

The challenge of enlargement
Commission opinion
on Sweden's application
for membership

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Contents

| | |
|---|----|
| Foreword | 5 |
| Introduction | 6 |
| Part One | 7 |
| <i>General</i> | 7 |
| Relations to date between the Community and Sweden | 7 |
| The Swedish economy and the Community | 8 |
| <i>Impact of accession</i> | 11 |
| Agriculture and forestry | 11 |
| Economic and social cohesion | 13 |
| Taxation | 14 |
| Competition | 15 |
| Fisheries | 15 |
| Transport | 16 |
| Industry | 16 |
| External trade | 16 |
| Development cooperation | 17 |
| Foreign and security policy | 18 |
| Cooperation in the fields of justice and home affairs | 20 |
| <i>Conclusions</i> | 20 |
| Part Two | 22 |
| <i>Specific aspects</i> | 22 |
| Agriculture and forestry | 22 |
| Competition | 24 |
| Customs union | 26 |
| Fisheries | 27 |
| Transport | 28 |
| Industry | 29 |
| Environment | 30 |
| Energy | 31 |
| Research and development | 32 |
| Implications for the Community budget | 33 |
| Services | 33 |
| Other sectors | 34 |
| Statistical annex | 36 |

Foreword

1. The Swedish application for membership is being examined at a time when a number of other accession requests are also on the table. These include applications from three other EFTA countries; Austria, Finland and Switzerland. The Commission has adopted its opinion on the accession request of Austria, and is conducting the work relative to the opinions on the consequences of the accessions of Finland and Switzerland.
2. The question of enlargement was addressed by the European Council during its Lisbon meeting of 26 and 27 June 1992, on the basis of a report¹ presented by the Commission. The European Council on that occasion considered that 'the EEA Agreement had paved the way for opening enlargement negotiations with a view to an early conclusion with EFTA countries seeking membership of the European Union. It invited the institutions to speed up preparatory work needed to ensure rapid progress including the preparation before the European Council in Edinburgh of the Union's general negotiation framework. The official negotiations would be opened immediately after the Treaty on European Union was ratified and the agreement had been achieved on the Delors-II package'.
3. In preparing the present opinion, the Commission has assumed, in line with the

conclusions of the European Council in Maastricht in December 1991, that accession will, in accordance with Article O of the Maastricht Treaty, be to a European Union characterized by the establishment of economic and monetary union, ultimately including a single currency; the implementation of a common foreign and security policy, including the eventual framing of a common defence policy, which might in time lead to a common defence; the introduction of a citizenship of the Union and the development of close cooperation in justice and home affairs as well as the strengthening of economic and social cohesion.

4. The European Council in Lisbon also concluded that 'negotiations with the candidate countries would, to the extent possible, be conducted in parallel, while dealing with each candidature on its own merit'. This will be particularly important in the case of the EFTA candidates, not only in respect of the adjustments to the Treaties provided for in Article O, but also because of the numerous similarities in the questions to be addressed in the negotiations.

¹ 'Europe and the challenge of enlargement', Supplement 3/92 — Bull. EC.

Introduction

1. On 1 July 1991, Mr Ingvar Carlsson, the then Swedish Prime Minister, submitted to the Council of the European Communities, on behalf of his government, the application of the Kingdom of Sweden for membership of the European Coal and Steel Community (ECSC), the European Economic Community (EEC) and the European Atomic Energy Community (EAEC).

2. At its meeting of 29 July 1991, the Council decided to set in motion the procedure laid down in Articles 98 of the ECSC Treaty, 237 of the EEC Treaty and 205 of the EAEC Treaty.

3. Following the European Council meeting at Maastricht, on 11 December 1991, the Swedish Prime Minister, Mr Carl Bildt, welcomed the agreement reached by the Heads of State or Government of the Community on the content of the Treaty on European Union, and stated Sweden's willingness to participate actively, as a Member of the Community, in the cooperation in the field of foreign policy and security cooperation, considering that this cooperation will mean that the Community will be able to contribute with reinforced strength and consistency to security, stability and cooperation in the development of the new Europe. The Swe-

dish Prime Minister stated Sweden's aspiration to join as soon as possible the work in view of the creation of the economic and monetary union, which would lay one of the main foundations for positive economic development in the decades ahead. Sweden also welcomed the extension of the cooperation, in the context of the Community, to other new areas of major importance.

