National Report on Economic Reform of the Product and Capital Markets

Sweden

November 2002

FOREWORD

Economic reform of the product and capital markets creates conditions for a high level of sustainable economic growth and employment. The purpose of the reforms is to improve the performance of markets and boost competition in the economy. This will benefit consumers through lower prices and an increased range of goods and services. Efficient product markets also contribute to efficient labour markets by promoting favourable wage formation. Economic reform thus constitutes an important part of economic policy in general.

Within the framework of EU co-operation, the economic policies of member states are co-ordinated through the Council. The central instrument for this co-ordination is the Broad Economic Policy Guidelines, based on Article 99 of the EC Treaty. The Broad Economic Policy Guidelines set out broad recommendations for economic policy actors and encompass both macroeconomic policy and structural policy. In addition, there are also other important co-operation processes dealing with the various areas of economic policy in more detail, such as the Luxembourg process for employment and the Cardiff process for economic reform.

The Cardiff process under the ECOFIN Council aims to improve the functioning of the product and capital markets by means of regular monitoring and exchange of best practice.[1] The process begins with each member state presenting a report describing its work on national reform of the product and capital markets, based partly on the recommendations set out in the Broad Economic Policy Guidelines. The functioning of the markets is then assessed from a Community perspective by the European Commission in the Cardiff Report.

Together, the national reports and the Cardiff Report are important contributions to both the follow up of the recommendations set out in the Broad Economic Policy Guidelines and the drawing up of new guidelines.

The member states also review each other's reform efforts, partly on the basis of the national reports, within the framework of the multilateral examination of structural reforms undertaken in the Economic Policy Committee under the ECOFIN Council. In this way, member states can monitor progress, exchange experiences and exert peer pressure as part of a mutual learning process. Internal market aspects of the Cardiff process are treated in detail in the Council for the Internal Market, Consumer Affairs and Tourism.[2]

A new strategic goal for the EU was adopted at the Lisbon European Council in the spring of 2000. The goal is for the EU to become the world's most dynamic and competitive knowledge-based economy by 2010, capable of high, sustainable economic growth with more and better jobs and greater social cohesion. Work on the Lisbon strategy has then been supplemented with an environmental dimension. Progress towards achieving the strategic goal is followed up annually at a spring meeting of the European Council. Economic reform of the product and capital markets comprises a key component of the efforts to achieve the Lisbon objective. The Cardiff process provides an important contribution in this respect.

The National Report on Economic Reform of the Product and Capital Markets has been compiled by the Ministry of Finance in collaboration with other relevant ministries.

[1] See recommendation from the ECOFIN Council, 1 May 1998 and Presidency conclusions from the Cardiff European Council in June 1998.

[2] Now a part of the Competitiveness Council.

Contents

I. INTRODUCTION

The economic policy of the Swedish government continues to be geared towards full employment and increased wealth through a high level of sustainable economic growth. An important aspect of economic policy is to continually improve the functioning of the product and capital markets.

Economic reforms aimed at boosting competition contribute to higher growth and employment and benefit consumers through lower prices and an increased range of goods and services. Work on economic reform is essential to further strengthen Sweden's international competitiveness and long-term growth potential.

The National Report on Economic Reform describes developments on the product and capital markets, identifies remaining barriers and outlines measures taken and those planned. This report, the fifth in the series, is a follow-up of the report from the previous year and the 2002 Broad Economic Policy Guidelines.[3] The report covers the product markets, the knowledge-based economy, the integration of environmental considerations into economic policy, and the capital markets. Each year, a more in-depth review of certain topics is undertaken. This years' special topic, early exit from the labour force, is addressed in an annex.

Throughout the report, references are made to the general recommendations in the Broad Economic Policy Guidelines in order to facilitate an efficient follow-up of the guidelines within the framework of multilateral surveillance.[4] The Council conclusions on internal market aspects of the Cardiff process from March 2002 are also taken into account.[5] Special efforts are made to follow up the country-specific recommendations of the Broad Economic Policy Guidelines relating to product markets. The Council recommended Sweden to enhance competition in public services provision at the local level and step up efforts to enforce competition in those sectors where competition has been found to be inadequate, such as the retail market for pharmaceutical products and food.

3 Council recommendation for Broad Guidelines for the Economic Policies of the Member States and the Community, 21 June 2002.

4 The general recommendations are directed at all member states.

5 Council conclusions on internal market aspects of the Cardiff process, 4 March 2002.

II. ASSESSMENT OF MARKET PERFORMANCE AND ECONOMIC REFORM

The structural indicators used to measure progress within the context of the Lisbon strategy show that Sweden holds an advanced position with regard to employment and competition matters as well as the knowledge-based economy.[6]

Competition in the Swedish economy was boosted in the 1990s. Economically important sectors such as the network industries were opened up to competition and competition legislation was tightened. These changes have had positive effects in the form of new services and a higher level of service. At the same time, Swedes have become increasingly positive in their attitude towards competition in markets.[7]

An indication that the reforms have generated socio-economic effects is that the component of productivity growth that can be explained by efficiency improvements in production has increased.[8] Sweden's international competitiveness has also improved. According to World Economic Forum, Sweden is among the top ten countries in the world in terms of competitiveness.[9]

Sweden's participation in the internal market has been beneficial and has contributed to positive socio-economic effects. However, the initial price convergence that ensued from Sweden's participation in the internal market has stagnated in recent years, as is the case for the rest of the EU.[10] Estimations show that the price level in Sweden is 25-30 per cent above the EU average.[11] Approximately half of this difference is believed to be due to a lack of competition.[12]

Studies also indicate that the proportion of household purchases from highly competitive markets is lower than the EU average, although

6 Eurostat, "Structural indicators", 2002. The indicators encompass employment, innovation, economic reforms, social cohesion and the environment.

7 Swedish Competition Authority, "Competition in Sweden 2002".

8 OECD, "Economic Outlook no. 71", 2002. The measure of production efficiency as a result of advances in technology is normally termed 'multi-factor productivity'.

9 World Economic Forum, "Global Competitiveness Report", 2001.

10 European Commission, "Internal Market Scoreboard", May 2002.

11 See, inter alia, Eurostat, 2002.

12 Swedish Competition Authority, "Competition in Sweden 2002".

the proportion rose during the 1990s.[13] Furthermore, a number of industries in the Swedish business sector are still characterised by high concentration.[14] Although the measure of concentration should be interpreted with great caution, this, together with the general price level, gives an indication that competition could be strengthened in several sectors.[15]

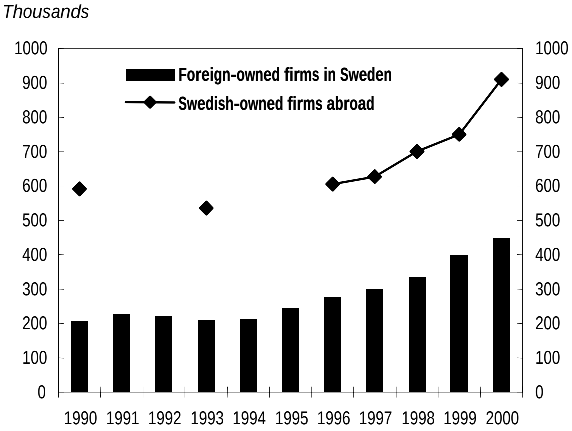
The government is continuing its efforts to strengthen competition so that consumer prices in Sweden can fall to the average price level in the EU.

II.A. PRODUCT MARKETS[16]

1. Enhancing economic integration

Opening up markets to competition has in several cases progressed more rapidly and advanced further in Sweden than in other EU member states. The Swedish product market has become one of the least regulated within the EU.[17] In combination with stable macroeconomic conditions and EU membership, this has contributed to a higher degree of economic integration with other countries. This development has been accentuated in recent years, as indicated by the significant expansion of Swedish-owned firms abroad and the increasing number of foreign-owned firms that have chosen to set up operations in Sweden. During the 1990s the number of employees in Swedish-owned firms abroad rose by 54 per cent.[18] The proportion of employees in foreign-owned firms in Sweden doubled during the same period to one-fifth of all employees in the business sector.[19] The majority of foreign-owned firms have their registered office in another EU member state. There is much to suggest that this trend will continue. According to the UN, Sweden has the greatest potential among the EU member states with regards to attracting foreign investment.[20]

Diagram 1. No. of people employed in foreign-owned firms in Sweden and in Swedish-owned firms abroad



Source: ITPS, 2002.

1.1 Completing the Internal Market[21]

Together with Denmark, Sweden has the highest proportion of implemented Internal Market directives among the EU member states.[22] In May 2002, Sweden's transposition deficit was 0.7 per cent, which is in line with the target of a transposition deficit of 1.5 per cent or less by the spring of 2003, set at the meetings of the European Council in Stockholm and Barcelona. An additional target for spring 2003 is the full implementation of all directives more than two years beyond their transposition date. Sweden has one outstanding directive that needs to be implemented in order to achieve this target.[23]

13 See, inter alia, SNS Economic Policy Group, "Gränslös konkurrens – Sverige i ett integrerat Europa" (Competition without boundaries – Sweden in an integrated Europe), 2002. It should be noted, however, that the difference may be partly explained by the fact that Sweden has a larger public sector than the EU average.

14 Swedish Competition Authority, "Competition in Sweden 2002".

15 High concentration may indicate a lack of competition, especially if sectors also are characterised by limited import competition and high entry barriers.

16 The Broad Economic Policy Guidelines and the Council conclusions on internal market aspects of the Cardiff process emphasise the importance of rapidly implementing the economic reform agenda within the framework of the Lisbon strategy.

17 OECD, "Economic Outlook no. 71", 2002.

18 ITPS, "Swedish-owned groups of Enterprises with Subsidiaries Abroad 2000", 2002.

19 ITPS, "Foreign owned Enterprises 2001", 2002.

20 UNCTAD, "World Investment Report 2002".

21 The Broad Economic Policy Guidelines state that member states should step up efforts to increase the transposition rate of Internal Market directives to 98.5 per cent, achieve full transposition by the Spring European Council in 2003 of directives whose implementation is more than two years overdue, and ensure the correct implementation of Internal Market legislation. The implementation of the Internal Market directives is also emphasised in the Council conclusions on internal market aspects of the Cardiff process.

22 European Commission, "Internal Market Scoreboard", May 2002.

23 Directive on the legal protection of biotechnological inventions.

In the event that the directives are transposed incorrectly or not applied properly in practice, formal infringement proceedings will be opened by the European Commission. Sweden ranks second among the EU member states with regard to avoiding infringements of Community Law. This is an improvement on last year.[24]

Table 1. Infringements of Community Law

No. of opened infringement proceedings

	March 2001	February 2002
Sweden	46 (4)	37 (2)
EU-15	119	91

Note: Figures in parentheses denote ranking among EU member states.
Source: European Commission, "Internal Market Scoreboard", 2001 and 2002.

1.2 Remaining barriers to trade[25]

The remaining barriers to trade in the Internal Market are primarily in the non-harmonised area, where national requirements apply. The problems are dealt with in two essentially separate ways: through further harmonisation within the EU and by applying the principle of mutual recognition of national rules.

Swedish authorities are working intensively to systematically introduce mutual recognition clauses in proposed national legislation affecting trade in goods. Additional initiatives are to be taken at the national level to increase understanding and the application of the principle, in line with the Commission's report on mutual recognition of national rules.[26]

Standardisation continues to be an important instrument in the harmonisation work. Standardisation will gain in importance through the revision of the Product Safety Directive.[27] At present, 95 per cent of all new Swedish standards are based on work conducted in European or international bodies. The Swedish Standards Institute is an active player in this work and applies procedures aimed at preventing new Swedish standards from comprising obstacles to trade or competition.

A new network for problem solving in the Internal Market – SOLVIT – was set up in July 2002.[28] SOLVIT is an electronic and Internet-based progression of a network of contacts created in 1997 to deal with obstacles to free movement in the Internal Market. The shared database contributes to increased transparency in the problem-solving process.

A growing problem with respect to the free movement of goods is the existence of voluntary regimes for product testing and certification. Sweden will emphasise this matter in a European perspective in an attempt to arrive at common solutions and achieve increased mobility in the Internal Market.

Together with several other member states, Sweden is continuing to pursue the issue of increased possibilities for parallel imports of trademark-protected goods.[29] Studies show that the current limitation of parallel imports means that European consumers must pay more for the same brands than consumers in non-EU countries.[30] The government has commissioned the Swedish Competition Authority to conduct an analysis of price differences between Sweden and other countries, with special emphasis on assessing the effects of parallel imports.[31]

1.3 The service sector from a horizontal perspective[32]

In Sweden, citizens have a constitutional right to carry on business. Restrictions in the right to practice a profession or carry on business activities may only be introduced to protect the general interests of the public. Consequently, only a fairly limited number of professions are regulated.

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24 European Commission, "Internal Market Scoreboard", 2002.

25 The Broad Economic Policy Guidelines urge member states to pursue more vigorously the elimination of remaining technical barriers to trade by speeding up the development of new product standards and improving the application of the mutual recognition principle by national administrations.

26 European Commission, "Second biennial Report on the Application of the Principle of Mutual Recognition in the Single Market", 2002.

27 2001/95/EC.

28 http://europa.eu.int/comm/internal_market/solvit/. The National Board of Trade acts as a co-ordinator for SOLVIT in Sweden.

29 The Council conclusions on internal market aspects of the Cardiff process note that the Council is awaiting the Commission's report on parallel imports in response to the resolution passed by the European Parliament on 5 October 2001.

30 See, inter alia, EIU, "International Price Comparisons", 2001.

31 Government resolution, 28 February 2002.

32 The Broad Economic Policy Guidelines state that member states should create an effectively functioning Internal Market in services by the removal of barriers to cross-border trade and market entry.

As part of the European Commission's strategy for services in the Internal Market, Sweden, with the help of representatives from the business sector, has identified concrete obstacles to cross-border trade in services.[33] A survey of trade barriers shows that restrictions on trade in services are the second most common problem encountered by Swedish enterprises doing business in the Internal Market.[34] Restriction types can be broken down fairly evenly and include domestic regulation such as start-up requirements, recognition of exams/training/standards, subsidies, market entry restrictions and restrictions on free movement in connection with performing a service.

In this context, Sweden intends to continue its active efforts for an efficient internal market in services, in particular with regard to the mutual recognition of professional qualifications.

1.4 Specific service sectors

The country-specific recommendations in the Broad Economic Policy Guidelines urge Sweden to step up efforts to enforce competition in those sectors where competition has been found to be inadequate, such as the retail market for pharmaceutical products and food. In the past, similar recommendations also encompassed the construction sector.

The pharmaceuticals sector

Market concentration in the pharmaceuticals sector is relatively low at the manufacturing and import levels, but high at the distribution and retail levels. At the retail level, Apoteket AB (Swedish Pharmacy Corporation) holds a monopoly on the sale of pharmaceutical products to consumers. The Swedish government has established that Apoteket is to retain its monopoly for public health reasons. One reason is that introducing competition would make it more difficult to uphold the principle of having uniform sales prices throughout the country, which is one of the sub-goals of the objective to provide health care to the entire population on equal terms.[35]

Swedish price levels for pharmaceutical products are approximately four per cent below average price levels in Europe.[36] An effective way of lowering prices is to permit parallel imports and generic substitution. Parallel imported pharmaceuticals increased from 1.9 per cent of total purchases by Apoteket in 1997 to 9.3 per cent in 2001.[37]

A new act on pharmaceutical benefits entered into force in October 2002.[38] The new act sets out new terms in order for pharmaceutical products to qualify for inclusion in the subsidised system. Products are reviewed with regard to their cost efficiency and marginal benefits. At the same time, rules regarding the substitution of pharmaceutical products are also being introduced. Prescription pharmaceutical products are to be substituted for the cheapest substitute available at the pharmacy. Products may be substituted for both generic and parallel imported pharmaceuticals. This will lead to greater price competition and could reduce the cost of pharmaceutical products.

The government has also set up the Pharmaceutical Benefits Board, a new authority with responsibility for subsidisation and price control. The previous system based on reference prices has thus been abolished.[39]

The government also appointed a working party tasked with reviewing the system for pricing products included in the pharmaceutical benefits scheme. The working party submitted its report in September.[40] The report contains proposals to simplify the procedure for review-

33 Confederation of Swedish Enterprise, "International trade: Interviews with 17 Companies", 2002. The Council conclusions on internal market aspects of the Cardiff process emphasise that member states should collaborate with the European Commission in order to facilitate work on the strategy for services in the Internal Market.

34 National Board of Trade, "Kartläggning av svenska företags handelshinder (icke-jordbruksprodukter)" (Survey of trade barriers to Swedish firms (non-agricultural products)), 2001.

35 Government Bill 1998/99:106, "Vissa förändringar i läkemedelsförmånen m.m." (Certain amendments to pharmaceutical benefits, etc.).

