Competition in Sweden 2007

*Summary Brief*

Competitive pressure in the Swedish economy remains strong, but action must be taken to ensure that Sweden’s competitiveness does not diminish.

- The Competition Authority states in the report that competition continues to improve but that the transformation process must be stepped up in certain industries. The market structure of the construction and civil engineering sector, for instance, means that a few major enterprises are able to operate and compete at national level while a very large number of enterprises are only able to operate regionally or locally. Enterprises that have established a place in the market have largely used technology and construction processes that already exist, which has not furthered development to any great extent. The
The proportion of foreign labour and foreign construction enterprises has, however, increased in recent years.

- Price gaps in relation to other EU countries have narrowed, although the differences vary from year to year. The reason is greater internationalisation of the Swedish economy, a larger and more integrated internal market in the EU, and downward pressure on the Swedish price level due to increased imports from non-EU countries.

![Development of the price level index for goods and services for private consumption in Sweden compared with the EU15, 1995-2005. EU15=100](image)

_Source: Eurostat, processing by the Swedish Competition Authority_

- As the above diagram shows, services in Sweden in terms of PLI are relatively more expensive than goods. There may be a number of explanations for this, one of which is probably that many service markets in Sweden are not exposed to the same degree of import competition as most goods markets. Price relations have nevertheless diminished. This suggests that more service markets have been opened to import competition, and that a number of Swedish service markets have been liberalised to a greater degree than is the case in many other European countries, which has affected price growth in these industries. These reforms are worth following up and maintaining.

- Many industries in the Swedish business sector are characterised by a high level of concentration and high entry barriers. In a number of industries, the four largest enterprises account for more than 90 per cent of domestic industry turnover while at the same time import competition is limited. Cement and sugar manufacturing are two such industries. The high level of domestic
concentration has persisted for some years, while at the same time there are signs that these industries present entry barriers.

- Entrepreneurs capable of developing and realising ideas and projects, along with the institutional environments they work in, are a major factor in innovation and competition. The entry of new enterprises and the development of goods and services are essential to market dynamism and growth. In the report, the agency identifies areas where the authorities could take measures to promote entrepreneurship.

- Consumer choice must improve in the healthcare and social services in particular: public activities should be exposed to competition to a greater extent via customer-choice arrangements of various kinds.

- In network industries such as electrical power and telecommunications, the potential for infrastructure competition, i.e. competition between networks, varies. For competition to be efficient, infrastructures must be effectively regulated. Here, the Competition Authority singles out the energy sector, where separation of ownership between network monopolies and competitive operations should be introduced. In the telecommunications field, there is no corresponding need of separation. Instead, infrastructural competition should be encouraged.

- On the basis of economic theory and empirical evidence, the Competition Authority has found that where it can be applied, infrastructure-based competition – i.e. competition between networks – is preferable to service-based competition in the same network. In the case of the former, there is less need for regulation, i.e. there is less risk of regulatory failure. Also, competitive pressure grows when competing networks are present. Genuine service-based competition exerts pressure on the dominant enterprise in terms of efficiency and service level vis-à-vis the end consumer, as well as in terms of price. Infrastructure-based competition also exerts such pressure, but furthermore pressures the dominant party into renewing and upgrading its service supply, into differentiating price structures and into improving internal efficiency in general. In other words, infrastructure-based competition also generates dynamic efficiency gains, not just static gains.

- With regard to the energy market, the Competition Authority has previously drawn attention to a range of problems. Issues that need addressing include how to ensure both that enough transmission capacity is available in
transmission networks to make electrical power trading efficient and that production resources in this field adequately meet market demand.

- Competition in public procurement in Sweden has a vital bearing on competitiveness in the economy as a whole. Here, the Competition Authority provides statistics for the first time on developments in this area. Matters are moving in the wrong direction. Procurement entities are receiving fewer tenders in a growing number of cases. There are also signs that the rule whereby notification must be given of contract awards above application thresholds is being increasingly disregarded. In addition, there is a tendency to use lowest price as a selection criterion, which may adversely affect suppliers’ motivation to develop service content. In 20 per cent of cases where lowest price was the decisive factor, no more than two bids were submitted.

- It is vitally important that public purchasing – which is estimated to total SEK 400 billion per year – works efficiently, and that enterprises compete by tendering for contracts so that the taxpayers are given value for their money.

- International experience shows that the procurement sector is often exposed to collusive bidding by enterprises. This has prompted authorities charged with safeguarding competition to actively monitor and investigate these markets. In seeking to combat tendering cartels, the authorities in some countries have focused in particular on the role of the bidder. The authorities may, for instance, demand written confirmation that the enterprise in question has determined the tendered price independently and not in collusion with any other party.

- How collusive tendering impacts on prices in procurement processes has been studied by a number of economists. They estimate the price increases at between 7 and 30 per cent.

- The report presents a couple of dozen proposals for action – both general and industry-specific measures – designed to enhance both market efficiency and consumer benefit. In the case of public procurement and competition, the following is proposed:

  - **Make it easier to intervene against collusive tendering by revising the instructions issued to government agencies.** Collusive bidding by rival enterprises is normally prohibited, and may be placed in the same category as cartel activity if the enterprises concerned are capable of undertaking the
service on their own. One way of obtaining information about collusive tendering is to require procurement entities at central, regional and local government level to contact the Competition Authority if they detect signs that bidders have agreed to circumvent competition.

All government agencies operate under the rules concerning public procurement. It is vital that the agencies contact the Competition Authority should they receive information about cartel activities in connection with public contracts, or if they suspect collusion. The way government agencies operate is regulated by an ordinance setting out their duties and by the appropriation directions issued by the ministry to which they are accountable. A provision should be added to one or other of these documents requiring the agencies to contact the Competition Authority in the event of suspected collusion. This would make it easier to combat tendering cartels. The Competition Authority will be taking steps to inform purchasing entities about ways of detecting anti-competitive practices.

- **Impose sanctions on procurement entities that fail to publish award notices for contracts exceeding thresholds.** To provide suppliers in the Community with information about coming and completed contracts that exceed the application thresholds, notification is to be published in the EUT and in the TED database. As the report shows, the proportion of such notices is on the decline, and amounted to less than 60 per cent in 2006. These notices are a valuable source of information and facilitate analyses of various kinds. They also have a favourable effect on enterprises’ willingness to take part in the public procurement process. The Competition Authority intends to issue further information about the requirement concerning contract award notices, but at the same time urges that some form of sanction be introduced.

In accordance with Government instructions, the Competition Authority has been publishing reports since 2000 on the competitive situation in the Swedish market. At the Government’s request, the 2007 report focused in particular on the construction and energy markets and on other markets where competitive deficiencies appeared to be present and where enterprises were finding it difficult to enter.