



REGULATORY REFORM  
IN  
SWEDEN

Swedish Competition Authority, February 1997  
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ISBN 91-88566-16-1  
Swedish Competition Authority, Stockholm

# Preface

All markets are regulated to some extent. Regulation can serve many different purposes and can to a greater or lesser degree influence the operation of the market. For regulation to be justified, the socio-economic benefits must be greater than the costs. Societal and technological development justify reviewing the regulatory system and the implementation of more comprehensive deregulation in terms of simplicity, greater freedom to determine prices and more liberal conditions for establishing enterprises. The study of the effects of regulation on competition and the utilisation of resources within different industries as well as on the economy as a whole is thus a task the importance of which must not be underestimated.

The present report describes and comments on regulatory reform in Sweden in five different industries. These are electricity, domestic airlines, road haulage, telecommunications and retail trade. This report has been authored by the Swedish Competition Authority on behalf of the OECD. It is part of a contribution to a project dealing with "The economy-wide effects of regulatory reform" which describes the experiences of regulation in a number of OECD countries within the sectors mentioned.

The report starts with an account of the Competition Authority's general observations of developments in deregulated markets and the policy implications these give rise to. Following this, there are a number of concise descriptions of developments within the five industries selected.

Stockholm February 1997

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# 1 Regulatory reform in Sweden

## 1.1 Introduction

In Sweden many important industries have been deregulated in the last ten years. Within the transport area, the markets for taxis, bus transport, commercial road transport, domestic aviation and railway freight transport have been deregulated, often by removing controls over the establishment of enterprises and the regulation of prices. Within the communications area the former State monopolies in the postal and telecommunications markets have lost their exclusive right to different markets. From 1996, the electricity market has also been deregulated. The new "regime" means that both production and trade in electricity takes place in competitive markets.

Important consumer markets such as food, construction and housing have changed towards a more competitive climate. At the beginning of the 1990s, an important liberalisation of agriculture in Sweden was implemented. The favourable effects of this change have, however, been counteracted by Sweden's accession to the EU and the application of the EU's regulatory and subsidy system in the agricultural sector.

In addition the banking and insurance area have been progressively deregulated. This process started during the 1980s when currency and credit regulations were abolished. This has been succeeded by liberalisation which has facilitated the establishment of new enterprises.

One of the aims of deregulation has been to increase efficiency in not only the particular sector affected, but in the economy as a whole. Since one of the important instruments for achieving this is improving the conditions for competition, deregulation often means removing both the rules that make the establishment of new enterprises more difficult and the rules that restrict price competition. An important complement for removing rules that limit competition is to have legislation which creates opportunities for intervening against different forms of anti-competitive behaviour. There are thus reasons for pointing out the importance of the new Swedish Competition Act (1993) in terms of increasing competition and efficiency in the Swedish economy. Effective competition legislation is, in addition, a precondition for being able to deal with competition problems occurring as a result of deregulating markets.

Sweden in comparison to a number of other countries in Europe has unique geographical conditions which have contributed to the regional effects of deregulation receiving much attention. In many cases, the earlier regulatory system had a regional policy aim to, for instance, make it also possible to fly from smaller airports at a reasonable price. This type of "regional policy support" was as a rule financed within a company which as a result of regulation enjoyed a monopoly position. When deregulation was implemented, however, the ability of the State to steer the company's behaviour and pricing was reduced. Deregulation can thus have effects which from a regional policy perspective are undesirable and which can raise demands for the State to intervene with direct policy measures such as State aid. Since such measures lead to increased public spending, the impact on sparsely populated regions has often made the deregulation process more difficult.

## 1.2 Main findings

The extent to which deregulation is perceived as being successful is closely related to the expectations created prior to the change and the perspective from which the assessment is made. The Competition Authority's view is that the expectations created prior to deregulation are often unrealistic. If expectations are high or based on unrealistic assumptions on how the market functions, or which parties in the first instance are favoured, deregulation may appear to be a failure even though changes in the rules have contributed to creating a market that functions better than would have been the case if the change had not been implemented.

An important reason for the deregulation that has been carried out is, as mentioned above, the desire to increase the efficiency of production by exposing companies in the markets to the pressure of competition. In the majority of the markets that have been deregulated, it seems that the high level of expectations concerning such effects has been fulfilled. Especially in those cases where a dominant player has been exposed to competition, major rationalisation programmes have been carried out and productivity has increased.