36 National Social Insurance Board, "Internationell prisjämförelse av storsäljande läkemedel i Sverige 2001" (International price comparison of best-selling pharmaceutical products in Sweden in 2001), 2002.

37 Swedish Association of the Pharmaceutical Industry (LIF), "Facts 2002 – the pharmaceutical market and healthcare".

38 Government Bill 2001/02:63, "De nya läkemedelsförmånerna" (The new pharmaceutical benefits system).

39 Ibid.

40 Ds 2002:53, "Prissättning inom läkemedelsförmånerna" (Pricing in the pharmaceutical benefits system).

ing whether a prescription drug is to be included in the pharmaceutical benefits scheme and for pricing this product. It is suggested that the simplified procedure should encompass products for which there are substitutes on the market and for which the recommended price is lower or the same as the most expensive substitute. The Medical Products Agency determines which pharmaceutical products are interchangeable. The working party believes that the proposed procedure will considerably shorten processing times and enable products to be released onto the market more quickly.

The food sector

At the distribution and retail levels, the food sector is integrated into three nationwide blocks accounting for approximately 90 per cent of sales. Among other things, this structure can constitute a barrier to entry for new players considering establishing operations in the Swedish market.[41] The integration between the distribution system and retail trade means that new players considering establishment may encounter problems in securing supplies of goods if they are unable to enter into agreements with any of the existing wholesalers. Correspondingly, entry into the wholesale market is dependent on the possibility of getting the products accepted by retailers.

The gap between Swedish food prices and the EU average has narrowed, although Swedish prices are still high as regards several product groups.[42] Substantial regional price differences suggest that it is possible to reduce Swedish food prices through greater competition.[43] The opening of discount stores may contribute to lower prices, inter alia, by the fact that local competitors reduce their prices. Discount stores have significantly increased their market share between 1993 and 2000, although it is still well below the level in several other EU member states.[44] However, a foreign-owned chain of discount stores has recently announced plans to open stores in several parts of Sweden.

Table 2. Discount stores; quantity, selling space and market share

	1993	2000
Quantity	91	262
Total selling space (m^2 thousands)	69	290
Market share (%)	3	11

Source: The Swedish Competition Authority, 2002.

Establishment of new players at the retail level has however been complicated by a lack of attractive locations where food retailing is permitted.[45] The right of establishment is regulated under the Planning and Building Act, which grants municipalities the right to determine the planning and use of land. The government has resolved that a parliamentary committee will review the Planning and Building Act.[46] Among other things, the committee will analyse how competition aspects are taken into account in the actual planning process and how planning can provide better conditions for increased competition within retail and the construction sector. The committee is to report on its findings by the turn of the year 2004/2005.

In February 2002, in view of the lack of competition, the government commissioned the Swedish Competition Authority to analyse structural problems that may exist in the convenience goods market. Among other things, conditions for small suppliers and the establishment of new businesses in the market are to be analysed. As a continuation of previous studies, the Swedish Competition Authority is also to undertake a more detailed analysis of differences in price levels for various goods and services between Sweden, other EU member states and other nations that are of interest from a trade policy perspective. A final report is to be presented in December 2002.

41 Swedish Competition Authority, “Competition in Sweden 2002”.

42 Swedish Competition Authority, “Sweden – a part of the single European market”, 2000.

43 Swedish Competition Authority, “Varför är byggvaror dyra i Skåne och maten billig i Västsverige?” (Why are building materials expensive in Skåne and food cheap in Western Sweden?), 2002. The price difference between the most expensive and the cheapest region was seven per cent.

44 Swedish Competition Authority, “Competition in Sweden 2002”.

45 Swedish Competition Authority, “Kan kommunerna pressa matpriserna?” (Can municipalities squeeze food prices?), 2001.

46 Dir. 2002:97.

The construction sector

There is a high level of concentration in several sub-markets in the construction sector. Both vertical and horizontal ownership links between companies also exist. Many sub-markets in the construction sector require major investment, which acts as an entry barrier to new players. Import competition is still underdeveloped, partly due to slow progress in harmonisation work with the Construction Products Directive. However, the low degree of international competition is mainly due to players' reluctance to seek suppliers outside of Sweden. This is largely because existing market players have favourable business ties with established suppliers.[47] The competitive situation is reflected in significant regional price differences.[48]

Some cases of suspected anti-competitive behaviour have been observed in the construction sector. Some suspected cartels are currently under investigation or have legal proceedings taken against them. In February 2002, the government issued terms of reference for a commission of enquiry tasked with proposing measures to keep construction costs down and raise the level of quality in the construction sector.[49] The measures will aim to promote effective competition, counteract the use of illegal labour, strengthen the competence of building proprietors and clarify responsibilities in extensive construction contracts. The commission of enquiry is to work from a consumer perspective in order to ensure high quality and reduce building and housing costs. It will report its findings in December 2002.

[47] SOU 2000:44, "Byggkostnadsdelegationens betänkande: Från byggsekt till byggsektor" (Report by the Building Costs Committee: From construction sect to construction sector).

[48] Swedish Competition Authority, "Varför är byggvaror dyra i Skåne och maten billig i Västsverige?" (Why are building materials expensive in Skåne and food cheap in Western Sweden?), 2002. In the building materials trade, one fifth of builders merchants had prices that were either 20 per cent higher or 20 per cent lower than the national average.

[49] Dir. 2002:24.

2. Public policy having an impact on the markets

Creating and maintaining efficient markets requires clear and well formulated regulations that correct market failures or contribute to the fulfilment of socio-economic goals while fostering business enterprise and entrepreneurship. Regulatory measures affecting the functioning of markets in various ways include competition legislation, tax legislation and rules governing public procurement. The regulatory framework is continually reviewed with regard to its impact on competition and enterprise.

2.1 Competition policy and state aid[50]

Swedish competition legislation is in line with EC legislation. Since 2001, Article 81 (on anti-competitive agreements) and Article 82 (on abuse of dominant position) of the EC Treaty can be directly applied in Sweden by the Swedish Competition Authority, which is an independent authority tasked with investigating suspected anti-competitive behaviour and issuing decisions relating to the Competition Act. The Swedish Competition Authority also has the important task of analysing and submitting proposals for changes in legislation that enhance competition.[51]

In recent years, the Swedish Competition Authority has to a growing extent concentrated on more serious restrictive trade practices, in particular cartels. A bill to improve the effectiveness of fighting cartels was adopted by the Riksdag during this year.[52] The new rules mean that an enterprise that reveals a cartel, thereby facilitating the Swedish Competition Authority's inves-

[50] The Broad Economic Policy Guidelines state that member states should ensure effective independence, adequate capacity and effectiveness of the competition and regulatory authorities, encourage co-operation between them and enhance the coherence of the application of competition rules by the Commission and the national competition authorities. The Guidelines also state that member states should reduce the overall level of state aid in relation to GDP and redirect aid toward horizontal objectives of common interest, target it to identified market failures as well as increase the transparency of state aid policies and assess their effectiveness.

[51] Reports presented by the Swedish Competition Authority during the year include "Safeguarding and promoting competition" and "Competition in Sweden 2002".

[52] Government Bill 2001/02:167, "Ändringar i konkurrenslagen för effektivare kartellbekämpning m.m." (Amendments to the Competition Act to fight cartels, etc. more effectively).

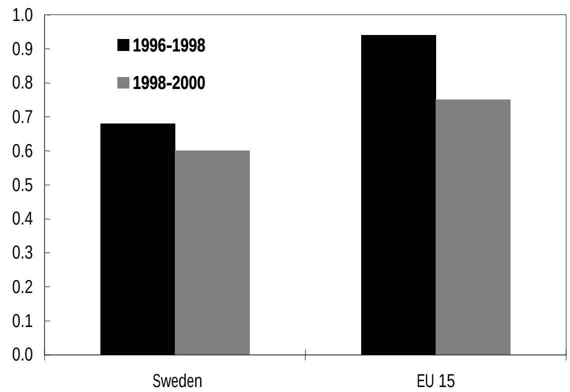
tigation, will be awarded a remission of the competition damages fee. The bill also treats the issue of whether to make infringements of competition rules a criminal offence. However, this issue will be further analysed in the Government Offices.

In conjunction with the ongoing work to modernise the application of competition rules in the EU, the government plans to appoint a commission of enquiry in winter 2002/2003 to review which amendments are needed in Swedish legislation.[53]

In order to avoid a distortion of competition at the national and international levels, Sweden applies a restrictive policy with regard to state aid to companies or individual sectors. Sweden's average total state aid during the period 1998-2000 amounted to 0.81 per cent of GDP, which can be compared with the EU average of 1.08 per cent during the same period.[54] For Sweden, this is a decline compared with the period 1996-1998 and is entirely in line with the European Council decision of March 2001 to reduce state aid by 2003. At the same time, there has been an increase in the proportion of general aid in accordance with Community interests relative to total state aid.

Diagram 2. State aid – sector specific and *ad hoc*

Per cent of GDP



Source: Eurostat, 2002.

Just under half of Swedish state aid goes to the transport sector, particularly to cover expenses for rail traffic. State aid to the manufacturing industry has increased somewhat, although it is solely of a general nature in accordance with Community interests such as environmental improvements and support for R&D.

The Swedish Institute for Growth Policy Studies (ITPS) is tasked with evaluating implemented support measures for industrial and regional policies. The growth aspect is in focus and both individual and more interrelated areas of policy are evaluated.

2.2 Simplification of legislation and other improvements for small and medium-sized enterprises[55]

In a survey conducted on behalf of the European Commission, 7 per cent of Swedish firms indicated that the administrative burden was the main obstacle to enterprise. This can be compared with the EU average of 10 per cent.[56]

In order to further reduce this burden, all proposals for new rules or amendments drafted by the Government Offices are subject to review in light of the SimpLex ordinance.[57] In several cases, this has led to proposals being reconsidered, for example in the area of public procurement. Last year, a number of authorities were tasked with proposing ways of simplifying current regulations. These proposals have been submitted and are currently under consideration in the Government Offices.[58]

Since February 2002, the group comprising reference individuals with an entrepreneurial background who assist the government with its work on the simplification of legislation was expanded to also include representatives from business organisations. The training measures in regulatory impact assessments initiated to date

[53] The Council conclusions on internal market aspects of the Cardiff process emphasise that modernisation of competition rules should be actively pursued with the aim of adopting proposals by the end of the year.

[54] European Commission, "State Aid Scoreboard", May 2002.

[55] The Broad Economic Policy Guidelines emphasise that member states should improve and simplify the corporate tax system and the existing regulatory environment and reduce barriers to entrepreneurship to the barest minimum, in particular through a reduction of the typical time and cost required for setting up a new company, as well as reduce the administrative burden. For simplification of tax rules, see Section 2.3.

[56] Ds 2002:20, "Benchmarking av näringspolitiken 2002" (Benchmarking of industrial policy 2002).

[57] The Council conclusions on internal market aspects of the Cardiff process state that legislation at national and Community levels is to be preceded by impact analyses. This is also emphasised in the Competitiveness Council's conclusions of 30 September 2002.

[58] Skr. 2002/03:8, "Regeringens redogörelse för regelförenklingsarbetet med särskild inriktning på små företag" (Government report on the simplification of rules, with a special focus on small businesses).

have reached around 300 employees within the Government Offices and other authorities.

In order to facilitate an effective evaluation of the government's work on simplification of legislation, ITPS has been tasked with developing a method to measure the administrative burden. An initial measurement is likely in 2003. Next year, the government will define targets to reduce the regulatory burden for small businesses.

Several government agencies are actively working on IT solutions to facilitate contacts with authorities. The Swedish Patent and Registration Office and the National Tax Board have adopted 'Kontakt-N', a web page aimed at considerably simplifying the process of starting up a business. For example, firms now only need to register the company once. As part of the ongoing development of the 'Kontakt-N' project, efforts are now being intensified to achieve a fully electronic application procedure.[59] In October 2001, 'Företagarguiden' (The Entrepreneur's Guide) – an interactive web site where entrepreneurs can search for information and ask questions about tax regulations and permits, etc. – was launched as a collaborative project between thirty or so central government authorities and bodies.

As part of its efforts to reduce the amount of information that businesses need to supply to different authorities, the government intends to commission the Swedish Patent and Registration Office, in collaboration with the National Tax Board, Statistics Sweden, Swedish Customs and Lantmäteriet (the National Land Survey), to identify how much of the authorities' business-related information is shared and how this information can be co-ordinated.

2.3 Corporate and capital taxation[60]

A number of measures are in progress to simplify tax matters in order to facilitate for small businesses and owner-managed businesses. The National Tax Board is to develop a simplified income tax return form for self-employed people, with several details preprinted on the form. A deferred deadline for tax returns will give businesses more time to complete their annual accounts and taxation documentation.

The Government Offices are currently drafting a proposal to amend the rules concerning individual social security contributions and special employers' contributions for the self-employed. The proposal will involve a simplification of the regulations on tax deductions for individual contributions and special employers' contributions. The substance of the proposal is that the deduction for social security contributions will not be made in the tax return, but the taxpayer will be credited with an allowance for the contributions actually paid on the statement of final income tax payable.

For business start-ups, it is often difficult to predict profits for the first year of operation and consequently to pay in the right amount of preliminary income tax. A proposal is currently being drafted to defer payment of preliminary tax for three months for new start-ups. The proposal will provide start-ups with a more realistic basis for assessing their income.

In order to facilitate enterprise and entrepreneurship, the Government Offices are currently examining the issue whether to introduce a standard tax rate for certain types of businesses and corporate forms. This method of taxation would simplify the process of submitting tax returns and information for businesses. At the same time, it would however be contrary to the principle concerning neutrality of taxation of different corporate forms.

The '3:12 rules' govern how much small business owners can take out in capital gains and how much is to be taxed as employment income. The government intends to amend these tax rules in order to improve conditions for small business owners.[61] A commission of enquiry has proposed improvements to the rules regarding generation changes in close companies.[62] The proposals concern, for example, changes in inheritance and gift taxation and in the rules governing transferring tax allocation reserves and funds retained in the business. The proposal is currently being circulated for comment.

59 Ibid.

60 The Broad Economic Policy Guidelines state that member states should improve and simplify the corporate tax system.

61 Government Bill 2002/03:1, "2003 Budget Bill"

62 SOU 2002:52, "Beskattning av småföretagare" (Taxation of small business owners).

2.4 Efficiency of public services[63]

The country-specific recommendations for Sweden in the Broad Economic Policy Guidelines state that competition in public service provision at the local level should be enhanced. The government considers that work on developing alternative forms of management and operation should be encouraged, but that it is necessary to proceed with great caution as regards welfare services.[64] It is important that such developments within the health and care sectors and in schools are compatible with the basic principles that operations are to be democratically managed, jointly financed and provided to everyone on equal terms. The initiative for such developments must essentially come from municipalities, county councils and their organisations.

The element of competition in the public services sector has risen substantially over the past decade. The proportion of persons employed in alternative operational forms in the welfare sector has more than doubled during the 1990s and the proportion of external producers has also risen in recent years.[65] In 2000, one-third of municipalities' operating costs pertained to goods, services and contracts produced externally.[66]

Table 3. Percentage of employees in alternative operational forms

Per cent

	1993	2000
Dental care etc.	32.9	63.9
Care and residential homes	19.1	37.1
Elderly care and care of the disabled	2.5	12.9
Out-patient and institutional health care	5.3	12.0
Child care	4.0	10.8
Schools	1.2	3.4
Total welfare services	**6.1**	**12.7**

Source: SOU 2001:52, "Välfärdstjänster i omvandling".

A comprehensive study undertaken by the Swedish Competition Authority shows that the introduction of competition in the public sector has generally generated positive effects for the economy and for consumers.[67] For example, in many cases, exposing municipal services to competition has initially generated appreciable cost savings, partly thanks to increased efficiency in the parallel operation. However, in the case of repeated procurement, differences between the various tenders have proven to be minor. There are also signs that some procurement markets are heading towards greater market concentration and that repeated changes between producers may jeopardise the continuity of operations.

Competition is to take place on equal terms in competitive markets. In some cases, problems may arise when public sector players operate in competition with private players. This particularly affects small businesses that operate locally. A proposal for a regulation to solve such conflicts has been presented in a ministerial memo.[68] The government is of the opinion that statutory regulation of competition problems between public and private enterprise, that may as a last resort be brought before a court, should be based on the broadest possible support from relevant parties. A legislative proposal is currently being drafted with the intention of presenting a proposal for a statutory requirement before the end of 2002 that has the support of both the public and private sectors.

During the year, efforts to improve the efficiency of the production of publicly financed services have continued. Together with the Confederation of Swedish Enterprise, the Swedish Association of Local Authorities has launched a project aimed at highlighting good examples of how cost-efficient, high-quality services can be provided.[69] A further example is the continued work with Carelink, a collaborative project between private and public sector players to promote the use of IT in healthcare.[70] Work is also underway on the compilation of a database that will enable comparisons of public services using various key parameters via the Internet.[71]

63 The Broad Economic Policy Guidelines state that member states should increase the efficiency of public services inter alia via increased use of public tendering and benchmarking, increased participation of the private sector and competition between public service operators on equal terms, and by making government services available online.