4. The Commission has, in this opinion, based itself on the *acquis* of the future European Union. The analysis is focused on those sectors not covered, or only partially covered, by the EEA Agreement. These are the sectors where the impact of accession will be largest and are analysed in the Part One of the present opinion. An additional analysis of specific aspects of these sectors is conducted in Part Two, where also are summarily described the implications of accession on sectors covered by the EEA or where the integration between Sweden and the Community is already very advanced.

5. During the preparation of its opinion, the Commission obtained a wealth of information on Sweden's situation from the Swedish authorities, with which it has remained in close contact, notably through the Swedish Mission to the European Communities in Brussels and the Commission's Delegation in Stockholm.

Part one

General

Relations to date between the Community and Sweden

1. The relations between Sweden and the Community have evolved against the background of Swedish external policy as a whole, both global and regional. Since the Second World War, Sweden has been a full participant in the newly created United Nations system. Within the limits Sweden had set herself as a consequence of her policy of freedom from alliances, she has played an active role in European cooperation both in her immediate vicinity, in the context of the Nordic Council and also in the wider context, participating for instance in the Council of Europe, and, later, in the CSCE.

2. Sweden was a participant in the attempts to create a large free trade area in Europe, in the context of the so-called 'Maudling plan'. When the Treaty of Rome was signed, in 1957, Sweden went on, together with six other European countries, to found the European Free Trade Association (EFTA), in 1960. Sweden continued nevertheless to search for close relations with the Community. In 1961 Sweden requested the opening of negotiations for an Association Agreement to establish closer economic ties. In the event, however, no negotiations were pursued. Later, in 1967 and 1969, Sweden proposed the opening of negotiations for a form of participation in the enlargement of the Community, compatible with her policy of neutrality. Ministerial level contacts were initiated on 10 November 1970, but the initiative ended by evolving in a different direction from that foreseen. When two founding members of the EFTA, the UK and Denmark, joined the Community, free trade agreements were concluded between the Community and the remaining member States of EFTA, including Sweden.

3. These free trade agreements¹ signed in 1972, provided for the progressive abolition,

in respect of trade between the parties in industrial goods, of customs duties, quantitative restrictions and all measures of equivalent effect. The agreements, which also provided for rules on State aid and industrial competition and a number of mutual concessions in the agriculture and fisheries fields, created bilateral Joint Committee meetings regularly to administer them.

4. To mark the completion of this process, the Ministers of the Community and of the EFTA countries met in Luxembourg in April 1984 and adopted a declaration laying down the guidelines for the continuation, deepening and extending of cooperation, within the framework of, and beyond, the free trade agreements, with the objective of progressively establishing a dynamic European economic space. This led to efforts to strengthen and consolidate cooperation on a pragmatic basis, following three main principles (known as the 'Interlaken principles'): priority to the Community's own internal integration; preservation of the Community's decision-making autonomy and a satisfactory balance of advantages and obligations. This enabled a number of important achievements, particularly in free circulation of industrial goods.

5. In his investiture speech at the European Parliament in January 1989, President Delors invited the EFTA States to reflect on the possibility of a more structured partnership. Responding to this declaration, in March 1989 in Oslo, the EFTA Heads of Government declared their readiness to explore, together with the Community, ways and means to achieve such partnership, based on the fullest possible realization of free movements of goods, services, capital and persons as well as enhanced cooperation in fields going beyond the internal market programme. Ministers of the Community and

¹ Agreement between the European Economic Community and the Kingdom of Sweden (OJ L 300, 31.12.1972) and Agreement between the Member States of the European Coal and Steel Community and the European Coal and Steel Community, on the one part, and the Kingdom of Sweden, on the other part (OJ L 350, 19.12.1973).