A direct effect of the rationalisations carried out as a consequence of deregulation and increased competition is that employment has been affected. In those cases, where former monopolies were exposed to competition, the number of employees in a company has often been significantly reduced. The effects on employment arising from deregulation can not, however, be regarded solely from the perspective of the individual company, but are also to a great degree dependent on the effects of deregulation for not only the industry concerned but also for the whole economy. Especially in those industries where demand is increasing and where there is rapid technological development, deregulation can, in fact, be a prerequisite for increasing employment.

To sum up, an overall conclusion is that the deregulations may generally be regarded as having been successful. In certain markets it will be necessary to change the regulatory rules in order to improve the conditions for competition. However, in an overall sense the markets are functioning in a better way now than if they had remained regulated or had been exclusively assigned to the incumbents. The establishment of new companies has moreover led to new products and services being developed and put on the market which increases the opportunities for satisfying consumer needs.

## 1.3 Policy implications

### *Preparatory Work Important*

The Competition Authority's experiences from many cases of deregulation is that shortcomings in implementing deregulation may have serious negative consequences, which on many occasions may be difficult to remedy afterwards. For this reason, the need for information, special legislation and structural measures to name a few areas, should be thoroughly examined in advance. If special legislation for a sector is regarded as being necessary, it should be drawn up with the aim of taking care of the competition problems that can be expected to occur initially when the deregulation is being implemented. In many areas, structural separation of certain activities is the best way of attaining the conditions for effective competition. In the telecommunications sector, for instance, structural measures would be a means of significantly reducing the need for special regulations and control of

the telecommunications market. It would also reduce the risk of inefficient duplication of infrastructure.

#### *Unforeseen effects*

All experience to date, both Swedish and international, shows that deregulation is almost invariably accompanied by unforeseen effects. This arises largely from erroneous assessments concerning e.g. the functioning of a particular market, but it may also equally well be related to changes in the surrounding world which at the time the decision was taken were difficult or virtually impossible to foresee. One example of this is the recession in the Swedish economy that at the beginning of the 1990s influenced to a very great extent the deregulation of the airline market. An important conclusion is therefore that deregulation must be followed up and that there must be a preparedness to modify the new regulatory system. One method of ensuring this is to decide at the time of deregulation on one or more points in time at which a review of the effects of deregulation should be carried out and evaluated.

#### *Asymmetric Rules*

In deregulating markets that have for long been dominated by a single player, special rules should be introduced to give new entrants good opportunities to establish themselves on the market. Experience shows that new players during a transitional period may need additional protection in order to be able to contribute in the long-term to greater competitive pressure on the market. Such types of asymmetric rules already exist in, for example, the EC Competition rules, through the imposition of stronger requirements on dominant companies. However, they should to a greater extent than is the case now also be introduced in special legislation regulating specific markets. As an example of the special requirements that can be imposed on dominant companies, non-discriminatory conditions giving smaller companies access to such infrastructure as necessary to operate on the market can be mentioned.

#### *Responsibility of the State as owner*

Many deregulated markets are dominated by a State-owned company. This can lead to certain management problems, but at the same time it provides the State with the opportunity of using its role as an owner to improve conditions for competition. State ownership, for example; makes it possible to decide on and take measures on structural separation of certain operations. One issue, which should be more closely examined is whether the State makes sufficiently clear its two different roles as both an owner and a regulator of the market. In certain cases, there is an inherent conflict of interest between both of these roles. One approach that should be considered by the Government for e.g. the telecommunications sectors would be to separate the responsibility for ownership and the responsibility for regulation so that the two kinds of responsibility would be assigned to different ministries. Since State-owned companies often have a position closely resembling that of a monopoly in their core activities, and given the risk of cross-subsidisation, there is also a need to clearly define and decide which additional activities these companies should be allowed to operate.

## 4 Road Haulage Industry

### 4.1 Market structure

In 1995 commercial road transport in Sweden produced a total turnover of around SEK 37 billion, of which transport abroad accounted for around 3 billion. Commercial road transport can especially with regard to freight structure and distance be divided into two market sectors - local and long distance. Local road haulage involves comparatively short distances (often a maximum of 100 kms), and provides transport within a number of areas including building and construction, waste collection and disposal, furniture removals and oil for heating. Long-distance road haulage covers consumer goods, forestry and agricultural products.