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

65 SOU 2001:52, "Välfärdstjänster i omvandling" (Welfare services in transition).

66 Swedish Association of Local Authorities, "Kommunernas marknadsanvändning år 2000" (Market use by local authorities in 2000).

67 Swedish Competition Authority, "Safeguarding and promoting competition", 2002.

68 Ds 2001:17, "Konkurrens på lika villkor mellan offentlig och privat sektor" (Competition on equal terms between the public and private sectors).

69 www.svekom.se/ekonomi/Konkurrens/KoKnyhetsbrev, 8 Aug. 2002.

70 www.carelink.se, 23 Sept. 2002.

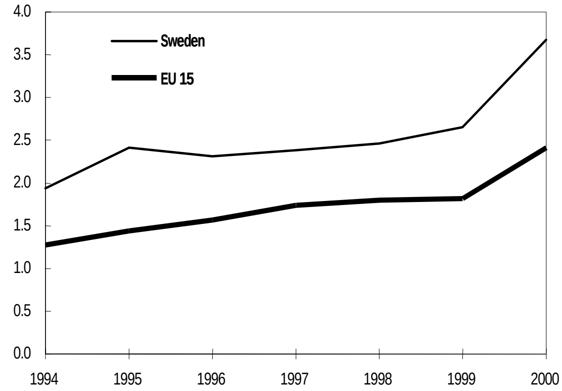
71 www.kommundatabas.nu, 23 Sept. 2002.

2.5 Public procurement[72]

An efficient public procurement market is essential to an efficient public sector. The market for openly advertised public procurement increased by 1 percentage point in Sweden between 1999 and 2000 to 3.7 per cent of GDP.[73]

Diagram 3. Openly advertised public procurement

Per cent of GDP



Source: Eurostat, 2002.

In order to improve the situation for tenderers, the Public Procurement Act has been harmonised with the ruling of the European Court of Justice in the 'Alcatel case'.[74] The amendment entails that a procurement may be reviewed during a period of at least ten days from the date of the decision to award the contract. At the same time, the expiry of the secrecy requirement surrounding tenders has been changed from when the agreement is signed to when a decision is taken regarding the supplier and tender.

The purpose of the legislative amendment is to make it possible for a supplier to request a legal review of an award decision. Previously, this was prevented due to the fact that tender secrecy applied until the contract was signed, and the possibility of obtaining a review also expired at the same time. The amended regulations thus make it possible for a supplier to contest an award ruling if the supplier feels subject to unfair treatment.

In 2001, further provisions were introduced into the Public Procurement Act, making it possible for the procuring unit to invite tenders or applications to tenders in electronic form.[75]

The Public Procurement Committee has proposed the introduction of special sanctions in cases where the procuring unit breaches the public procurement rules by signing a contract directly with a supplier.[76] The proposal is currently being drafted and a bill is expected in the spring of 2003.

In order to facilitate for companies to participate in public procurement procedures, a web project called 'Offentlig Affärer.nu' has been initiated by the Stockholm Chamber of Commerce. The aims of the project are to provide practical advice on procurement matters and to make it easier for suppliers to come into contact with procurers.[77]

3. Public utilities and other network industries[78]

The reforms carried out in the network industries in Sweden in the 1990s have on the whole generated positive socio-economic effects. A report on experiences of liberalisation of electricity, telecommunications, air travel and rail markets states that the reforms have resulted in price reductions averaging 5-10 per cent.[79]

The government is constantly reviewing the reforms that have been implemented in the network industries, not least from a consumer perspective. One of the sub-goals of the consumer policy programme adopted by the Riksdag in December 2001 is to improve conditions for consumers to act on recently liberalised mar-

[72] The Broad Economic Policy Guidelines state that member states should further open up public procurement markets and render them more transparent, inter alia, by bringing them online by 2003.

[73] Eurostat, 2002.

[74] Government Bill 2001/02:142, "Ändringar i lagen om offentlig upphandling m.m." (Amendments to the Public Procurement Act, etc.).

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

[76] SOU 1999:139, "Effektivare offentlig upphandling: För fortsatt välfärd, trygghet och tillväxt" (More efficient public procurement for continued welfare, security and growth).

[77] www.offentligaaffarer.nu, 8 Aug. 2002.

[78] The Broad Economic Policy Guidelines urge member states to accelerate reforms in the network industries and at the same time stress the importance to citizens and territorial and social cohesion of having access to services of general economic interest. The importance of renewed efforts to reform the network industries, taking services of general economic interest into consideration, is also emphasised in the Council conclusions on internal market aspects of the Cardiff process.

[79] Ds 2002:21, "Lärobok för regelnissar – en ESO-rapport om regelhantering vid avregleringar" (Textbook for bureaucrats – an ESO report on rule management in conjunction with deregulation).

kets.[80] In a step towards achieving this objective, the Swedish Consumer Agency, in collaboration with the Swedish Competition Authority and the relevant sector authorities, has been commissioned to analyse current and future consequences for consumers of liberalised markets.[81]

3.1 Telecommunications[82]

The Swedish telecommunications market has continued to increase in value over the past year. Market developments are dominated by the new services such as SMS and Internet access with higher transmission capacity. The number of players operating in the market has continued to grow, with 54 companies entering the market since December 2000.[83]

The predominant fixed telephony operator, Telia AB, had a market share of 76 per cent in 2001. This means that Telia has dropped almost 3 percentage points each year on average since 1994 when its monopoly ended.[84] One-third of private customers have pre-selection arrangements with operators other than Telia. The number of pre-selection customers shows that the pre-selection reform introduced in 1999 has contributed to enhancing competition. The reform can be expected to have an even greater impact on the economy after its expansion to include local calls from February 2002.

Table 4. Market share per operator for fixed-line telephony services

Per cent

	1997	1998	1999	2000	2001
Telia	93	91	86	81	76
Tele2	5	5	6	7	9
WorldCom	-	-	-	-	3
Telenordia	-	1	2	2	2
Song	-	-	-	-	2
Others	2	3	6	5	8

Source: Swedish National Post and Telecom Agency, 2002.

However, on the market for fixed-line subscriptions, competition is virtually non-existent, despite the EC regulation on the unbundling of the local loop.[85] At the end of 2001, there were more than 5.7 million fixed-line subscriptions, but only a fraction of these were supplied by an operator other than Telia. According to the Swedish National Post and Telecom Agency, many of the operators reported difficulties in leasing capacity in Telia's access network.[86] The Swedish National Post and Telecom Agency will continue to supervise the unbundling of the local loop.

The market for mobile telephony continues to grow, albeit at a slower rate than previously. In 2001, the number of subscriptions and pre-paid cards increased by 12 per cent, compared with 24 per cent the previous year.[87] The ratio of mobile phone subscriptions to the Swedish population was 80 per cent at the end of 2001, an increase of 8 percentage points since 2000. There are three mobile operators with their own mobile networks. Of these, Telia remains the largest, with a 51 per cent market share for mobile telephony services. However, Telia is continuing to lose market share to its competitors.[88]

In 2001, the number of suppliers of mobile services increased from two to around ten. However, some of these are subsidiaries of the mobile operators that own the networks. Mobile telephony services provided by companies that have signed agreements with mobile operators are still relatively limited.

Number portability for mobile telephony was introduced in September 2001, making it possible for users to change GSM operator without changing their mobile phone number. In May 2002, the Swedish National Post and Telecom Agency also decided to award the fourth national GSM licence in Sweden to the company SweFour. The government expects these measures to further enhance competition in the mobile telephony market.

In 2001, the government appointed a commission of enquiry to come up with proposals on

[80] Government Bill 2000/01:135, "Handlingsplan för konsumentpolitiken 2001-2005" (Action plan for consumer policy 2001-2005).

[81] In 2002, the electricity market will be prioritised. The findings are to be reported to the government no later than 31 December 2002.

[82] The Broad Economic Policy Guidelines state that member states should encourage market entry and improve consumer choice in liberalised markets, in particular by fully implementing the new communications regulatory package by July 2003.

[83] Swedish National Post and Telecom Agency, "The Swedish telecommunications market 2001", 2002.

[84] Ibid.

[85] The EC regulation (no. 2887/2000) entered into force in January 2001.

[86] Swedish National Post and Telecom Agency, "Konkurrensen i accessnätet, situationen och förslag till åtgärder" (Competition in the access network – the current situation and proposals for measures), 2002.

[87] Swedish National Post and Telecom Agency, "The Swedish telecommunications market 2001", 2002.

[88] Ibid.

how EC legislation on electronic communications networks and communication services can be implemented. A report was submitted in July 2002 and the government intends to present a bill on the issue in the spring of 2003.[89] Furthermore, in May 2002, the government resolved to introduce special regulations concerning subscriber information in the Telecommunications Act.[90] The purpose is to enhance compliance with the requirement concerning the availability of comprehensive directory services as stipulated in the Voice Telephony Directive.[91]

The rollout of third-generation mobile communications systems, UMTS, continues. Since January 2002, all licence holders are providing network capacity in accordance with the terms of the licence. In August 2002, one of the licence holders submitted an application to amend the terms governing the rate of expansion. This application was rejected by the Swedish National Post and Telecom Agency.[92] Two other applications to amend the terms have thereafter been submitted.

In a report to the government, the Swedish National Post and Telecom Agency identifies areas considered to be counterproductive to the development of a well functioning market for third-generation mobile communications systems.[93] This refers both to difficulties in setting up agreements on national roaming and to collaboration difficulties regarding shared use of infrastructure. The Swedish National Post and Telecom Agency has attempted in various ways to remove obstacles to shared use of infrastructure. An industry policy for the rollout of mobile networks has been prepared. The Swedish National Post and Telecom Agency, the National Board of Housing, Building and Planning, the county administrative boards and the Swedish Association of Local Authorities have also undertaken special information campaigns to facilitate the processing of applications for building permits.

3.2 Energy[94]

Electricity

The electricity market was opened up to competition in 1996 with the intention of achieving efficiency gains both for society in general and for individual consumers in the form of lower electricity prices. The electricity grid is operated as a regulated monopoly supervised by the Swedish Energy Agency. Sweden forms part of the joint Nordic electricity market.

Electricity prices on the Nordic power exchange, Nord Pool, fell during the period 1996–2000 but began to rise in early 2001. The main reason for this was the low level of precipitation in Norway in the beginning of 2001. In autumn 2001, the government commissioned an analysis of competition and price formation in the electricity market. The commission of enquiry drew the conclusion that competition in the electricity market functioned relatively well but that increasing market concentration may create problems in the future and should therefore be closely monitored.[95]

In order to enhance competition, the requirement to measure electricity consumption per hour when a customer changes supplier was abolished in November 1999. This increased consumer mobility in the market. The latest surveys show that 37 per cent of consumers in Sweden have renegotiated the terms of their electricity agreement or changed supplier.[96] In May 2002, the Swedish Energy Agency submitted a proposal to enable electricity customers with annual power consumption exceeding 8,000 kWh to request monthly metre readings from July 2006 and for this to apply to all customers from July 2009.[97] The proposal is currently being circulated for comment.

Since network charges make up around one-third of the consumer price, supervision of the power grid and network charges is of significant

89 SOU 2002:60. "Lag om elektronisk kommunikation" (Electronic Communications Act).

90 Government Bill 2001/02:98, "Abonnentupplysning" (Subscriber information).

91 98/10/EC.

92 Press release dated 30 September 2002 issued by the Swedish National Post and Telecom Agency.

93 Swedish National Post and Telecom Agency, "Utbyggnaden av tredje generationens mobila telenät" (Rollout of third-generation mobile communications systems), 2002.

94 The Broad Economic Policy Guidelines emphasise that member states should ensure freedom of choice of electricity and gas supplier as of 2004 for all non-household consumers (amounting to at least 60 per cent of the total market) and establish a regulatory function.

95 SOU 2002:7, "Konkurrensen på elmarknaden" (Competition in the electricity market).

96 TEMO survey commissioned by Svensk Energi in spring 2002. This figure is higher than in both Norway and Finland, despite the fact that in these countries it has been possible to change supplier for some time now.

97 Swedish Energy Agency, "Månadsvis avläsning av elmätare" (Monthly electricity metre readings), 2002.

importance. In 2002, the Riksdag resolved to amend the Electricity Act. The amendments will entail stricter requirements pertaining to grid operations and the supervision of such, as well as new criteria for assessing the fairness of network charges.[98]

Since the electricity market was deregulated, the installed capacity in power plants has declined. At the same time, electricity consumption continues to increase. This has resulted in a risk that the available capacity will not be sufficient to cover the need for electricity on cold winter days. To deal with this, Svenska Kraftnät, in collaboration with the Swedish Energy Agency, has been commissioned by the government to design a system for maintaining the balance between the consumption and production of electricity in Sweden. This system is to be introduced no later than winter 2003/2004.

Natural gas

Natural gas comprises 2 per cent of Swedish energy consumption. The natural gas network covers 26 municipalities, in which natural gas accounts for around 20 per cent of energy consumption.

In August 2000, the first step towards a deregulated market for natural gas was taken through the new Natural Gas Act.[99] The Act enables natural gas companies, energy producers and large consumers to choose their gas supplier. Through a decision in the Riksdag in June 2002, the limit governing when consumers are free to choose supplier will be lowered from August 2003.[100]

Approximately 50 per cent of the market is open to competition. However, the currently applicable EC directive is now being reviewed, which may entail the market being opened up to corporate customers from 2004 and to all customers from 2005. The Swedish Energy Agency has commenced the review of the Natural Gas Act that is required before the market can be fully opened up to competition.

3.3 Transport services

Air traffic

The domestic airline market in Sweden has been turbulent since the terrorist attacks on 11 September 2001. In 2002, SAS made extensive cutbacks in its Nordic routes and a number of low-traffic regional routes were discontinued. New companies have begun to traffic all of SAS's discontinued routes, although it is still too early to assess whether the supply of air travel will be stable in the longer term. In general however, SAS, together with its associate company Skyways, still holds a near monopoly position in the Swedish market for domestic air travel.[101] In October 2002, only seven routes were trafficked by more than one airline.

In December 2001, the government imposed a general obligation to traffic ten domestic routes, principally to and from airports in the inland regions of northern Sweden. In conjunction with this, the government commissioned Rikstrafiken, a government agency, to procure traffic services for these routes if none arose on commercial terms. The procurement process is now complete and three different airlines will now traffic these routes. Rikstrafiken also proposed to impose a general obligation to traffic a number of other routes in northern Sweden.

In view of the lack of competition in the domestic air travel market, the government commissioned the Swedish Civil Aviation Administration in May 2001 to survey the market situation for domestic air travel and how it affects regional policy and transport policy goals, and to present proposals for measures. The Civil Aviation Administration submitted its final report in November 2001, stating, among other things, that the airlines' bonus schemes constitute a significant entry barrier to new players.[102] Furthermore, the report maintained that ticket prices have generally increased since the domestic air travel market was deregulated in 1992.

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[98] Government Bill 2001/02:56, "Energimarknader i utveckling - bättre regler och tillsyn" (Energy markets in transition – better regulations and supervision).

[99] SFS 2000:599.

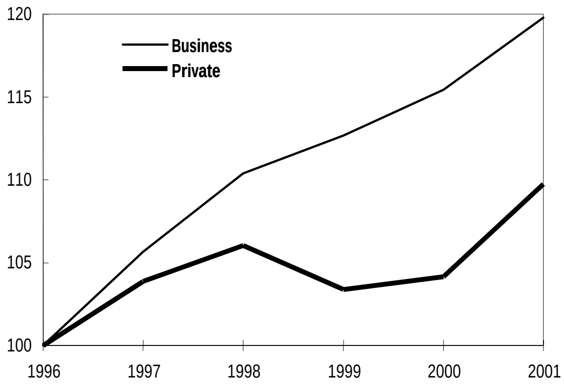
[100] SFS 2002:654.

[101] SAS owns 25 per cent of the shares in Skyways.

[102] Swedish Civil Aviation Administration, "Inrikesflygets marknadsförutsättningar" (Market conditions for domestic air travel), 2001.

Diagram 4. Price trend for domestic air travel

Index 1996=100, current prices



Source: Statistics Sweden, 2002.

Based on the these findings, the government commissioned the Swedish Competition Authority in June 2002 to investigate the effects on competition and consumers of restricting the application of airlines' bonus schemes on domestic routes, and to propose suitable measures. The final report is to be presented at the end of January 2003.

International air traffic has declined considerably over the past year. However, low-price airlines are gradually gaining market share and new airlines are emerging. These companies effectively put downward pressure on prices since they compete with the traditional airlines for the same passengers.

Within the EU, work has begun on revising the Council regulation on common rules for the allocation of slots at Community airports. In this context, Sweden is actively working to enhance competition in the airline market.

