in Swedish homes. More than half of the homes of members of the Swedish Trade Union Confederation and more than 80 per cent of the homes of university graduates are estimated to have computers.¹²⁰

One factor that has not favoured the use of ICT, however, is the cost level. Costs for mobile telephones calls in Sweden are still among the highest in the EU.

2. Effects of ICT developments on the economy

The ICT sector and growth

Some analysts argue that developments in the ICT sector increase productivity in the economy. This occurs partly through the sector's own strong growth in productivity and partly through the extensive investments companies make in ICT. The latter results in an increase in labour productivity. In addition, there are external network effects, based on an increasing number of players making similar ICT investments, e.g. that an increasing number have access to e-mail and the Internet.

On the one hand, the economic effects of the development of ICT in Sweden are clearly visible in production in the telecom sectors. The development in labour productivity in these sectors has been very strong and this development appears likely to continue. Since the economic crisis at the beginning of the 1990s, the telecom sector has accounted for a seventh of the growth in the economy as a whole, with an average growth in labour productivity of 32 per cent per year. As a result of this, the ICT sector has grown from comprising 4 per cent of industrial production to 6 per cent.¹²¹ The telecom sector has also grown to become the largest export sector, with an export value corresponding to 16 per cent of total goods exports.

Table 3. Swedish labour productivity 1994–1999

Value added per hour worked

	Average annual change
Manufacturing industry (SNI 15-37)	4.5
Engineering industry (SNI 28-35)	6.6
Telecommunication equipment, etc (SNI 32)	30.9
Banking & insurance, company services (SNI 65-74)	-2.6

Note: Geometric averages. The period has been selected in the light of the new national accounts introduced in 1993.

Source: Statistics Sweden, 2000.

On the other hand, it is difficult to see any general ICT effect, i.e. that other parts of the economy have also been influenced. Apart from the telecom sector, labour productivity has only increased slightly during the 1990s.

¹²⁰ Ministry of Finance/Ministry of Industry, Employment and Communications "Sveriges handlingsplan för sysselsättning 2000" (Sweden's action plan for employment 2000).

¹²¹ One reason that the aggregate effect is not larger is due to the dramatic price reductions in the ICT sector.

However, other studies indicate that the total factor productivity, i.e. the development in productivity related to technological progress, has increased during the second half of the 1990s.¹²² The Riksbank also makes this assessment.¹²³ It is difficult to assess to what extent the increase is explained by a greater production of ICT or by the increased use of ICT.¹²⁴

Nevertheless, there are reasons to believe that positive economic effects will arise from the use of ICT. The American economy is now experiencing its ninth year of high and stable economic growth. The favourable developments in the United States in recent years indicate that the long-term growth in productivity has increased slightly. One explanation for this could be that the use of ICT has made some impact.¹²⁵ This would indicate that effects on the economy arise only after a period of using ICT and that macroeconomic effects may become visible in the Swedish economy in the near future.

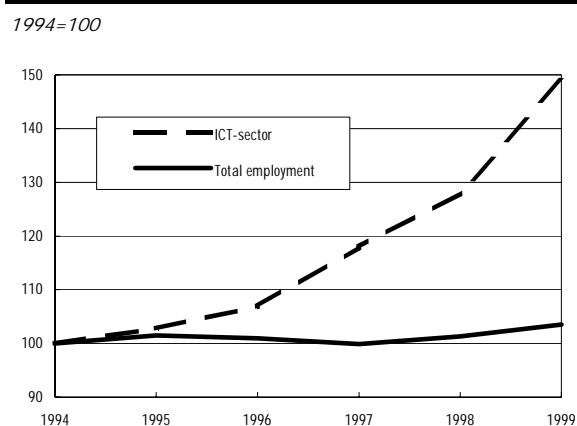
The lack of statistical results may also be due to measurement problems. This applies in particular to the difficulties in taking into account improvements in quality when discounting price developments and measuring the value added in industries with extensive use of ICT, such as financial services and company services.