EFTA States decided in December 1989, in a meeting in Brussels, to open negotiations with a view to reaching such a partnership by the same time the single market will be completed on 1 January 1993.

6. This culminated, after nearly two years of complex negotiations, in the signature, in Oporto, on 2 May 1992 of the Agreement creating the European Economic Area. This agreement, signed by the Community and Sweden, together with the other EFTA States, will, once ratified and in force, establish, throughout the territories of the Contracting Parties, the free circulation of goods, persons, services and capital (known as the 'four freedoms') as well as the broadening and strengthening of the cooperation in a number of other areas. In parallel with the EEA Agreement, Sweden has established a Protocol with the Community to facilitate the exchanges of certain agricultural products. Sweden would thus accede to the rights and obligations of membership from a high level of integration where she was already applying a large part of the Community's *acquis*, not only in the field of the 'four freedoms' but also in such areas as social policy, the environment, company law, consumer protection and competition rules. In the field of social policy, for example, there would be little further legislative change necessary in Sweden as a result of accession beyond that required as a result of taking over the *acquis* of the Community in the context of the EEA.

7. While the Community and Sweden were negotiating the EEA Agreement, the world in general and Europe in particular were changing very fast. Full membership of the Community came to be considered in Sweden as no longer incompatible with the Swedish policy of freedom from alliances. Sweden, realizing also the large extent of the Community *acquis* already taken on board, initiated a reflection about the advantages and disadvantages of requesting membership of the Community, as another member of EFTA, Austria, had already done. It was above all the Swedish determination to play an important role in the construction of the new European architecture that led to the presentation of the request. The then Prime Minister, Mr Ingvar Carlsson, indicated this

in the course of a speech to the Swedish Parliament on 14 June 1991. Recognizing that the Community was regarded as a major driving force for cooperation and development in Europe, Sweden believed that, as a member, her possibilities of influencing this future cooperation—in political, economic and social terms—would be improved, and that membership would be in Sweden's overall interest. Sweden shared the Community's long-term goals, as formulated in the Treaty of Rome and the Single European Act, and wanted to work for their realization together with the other members of the Community.

The Swedish economy and the Community

1. Achieving economic and monetary union in the Community will require increased convergence of its Member States in the monetary and budgetary spheres, greater cohesion in their economic policy objectives and structures, which will need to be all the more competitive in the face of increased competition.

2. Sweden has a population of eight and a half million. Its per capita GDP is around 20% higher than the Community average, putting it close to that of Germany. Its medium-sized economy is heavily dependent on external trade and is already well integrated with Community markets.¹ Trade relations with the Community will soon be boosted by its becoming part of the European Economic Area. The Swedish economy's increasing involvement with the Community, which is already far advanced, should allow it to apply the entire *acquis communautaire* on the internal market right from its accession. In addition, Sweden's unilateral action in linking the Swedish krona to the ecu in 1991 has brought the country's economy closer, in monetary terms, to the economies of countries in the EMS.

3. Sweden's economic development and its people's standard of living are fundamentally dependent on its ability to position its

¹ See 'External trade', pp. 11 and 16.

economy in the international division of labour. This assumes steps to integrate the Swedish economy further into international markets and at the same time to establish structures to improve its competitiveness. However, the pattern of Swedish economic development has been significantly different from that of Community countries and, what is more, its main industrialized trading partners. Essentially, the economy has traditionally had four major specific features:

(i) a level of social protection and public goods provision which has raised State spending as a percentage of GDP, and with it the burden of taxation and other like charges, to 14 points above the Community average;

(ii) a relatively high degree of regulation and weak domestic competition, particularly in the service sector but also in some manufacturing sectors;

(iii) the priority long given to keeping unemployment under control both in the choice of macroeconomic policies and by means of active employment policies — between 1960 and 1990 unemployment never exceeded 3% of the working population;

(iv) weaker performance on inflation during the 1980s than the Community average, with the gap widening towards the end of the period. In 1992, the level of inflation could, however, fall to close to 3% under the influence of the recession and a reduction in the indirect tax burden.