Railways

Deregulation of the railway sector commenced in 1998. Statens Järnvägar (SJ) was split into Banverket and the public enterprise, SJ. At the end of 2000, SJ was converted into several limited companies so that it could operate under the same terms as other railway operators. Railway cargo traffic is completely deregulated for companies that are registered in Sweden.

SJ's share of total passenger traffic in Sweden currently amounts to around 50 per cent. For the past few years, passenger traffic routes deemed unprofitable by SJ, but which are nonetheless considered necessary from a transport policy perspective, have been offered for procurement. Passenger traffic on the rail routes procured from the government via Rikstrafiken will be run by three different operators for the next three years. The increased competition in conjunction with public procurement has led to reduced costs for society.[103]

In 2001, the government appointed a commission of enquiry tasked with proposing how new rules in compliance with international agreements can be introduced into Swedish legislation.[104] In addition, the commission of enquiry is to analyse future development alternatives for rail traffic in the best interests of consumers and how competition in the rail sector can be enhanced. The commission has submitted a progress report containing proposals on how the provisions of the 'railway package' directives can be transposed into Swedish legislation by 15 March 2003.[105] The report proposes, inter alia, that industry and forwarding agents should be granted the right to negotiate directly with Banverket on the use of railway track for their transports, and that a new authority be set up to ensure the fair treatment of parties operating on the rail market. In a further step, the commission of enquiry will, among other things, analyse passenger traffic. The commission of enquiry is due to submit its final report in November 2003.

Bus traffic

Interregional bus traffic is mainly operated commercially in a deregulated market. Together, the four largest operators hold around 50 per cent of the bus market. Some interregional bus traffic is procured by Rikstrafiken. The majority of bus traffic is run in local and regional public transport, which is partly tax subsidised. More than 90 per cent of this traffic has been procured in competition between different operators.

[103] Ds 2002:21, "Lärobok för regelnissar – en ESO-rapport om regelhantering vid avregleringar" (Textbook for bureaucrats – an ESO report on rule management in conjunction with deregulation).

[104] Dir. 2001:48.

[105] SOU 2002:48, "Rätt på spåret" (Right on track).

The use of public transport has stagnated in recent years. In 2001, the government appointed a parliamentary committee with the task of analysing the problems and opportunities of public transport from a consumer perspective and proposing changes. The committee submitted a progress report at the end of 2001.[106] Its final report, containing proposals for improvements, is due in June 2003.

3.4 Postal services

The postal market in Sweden is dominated by Posten AB, which has more than 94 per cent of the market. CityMail AB, Posten's biggest competitor, has increased its total market share slightly to 5.3 per cent during the year. The greatest expansion has taken place in the bulk mail segment where competition is the strongest. CityMail's market share in this well-defined market is estimated at around 8 per cent. The other 35 players in the postal market only operate on very local markets and have a combined market share of less than half of a per cent of the total market.[107]

The postal market has been regulated since Posten's monopoly was abolished in 1993 through the Postal Services Act. The Postal Services Act stipulates overall objectives for universal postal services and states that a high-quality, national postal service is to be provided at reasonable prices. This postal service is currently run by Posten.

In 2001, the Swedish National Post and Telecom Agency was commissioned by the government to investigate the price control in the postal market. Since the Swedish National Post and Telecom Agency found no immediate need to change this regulation, the investigation did not entail the government to take measures.[108]

4. The knowledge-based economy[109]

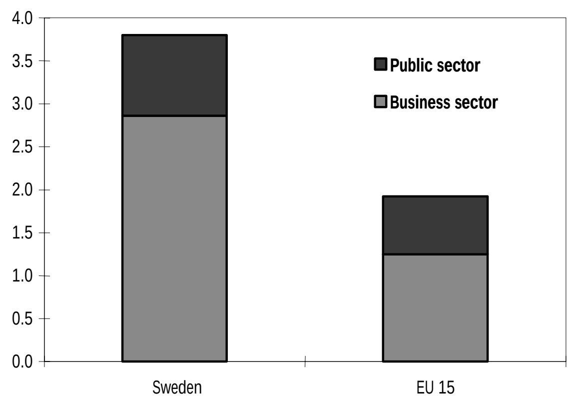
Knowledge-intensive services and products account for a growing proportion of the economy. Investment in knowledge is therefore an important condition for maintaining and enhancing Sweden's international competitiveness. According to an OECD report, Sweden is among the world's leading knowledge-based economies.[110] For example, Sweden is the country that invests the most in knowledge-related assets. In order for investment in knowledge to lead to increased growth, this requires a high-quality education system and an effective innovation system where the business sector, institutions and government work together as effectively as possible.

4.1 R&D and innovation[111]

Sweden is still the country in the world that invests the most in research and development as a percentage of GDP. Sweden's leading position is mainly attributable to substantial business sector investment but also considerable public sector investment.

Diagram 5. R&D expenditure

Per cent of GDP



Source: Eurostat, 2002.

[106] SOU 2001:106, "Kollektivtrafik med människan i centrum" (Public transport putting people first).

[107] Swedish National Post and Telecom Agency, "Service och konkurrens" (Service and competition), 2002.

[108] Swedish National Post and Telecom Agency, "Uppföljning och utvärdering av prisregleringen för vissa posttjänster" (Monitoring and evaluating price controls for certain postal services), 2002.

[109] The Broad Economic Policy Guidelines urge member states to foster the knowledge-based economy.

[110] OECD, "Science, Technology and Industry Scoreboard", 2002.

[111] The Broad Economic Policy Guidelines encourage member states to stimulate R&D and innovation by raising overall spending on R&D with the aim of approaching the target of 3 per of GDP by 2010. Two-thirds of this investment should come from the private sector. It is also emphasised that member states should improve ties between universities and business leading to knowledge transfer and a better commercialisation of R&D results, and establish clear and consistent priorities for public research.

However, it is difficult to assess the extent to which investment in R&D leads to new products and services to the degree that might be expected. One indication that investment in research has paid off is the fact that Sweden has the highest proportion of patent applications in the EU.[112] At the same time, it can be said that Sweden has a low proportion of hi-tech exports relative to its R&D intensity.[113] One possible explanation for this could be that R&D activities in international corporations are carried out in Sweden while the actual manufacturing is partly carried out in other countries.

The government has a key role in encouraging and promoting knowledge development, innovation and entrepreneurship. A new organisation for research funding commenced operations in January 2001. The new organisation consists of fewer but larger authorities, thus enhancing opportunities for mustering strength and undertaking comprehensive ventures. In the autumn of 2001, the Riksdag resolved on several measures to boost the innovation climate in Sweden. For example, all universities and university colleges have been given the opportunity to set up holding companies in an attempt to promote collaboration between universities and the business sector and thereby expand opportunities to commercialise research findings.[114]

If researchers and entrepreneurs at universities and university colleges are to be able to start up small hi-tech companies, this requires special environments, known as incubators, that can support this kind of activity. The government has proposed that the Swedish Agency for Innovation Systems be allocated funds in 2003 to start up a national incubator programme based on existing structures.[115]

In the spring of 2002, the government initiated a project with representatives from the business sector, social partners and universities. The project aims to formulate an aggressive strategy for a coherent innovation policy. The primary objective of such a strategy is to transform new knowledge from universities and university colleges into enterprise and growth.

With the aim of fostering entrepreneurship, the government intends to resolve on a national programme for entrepreneurship among young people in autumn 2002. The programme will be run during the period 2002-2004.[116]

4.2 The information society[117]

A recently published report from the market research company IDC ranks Sweden as the leading IT nation in the world, followed by the USA and the other Nordic countries.[118] The report also shows that Sweden is in a good position for the future, especially since investments in ICT are higher than in both the USA and the other EU member states. Sweden's advanced position is also confirmed by the fact that access to computers and the Internet for firms, households and students is high.[119]

In order to promote the spread of broadband, businesses and property owners have received a tax reduction for broadband connections since 2001. Also in 2001, support was introduced for the purpose of arranging Internet connections with high transmission capacity in sparsely populated areas that do not attract commercial investment. These efforts continue.[120]

Information technology can play a major role in increasing the accessibility of services offered by authorities. A key part of this work is the development of "24-hour authorities". The government has tasked the Swedish Agency for Public Management with stimulating and supporting developments in this area by carrying out joint projects with authorities and other players in order to develop new methods.[121] The project's final report is to be submitted in June 2003.

112 OECD, "Science, Technology and Industry Scoreboard", 2002.

113 See, inter alia, Braunerhjelm, P., "Varför leder inte ökade FoU-satsningar till mer högteknologisk export?" (Why don't greater R&D initiatives lead to more hi-tech exports?), *Journal of the Economic Society of Finland*, vol. 51, 1998.

114 Government Bill 2001/02:2, "FoU och samverkan i innovationssystemet" (R&D and co-operation in the innovation system).

115 Government Bill 2002/03:1, "2003 Budget Bill".

116 Ibid.

117 The Broad Economic Policy Guidelines emphasise that member states should promote access to ICT by stimulating Internet use across all strata of society (i.e. in households, schools, enterprises and public administrations) and, in particular, raise the ratio of Internet-connected PCs to pupils to one for every fifteen pupils.

118 IDC, "The 2002 Information Society Index", 2002.

119 Eurostat, 2002.

120 Government Bill 2002/03:1, "2003 Budget Bill".

121 www.statskontoret.se/24/index.html, 9 Oct. 2002.

4.3 Supply of highly trained personnel[122]

In an international perspective, Sweden has a high skills level in terms of basic knowledge and level of formal education.[123] There are also extensive opportunities for adults to undergo further education and professional skills development.

However, Sweden has a relatively low proportion of university graduates in the labour force with an education of three years or longer. During the period 1997–2003, resources equivalent to approximately 100,000 new study places will be allocated to universities and university colleges.[124] The significant increase in resources is expected to lead to a higher proportion of graduates in the future.

The number of study places in undergraduate education is based on student demand and on the needs of the labour market.[125] The National Agency for Higher Education has been given the task of improving the match between the courses on offer in higher education and the needs of the labour market. The government agency is to work together with other authorities to create a forum for dialogue between the universities, procurers and other relevant parties in the higher education sector.

The government's ambition is to double the number of post-graduates within ten years. In order to enable universities to conduct both broad and specialist research, central government grants for research and postgraduate studies will be raised by SEK 1.5 billion between 2000 and 2004.[126]

Sweden's investment in science and technology has meant that the number of science students has increased by one third since the mid-1990s and the number of technology students has risen by 47 per cent.[127] For the past two years, however, universities have found it difficult to fill study places in science and technology courses. This may be due to factors such as a healthy labour market, relatively small numbers of school leavers and a lack of interest in science and technology among young people. The National Agency for Education and the National Agency for Higher Education are working on a long-term project to foster greater interest in science and technology among children and young people.[128]

5. Integration of environmental issues[129]

Since the late 1980s, the use of market-based instruments in environmental policy has increased markedly in Sweden. Market-based instruments are important elements of efforts to achieve national goals for environmental policy and the objectives of the EU strategy for sustainable development.

5.1 Objectives and strategies

In the spring of 1999, the Riksdag adopted 15 national environmental quality objectives. The overall objective is to hand over a society where major environmental problems have been solved to the next generation.[130] In order to make the environmental quality objectives tangible and achieve them, the Riksdag has also decided on a number of measurable interim targets and action strategies.[131]

In order to determine if the proposed measures are having the desired effects, the new objective framework has been supplemented with a monitoring system based on a limited number of indicators. An environmental objectives council, Miljömålsrådet, has also been founded with the

122 The Broad Economic Policy Guidelines encourage member states to strengthen education and training efforts, both private and public, in order to increase the supply of trained researchers, to increase the number of highly qualified ICT personnel, and to improve the general level of educational attainment of the population and ensure that all citizens have access to basic skills. The Guidelines also stress the importance of enhancing the capabilities of education and training systems to respond adequately to changes in skill requirements.

123 See i.a. OECD, "Education at a Glance", 2002.

124 Government Bill 2002/03:1, "2003 Budget Bill".

125 Government Bill 2000/01:15, "Den öppna högskolan" (Open universities).

126 Government Bill 2002/03:1, "2003 Budget Bill".

127 Government Bill 2001/02:100, "2002 Spring Fiscal Policy Bill".

128 Known as the 'NOT project'.

129 The Broad Economic Policy Guidelines state that member states should introduce and increase the use of market-based policy instruments such as taxation, user and polluter charges, insurance and liability schemes, voluntary commitments and tradable emissions rights.

130 Government Bill 1997/98:145, " Svenska miljömål – miljöpolitik för ett hållbart Sverige" (Swedish Environmental Objectives – Environmental Policy for a Sustainable Sweden).

131 Government Bill 2000/01:65, "Kemikaliestrategi för giftfri miljö" (A chemicals policy for a non-toxic environment), Government Bill 2000/01:130, "Svenska miljömål – delmål och åtgärdsstrategier" (Swedish environmental objectives – interim targets and action strategies) and Government Bill 2001/02:55, "Sveriges klimatstrategi" (Sweden's climate strategy).

responsibility of coherent monitoring of the environmental objectives. According to Miljömålsrådet's first report, most interim targets are likely to be met, even if additional measures will be necessary.[132] In several cases, international efforts will also be decisive to the achievement of the objectives. Environmental recovery or response to the measures that are implemented, however, will be slow in the case of many environmental problems, which means that the state of the environment will not improve in pace with the reduction of environmental impact.

5.2 Measures and policy instruments

Market-based policy instruments comprise an important component of the Swedish action strategies for achieving environmental quality objectives and their related interim targets. Environmental taxes have a particularly important role, but charges and deposit-return systems are also used. The introduction of other policy instruments, such as tradable emissions rights, is currently being investigated but these instruments have not yet been implemented.

The main objective of an environmental tax is to direct the use of resources to a course that is more desirable from the point of view of environmental policy. The tax rate is thereby linked directly to the actual environmental problem. With this definition, for example, the carbon dioxide and sulphur taxes are to be seen as environmental taxes while the energy taxes on fuels and electricity are not environmental taxes but rather environmentally-related taxes.

In 2001, energy and environmentally-related taxes totalled SEK 64 billion, which is the equivalent of just over 5 per cent of total tax revenue. The predominant portion of revenues from energy and environmentally-related taxes comes from energy and carbon dioxide taxes.

The carbon dioxide tax was introduced in 1991 with the primary objective of reducing emissions of carbon dioxide and thereby contribute to the achievement of the climate objective. The tax is levied on all fossil fuels and the tax levels are decided in relation to the carbon content of each fuel.[133] To encourage the use of fuels that are better for the environment, the energy tax is also differentiated as regards fuels. The motor vehicle tax is also differentiated by environmental class in order to stimulate the sale of cars in Environmental Class 1.

With the exception of the carbon dioxide tax, the specific environmental taxes are of low fiscal importance to the government. Their primary purpose is to affect the use of resources. In recent years, several new taxes have been introduced while others have been abolished. Examples of relatively new taxes are the tax on natural gravel that was introduced in 1996 and the tax on waste that was introduced in 2000. The tax on waste, however, does not differentiate between different levels of environmental harm.

Table 5. Environmentally-related tax revenues

SEK billions in current prices

	1999	2000	2001
Energy tax	37.63	38.42	36.52
Carbon dioxide tax	12.81	12.24	16.49
Sulphur tax	0.10	0.08	0.08
Special tax on electrical power	1.55	1.72	1.84
Motor vehicle tax	6.42	6.83	7.02
Sales tax on motor vehicles	0.23	0.26	0.01
Vehicle tax for heavy motor vehicles	0.60	0.56	0.65
Natural gravel tax	0.14	0.12	0.13
Tax on fertiliser and chemical pesticides	0.40	0.43	0.43
Tax on waste	-	0.82	0.94
Total	**59.88**	**61.48**	**64.11**

Source: Ministry of Finance, 2002.

The government has decided on a green tax strategy with the aim of reforming the energy tax system. An important component of this strategy is a green tax reform in the form of higher taxes linked to negative environmental impact and lower taxes on income. The total tax levy from the energy and carbon dioxide taxes will also be redistributed with a greater weighting of the carbon dioxide tax and with the aim of increasing environmental control. The general principles presented in a report by the Tax Switching Committee comprise a basis for the reform.[134]

132 Miljömålsrådet, "de Facto 2002, Miljömålen – når vi fram?" (De facto 2002 – Environmental objectives – are we there yet?).

133 Certain fuels are tax-exempt, however.

134 SOU 1997:11, "Skatter, miljö och sysselsättning" (Taxation, the environment and employment).

The total balance of tax switching is estimated at SEK 30 billion during the period 2001-2010.[135] Through proposals in the 2001 and 2002 budget bills, tax switching involving a total of SEK 5 billion has been implemented. From January 2003 it is proposed that yet another step within tax switching be taken through an increase of the carbon dioxide tax by 16 per cent and an increase of the energy tax on electricity by 2.1 öre per kWh. In addition, waste tax is to be increased from SEK 288 to SEK 370 per tonne and the tax on natural gravel from SEK 5 to SEK 10 per tonne. As in previous years, the increases have been designed so that the tax levy for the manufacturing industry, agriculture and forestry will remain unchanged. The fuel tax will also be unaffected by these changes.[136] The formulation of the regulations for reductions in the energy tax system is now being reviewed by a commission of enquiry, which will present its final report in December 2002.[137]

Other key elements of the green tax strategy include making road tax more environmentally-related, reviewing other environmentally-related taxes as well as analysing alternative economic instruments. The government has tasked a number of commissions of enquiry with reviewing these issues.