It should also be emphasised that the strong development of the telecom sector and its relative size means that the effects on the growth aggregate may be substantial. This is one reason why the Ministry of Finance, in common with most other analysts, has made an upward revision of its forecast for the long-term growth rate in recent years. There are indicators that imply it lies in the range of 2.0-2.2 per cent per year, while other analysts believe the long-term growth rate is even higher.¹²⁶

ICT and employment

Employment in the ICT sector corresponded to over five per cent of total employment in Sweden in 1999, and has increased markedly in recent years. The increase has been particularly evident in the field of computer consultants and computer services, where employment has increased by approximately 86 per cent between 1995 and 1999.¹²⁷ In total, employment in this sector increased by almost 70,000 persons during the same period.

Figure 1. The development of employment in the ICT sector and in total 1994-1999



Source: Statistics Sweden (basic facts).

Employment in the IT sector is concentrated to large cities, with Stockholm accounting for almost half and Gothenburg for approximately 10 per cent.¹²⁸ The education profile of employees in IT companies shows that it is a knowledge-intensive industry. Approximately 15 per cent of employees in the IT sector have a university degree, which can be compared with approximately 8 per cent for the trade and industry as a whole.¹²⁹

It is difficult to assess the total employment effects of ICT production and ICT usage in the economy. However, one effect is that the professional structure has changed with the developments in technology. Some low tech jobs have disappeared and been replaced by more

¹²² IMF "World Economic Outlook", September 2000.

¹²³ The Riksbank "Inflation Report", October 2000.

¹²⁴ See also IMF "World Economic Outlook", September 2000.

¹²⁵ Ibid.

¹²⁶ See e.g. information from the OECD and the Riksbank, as well as several of the players on the financial markets.

¹²⁷ Statistics Sweden (basic facts).

¹²⁸ The concept IT sector is defined more narrowly, but can generally be said to reflect the situation in the ICT sector. Statistics Sweden, September 2000.

¹²⁹ The Federation of Swedish Industries, May 2000; SOU 1999/2000:7, appendix 3 "Svensk näringsliv på rätt väg?" (Is Swedish trade and industry on the right path?).

high tech work tasks. The new technology also facilitates better conditions for small companies' growth through easier access to a larger market, which may result in new recruitment.

ICT and inflation

It is also difficult to assess the effects of ICT production and ICT usage on inflation. On an overall level, the deregulations of the telecom and electricity sectors have dampened inflation. According to calculations from the Riksbank, these deregulations contributed -0.3 percentage points to the CPI in 1999.¹³⁰ Other examples include the dramatic decline in prices of computers in recent years. In addition, there are many anecdotes from companies and sectors as well as convincing reasoning that indicate that computerisation and the Internet will increase competition as price comparisons are made more easily. In addition, automatic stock management and changes in distribution systems should reduce volumes in stock, making logistics more efficient and thus reducing costs.

So far, however, the effects of e-commerce on pricing appear to be rather small, although Internet commerce has become more competitive in relation to shop commerce over the past year.¹³¹ The increase in e-commerce has also furthered the growth of new companies that make various types of price comparison on the Internet. It is therefore quite possible that ICT developments and e-commerce have contributed to the low inflationary pressure in recent years.

3. A policy for continued success

The ICT sector is a genuinely international industry. Its products are sold globally, the standards are international and cross-border company mergers are currently taking place at a rapid pace. Given this, it is particularly important that a future policy for continued success is based on international conditions. This insight is also supported by the strategic goal established by the Lisbon European Council 2000, i.e. that the EU shall become the most innovative and

dynamic knowledge-based region in the world within a decade. To succeed in this, Sweden and the EU have to be at least as attractive to global investors as North America and Asia.

Considering the above said, it is important that a future economic policy is formulated so that companies in the ICT sector perceive Sweden as a competitive alternative to other countries.

Education

A fundamental condition for good competitive terms in knowledge-intensive businesses is a good access to highly educated labour. According to the Federation of Swedish Industries, 60 per cent of the computer consulting firms say that a shortage of qualified labour is the primary obstacle to increased exports.¹³² Statistics Sweden's Labour Force Survey for 1999 shows that graduate engineers are very much in demand on the labour market, particularly those with professional experience. Continued investments in education are thus essential to maintain and strengthen Sweden's ICT developments.

Basic education in Sweden has been gradually extended and today 98 per cent of all young people go on to study at an upper secondary school. The percentage of those with upper secondary school qualifications who continue to university studies within three years has almost doubled since the mid-1980s.¹³³ With regard to investments in compulsory schools and upper secondary schools, it is thus not primarily a question of continuing expansion, but rather of safeguarding quality. For instance, the declining number of pupils that complete their upper secondary school education and qualify for entry to university is a serious problem.