4. In the 1980s this pattern of development was increasingly challenged. One measure of the crisis is that the Swedish economy is currently experiencing one of the worst recessions among the industrialized countries. Another is Sweden's economic decline relative to its industrialized trading partners. For example, per capita GDP was 30% higher than the Community average in 1970 but is now only 20% higher. Moreover, although during the last upturn between 1985 and 1989 domestic demand rose faster in Sweden than in the Community, GDP growth was only about the same and industrial production rose markedly more slowly than in the Community. This decline in Sweden's competitive position was reflected in a rapid deterioration of its external balances over the period.

The gradual extension of State intervention via public finance and regulatory measures restricting competition evidently reflects a popular Swedish preference for collective action and consumption of public goods. This preference has long gone hand in hand with acceptance of an unusually high level of taxation. After all, the bulk (70%) of public consumption is administered at municipal and regional level. Around half of this expenditure is financed by direct taxation set independently at local level.

None the less, the expansion of public intervention has produced macroeconomic and price mechanism dysfunctions, which have made the Swedish economy less efficient and less flexible and have intensified inflationary pressures. On the one hand, a high level of taxation and social welfare increases the strain on the labour market in periods of expansion. On the other hand, distortions in relative prices tie up resources in sectors protected or favoured by public intervention when they could be used more effectively in sectors geared to international markets.

Sweden's strategy, being introduced gradually since the late 1980s, for eliminating these dysfunctions has been to pursue sustained monetary stability and revive market mechanisms. In its present form, the strategy will involve reducing public spending and taxation as a percentage of GDP. It is seen as important that the objective of the structural reforms (some of which have already been started) should be to eliminate obstacles to allocating resources in the most efficient way possible. In this way, the Swedes' preference for a relatively high level of consumption of public goods can be reconciled with a healthy competitive position and a dynamic economy. Integrating the Swedish economy into first, the internal market and then the Community will none the less increase the effectiveness of the reforms.

5. In 1991 inflation fell substantially to 3%, which is lower than the Community average, from 10% in 1990. This was linked to a fall in demand, a rise in unemployment and a cut in the rate of indirect taxation. This achievement has yet to be confirmed in conditions of economic recovery, but the prospects are indeed good.

6. The new objective set for monetary and exchange rate policy is creating conditions for stability and convergence with the countries in the EMS. It has already gained in credibility. The switch in the first half of the 1980s from a monetary policy based on credit controls to one based on interest rates, similar to that applied in the Community, has given Sweden the instruments it needs for this purpose. The more recent but now almost complete liberalization of capital movements is contributing greatly to achieving this objective, increasing the integration of Sweden's money and capital markets with those of the Community. However, the credibility of monetary policy will have to be increased still more by judicious use of economic policy.

7. The new exchange rate objective links Swedish interest rates and prices more closely to those on the international markets. Consequently, a surge in nominal wages is reflected more quickly in the labour market in a loss of competitiveness and profitability and in higher interest rates. In future, labour market adjustments will depend more on a greater flexibility in nominal wages.

In Sweden, the social partners negotiate wages independently in a highly centralized manner. This model of wage negotiation means that they bear a great responsibility for the macroeconomic consequences of their wage agreements. In the past, the consequences of wage agreements have often been offset by a rise in inflation, which moderates real wages but is ultimately detrimental to competitiveness and optimal resource allocation, and by the absorption of a significant proportion of the working population by means of active employment policies. The new monetary regime is fundamentally at odds with the first of these adjustment mechanisms because it compels the social partners to pay more attention to the twin objectives of stability and full employment. Moreover, the impact of active employment policies is limited both by budgetary constraints and by the fact that their effectiveness decreases as the number of people covered by them rises.