In July 2002, the Road Traffic Tax Commission submitted a progress report with a proposal for a new model for the taxation of heavy vehicles.[138] The aim of the proposal is both to improve hauliers' competitive situation and to increase environmental control. The government will present proposals when the commission has completed its work.

In the 2002 budget bill, the government decided on a tax strategy for alternative fuels. The intention is to begin implementing the strategy as soon as the Council and Commission have given their approval.

In its final report, the Waste Tax Commission proposed an amendment of the deduction rules for waste that is intended for closure.[139] The proposal is justified by environmental reasons. The government agrees with the proposal of the commission and suggests that the rules be changed as of January 2003. The commission is also of the opinion that the tax should be able to function as an effective environmental policy instrument in the future. A review of the taxes on fertiliser and pesticides is in progress and a report is planned for November 2002.[140]

Trade in emissions rights can contribute to the cost-effective achievement of emissions targets.[141] In 2001, a delegation was tasked with developing a system for trade in emissions rights for carbon dioxide. A progress report will be submitted in December 2002.[142] The government has also decided to establish a system for trading with green certificates for electricity from renewable energy sources as of May 2003.[143]

5.3 Effects on the environment and product markets[144]

To date, there have been few examples of thorough evaluations of the effects of policy instruments. In a compilation of the evaluations that have been done, it is apparent that environmental taxes contribute to reducing environmentally hazardous emissions and influencing the use of resources, but that the effects on the environment have up until now been rather limited. This can be explained by the fact that several of these taxes have not been in use for very long. The effects are likely to be greater in a longer-term perspective since there will then be more

135 Government Bill 2000/01:1, "2001 Budget Bill".

136 Government Bill 2001/02:1, "2002 Budget Bill".

137 Dir. 2001:29. The Broad Economic Policy Guidelines state that member states should reduce sectoral subsidies and tax exemptions and other measures which have a negative impact on the environment if this is compatible with the objectives of sustainable development.

138 SOU 2002:64, "Vissa vägtrafikskattefrågor" (Certain road traffic tax issues).

139 SOU 2002:9, "Skatt på avfall i dag – och i framtiden" (Waste tax today – and in the future).

140 Dir. 2001:55.

141 The Broad Economic Policy Guidelines emphasise that in order to fulfil the requirements of the Kyoto Protocol in a cost-effective way, member states should prepare for the introduction of emissions trading at EU level by ensuring inter alia that they have in place sufficiently robust monitoring, reporting and verification of emissions.

142 Dir. 2001:56.

143 Government Bill 2001/02:143, "Samverkan för en trygg, effektiv och miljövänlig energiförsörjning" (Co-operation for a secure, efficient and environmentally-friendly energy supply).

144 The Broad Economic Policy Guidelines emphasise that member states and the Community should, within their respective areas of responsibility, aim to conduct impact analyses of the consequences of political measures for society and the environment.

possibilities for substitution. In addition, the levels of several of these taxes are relatively low, which also limits their effects.[145]

The market reforms that have been implemented, particularly within network industries, can affect environmental policy and contribute to conflicts of goals. However, it is difficult to assess whether the deregulation of public utilities, especially within the energy sector, has had a detrimental effect on the environment. Since some electricity is produced using non-renewable fuels, lower electricity prices due to deregulation could lead to greater demand for this type of electricity production, thus negatively affecting Sweden's chances of achieving its environmental objectives, such as climate objectives. Since the market was deregulated, electricity prices have fallen in Sweden, partly as a result of increased competition, but especially thanks to the availability of inexpensive hydroelectric power. However, electricity prices for the end user have not fallen markedly, since raised energy taxes have counteracted this effect.[146]

Similarly, environmental regulations can affect the performance of markets. According to a comprehensive study, there is nothing to indicate that environmental measures have been detrimental to market performance.[147] One reason for this is that the costs of environmental requirements can be met with relatively inexpensive measures that do not affect production or prices very much. However, this does not mean that individual markets or certain industries are free from problems.

[145] SOU 2001:2, "Effektiv användning av naturresurser" (Efficient use of natural resources).

[146] SOU 2002:7, "Konkurrensen på elmarknaden" (Competition on the electricity market).

[147] National Board of Trade, Swedish Competition Authority and NUTEK, "The Environment, Trade and Competition – playing rules for efficient markets", 1998.

II.B. CAPITAL MARKETS

1. Legal and regulatory framework

Efficient and integrated financial markets are of great importance to economic growth. Within the EU, intensive efforts are being devoted to integrating the markets through the implementation of the action plans for financial services and risk capital. One study indicates that an integrated financial sector in the EU could generate 0.5-0.7 per cent higher growth per year.[148] Sweden is working for a rapid implementation of the action plans.

1.1 Developments in legislation[149]

Financial market legislation improved further during the year, partly due to the work on the Financial Services Action Plan within the framework of EU co-operation.

A review of the legislation governing mutual funds and other undertakings for collective investment is in progress as a result of the interim report of the Committee for the Review of the Legislation Governing Mutual Funds.[150] The intention is to create modern and efficient legislation for mutual funds while meeting the need for good consumer protection. Two new EU directives concerning amendments of the UCITS Directive will be implemented through this new legislation.[151] The amendments entail enhanced regulation of management companies and freer investment rules for funds as well as other measures. The government intends to submit a bill to the Riksdag in the spring of 2003. The committee will also review the regulations for, inter alia, custodians and report this in its final report in November 2002.

[148] Report to the Financial Services Round Table, "The Benefits of a Working European Retail Market for Financial Services", 2002.

[149] In the Broad Economic Policy Guidelines, it is emphasised that all relevant parties – the European Council, European Parliament, the European Commission and member states – need to step up their efforts to ensure full implementation of the Financial Services Action Plan by 2005 and by 2003 for securities markets legislation.

[150] SOU 2002:56, "Investeringsfonder – Förslag till ny lag" (Investment funds – proposal for a new law).

[151] 2001/107/EC and 2001/108/EC.

A review of certain prudential rules in the Insurance Business Act is being carried out.[152] The review mainly concerns issues regarding how insurance companies should calculate commitments vis-à-vis policyholders, which limitations are to apply to the structure of the capital that the company needs in order to fulfil its commitments and the requirements for buffer capital to cover unexpected losses. The final report will be submitted in late 2002.

A reform of the legislation governing banks and credit market companies, based on the proposals of the Banking Law Committee, is currently being drafted.[153] In addition to rendering the legislation more effective and streamlined, the reform is intended to reduce red tape and increase competition, particularly for deposit-taking and credit activities. The intention is to submit a bill on this issue in the autumn of 2002.

Special legislation for issuing covered bonds has been proposed in a ministerial memo.[154] This would help reduce mortgage interest rates for consumers in the long run and help achieve competition neutrality for Swedish housing institutes. A bill is expected to be presented in the autumn of 2002.

The EC regulation on cross-border payments in euro entered into force in January 2002.[155] Through the option provided by the EC regulation, Sweden has resolved that this regulation is to be applied to cross-border payments in Swedish currency as well.[156]

In April 2002, a new law concerning the issue of electronic money entered into force, through which the EU Directive on Electronic Money was transposed into Swedish law.[157] The purpose of the directive is to achieve a functioning internal market for issuing electronic money through fundamental harmonisation and a mutual recognition of the business law of member states in this area.

[152] Dir. 2000:15.

[153] See, inter alia, SOU 1998:160, “Reglering och tillsyn av banker och kreditmarknadsföretag” (Regulation and supervision of banks and credit market companies).

[154] Ds 2001:38, “Säkerställda obligationer” (Covered bonds).

[155] This regulation is based on the principle that the charge from a cross-border payment shall be the same as for a domestic payment.

[156] This regulation came into force in July 2002. Initially, these regulations apply to card payments and withdrawals from ATMs up to a certain amount.

[157] 2000/46/EC.

In late 2001, a directive was adopted that contained a broadening of the Money-Laundering Directive from 1991. This expansion means that new types of traders are required to report suspected cases of money laundering. Work is in progress for a rapid implementation of the directive in Swedish law. The government intends to submit a bill on this issue in 2003.

The regulations regarding the solvency margin requirements for non-life insurance companies and life insurance companies have been reformed and redrafted directives have been adopted in the EU. These amendments aim to enhance the protection of policyholders. The intention is to submit proposals on this issue no later than the autumn of 2003.

As a step in the efforts to improve insolvency legislation, the proposals in the report of the Right of Priority Committee are being drafted at the Government Offices.[158] The aims of these proposals are that a company with financial problems is to be given attention earlier and that it is to be possible for a company to obtain the financial relief that it needs if it is judged to have good prospects for the future. The submission of a bill to the Riksdag is planned for the spring of 2003.

In addition, the Right of Priority Committee has submitted its final report on debtors’ agreements during insolvency proceedings.[159] The investigation of certain matters of international insolvency law will also result in a report shortly.[160]

1.2 Changes in the supervisory framework

The Financial Supervisory Authority exercises supervision over financial companies and insurance, credit and securities markets. More than half of the Authority’s resources are used for supervision and market surveillance. The Authority also collaborates in joint efforts for financial regulation in the EU in addition to development projects in several areas.

Work is in progress regarding the completion of a new risk assessment system. This system is to facilitate a total annual assessment of risk of

[158] SOU 1999:1, “Nya formånsrättsregler” (New rules on right of priority).

[159] SOU 2001:80, “Gäldenärens avtal vid insolvensförfaranden” (Debtors’ agreements during insolvency proceedings).

[160] See, inter alia, 2001/17/EC and 2001/24/EC.

institutes vital to the system. The system also allows for international comparison techniques, which are a central element of EU financial market integration. The Authority is also preparing the introduction of new capital adequacy rules that will likely come into force in 2006. The risk assessment system comprises a step towards adapting the supervision of the new capital adequacy rules. Efforts to enhance and adjust market surveillance within the securities area is also in progress.

At the beginning of the year, the Financial Supervisory Authority was given the mandate of reviewing bank routines for payment transfers in Sweden and the EEA countries and submitting proposals for measures if necessary.[161] Continuous follow-ups of the mandate have been conducted during the year and a final report will be submitted in November 2002.

The government has appointed a special investigator for surveying and analysing the Financial Supervisory Authority's new role and which resources may be needed in light of the changes that are being planned within the Authority's area of responsibility.[162] The investigator is also to review the scope for self-regulation on the securities market, and the organisation for surveillance of the conformity to the forthcoming international accounting standards.

2. Market developments

The negative stock market climate that has prevailed since March 2000 continued during the first six months of 2002. Stockholmsbörsen fell by 26 per cent in the first six months of 2002 and turnover, which reached record levels in 2000, continued to fall.

Foreign ownership on Stockholmsbörsen at the end of June 2002 totalled more than one-third.[163] The decline for the year was limited, however, and did not prevent foreign owners' share of the votes in Swedish listed companies from increasing during the period.

Stockholmsbörsen and OM Räntebörsen merged at the beginning of 2002 and Jiway, an electronic marketplace, was closed during the autumn 2002. In addition, VPC AB has initiated efforts to improve functionality as regards clearing and settlement in accordance with international recommendations. The aim of the project is to be able to offer secure settlement without risking settlement failure, possibilities of creating links to foreign clearing organisations as well as the possibility of shortening the settlement period to one day.[164]

2.1 Structural change

Structural change in the financial sector is primarily characterised by two trends. The first trend is that major banks have become fewer and larger through mergers in the past few years. The second trend is that the number of banks has increased.

The market share of the four largest banks increased by 11 percentage points to 78 per cent between 1997 and 2001.[165] However, since SEB and FöreningsSparbanken withdrew their request for a merger after a review by the EU competition authority, the consolidation of major banks has apparently stopped. Compared with the rest of Europe, Swedish banks have an unusually large proportion of cross-border operations, particularly in the Nordic countries. For this reason, a continuing integration of the Nordic bank market is likely to take place.

The increase in the number of banks is partly due to foreign banks' growing interest in the Swedish market and the growing number of niche banks. ICA Banken and Coop Bank are among the new players that were authorised to conduct banking operations in 2001 and 2002 and, unlike other niche banks, are characterised by favourable prospects in the form of an existing customer base. Both banks are managed by national retail chains with established brands. Before these new players even launched their operations on a full scale, it was apparent that the niche banks' proportion of bank deposits from the public was continuing to rise. There are

161 The Broad Economic Policy Guidelines stress the removal of barriers to efficient cross-border settlement and payments in addition to monitoring progress.

162 Dir 2002:94.

163 Statistics Sweden, Statistical Report, FM 20 SM 0202.

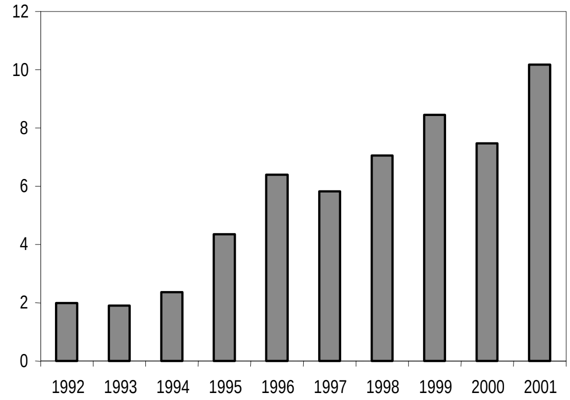
164 VPC AB, "NewClear – A model for a new settlement system", February 2002.

165 Swedish Competition Authority, "Competition in Sweden 2002".

signs that major banks have reacted to increasing competition by improving interest terms for small savers.

Diagram 6. Small banks' proportion of the deposit market

Per cent



Source: The Swedish Bankers' Association, 2002.

Despite increasing competition, the Swedish Competition Authority and the Swedish Consumer Agency state in a joint report that less than 5 per cent of bank customers change banks in the course of a year, in part due to a complex range of services and a lack of price information.[166] To improve provision of information, the Swedish Consumer Agency has set up a 'bank calculator' on the Internet for comparing bank fees.[167]

In the bank and insurance sector, a shift from production to the distribution of security related saving products can be observed, indicated by, inter alia, a tendency for banks and insurance companies to offer more savings products from external companies than previously. This development can be explained by the shrinking value of portfolios, decreasing net inflows and lower expectations as regards long-term growth within fund and capital management. The negative stock market trend has had a major impact on the profitability of securities companies, which have mainly striven to adapt through continued consolidation, resulting in staff redundancies.[168]

[166] The Swedish Competition Authority and the Swedish Consumer Agency, "Konsumentrörligheten på de finansiella marknaderna" (Consumer mobility on financial markets), 2001.

[167] www.konsumentverket.se, 15 Oct. 2002.

[168] A small Internet brokerage has applied for and received authorisation to run bank operations as an alternative way of improving its earnings.

2.2 Risk capital[169]

Activity on the risk capital market declined in 2001 and early 2002 as a result of the poor stock market climate. In spite of this, a total of SEK 22 billion was invested in unlisted Swedish companies in 2001, comprising nearly 800 investments. As in the previous year, the majority of these investments pertained to mature companies in the buy-out phase.[170] On the surface, therefore, not much differs from 2000, which is generally considered to be a record year for the risk capital market. However, one clear difference is the shrinking volumes invested in the earliest phases, seed and start-up.[171]

At the end of 2001, there were around 150 risk capital firms in Sweden with an estimated managed capital of SEK 193 billion for domestic investment and with an invested capital of SEK 72 billion. According to a survey conducted in the first quarter of 2002, risk capital firms are optimistic about the future despite difficult market conditions.[172] In total, SEK 1.6 billion was invested during the first quarter, which is equivalent to the amount invested during the same quarter the previous year. However, seed and start-up investments decreased by nearly 70 per cent. In the second quarter of 2002, total investment fell compared to the second quarter of last year.[173]

The government intends to continue its dialogue with the private capital market concerning the possibility of greater governmental involvement as regards early stage financing. There are ongoing efforts to develop incubator firms. For the long-term improvement of the co-ordination between government players and financing possibilities, NUTEK/ALMI have signed partnership agreements with the Swedish Industrial Development Fund and the Swedish Innovation

[169] The Broad Economic Policy Guidelines state that member states should encourage risk-taking by improving the access to financing, particularly to SMEs in the start-up phase. Access to capital in conjunction with management capability is of particular importance to SMEs.

[170] Risk capital investment is traditionally divided up into early and mature phases according to the following: seed, start-up, expansion, replacement investment and buy-out.