Sweden has a high percentage of inhabitants with lower university education, while the number of those with higher university education is low from an international point of view. The expansion of the university colleges during the 1990s is an important measure for

¹³⁰ The Riksbank "Inflationsrapport" (Inflation Report), October 2000.

¹³¹ The Swedish Research Institute of Trade, 2000.

¹³² The Federation of Swedish Industries No. 1-00 "Brist bromsar boom" (Shortages slow down booms), February 2000.

¹³³ Statistics Sweden "Utbildningsstatistisk årsbok 1998" (1998 statistical yearbook for education).

meeting the demand for qualified labour from companies in the ICT sector. However, the expansion has resulted in longer education times and remarkably few new students.

One group that is particularly important to developments in the ICT sector is qualified engineers. According to scenarios for the development of trade and industry up to the year 2010, the largest relative increase in demand for labour will be for engineers, particularly graduate engineers, and those trained in IT.¹³⁴ It is therefore positive that the percentage of scientists and engineers among those graduating from university has risen.

Despite this increase, the percentage of graduates from science and engineering courses at university colleges as a percentage of the younger labour force (25-34 years) is lower in Sweden than in many other OECD countries. This also applies to the electronic engineers and computer scientists in demand from the ICT sector.¹³⁵ Continued investments in education will be a key factor to the development of the ICT sector.

Co-operation between universities and industry

Co-operation between universities and industry facilitates the spread of technology in the economy and increases competitiveness. One of the most important goals for the spread of technology is to improve the opportunities for successful commercialisation of research results, an area where Sweden has lagged behind other countries.¹³⁶ To remedy this, the government has created foundations to act as technological bridges and contribute to increasing exchanges between the research community and industry. In addition, several science parks have grown up around universities, for instance Ronneby/Karlskrona, Linköping, Lund, Gothenburg and Uppsala. A policy to continue strengthening the

contacts between research and industry is essential for Sweden to retain its ICT position.

The labour market

The rapid developments in the strongly expanding ICT sector require a properly functioning labour market. For small companies, with less possibility for internal transfers, a new recruitment is a relatively large cost burden. According to OECD among others, some aspects of Swedish labour legislation can constitute a problem from an entrepreneur's point of view.¹³⁷ However, the labour legislation in Sweden does not deviate much from those in other European countries. Most of the EU member states have regulated labour markets.¹³⁸

From the companies' point of view, the legislation has improved and become more flexible recently, partly as a reaction to the fact that the number of temporary jobs is rising steadily. In order to facilitate for companies to employ foreign expertise on an increasingly internationalised market for highly educated labour, the government has this year presented a proposal involving considerable tax relief for such experts.¹³⁹

An efficient labour market is essential in order to retain Sweden's power of attraction in an increasingly internationalised corporate world.

The capital market

Access to venture capital is an important factor for small, newly started companies in the ICT sector. Today, three quarters of the venture capital invested in companies at the initial state goes to high tech companies. However, research shows that the greatest problem for these companies is not obtaining capital *per se*, but obtaining "competent capital", i.e. financiers who contribute both with financial capital and knowledge of ICT and company management. It may therefore be relevant to analyse how

¹³⁴ Swedish Government Official Reports 2000:7 "Långtidsutredningen 1999/2000" (Long Term Survey 1999/2000).

¹³⁵ Jacobsson, S., Sjöberg, C. & Wahlström, M. "Vad förklarar bristen på elektronikingenjörer och datavetare i Sverige?" (What is the explanation for the shortage of electronic engineers and computer scientists in Sweden?) Ekonomisk Debatt, no. 5, 1999.

¹³⁶ Swedish Government Official Reports 2000:7, appendix 5 "Sveriges internationella konkurrenskraft" (Sweden's international competitiveness).

¹³⁷ OECD "1999 Economic Surveys - Sweden".

¹³⁸ OECD "Employment Outlook", June 1999.

¹³⁹ Council on Legislation referral for consideration on foreign expertise, 30 August 2000.

individuals with experience of ICT can act more as active owners.