Most long-distance road haulage is made up of scheduled route transport and is referred to as domestic long-distance haulage. Within this market segment, goods with a high proportion of value-added such as consumer goods and input goods in the manufacturing industry are transported. Market concentration is high. In 1995 two forwarding agents, ASG and Bilspedition, produced a turnover of around SEK 10 billion in domestic long-distance haulage. This figure is estimated to correspond to between 70-80 per cent of total turnover (SEK 13-14 billion) of this market. Transport is mainly carried out by independent haulage companies who are connected via agreements to a specific forwarding agent dealing with the administration concerning the transport and who are responsible for customer agreements including price setting. Usually haulage companies connected to the same forwarding agent cooperate over the level of compensation the forwarding agent should pay them.

Besides domestic long-distance haulage local transport accounted for the majority of the remaining approximately SEK 20 billion of the market. Usually one of the main players in the local market is an association of haulage companies sharing a central office. The central office administers the transport assignments of individual haulage companies and is also responsible for setting prices. During 1995 the number of central offices was around 200, a reduction of around 100 since 1970. Their sales of road haulage amounted in 1995 to around SEK 14 billion.

Around half of the haulage companies had one vehicle i.e. the companies normally had no employees. In recent decades there has been a trend towards larger haulage companies. In 1995 the road haulage industry had around 50,000 lorries, of which approximately 35,000 had a maximum load capacity of at least 3.5 tons. A total of 426 millions tons of freight were transported domestically in 1995. The commercial road transport accounted for around 356 million tons or approximately 80 per cent of this volume.

### 4.2 Regulatory framework

Deregulation of the road haulage industry began in the middle of the 1960s. As the rules for establishment were abolished, this meant that the authorities involved only gave permits to haulage companies if there was a need for increased capacity. In the beginning of the 1970s, price regulation of freight haulage expired.

In the spring of 1987, the control of establishment - involving decisions on whether new capacity was needed - was abolished in the forwarding industry. In practice decisions on the

establishment of domestic long-distance road haulage meant that the authorities examined whether the proposed activity could be carried out by existing companies. These companies also had the opportunity of giving the authority their view on the permit application. ASG and Bilspedition were amongst the first players on this market, and were usually opposed to new companies entering the market. They justified their position by claiming that they themselves could satisfy the need for additional transport. New permits for providing transport were also only granted in exceptional cases.

Current rules for companies establishing themselves on the market should be regarded as providing low market entry barriers. In essence the rules impose requirements on vehicles and companies. Rules relating to these requirements on the companies concern competence as well as the company's financial situation. One financial requirement is that the company has an equity corresponding to a minimum of SEK 30,000 per lorry or SEK 1,500 per ton of the vehicle's load capacity. A Government Commission has recently proposed a major increase in the equity required for entering the road haulage market. One aim with the proposal for an enlarged capital base is to reduce the incentives for the companies to pursue activities on the fringes of the law.

Within the EU, cabotage, the right to provide domestic road transport in a member country other than that where the vehicle is registered, has been successively liberalised. This right will be fully implemented in the EU as of July 1st 1998.

### 4.3 Market development and competition conditions

#### *Local road haulage*

In recent years many local road haulage associations have gradually strengthened their position within the local road haulage industry, mainly because a number of these have merged. A local association of road hauliers is almost invariably the principal player on the local market. The degree of competition in the local road haulage industry depends on the distance between the central offices of the associations and the extent to which they compete with each other. Another important factor is the supply of alternative transport available outside the association. Competition is also greatly influenced by the demand for transport which in its turn is related to the state of the economy and political decisions on investments in roads, bridges etc. The pressure of competition varies also with respect to the type of transport.

In large urban areas the central offices of different associations are located close to each other. In these areas also the high demand for transport contributes to a higher level of competition than in non-urban areas. Certain types of local transport services for e.g. domestic refuse, require special vehicles. In such areas there are, apart from the transport provided by the road haulage association, larger individual companies whose activities cover larger regions or which operate nation-wide.