[171] NUTEK, "Riskkapitalbolagens aktiviteter fjärde kvartalet 2001" (Activities of risk capital companies during the fourth quarter of 2001).

[172] NUTEK, "Riskkapitalbolagens aktiviteter första kvartalet 2002" (Activities of risk capital companies during the first quarter of 2002).

[173] NUTEK, "Riskkapitalbolagens aktiviteter andra kvartalet 2002" (Activities of risk capital companies during the second quarter of 2002).

Centre. NUTEK/ALMI's collaboration with the Swedish Industrial Development Fund primarily regards financing of new companies in their early stages, while the collaboration with the Swedish Innovation Centre regards innovation and business development issues. A committee has been tasked with submitting proposals for the direction and streamlining of government initiatives for business development on a regional level.[174]

In order to facilitate the start-up and operation of new small companies with limited financing needs, the government intends to introduce a general entrepreneur loan and a microloan.[175] The microloan is intended for credit of less than SEK 50,000 where ALMI Företagspartner can respond to financing needs without requiring co-financing.

The government has also tasked a working party with presenting a proposal for a government loan guarantee system, with the aim of increasing the availability of loan capital for companies.[176] The ambition is for the system to be in use in January 2003.

2.3 The situation for consumers

Consumer activity on the financial markets continues to increase. The government's action plan for consumer policy for 2001-2005 has been followed up by a series of measures.[177]

A report on consumer protection in connection with the provision of financial advice has been submitted to the government.[178] The report proposes liability for negligent advisors, a required level of competence for financial advisors and other measures. A bill is being planned for 2003.

The Swedish Consumers' Association has received funding from the Swedish government for an investigative project that is to identify and clarify consumer needs on financial markets. A progress report revealing a lack of access to some financial services for certain groups has been presented.[179] According to the report, another problem is the high fees for over-the-counter transactions that consumers without access to the Internet are being forced to pay. A final report containing proposed measures will be presented in December 2002.

Consumers' access to dispute resolution is limited in certain cases. In 1997, the Consumer Ombudsman, through a pilot scheme, was given the possibility of representing consumers vis-à-vis traders at an ordinary court. This scheme is limited to disputes relating to financial services. The pilot scheme has been extended until the end of 2004, in order to compile additional experiences.

The results of the Swedish Consumer Agency's mission of analysing the reasons why consumers end up in overindebtedness are to be reported in July 2003 at the latest. A progress report is to be submitted no later than December 2002. The Swedish Consumer Agency and the Swedish National Tax Board have also analysed the application of the Debt Relief Act.[180] The analysis indicates that there are shortcomings in processing times and distribution of roles between enforcement authorities and municipalities. The government plans to task a committee with reviewing the Debt Relief Act in the autumn of 2002.

[174] Dir. 2001:103.

[175] Government Bill 2002/03:1, "2003 Budget Bill".

[176] Government Bill 2001/02:04, "En politik för tillväxt och livskraft i hela landet" (A policy for growth and vitality in the entire country).

[177] Government Bill 2000/01:135, "Handlingsplan för konsumentpolitiken 2001-2005" (Action plan for consumer policy 2001-2005).

[178] SOU 2002:41, "Konsumentskydd vid finansiell rådgivning" (Consumer protection in connection with the provision of financial advice).

[179] The Swedish Consumers' Association, "På samma villkor? – Finansiella tjänster ur ett konsumentperspektiv" (On the same terms? – Financial services from a consumer perspective), 2002.

[180] RSV, "Rapport från skuldsaneringsprojektet december 2001" (Report from the Debt Relief Project, December 2001).

III. MEASURES FOR FURTHER REFORM

The government has gradually improved market performance with the aim of increasing the potential for growth, enhancing competitiveness and increasing consumer benefits. Among other things, the high level of prices indicates that further measures are necessary. The governments' continuing efforts are undertaken in several different areas.

Promoting competition and consumer benefits

- Sweden will actively work for the full implementation of the internal market by effectively implementing Internal Market Directives, limiting technical barriers to trade and by furthering an internal market for services. Also, the Swedish Competition Authority has been tasked with analysing price differences between Sweden and other EU countries as well as the effects of parallel imports.

- The government has commissioned the Swedish Competition Authority to analyse structural problems that may exist within the convenience goods market. Among other things, the conditions for small suppliers and the establishment of new enterprises will be studied.

- The Riksdag has approved a bill that will enable fighting cartels more effectively. The issue of criminalisation of infringements of competition rules shall be further analysed.

- A commission of enquiry is intended to be appointed with the task of reviewing which amendments are needed in Swedish legislation as a result of the modernisation of the application of competition rules at the EU level.

- The Swedish Consumer Agency, together with the Swedish Competition Authority and their respective sector authorities, have been tasked with analysing the current and future consequences for consumers on the liberalised markets.

- A parliamentary committee is to review the Planning and Building Act. The committee will, inter alia, analyse how aspects of competition are observed when conducting actual planning and review how and whether planning can provide better opportunities for competition in the retail and construction sectors, etc.

- The government has issued directives to a commission tasked with proposing measures for lowering construction costs and raising the level of quality within the construction sector.

Promoting enterprise and entrepreneurship

- In order to facilitate an effective evaluation of the government's work concerning simplification of legislation, the Swedish Institute for Growth Policy Studies has been tasked with developing a method for measuring the administrative burden. Next year, the government will define targets to reduce the regulatory burden for small businesses.

- In order to help small firms and the self-employed, tax simplification work is in progress, for example concerning a proposal for changed rules for social security contributions and a special payroll tax for the self-employed. In addition, the commission of enquiry's proposals concerning improvements in tax rules for generation changes in close companies are being circulated for comment.

- In order to facilitate the start-up and operation of new SMEs with limited financing needs, the government plans to introduce a general entrepreneur loan and a microloan. The government has also tasked a working party with presenting proposals for a government loan guarantee scheme.

- In the autumn of 2002, the government intends to take a decision regarding a national programme for entrepreneurship focusing on young people.

Promoting an effective public sector

- The development of a database for the comparison of public services using various key parameters on the Internet is continuing. In addition, together with the Confederation of Swedish Enterprise, the Swedish Association of Local Authorities has launched a project with the aim of highlighting how cost-effective services of high quality are to be offered.

- With the aim of improving the situation for tenderers, the Public Procurement Act has been amended. A bill, in light of the Public Procurement Committee's proposal concerning the introduction of special sanctions in cases where a procuring unit breaches the public procurement rules by signing a contract directly with a supplier, is expected to be presented in the spring of 2003.

- A proposal for regulations to solve conflicts in situations where public sector players run sales operations on open markets has been presented in a ministerial memo. A legislative proposal is currently being drafted with the intention of presenting a proposal for a statutory requirement before the end of 2002 that has the support of both the public and private sectors.

Promoting efficient public utilities

- Due to new EC legislation, the government intends to submit a bill in the spring of 2003 concerning electronic communications networks and communication services.

- Together with the Swedish Energy Agency, Svenska Kraftnät has been tasked with designing a system for maintaining the balance between the consumption and production of electricity which can be introduced in the winter of 2003/2004 at the latest. The Swedish Energy Agency has initiated a review of the Natural Gas Act, which is necessary for a complete opening of the market.

- The Swedish Competition Authority has been tasked with investigating the effects of competition and the consumer impact of limiting airlines' bonus schemes on the Swedish domestic flight market and submitting proposals for measures. The final report will be submitted in January 2003.

- En commission of enquiry is currently analysing alternative paths of development for railway traffic from the point of view of consumer interests and how railway competition is to be enhanced. A final report will be presented in November 2003.

Promoting the knowledge-based economy

- In the spring, the government took the initiative of launching a project comprising representatives from the business sector, labour market parties and universities/university colleges with the aim of drafting an aggressive strategy for a cohesive innovation policy.

- The government has proposed that the Swedish Agency for Innovation Systems be allocated funds in 2003 to start up a national incubator programme based on existing structures.

- With the aim of promoting the spread of broadband, firms and property owners receive a tax deduction for connection to broadband. In addition, municipalities receive support for organising high-capacity broadband connection in sparsely populated areas.

- In order to give universities the possibility of pursuing broad and specialised research, central government grants earmarked for research and post-graduate studies will be raised by SEK 1.5 billion between 2000 and 2004.

Promoting the integration of environmental considerations

- An important component of the government's green tax strategy comprises the continuation of the green tax reform in the form of higher taxes on environmental impact and lower taxes on income. The total balance of tax switching is estimated at SEK 30 billion during the period 2001-2010.

- As a step in the work on the green tax strategy, several commissions of enquiry have been appointed to review issues such as making road tax more environmentally-related, reviewing other environmentally-related taxes as well as analysing alternative economic instruments.

- The government has appointed a delegation with the task of developing a system for tradable emissions rights for carbon dioxide and resolved to establish a system for trading with green certificates for electricity from renewable energy sources.

Promoting strengthened and integrated capital markets

- A report on consumer protection in connection with the provision of financial advice has been submitted to the government. The report proposes liability for the protection of consumers. A bill is planned for 2003.

- Several directives within the framework of the Financial Services Action Plan are being prepared for implementation in Swedish legislation. A review of the legislation for mutual funds and other firms with collective investment undertakings is in progress with the aim of drafting modern and functional legislation for mutual funds while meeting the need for good consumer protection.

- A bill as a result of the Banking Law Committee proposal regarding the reform of banking and credit market company legislation is expected to be presented in the autumn of 2002. In addition, a bill concerning covered bonds is planned for the autumn of 2002.

- An investigator has been appointed for surveying and analysing the Financial Supervisory Authority's new role and which resources may be needed in light of the changes that are being planned within the Authority's area of responsibility. The investigator is also to review, inter alia, the scope for self-regulation on the securities market.

IV. ANNEXES

A. Follow-up of the recommendations in the Broad Economic Policy Guidelines

The Broad Guidelines of the Economic Policies of the Member States and the Community form the key instrument for the co-ordination of economic policies in the EU. Ambitious follow-up of the guidelines is an important part of the multilateral surveillance of economic policy.

This annex outlines the measures taken or planned in response to the 2002 country-specific recommendations for Sweden relating to product markets. For additional information, and for a follow-up of the horizontal recommendations in the Broad Economic Policy Guidelines relating to the product and capital markets, the knowledge-based economy and environmental integration, please refer to the main report.

The Council recommended Sweden to *"enhance competition in public service provision at the local level".*

General

The element of competition in the public services sector has risen substantially over the past decade and the efficiency has improved. The government considers that work on developing alternative forms of management and operation should be encouraged, but that it is necessary to proceed with great caution as regards welfare services. It is important that such developments within the health and care sectors and in schools are compatible with the basic principles that operations are to be democratically managed, jointly financed and provided to everyone on equal terms. Also, the initiative for such developments must essentially come from municipalities and county councils and their organisations.

Further measures to improve the efficiency of the public sector, for example by improving public procurement regulations, have been taken during the year, and a proposal to remedy potential competition problems between public and private actors is being drafted.

Competition and efficiency in the public sector

In some cases, problems may arise when public sector players operate in competition with private players. A proposal for regulations to solve such conflicts has been presented in a ministerial memo. The government is of the opinion that statutory regulation of competition problems between public and private enterprise that may as a last resort be brought before a court should be based on the broadest possible support from relevant parties. A legislative proposal is currently being drafted with the intention of presenting a proposal for a statutory requirement by the end of 2002 that has the support of both the public and private sectors.

During the year, efforts have continued to improve the efficiency of the production of publicly financed services. Work is underway to develop a database that will enable comparisons of public services using various key parameters via the Internet. Together with the Confederation of Swedish Enterprise, the Swedish Association of Local Authorities has started a project aimed at demonstrating good examples of how cost-efficient, high quality services can be provided.

Public procurement

In order to improve the situation for tenderers, the Public Procurement Act has been harmonised with the ruling of the European Court of Justice in the 'Alcatel case'. The amendment entails that a procurement may be reviewed during a period of at least ten days from the date of the decision to award the contract. At the same time, the expiry of the secrecy requirement surrounding tenders has been changed from when the agreement is signed to when a decision is taken regarding the supplier and tender. The purpose of the legislative amendment is to make it possible for a supplier to request a legal review of an award decision.

The Public Procurement Committee has proposed the introduction of special sanctions in cases where the procuring unit breaches the public procurement rules by signing a contract directly with a supplier. The proposal is currently being drafted and a bill is expected in spring 2003.

The Council recommended Sweden to *"step up efforts to enforce competition in those sectors where competition has been found to be inadequate, such as the retail markets for pharmaceutical products and food."*

General

The government is striving to enhance competition so that consumer prices in Sweden can fall to the EU average. The government has established that competition is inadequate in the food sector. Efforts are currently being taken to analyse and propose measures to enhance competition in this sector. With regard to the retail market for pharmaceutical products, the government has established that Apoteket is to retain its monopoly for public health reasons, but has taken measures to further reduce pharmaceutical prices in order to benefit consumers.

The food sector

In February 2002, the government commissioned the Swedish Competition Authority to analyse structural problems that may exist in the convenience goods market. Among other things, conditions for small suppliers and the establishment of new enterprises in the market will be analysed. As a continuation of previous studies, the Swedish Competition Authority is also to undertake a more detailed analysis of differences in price levels for various goods and services between Sweden, other EU member states and other nations of interest from a trade policy perspective. A final report is to be presented in December 2002.

The government has resolved that a parliamentary committee will review the Planning and Building Act. Among other things, the committee will analyse how competition aspects are taken into account in the actual planning process and how planning can provide better conditions for increased competition within retail and the construction sector. The committee is to report on its findings by the turn of the year 2004/2005.

The pharmaceutical sector

A new act on pharmaceutical benefits entered into force on 1 October 2002. The new act sets out new terms in order for pharmaceutical products to qualify for inclusion in the subsidised system. Products are reviewed with regard to their cost efficiency and marginal benefits. At the same time, rules regarding the substitution of pharmaceutical products are also being introduced. Prescription pharmaceutical products are to be substituted for the cheapest substitute available at the pharmacy. Products may be substituted for both generic and parallel imported pharmaceuticals. This will lead to greater price competition and can reduce the cost of pharmaceutical products.

The government has also set up the Pharmaceutical Benefits Board, a new authority with responsibility for subsidisation and price control. The previous system based on reference prices has thus been abolished.

The government also appointed a working party tasked with reviewing the system for pricing products included in the pharmaceutical benefits scheme. The working party submitted its report in September. The report contains proposals to simplify the procedure for reviewing whether a prescription drug is to be included in the pharmaceutical benefits scheme and for pricing this product. It is suggested that the simplified procedure should encompass products for which there are substitutes on the market and for which the recommended price is lower or the same as the most expensive substitute. The Medical Products Agency determines which pharmaceutical products are interchangeable. The working party believes that the proposed procedure will considerably shorten processing times and enable products to be released onto the market more quickly.

B. Early exit from the labour force

At the European Council's meeting in Barcelona in 2002, a target of raising the effective retirement age by five years was set for 2010.[181] In light of this, a special topic for the 2003 review of member states' structural reforms was decided to comprise measures to reduce early exit from the labour force. This annex describes possible avenues to early exit, the extent and costs of early exit and the government's policy to promote labour force participation and employment, not least among older persons.

1. Introduction

From an international perspective, Sweden has a high employment rate. In 2001, the employment rate for persons aged 16-64 years was 75 per cent, 11 percentage points above the EU average.[182] The high employment rate of women and older persons has contributed the most to Sweden's employment rate, which is one of the highest in the EU.

However, the labour force participation of older persons, particularly among those aged 60-64 years, is considerably lower than for the Swedish population at large.[183] The supply of labour from older persons has fallen in the past decade through early exit due to disability retirement and occupational pension agreements. The effective retirement age is slightly above 63 years.[184]

Table 1. Labour force participation by age

Per cent of the population

Age	Both sexes	Men	Women
16-64	78.4	80.5	76.2
20-64	81.9	84.4	79.2
55-64	69.9	72.9	66.8
60-64	54.4	58.9	50.0

Source: Statistics Sweden, 2002.

As in many other EU countries, demographic developments in Sweden indicate that the proportion of elderly people in the population will increase during the first few decades of the 21st century. These developments will put greater demands on adjustments of the economy as well as the welfare systems. The labour market will need to adjust in response to the shrinking labour force and the rise in its average age. An increase in the proportion of elderly people in the population will have an impact on both pension payments and the demand for health care and social services.

In light of these changes, it will be imperative to make the most of unutilised resources in the labour force and in the population outside the labour force. These labour force resources primarily consist of people born in other countries who currently have weak links to the labour market, but also young people and older persons who currently have a low employment rate compared with the labour force in general.

2. Possible avenues to early exit

Early exit ordinarily takes place through the pension system. However, it is apparent that in practice, early exit also takes place through other insurance systems. These different areas will be treated separately in the account below, not least because it is two different avenues to early exit from employment.