A review is currently being undertaken of the requirements for equal taxation for companies to take home tax-exempted dividends from foreign subsidiaries and associated companies. The review is also analysing the possibilities to abolish capital gains tax on business-related shares, i.e. shares in subsidiaries and associated companies, which have resulted in non-desirable taxation at several stages in the corporate sector. Abolishing capital gains tax on subsidiaries and associated companies calls for restrictions to prevent companies from being able to convert taxable income in Sweden into tax-exempted dividends or capital gains on business-related shares in a tax haven where the underlying income is not taxed or is only taxed symbolically. The reform would also mean that chain taxation of venture capital companies would no longer apply, thus improving the opportunities for small businesses to obtain capital.

It also appears reasonable that a pan-European venture capital market, where sector competence could act throughout the EU region, would be valuable to the ICT sector. The implementation of the EU's Risk Capital Action Plan up to 2003, in accordance with the conclusions from the Lisbon summit, is a central measure in this field.

Business climate

According to international competitiveness surveys, such as the International Institute for Management Development and the World Economic Forum, Sweden attains a midway position among the EU countries regarding the business climate, but there has been an upward trend in recent years. A study carried out by The National Board for Industrial and Technical Development shows, however, that the business climate in Sweden is perceived as being worse than in other countries by an increasing number of company managers, except from those in the ICT sector. There have been improvements in this sector and a larger percentage believe that

conditions in Sweden are better today than they were three years ago.¹⁴⁰

The challenge for economic policy is to continue creating the conditions for a competitive business climate, that attracts company investments to Sweden. This involves, for instance, identifying obstacles to the sector's expansion and opportunities to attract competent labour. It is important to improve communications with other countries, so that Sweden's geographical location is not perceived as a competitive disadvantage. It is also important to continue simplifying regulations and taking other measures to improve the business climate.

Continued review of regulations on markets which still experience competition problems, such as the public procurement market, is important for the growth potential of the service sector. In addition, it is important to carry out the government's IT infrastructure programme, which involves an extension of the trunk network for broadband throughout the country, in co-operation with private industry. However, a selective economic policy that would support individual parts of trade and industry should not be pursued. State measures in the ICT sector, as in other sectors, should be neutral with regard to both the sector and its companies, i.e. be aimed at general improvements for the trade and industry as a whole.

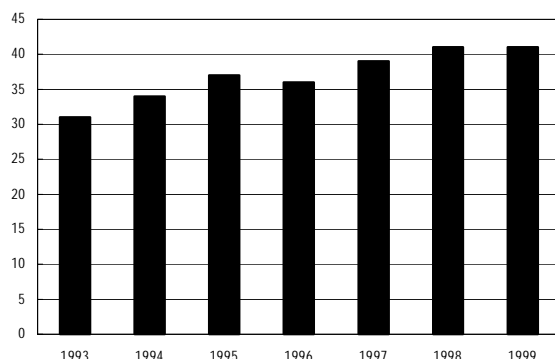
¹⁴⁰ The National Board for Industrial and Technical Development "Företagsledares syn på näringsklimatet i Sverige" (Company managers' view on the business climate in Sweden), 2000.

Annex C. STATISTICS

Economic integration

Figure 1. Sweden's total trade 1993–1999

Sum of export and import in per cent of GDP



Source: Statistics Sweden.

Table 1. EU's share of Sweden's total trade in goods 1997–1999

Per cent of total export and total import

	Exports to EU	Imports from EU
1997	55.6	69.3
1998	58.0	70.4
1999	58.4	68.8

Source: Statistics Sweden.

Table 2. Percentage of directives not implemented or delayed in Sweden and the EU

Per cent

	November 1999	May 2000
Sweden	2.1 (3)	1.5 (2)
EU	3.6	3.5

Note: Figures in parentheses indicate Sweden's position in the EU.

Source: European Commission "Internal Market Scoreboard", November 1999 and May 2000.

Table 3. Directives not implemented or delayed by sector in Sweden and the EU May 2000

Per cent

	Sweden	EU
Transportation (69)	5.8	46.4
Social policies (49)	4.1	24.5
Motor vehicles (165)	3.0	13.3
Pharmaceuticals (34)	2.9	14.7
Plant protection controls (190)	1.6	10.0
Veterinary controls (211)	1.4	16.6
Intellectual property law (7)	0	42.9
Public procurement (11)	0	36.4
Telecommunications (18)	0	22.2
Chemical products (82)	0	9.8
Environment (88)	0	9.1
Food (106)	0	6.6

Note: Figures in parentheses refer to the number of directives involved within each sector.
Source: European Commission "Internal Market Scoreboard", May 2000.