8. For budgetary policy this is certainly a crucial point in time. The budget, which was

still in surplus in 1990, is expected to show a deficit of close to 5% of GDP in 1993. Up to now the Swedish Government has given priority to reducing the tax burden, which will fall from around 56% of GDP in 1991 to 51% in 1993 as a result of reforms already undertaken or planned, as well as the effects of a decline in economic activity. Despite reductions in spending (equal to around 2% of GDP) planned in the supplementary bill presented by the government in late April, public spending's share of GDP will probably rise by almost two percentage points between 1991 and 1993. At present, Parliament is examining a number of structural reforms aimed at halting the trend in public spending as part of a medium-term strategy. It should be noted that the Swedish public debt in relation to GDP in recent years has been substantially lower than the average of the Community.¹ Whatever happens, the effort required to reconcile the objectives of reducing taxes and bringing public finances back into equilibrium will be considerable.

9. Since the late 1980s, the Swedish authorities have had to move quickly to introduce a strategy to revitalize the economy. On the one hand, given the specific characteristics of the Swedish economy and its comparative advantages, it had little choice but to opt for closer integration with a Community which was advancing towards the internal market and monetary union. On the other hand, internal tensions and the need to restore competitiveness in the face of increased competition demanded a thorough review of the very functioning of the economy. This review is far from being finished, although important measures have already been taken. A key issue is the redefinition of the public sector. There is political and social pressure to find a balance which will reconcile the specific preferences of the Swedes with the need for efficiency which, alone, will enable the country to preserve in the long term its remarkable achievements, namely a standard of living well above the Community average and low unemployment. Pursuing these objectives with determination will allow Sweden to integrate into the Community without too much difficulty and eventually to make a positive contribution to the achievement of monetary union.

¹ See Graph 21 in the Statistical annex.

10. Sweden's external trade is strongly directed towards Europe and in particular the Community, which accounts for 55% of both its exports and its imports. Sweden's fellow members of EFTA, three of which have applied for membership of the Community, account for 18% of its exports and imports. Central and Eastern Europe now account for some 2.3% of Sweden's external trade.

Sweden's largest export markets outside Europe are the United States (8%) and Japan (2.1%), which also supply 8.5% and 5.1% respectively of its imports.

Despite the modest size of its economy, Sweden ranked fourth as a supplier of the Community in 1991, after the US, Japan and Switzerland, accounting for about 5.1% of imports from outside the Community (ECU 21.9 billion). It was the Community's fifth largest export market after the US, Switzerland, Austria and Japan, taking 5.2% (ECU 25.2 billion) of total EC exports.

Since the late 1980s, Sweden has had a substantial trade surplus with the Community, which amounted to ECU 3.3 billion in 1991.

The pattern of trade between the Community and Sweden is fairly similar in both directions, mainly comprising machinery and manufactured goods. The Community's major imports from Sweden are paper and board (16.3% or ECU 4.1 billion), machinery (16% or ECU 4 billion), vehicles and vehicle accessories (13.2% or ECU 3.3 billion) and electric motors (6% or ECU 1.5 billion). The Community's major exports to Sweden were machinery (18% or ECU 3.9 billion), electric motors (10% or ECU 2.1 billion), vehicles and vehicle accessories (9.5% or ECU 2 billion) and plastics (4.6% or ECU 1 billion).

Impact of accession

Agriculture and forestry

1. Sweden has about 2.8 million ha of arable land and about 0.3 million ha of meadows. Of the arable land, about 1.2 million ha is grain area and 0.9 million ha is pasture and temporary pasture. The remain-

ing area of 0.6 to 0.7 million ha is either used for other crops or it is left fallow. The area of Sweden covered by forest totals 23.4 million ha which is slightly less than 60% of the area of the entire country.¹

Production of a number of important agricultural products has in recent years exceeded the 100% degree of self-sufficiency. As a result of a major reform of the Swedish agricultural policy, decided in 1990 and implemented from 1 July 1991, the surplus production is expected to be reduced or eliminated. In the livestock sector production has already fallen significantly and earlier surpluses have virtually disappeared. Compared with EC agricultural production, Sweden's production represents 1 to 3% according to the product.