2.1 Pension systems

Exit from the labour market before the age of 65 can either take place through an old-age pension, the granting of a partial pension or disability pension or through occupational pension agreements. The most common reason for an individual to exit from the labour market is that he or she has been granted a disability pension.[185]

[181] See Presidency Conclusions, Barcelona European Council, March 2002.

[182] Eurostat, 2002.

[183] Statistics Sweden, 2002.

[184] The National Social Insurance Board, 2002.

[185] Palme, M. and Svensson, I., "Income Security Programs and Retirement in Sweden". Working paper no. 422, Stockhom School of Economics, Stockholm, 2001.

Old-age pension

The reform of the old-age pension system that was introduced in 2001 makes it possible to retire from the age of 61.[186] The pension system is characterised by flexibility as regards the transition from working life to an old-age pension. People can choose to draw a full or partial pension. This means that individuals can increasingly combine part-time work and a pension, leaving it up to them to decide when to begin to draw a pension and to what extent after the age of 61.

One fundamental principle of the reformed pension system is the "lifetime earnings principle". This principle means that the final pension is based on all pension rights from all contributions during an individual's working life. The longer an individual chooses to continue working, the higher the resulting monthly pension.

The old-age pension system is financed through social security contributions paid by employers and the self-employed as well as general pension contributions paid by all people in working life. Financing also occurs through public old-age pension contributions from different appropriations in the central government budget, and to a certain extent, from returns on investments.

Disability pension and sickness benefit

Disability pension is granted to persons between the ages of 16 and 64 who have had their capability to work permanently reduced due to medical reasons. A disability pension is either a full or partial benefit depending on the persons incapacity to work. A disability pension consists of the national basic pension and the supplementary pension under the ATP scheme.

The national basic pension is a form of benefit offering basic financial security. This pension is calculated using the actual and calculated future years of residence attributed to the individual between the ages of 16 and 64. Full disability pension in the form of a national basic pension for a single pensioner totalled SEK 34,110 in 2002.

ATP is an income-based benefit that is calculated on the basis of earlier actual incomes and assumed future incomes attributed to an individual between the ages of 16 and 64. The maximum ATP amount in the form of a full disability pension totalled SEK 147,810 in 2002. For those who have been granted a disability pension and who have a low ATP or completely lack ATP, a pension supplement is disbursed. The maximum pension supplement for 2002 is SEK 42,789 per year.

If the incapacity to work is long-term but not permanent, sickness benefit is disbursed instead of a disability pension. The amount of the benefit is the same as for the disability pension, but sickness benefit is only granted for a limited period of time.

From 1999 onwards, disability pensions are primarily financed by health insurance contributions paid by employers or the self-employed. The basis of the contributions consists of the payroll expense for employees and the self-employed. The remainder of disability pensions is covered by central government funds. Income from disability pensions and sickness benefit is calculated as pensionable amounts.

A reformed disability pension system will enter into force on 1 January 2003 and will entail that persons between the ages of 30 to 64 will be granted sickness benefit permanently or for a limited period depending on the duration of the incapacity to work. For persons between the ages of 19 and 29, an equivalent benefit, activity benefit, is always to be limited to a period of no more than three years at a time.

The benefit system comprises basic financial security in the form of income-related sickness benefit or activity benefit and financial security in the form of guarantee benefit for those who have lacked or have had low working income. The benefits provide financial security since they are annually recalculated in relation to changes in the price base amount.

The rules regarding the right to benefit have not changed, but the calculation rules have. Per-

[186] Therefore, an individual who chooses to draw his or her pension before the age of 65 is not choosing early retirement. From the perspective of labour supply, however, it is relevant to shed light on exit before the age of 65.

sons drawing disability pension or sickness benefit when the new system enters into force will have the benefits converted to the new system. After the reform, a financial correction adjusts the benefit so that it will be virtually unchanged after tax.

Occupational pension agreements

Occupational pension agreements between trade unions and employers can cover many areas. A large percentage of wage earners, estimated at around 90 per cent, are covered by some form of occupational pension agreement. Rules and payments vary between the different areas of the agreements.

Occupational pension agreements supplement the public pension. For individuals with incomes over the qualifying ceiling in the social insurance system, occupational pension agreements are an important supplement. For incomes between SEK 290,000 and SEK 774,000 per year, occupational pension agreements entail compensation equivalent to approximately 60 to 65 per cent of the person's final wage.

Among persons that retire before the age of 65, there are cases of people being granted early retirement through occupational pension agreements. The procedure varies depending on the agreement. Some people choose to claim their pension over a long period of time, whereas others claim their pension during a relatively short period of time. After they turn 65, they can claim the normal old-age pension.

Private pension plans

The number of people who have opted to save in private pension plans has increased in recent years. Private pension plans, whether in insurance schemes or pensions savings accounts, differ from all other forms of private savings in that they are tax deductible. In 2001, over 1.9 million Swedes claimed tax deductions for pension plans.

The maximum deduction allowed is half a price base amount plus 5 per cent of the portion of earned income between 10 and 20 price base amounts. Depending on the individual's earned income, the deduction allowed therefore amounted to between SEK 18,950 and SEK 37,900 in 2002. The average amount of pension savings totalled SEK 6,600 per person in 2001.[187]

2.2 Other insurance systems

Health insurance and sick pay

Persons who have been employed for at least one month or have worked for fourteen consecutive days are normally entitled to sick pay from their employer. The first day of a period of illness is a qualifying period and is not compensated for. Sick pay comprises 80 per cent of wages and is paid by the employer.

If an individual is not entitled to sick pay or has been ill for more than fourteen days, the social insurance office will examine the person's right to sickness benefit and pay any compensation.[188] Sickness benefit comprises 80 per cent of previous sickness benefit-linked income. It is a maximum of SEK 284,200 and a minimum of SEK 9,100. The compensation is either full or partial depending on the person's incapacity to work. The disbursement of sickness benefit is not limited to a certain period of time. The social insurance office examines a person's right to sickness benefit and assesses his or her possibility of a complete or partial return to working life.

Since 1999, sickness benefit has primarily been financed through health insurance contributions paid by employers and the self-employed. The payroll expense for employees and the self-employed comprises the basis of these contributions. The remainder of sickness benefit is covered by central government funds.

Unemployment insurance

The unemployed are entitled to financial support while they are searching for work assuming that this is done actively, that they are registered with the employment office and are prepared to accept suitable work that is offered.[189] In addition, those that are unemployed are required to fulfil

[187] Statistics Sweden, 2002.

[188] A doctor's certificate is required from the eighth day of illness.

[189] After 100 days of compensation, the unemployed person must be prepared to widen his or her search for employment to include suitable jobs in other fields and/or beyond normal commuting distance.

work or study requirements for the period before they became unemployed.[190]

Unemployment benefit is disbursed in two forms, either as cash labour market assistance or as income-related compensation. Daily unemployment allowance is disbursed no more than five days a week and the number of days decreases if the person is ill or is otherwise incapable of working. The size of the income-related compensation depends in part upon how much the person has worked and the income he or she has received. The compensation is no more than 80 per cent of previous income up to SEK 240,900 per year. After the first 100 days of compensation, the upper income limit is lowered by seven per cent. Unemployment benefit is subject to tax and gives pension rights.

Benefit is paid for no more than 300 days, which is the equivalent of a benefit period. In order to qualify for a new period, a new work requirement must be fulfilled. When the benefit period has ended, it may be extended by a maximum of 300 days if the job seeker does not fulfil a new work requirement and, according to the employment office, is not to be offered participation in the activity guarantee. If an unemployed person declines work or refuses to participate in a programme without an acceptable reason, he or she risks reduced unemployment benefit for a limited period of time.[191]

Cash labour market assistance as a part of unemployment insurance is financed through central government budget appropriations while administration costs are primarily financed through membership dues. In 2001, the average membership dues for employees covered by collective union contracts was SEK 1,008 per year, and for other members SEK 1,178 per year.

3. Scope and expenditure in the public systems that are used for early exit from the labour market

The public systems that are of the greatest importance as regards early exit from the labour market are disability and partial pensions in addition to unemployment and health insurance. Exits through occupational pension agreements are not compensated by general government funds and are not discussed in this section.

3.1 Exit through retirement

It is rare for an individual to return to the workforce after having been granted a disability pension. Therefore, there is reason to view virtually all disability pensioners as early exits from the labour market. The number of disability pensioners, expressed on an annual basis, increased during the 1990s and totalled 384,000 people in 2001.[192] In pace with this growth, costs in current prices rose steadily, amounting to SEK 41 billion in 2001.[193] Relative to GDP, however, these costs fell somewhat during the same period.

The number of people in – and the costs for – the partial pension system fell heavily during the latter half of the 1990s. In 2001, some 10,000 people received partial pensions for a total cost of SEK 244 million.[194] As these individuals gradually go over to receiving an old-age pension instead of the partial pension, the costs for the partial pensions will decrease and eventually cease entirely.

[190] In order to fulfil the unemployment requirement, the unemployed person, in the last twelve months before unemployment, must have worked at least 70 hours per month for at least six months, or at least for 450 hours during the six consecutive months with at least 45 working hours per month. In order to fulfil the study requirement, the unemployed person must have completed at least one year of full-time studies beyond compulsory school level.

[191] In the case of repeated negligence, the level of benefit may be lowered further. In the third case of repeated negligence during the same benefit period, the right to benefit ceases until a new work requirement has been fulfilled.

[192] Statistics Sweden, 2002.

[193] National Social Insurance Board, 2002.

[194] Ibid.

Table 2. Expenditure for early retirement

SEK billions in current prices and as a percentage of GDP

	1990	1995	2001
Disability pension and sickness benefit	28.70 (2.13)	37.40 (2.18)	41.00 (1.97)
Partial pension	1.76 (0,13)	2.37 (0.14)	0.24 (0.01)
Total	**30.46 (2.26)**	**39.77 (2,32)**	**41.24 (1,98)**

Source: National Social Insurance Board, 2002.

The extent of disability pensions and partial pensions may also be related to the total sum of pensions. The total sum of pensions in this regard comprises old-age pensions, disability pensions and partial pensions. The percentage of pensioners, disability pensioners and sickness benefit increased from 18 per cent in 1990 to 22 per cent in 2001. The percentage of part-time pensions, on the other hand, decreased from 2 per cent in 1990 to less than 0.5 per cent in 2001, while old-age pensions decreased from 80 per cent in 1990 to 78 per cent in 2001.

When the distributions of costs are studied, the developments can be seen in a different light. The percentage of costs for old-age pensions increased slightly between 1990 and 2001, from 77 to 79 per cent. Equivalent cost reductions have occurred as regards disability pensions and sickness benefit in addition to partial pensions. The cost for disability pensions and sickness benefit decreased by one percentage point to 21 per cent, while the cost for partial pensions fell by over one percentage point to close to zero.

3.2 Early exit through other insurance systems

Health insurance

Not all employees on sick leave should be seen as early exits from the labour force since most of them return to working life. However, for those on long-term sick leave there is an evident risk of being granted a disability pension.[195] Therefore, there are reasons to study those on long-term sick leave to provide a complete picture of early exits from the workforce.

The number of people on long-term sick leave has grown drastically since the early 1990s. The increase was particularly dramatic between 1997 and 2001, when the number of people on long-term sick leave doubled. The number of people on long-term sick leave totalled 112,000 in 2001, which was equivalent to 38 per cent of all people who were on sick leave.[196]

The dramatic increase in the number of long-term sick in the past few years is also reflected in the costs for disbursed sickness benefit. Between 1990 and 2001, the costs in current prices for people on long-term sick leave increased by over 70 per cent to SEK 14 billion. Measured in relation to GDP, however, the costs were virtually the same as in 1990. However, it is worth pointing out that the proportion of costs in the mid-1990s was only half as large.

Table 3. Expenditure for people on long-term sick leave

SEK billions in current prices and as a percentage of GDP

	1990	1995	2001
People on long-term sick leave	8.06 (0.60)	5.13 (0.30)	14.00 (0.65)

Source: National Social Insurance Board, 2002.

Unemployment insurance

Unemployment insurance is a form of adjustment insurance which aims to provide financial security for individuals who have become unemployed. However, there are some signs that early retirement through unemployment insurance has taken place. According to one survey, an estimated one-fourth of all unemployed persons between the ages of 60 and 64 at the end of 1999 left the labour force under such circumstances.[197] An exact cost for benefit to these individuals cannot be discerned from the statistics. Assuming that these received the average benefit level for income-related benefit in January 2000, however, this was the equivalent of an annual cost of SEK 1 billion.[198] No consistent estimate of exits via unemployment insurance is available. However, the introduction of an activity guarantee in August 2000 has limited the possibility of the misuse of unemployment insurance to supplement income while awaiting a pension.

195 People on long-term sick leave are defined as people who have been ill for more than one year.

196 National Social Insurance Board, 2002.

197 Riksdagens Revisorer 1999/2000:7, “Arbetslinjens tillämpning för de äldre” (The activation principle’s application for older persons).

198 The National Labour Market Board, 2001.

4. Measures to reduce early exits

The government is very concerned about the increasing number of disability pensioners and the fact that all too many young people are exiting from the labour force. A broad spectrum of measures is needed to reduce the number of early exits from the labour market and to effectively meet future demographic challenges.

Relevant components of Sweden's work to reduce early exits from the labour market and promote employment, particularly among older people, are discussed in the section below.[199] This includes initiatives within the pension system, tax and benefit systems, quality in work, improved health, an active labour market policy, professional development and lifelong learning.

The reformed pension system
The pension system has been reformed with the purpose of retaining older persons in the workforce. The new pension system, which entails a greater link between the size of pension disbursements and a person's lifetime earnings than before, was introduced in 2001. The greater link between the contribution and the actual benefit in the reformed pension system is viewed as an important component of an incentive structure that encourages people to work to an advanced age. In addition, studies entitle people to pension rights in the form of a fictitious income being added to other pension-based income.

The reformed disability pension system, which will come into force in January 2003, entails that persons between the ages of 30 and 64 will be granted sickness benefit until further notice or for a limited time depending on the duration of the person's incapacity to work. For persons between the ages of 19 and 29, the equivalent benefit shall always be limited to no more than three years.[200] Disability pensioners are to be given increased opportunities to return to the workforce without putting their disability pension at risk. Since January 2000, disability pensioners may test a return to the workforce without losing their right to a disability pension. The government now proposes that the right to dormant early retirement be increased to two years and that it be made possible to study with the right to dormant early retirement.

Hiring older persons
The government is working to stimulate the recruitment of older unemployed persons and disability pensioners. By order of the Swedish government, statutes and collective agreements are now being examined to see if they contain provisions that comprise obstacles to employers wishing to hire or retain older workers. Many such obstacles keeping older persons from participating in working life at an advanced age have been identified.[201] This work, which is undertaken in collaboration with the social partners, is expected to result in proposals for changes.

Another important step to encourage older persons to remain longer in working life is the fact that since September 2001, it is no longer permissible for the social partners to sign agreements concerning compulsory retirement before the age of 67.

In addition, measures have been taken to encourage older persons to partake in further education so that they can receive the necessary qualifications for a new career. In order to encourage training for older persons, the government has decided that study allowance is to be available to students between the ages of 51 and 55 for certain vocational training that leads to a career in a field with a current labour shortage, or one where a shortage of skilled labour is expected.

Tax and benefit systems
An important aspect of efforts to increase the supply of labour and achieve a higher employment rate is the fact that the tax and benefit systems are to encourage people to work. The Swedish government is pursuing long-term and active efforts to increase the incentives for people to work and remain in the workforce. In 2001 and 2002, several measures were undertaken within both the tax and benefit systems.

199 For a more detailed account of the Swedish government's employment policy, see "Sweden's Action Plan for Employment 2002", and for an account of the Swedish pension system, see "Sweden's Strategy Report on the Future of Pension Systems". Section 4 is mainly based on these reports.

200 Government Bill 2002/03:1, "2003 Budget Bill".

201 Ds 2002:10, "Riv hindren för äldre i arbetslivet" (Tear down the barriers for older persons in working life).

The income tax reform was implemented in several steps with reduced average and marginal taxes for those with low and medium incomes as a result. Yet another step in the income tax reform will be considered if there is scope in the public finances.

New rules for unemployment insurance were introduced in February 2001. The rules have been amended in order to give structure to the job application process, reduce the vicious circle between measures and open unemployment, increase the requirements for vocational and geographic mobility and clarify the use of unemployment insurance as a form of adjustment insurance. The level of benefit is lowered after the first 100 days of compensation with the aim of increasing incentives for the unemployed to continue the process of applying for jobs.

Quality in work and better health in working life

Improved quality in work has positive effects on the employment rate and the supply of labour in addition to reducing sick leave and early exit from the labour force. The government is working to achieve a long-term sustainable working life which makes it possible for persons of working age to enter, remain and develop in the labour market by creating good working conditions in the form of a healthy working environment, a flexible organisation, participation and influence for employees, work security and lifelong learning.