Small and medium-sized enterprises

Table 4. Percentage of employees in different sized companies

Per cent

	Companies with 1-199 employees	Companies with > 200 employees	Total
1993	34	66	100
1995	36	64	100
1998	38	62	100

Source: Statistics Sweden.

Table 5. Percentage of genuine newly established companies in bankruptcy in relation to total number of companies

Per cent

	New establishments	Bankruptcies
1986-1990	6.5	1.7
1991-1993	5.7	4.3
1994-1998	7.7	2.1

Source: Swedish Government Official Reports 2000:7 "Långtidsutredningen 1999/2000" (Long Term Survey 1999/2000).

Table 6. Exports in relation to turnover in different sized companies

Per cent

	Average for 1997-1999
Companies with 1-199 employees	15
Companies with more than 200 employees	33
All companies	22

Source: Statistics Sweden, VAT register.

Services sector

Table 7. Shop structures in the retail trade

Per cent

	Hypermarkets	Other shops	Total
1970	30	70	100
1980	57	43	100
1990	66	34	100
1998	75	25	100

Note: Hypermarket = at least 400 m² of selling space.

Source: The Swedish Competition Authority 2000:1 "Konkurrens i Sverige på 90-talet" (Competition in Sweden in the 1990s).

Table 8. Share of gross profit in relation to turnover

Per cent

	Food trade	Building materials trade
1990	20.4	26.7
1993	19.6	17.5
1995	19.9	29.5
1997	21.6	33.4

Note: Gross profit = difference between sales of goods and the cost of buying the goods sold.
Source: The Swedish Research Institute of Trade.

Table 9. Price increases on certain building materials compared with the producer price index 1992–1998

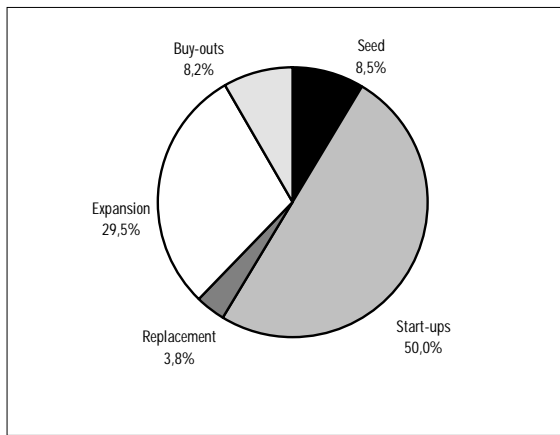
<i>Per cent</i>	
	Price increase
Concrete products	27.6
Joinery	17.1
Hot water system materials	37.7
Electrical materials	47.0
Producer price index	15.6

Source: Swedish Government Official Reports 2000:44 "Från byggsekt till byggsektor" (From construction sect to construction sector).

Venture capital

Figure 2. Venture capital investments in Sweden 1999

Per cent



Source: European Venture Capital Association.

Competition

Table 10. Degree of concentration, average 1993–1997

	CR4	HHI
Livestock slaughter-houses	78.0	2008
Other fruit and vegetable industries	80.9	3339
Industries for refined oils and fats	100.0	9996
Cooking fat industry	100.0	5835
Other dairy industries	90.2	4196
Sugar industry	100.0	10000
Coffee and tea industry	95.6	4101
Breweries	95.1	3295
Mineral water and soft drinks industries	96.0	7640
Sawmills	20.4	170
Industries for mechanical and semi-mechanical pulp	98.1	5663
Newspaper and magazine paper industries	99.8	3111
Petroleum refineries	79.4	2033
Industries for fertilisers and nitrogen products	99.3	8757
Pharmaceuticals industry	86.5	4216
Cement industry	98.5	9425
Other industries for building concrete products	50.5	897
Stone and mineral wool industries	96.6	4650
Industries for metal frames and parts	15.6	110
Industries for refrigerators and freezers, washing machines and other white goods	99.0	8306
Residential construction entrepreneurs	35.2	448
Road construction and land improvement entrepreneurs	64.6	2092
Construction materials trade (CR5)	43.0	-
Non-specialised wholesale trade for food, beverages and tobacco	52.9	1066
Food retailers with broad range	18.7	251
Railway companies	99.4	8978
Regular airline companies	88.3	4052
Postal services	99.9	9290
Mains operation stations	88.6	3814
Merchant, savings and co-operative banks	69.5	1407

Note 1: CR4=the four largest companies' percentage of domestic sales, HHI=the total of all companies' squared market shares.