Local road haulage associations often have a very strong position in the provision of transport for the building and construction industries (mainly earth, gravel and stone), partly because they often own gravel and stone quarrying resources. Another trend is that the local associations are increasing their ability to compete in the area for whole lorry loads.

There is also a development where local associations are increasingly being run as limited liability companies. Certain factors indicate that there is also a gradual transition to greater competition between associations. However, at the same time their numbers are decreasing.



A factor working against high prices for local road haulage is that customers are often powerful buyers e.g. major construction and building companies, municipalities and State agencies.

#### *Domestic long-distance road haulage*

After the deregulation (1987) in the forwarding industry, market concentration has not changed noticeably as the establishment of new long-distance road haulage companies has not changed market concentration noticeably. High concentration should thus be regarded mainly as a consequence of the earlier establishment control system. This was an effective obstacle to establishment and competition and helps to explain the high market concentration. In addition to this, the large forwarding companies have acquired a number of competing companies.

As mentioned earlier, the degree of competition in the freight transport sector has a connection with the state of the economy. Domestic long-distance road haulage is an important means of competition as in principle it provides a nation-wide transport system covering the needs of industrial companies having plants (and customers) in different parts of the country. Effective transport solutions also presuppose the ability to reload at special freight terminals (owned by forwarding companies) before the goods are transported to the customer. Usually these terminals have no alternative use from a business viewpoint. For this reason there are high financial risks involved in entering this market and competing for transport contracts with large companies. This is an additional factor that helps explain why there has been no substantial change in market structure since deregulation.

An important competitive instrument in this market is the quality of the transport offered not least in terms of adhering to contracted - just-in-time-delivery schedules - to customers. Optimal transport solutions in terms of low costs for both transport and the capital tied up in goods are of great importance for commerce and industry. One goal is to minimise total costs of transport and stocks. Development has been in the direction of advanced transport planning based on computer management systems. Freight customers are to varying degrees tied to the forwarding company responsible for transport planning. When choosing a forwarding company, it is common that transport quality e.g. "reliable" transport is given priority over the price of transport itself. This gives the large and well established forwarding companies a competitive advantage.

A factor that counteracts the high prices of domestic long-distance road haulage - as for local road haulage - is that freight customers, especially larger companies, are able either completely or partially to provide their own transport services. Investigations at the beginning of the 1990s showed that small and medium-sized companies with relatively limited transport needs are confronted with high transport prices.

#### *Other*

The road haulage industry faces little competition from other types of transport e.g. railway transport. From the viewpoint of costs and efficiency, there has been a gradual move towards market segmentation between road haulage and rail transport in the freight area based mainly on distance, freight structure and the value of the freight. Development towards industrial production involving a higher proportion of value-added and just-in-time deliveries have favoured road haulage in relation to railway transport. The latter usually transports low valued-added freight and freight of low value. In addition, railway transport is particularly competitive over long distances of more than 300 kms. Intermodal (combined) transport in terms of road and rail are relatively insignificant.

Overall, it can be stated that existing price co-operation between haulage companies can be partially regarded as a consequence of earlier forms of market regulation. Currently the Competition Authority is examining whether provisions in agreements made between haulage companies commissioned by forwarding companies, and agreements between forwarding companies and haulage companies, are compatible with the Swedish Competition Act. Also co-operation between central associations and their member companies as well as agreements between associations and external companies are under examination in terms of their compatibility with the rules of competition. In this context, we make no further reference to these issues.

#### 4.4 Conclusions

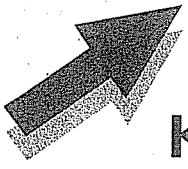
In the market for local road haulage, there are indications that competition within certain regions and between certain types of transport is not functioning effectively. An important factor for the existence of competition in this market is the degree of competition between associations of local road haulage companies. However, there are some indications that competition in the local road haulage market is increasing. Increasing competition is counteracted by the ongoing mergers between associations of road haulage companies. The greatest risk of high transport prices probably exists in the building and construction areas. The conditions for lower transport prices in local road haulage markets are significantly better in large urban areas.