In order to break the trend in recent years of increasing numbers of people on long-term sick leave, the government is working on an 11-point programme for better health in working life. The programme includes measures to improve working conditions and clarify employer responsibility, measures for a rapid return to work after a period of illness, commitments for better access to health and medical care as well as initiatives within statistics, research, etc. An important part of the programme is the three-way dialogue that is conducted between the government and the social partners. The three-way dialogue aims to create consensus and co-ordinate programme initiatives. The programme will also be developed and the parties' commitment clarified within the framework of an expanded action plan.

The government has recently set a target in order to break the illness trend and improve health in working life. The target is to halve the number of sick days by 2008.[202] At the same time, the number of people receiving activity and sickness benefit is to decrease. Efforts to halve the number of people on sick leave will focus particularly on women's workplaces, working environment and terms of employment. Initiatives within several areas will be required in order to meet the target and the labour market parties have a heavy responsibility. The government will review the target annually and a special report will be prepared in conjunction with the budget bill each year.

Active labour market policy

Active initiatives prevent individuals from being excluded from the labour market because their skills do not match the skills that are demanded. Labour market policy focuses on quality, not quantity. A particular focus is placed on the unemployed with the greatest difficulties in entering the labour market, such as the long-term unemployed, the handicapped and immigrants. Labour market training and youth initiatives are important components of the government's active labour market policy.

Many sweeping changes in labour market policy have been implemented in pace with decreasing unemployment. These changes are, for example, expected to prevent early exit from the labour market.

For the early identification of which initiatives an unemployed person needs in order to become established on the labour market, an individual action plan is drawn up. The action plan is an important tool in efforts to achieve effective job matching and to prevent and counteract inflationary bottlenecks. It is to contribute to shorter unemployment periods through focused initiatives by both the unemployed person and the employment office.

Unemployed people who are, or risk being, long-term unemployed are to be offered the opportunity of participating in the activity guarantee. This is to provide participants with additional support for entering the regular labour market through individually-adapted initiatives

[202] Government Bill 2002/03:1, "2003 Budget Bill".

and full-time activities. Through its design, the activity guarantee also helps prevent misuse of unemployment insurance as an income supplement while awaiting a pension.

There are ongoing efforts to improve and render labour market policy programmes more effective so that all programmes fulfil the quantitative goals set by the government. The goal is for 70 per cent of those who have participated in labour market training to have a regular job within three months after the training has been completed. One important change that has been made to increase the effectiveness of the labour market policy programmes is the fact that programme participants no longer qualify for a new benefit period as regards unemployment insurance. In addition, the Institute for Labour Market Policy Evaluation conducts independent evaluations of labour market policy measures and the effects on the labour market of measures within the education system in addition to studying the functioning of the labour market.

Skills development and lifelong learning

Skills development is vital for strengthening an individual's position in the labour market, improving his or her chances of being hired, achieving a better match between the supply and demand of labour in addition to enabling people to remain in working life longer. Employers are responsible for work-related skills development, i.e. training and practical experience, which is needed in an employee's work. Given a labour market with ever increasing demands on the skills of the labour force, continuous skills development of employees are of great importance and necessary in order for an employer to retain and help its employees to develop. In many industries, it is difficult to find the time for skills development, and this especially applies to small businesses. Therefore, it is important that people take a greater responsibility for their own skills development.

The government recently presented guidelines for a system to encourage individual skills development.[203] The proposal entails all individuals being given the opportunity – with some quantitative restrictions – to make deductions for deposits in skills saving accounts. When withdrawals are made for skills development, a special stimulus in the form of a skills bonus is paid. Encouraging more people to participate in skills development throughout their working life reduces the risk of unemployment and enhances the opportunities for more people to work longer.

[203] Government Bill 2001/02:175, "A system for individual skills development". It is proposed in the Bill that the new system come into force on 1 July 2003.

C. Statistics

Table 1. Price level index for various commodity groups compared with EU 15

	Price level index 1999
Food	118
Non-alcoholic beverages	126
Clothing and footwear	107
Rent	125
Building and construction work	126
Electricity, gas and other fuels	86
Medicines and medical equipment	119
Procured transport services	163

Note: The price level index measures the price level in Sweden relative to all EU member states, including Sweden.
Source: Eurostat, 2002.

Table 2. Market concentration in various sectors

Proportion of domestic turnover represented by the four biggest companies

	1993	1997	2001	Change 1993-2001
Railway companies	100	99	91	-9
Mail services	100	100	99	-1
Housing construction	36	38	45	9
Pharmaceuticals	85	87	80	-5
Commercial, savings and co-operative banks	72	67	78	6

Note: The estimates do not take import competition into account.
Source: Statistics Sweden, 2002.

Table 3. Percentage of non-transposed directives for the Internal Market

Per cent

	Nov 2000	May 2001	Nov 2001	May 2002
Sweden	1.2 (2)	0.5 (1)	0.9 (3)	0.7 (1)
EU 15	3.0	2.5	2.0	1.7

Note: The figures in parentheses denote Sweden's ranking among the EU member states.
Source: European Commission, "Internal Market Scoreboard", 2000 and 2002.

Table 4. Infringements of Community law

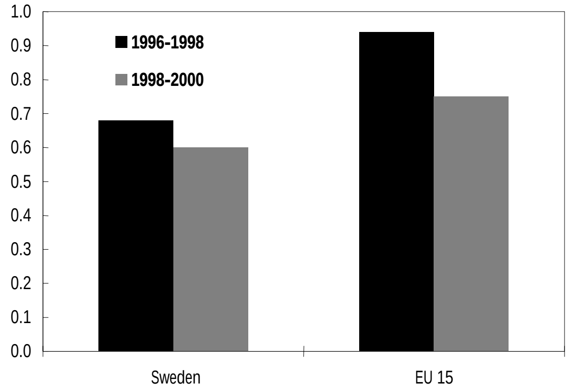
No. of infringement proceedings opened

	March 2001	February 2002
Sweden	46 (4)	37 (2)
EU 15	119	91

Note: Figures in parentheses denote Sweden's ranking among the EU member states.
Source: European Commission, "Internal Market Scoreboard", 2001 and 2002.

Diagram 1. State aid – sector specific and *ad hoc*

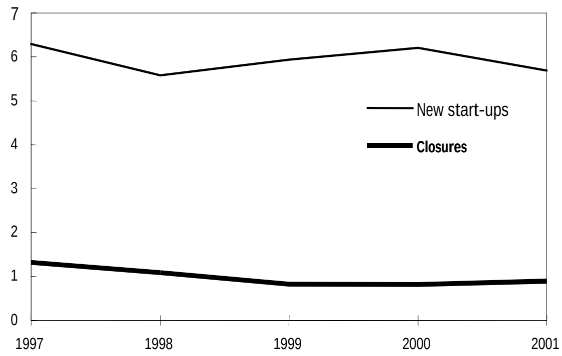
Per cent of GDP



Source: Eurostat, 2002.

Diagram 2. Percentage of genuine new start-ups and company closures

Per cent of total company stock



Source: ITPS, 2002.

Table 5. Percentage of employees in alternative operational forms

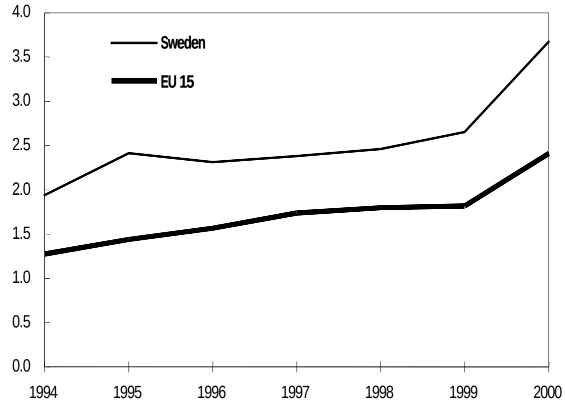
Per cent

	1993	2000
Dental care etc.	32.9	63.9
Care and residential homes	19.1	37.1
Elderly care and care of the disabled	2.5	12.9
Out-patient and institutional health care	5.3	12.0
Child care	4.0	10.8
Schools	1.2	3.4
Total welfare services	6.1	12.7

Source: SOU 2001:52, "Välfärdstjänster i omvandling" (Welfare services in transition).

Diagram 3. Openly advertised public procurement

Per cent of GDP



Source: Eurostat, 2002.

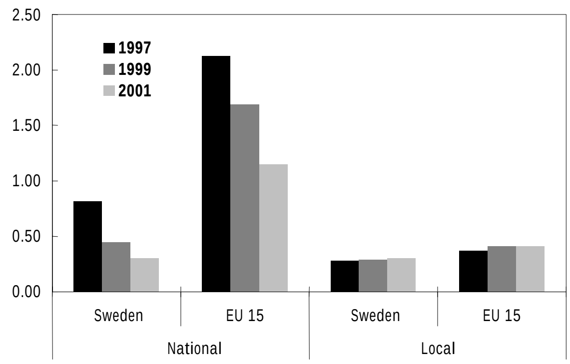
Table 6. Discount stores; quantity, selling space and market share

	1993	2000
Quantity	91	262
Total selling space (m^2 thousands)	69	290
Market share (%)	3	11

Source: The Swedish Competition Authority, 2002.

Diagram 4. Tariffs for national and local calls

Euro



Source: Eurostat, 2002.

Table 7. Market share by operator for fixed-line telephony services

Per cent

	1997	1998	1999	2000	2001
Telia	93	91	86	81	76
Tele2	5	5	6	7	9
WorldCom	-	-	-	-	3
Telenordia	-	1	2	2	2
Song	-	-	-	-	2
Others	2	3	6	5	8

Source: Swedish National Post and Telecom Agency, 2002.

Table 8. Market share by operator for mobile telephony services

Per cent

	1997	1998	1999	2000	2001
Telia	65	60	55	52	51
Tele2/Comviq	17	19	21	23	24
Europolitan	18	21	24	25	24
Others	-	-	-	-	1

Note: Telia refers both to NMT and GSM.
Source: Swedish National Post and Telecom Agency, 2002.

Table 9. The biggest players in the Nordic electricity market

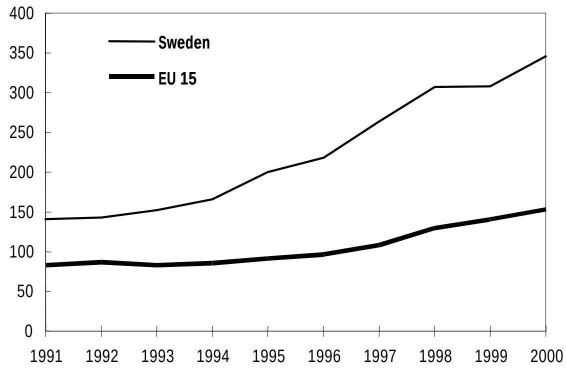
Production and market share

	Power production (TWh)	Market share (%)
Vattenfall	76.6	20
Fortum	40.4	10
Statkraft	33.3	9
Sydkraft	32.7	8

Source: SOU 2002:7 "Konkurrensen på elmarknaden" (Competition in the electricity market).

Diagram 5. Number of patents

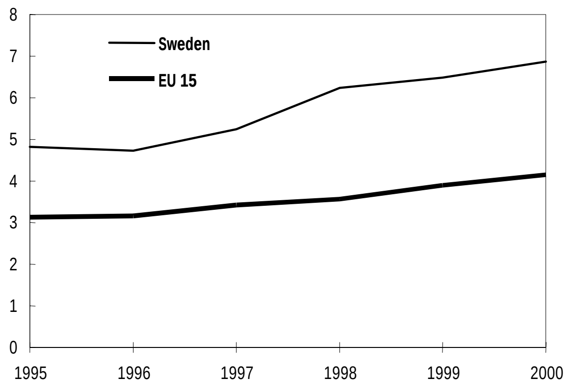
Per million residents



Source: Eurostat, 2002.

Diagram 6. Investment in IT

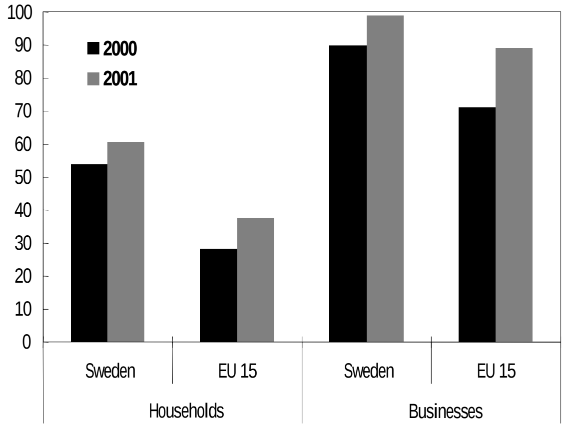
Per cent of GDP



Source: Eurostat, 2002.

Diagram 7. Internet access among households and businesses

Per cent



Source: Eurostat, 2002.

Table 10. Green key ratios

Energy use (TWh and Wh/SEK)

	1980	1985	1990	1995	2000
Total use[1]	436	439	442	462	474
Energy efficiency[2]	325	298	266	270	238

Air emissions (in thousands of tonnes)[3]

	1980	1985	1990	1995	2000
Climate impact					
Carbon dioxide	82 438	67587	60 054	63 817	62 396
Acidification					
Sulphur dioxide	508	266	128	90	71
Nitrogen oxides	448	426	401	333	355

Deposition in the sea (thousands of tonnes)

	1987	1990	1995	1998	2000
Eutrophication					
Phosphorus	5.8	4.6	4.8	4.9	5.2
Nitrogen	148.2	122.9	134.5	152.6	158.1

Effect on air quality (microgrammes per cubic metre)

	1992/93	1994/95	1996/97	1998/99	2000/01
Benzene[4]	4.3-10.4	2.4-6.2	1.9-5.1	1.9-4.9	1.5-4.0

[1] Total energy use excluding energy transformation losses in nuclear power plants.
[2] Energy efficiency is measured as total energy use in relation to GDP (from the revised National Accounts, 1995 prices).
[3] Includes bunkering as regards international air traffic and shipping, and therefore deviates from the accounts within the framework of the International Climate Convention and the Convention on Long-range Transboundary Air Pollution.
[4] Benzene content in the atmosphere, average winter values in various communities (11, 24, 25, 31 and 36 locations, respectively).
[5.] Emissions from international air traffic and shipping increased by 67 thousand tonnes between 1999 and 2000.
Sources: The Swedish Energy Agency, the Swedish Environmental Protection Agency and Statistics Sweden.

Table 11. Environmentally-related tax revenues

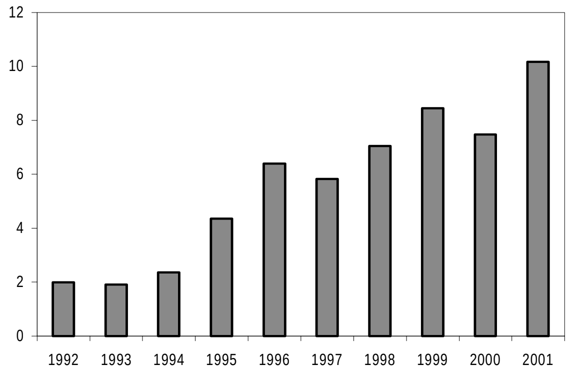
Current prices, SEK billions

	1999	2000	2001
Energy tax	37.63	38.42	36.52
Carbon dioxide tax	12.81	12.24	16.49
Sulphur tax	0.10	0.08	0.08
Special tax on electrical power	1.55	1.72	1.84
Motor vehicle tax	6.42	6.83	7.02
Sales tax on motor vehicles	0.23	0.26	0.01
Vehicle tax for heavy motor vehicles	0.60	0.56	0.65
Natural gravel tax	0.14	0.12	0.13
Tax on fertiliser and chemical pesticides	0.40	0.43	0.43
Tax on waste	-	0.82	0.94
Total	**59.88**	**61.48**	**64.11**

Source: Ministry of Finance, 2002.

Diagram 8. Small banks' proportion of the deposit market

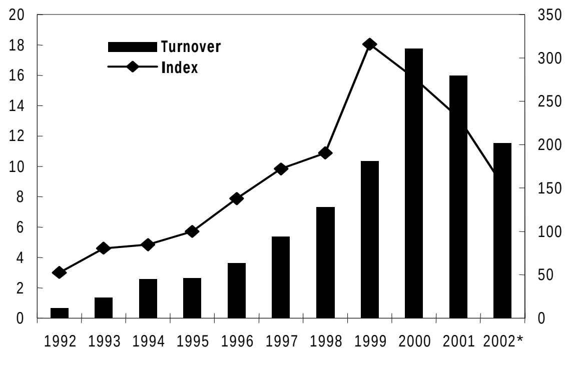
Per cent



Source: Swedish Bankers' Association, 2002.

Diagram 9. Turnover on Stockholmsbörsen and Affärsvärlden's General Index (AFGX)

SEK billions, current prices *Index*



*Refers to January-August.
Source: Stockholmsbörsen, "Annual Statistics 2001" and the monthly report for August 2002.