Note 2: CR4: The measure can overestimate the degree of concentration as imports are not taken into account, but can also underestimate the degree of concentration as, e.g. voluntary co-operation between independent companies is not taken into account.

Sources: The Swedish Competition Authority 2000:1 "Konkurrensen i Sverige under 90-talet" (Competition in Sweden during the 1990s); Swedish Government Official Reports 2000:44, appendix 3 "Byggekostnader och konkurrens" (Construction costs and competition).

Public utilities

Table 11. National calls and calls from fixed telephones to mobile telephones

Private customers (price per minute including VAT)

	Initial charge	National call weekdays 8–18 (Telenordia 8–20)	National call other times	Call to mobile weekdays 8–18 (Telenordia 8–20)	Call to mobile other times
Telia (Basic price)	0.45	0.23	0.115	2.70 / 2.95	1.50 / 2.25
Telenordia	0.50	0.20	0.10	2.55 / 2.60 / 2.80	1.35 / 1.40 / 1.95
Tele2	0.45	0.20	0.11	2.60 / 2.65 / 2.90	1.40 / 1.45 / 2.20
Utfors	0.40	0.20	0.10	1.99	1.99
Rix Telecom	0.40	0.19	0.11	2.50 / 2.87	1.35 / 2.17
Glocalnet	0.50	0.19	0.09	1.79	1.79

Note 1: Figures in bold show the lowest price in the respective call category. Prices were gathered on 7 September 2000.

Note 2: The different prices to mobile telephones for some operators depend on if the call is made to subscriptions under own management or to another operator.

Source: The National Post and Telecom Agency, 2000.

Table 12. International calls

Private customers (price per minute including VAT)

	Initial charge	Denmark	United Kingdom	USA	Italy	Australia	South Korea	Iraq
Telia (Basic price)	0.45	0.95	0.99	0.99	1.95	3.50	9.95	11.95
Telenordia	0.50	0.85	0.85	0.90	1.85	2.90	7.90	9.70
Tele2	0.45	0.90	0.88	0.95	1.90	2.99	7.99	9.99
Utfors	0.40	0.81	0.81	0.90	1.88	2.88	6.00	9.63
Rix Telecom	0.40	0.80	0.80	0.85	1.80	2.50	3.50	8.50
Glocalnet	0.50	0.85	0.79	0.89	1.79	2.69	6.98	8.99

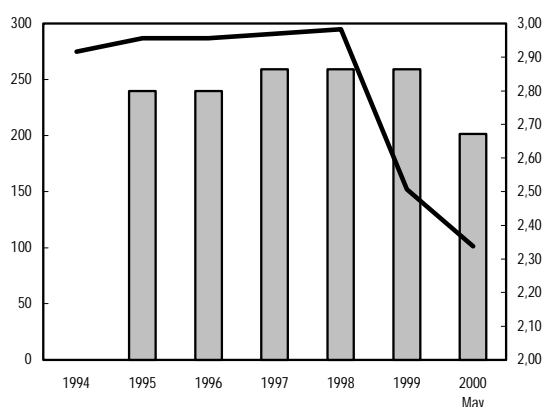
Note: Figures in bold show the lowest price to the respective country. Prices were gathered on 7 September 2000.

Source: The National Post and Telecom Agency, 2000.

Figure 3. Price developments at Telia for mobile telephone subscriptions and calls to mobile telephones from fixed networks

Monthly cost (SEK)

Price per minute (SEK)



Note: The columns refer to monthly costs for subscriptions with a call pot excl. VAT (left axle). The curve refers to the average price for a three-minute call from a fixed subscription to a mobile telephone (right axle).

Source: The National Post and Telecom Agency, 2000.