A few forwarding companies have a strong position in the domestic long-distance road haulage industry. The restrictive establishment control system applied earlier has contributed to the high market concentration. It is not probable that competition conditions within domestic long-distance road haulage will change appreciably in the foreseeable future. One reason for this is the existence of high barriers to entering the market, particularly large investments in freight terminals and IT systems. In addition, it is generally difficult to enter a market where major players over a long period have had the opportunity of building up both a high degree of knowledge over how the market operates as well as close customer relations.

The proposal to raise the equity requirement for providing road haulage services makes it more difficult to enter the market and thus will probably weaken competition especially in local road haulage markets.

The right to cabotage from July 1st 1998 may lead to a certain increase in competition in the long-distance road haulage market. In the first instance, this will probably apply to smaller or non-recurring transport volumes for transport customers mainly in the south of Sweden. Increased foreign competition may also occur within local road haulage markets. In the first instance this will probably apply to transport in the building and construction areas as well as for large building contractors.

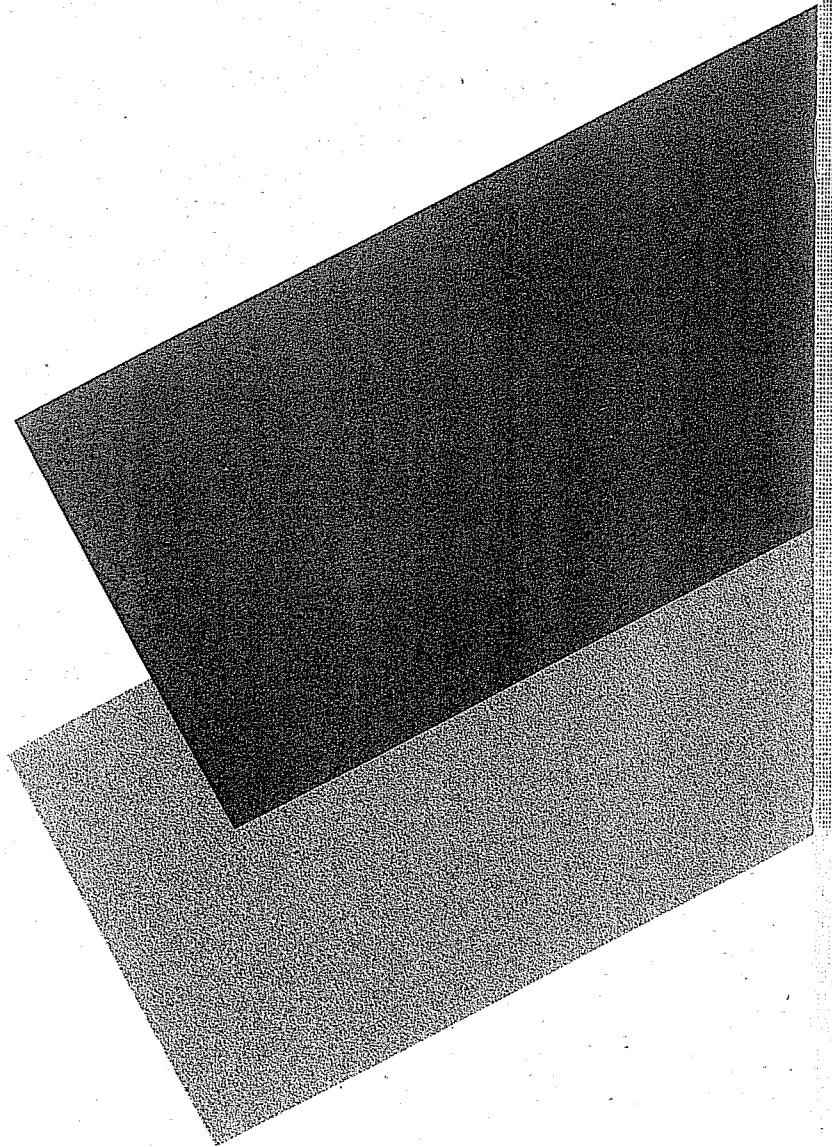
Effective competition between transport companies in Europe presupposes that companies in different countries face similar conditions of competition. This, however, is not the case today since there are different taxes on vehicles and fuel in different countries as well as differences in environmental and road fees/charges. From a competition viewpoint, it is important that the regulatory system, taxes and fees on the transport market in different countries are brought into line with each other.



# KONKURRENSVERKET

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