Table 13. The value on the market for fixed telephony services by telecom operator

Per cent

	1994	1995	1996	1997	1998	1999
Telia	98	96	94	93	90	87
Tele2	2	4	6	5	5	6
Telenordia	–	–	–	–	1	3
Others	0	0	0	2	4	4
Total	100	100	100	100	100	100

Note: Telenordia is included in Others 1994–1997.

Source: The National Post and Telecom Agency, 2000.

Table 14. The value on the market for mobile telephony services by mobile telecom operator

Per cent

	1994	1995	1996	1997	1998	1999
Telia NMT	75	62	40	26	14	6
Telia GSM	14	17	31	39	46	49
Tele2 / Comviq	7	13	16	17	19	21
Europolitan	4	8	13	18	21	24
<i>Total</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>

Source: The National Post and Telecom Agency, 2000.

Table 15. The number of subscribers to mobile telephone services, GSM & NMT, by mobile telecom operator

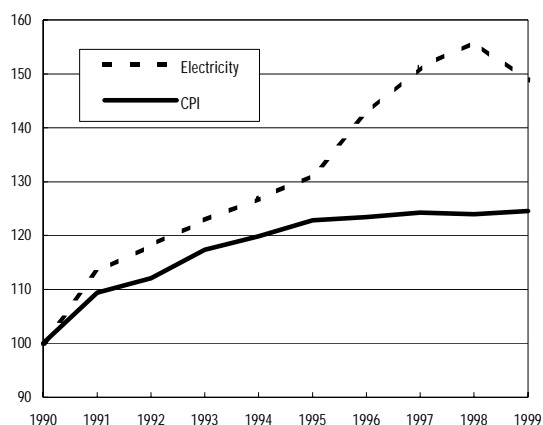
Per cent

	1994	1995	1996	1997	1998	1999
Telia (NMT)	69	49	37	24	12	6
Telia (GSM)	16	23	33	37	42	46
Tele2 / Comviq	10	21	19	26	31	32
Europolitan	5	7	11	13	15	16
<i>Total</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>

Note: This refers to the allocation of subscriptions at the end of December in the respective year.
Source: The National Post and Telecom Agency, 2000.

Figure 4. Price developments in electricity and for the consumer price index during the 1990s

1990=100

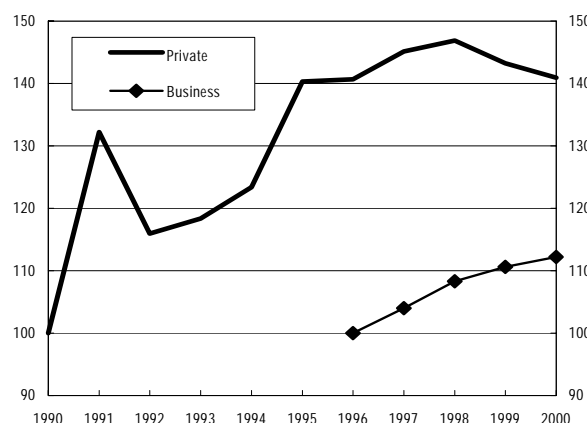


Note: The consumer price index for electricity covers the electricity price and net charge for rented and tenant-owned apartments as well as owner-occupied dwellings.
Source: Statistics Sweden, 2000.

Figure 5. Price developments for private travel and business travel by domestic airlines during the 1990s

1990=100

1996=100



Note: Left axle refers to price developments for private travel and the right axle to business travel. Price statistics for business travel are reported from 1996. The values for 2000 are average values for the monthly data for Jan-Aug.
Source: Statistics Sweden, 2000.

Table 16. Addressed items of mail by postal company 1996-1999

	Number of items of mail (millions)				Market shares (per cent)			
	1996	1997	1998	1999	1996	1997	1998	1999
Posten AB	3 361.0	3 311.0	3 275.0	3 246,6	98,1	96,0	95,0	94,8
CityMail Sweden AB	55.5	123.7	151.5	163,5	1,6	3,6	4,4	4,8
Svensk Direktreklam	4.5	4.8	-	-	0,1	0,1	-	-
Other postal companies	6.0	9.6	19.7	14,0	0,2	0,3	0,6	0,4
<i>Total</i>	<i>3 427.0</i>	<i>3 449.1</i>	<i>3 446.2</i>	<i>3 424,1</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>

Note: Svensk Direktreklam is included in the statistics for other postal companies 1998-1999.
Source: The National Post and Telecom Agency.