2. Presently, the Swedish system of support to the agricultural sector differs from that of the Community. The Swedish deregulation has meant a shift away from certain traditional policy instruments (e.g. internal market and price regulations and export refunds) which are still an important part of the CAP. Given the overall importance of market and price policy for the CAP, the adaptation of the Swedish policy is necessary. In particular, a reintroduction of the above policy instruments and quota system would be necessary, as well as, in certain sectors, a reduction of the level of producer prices. Since the fruit and vegetable sector in Sweden is not regulated, an adjustment to the CAP will necessitate the adoption of intervention buying and export support for these products.

The level of border protection for some major agricultural products is higher in the EC than in Sweden, although market prices are often lower. Nevertheless, as a general rule, harmonization of the Swedish border protection should not cause major problems.

3. Under present conditions, a Swedish accession to the EC would mean, in terms of consequences for Swedish producers, a downward pressure on prices for some of the main agricultural products. A preliminary study done in Sweden² showed that the

¹ A more detailed description of the Swedish agriculture sector is enclosed in Part Two.

² Before the CAP reform.

general producer price for cereals in the EC was somewhat lower than the long-term prices expected in Sweden. For most livestock products, a downward pressure on producer prices is expected. Feed costs will, however, also be lower and to some extent compensate for the lower prices of livestock products. In the sugar sector, no dramatic changes are expected as regards producer prices and production. The level of EC direct support for certain feed crops such as peas and beans and for grass seed is generally higher than in Sweden. For lamb and sheepmeat, an accession would mean increased support as well as increased import competition. For horticultural products, an accession is expected to lead to a downward pressure on producer prices. An adaptation by the Swedish farmers to the conditions prevailing on the EC market means that they will be exposed to generally lower producer prices, a reduced support level and more intense competition. As a result of decreasing producer prices and stronger competition, reduced consumer prices as well as a broader variation of food supply can be expected in Sweden.

4. Given the small volume of production of the applicant country compared to the production volume of the Community, no global effects for Community markets have to be expected, especially since Sweden is reducing or has already eliminated its earlier surplus production. However, there is a possibility that regional trade flows between countries directly neighbouring Sweden could be shifted. This would possibly result in the need for regional adaptation.

5. Production patterns and climatic conditions in the south of Sweden are not very different from those prevailing in the northern EC countries, although the low population density and the geographical location may give Swedish agriculture certain specific characteristics. In the north of Sweden, however, the conditions for agriculture are quite different from those in the south. The northern parts of Sweden constitute a special problem given in particular the extremely low density of population, unfavourable climatic conditions, long transport distances and higher production costs. For many different reasons, such as regional development, employment, national security and

nature conservation, special support is therefore directed to these regions. The agricultural sector is one of the main beneficiaries of these supports. According to Swedish estimates, the level of support directed to the north of Sweden as a part of the Swedish agriculture policy considerably exceeds the corresponding support levels in the EC. It is anticipated that Sweden would wish to maintain a high level of support in the event of accession. The Community would have to verify, in the course of negotiations, compatibility between such support and the Community's relevant policies and legislation, including State aid policy.

6. The existence in Sweden of a variety of measures in the field of agricultural structures and rural development which are specifically adapted to its own situation makes a direct comparison with EC rural development measures somewhat difficult. However, the adoption of the accompanying measures to the CAP reform enlarged the range of Swedish rural development measures comparable with those of the EC. This applies both to a number of horizontal measures and to the regional development measures.¹ As far as horizontal measures are concerned, two of the main measures do not have equivalents in Sweden: aids for investment in farms and aids for processing and marketing of agricultural and forestry products. The same applies to the early retirement schemes or measures aimed at encouraging accounting on agricultural holdings, launching of mutual assistance, relief and management services, start-up for launching producers' groups. EC aids to young farmers or vocational training aids have comparable equivalents in Sweden. This is also true of the set-aside scheme and the conversion scheme, especially after the CAP reform. Sweden has no geographical definition of less favoured areas on which to base payments per livestock units. Direct payments to farmers were introduced for a transitional period, without any geographical definition. These payments are much higher than the maximum amount available under EC legislation. Concerning the regional development measures, regions in the north of Sweden

¹ The possibility of Community aids is analysed in 'Economic and social cohesion', p. 13.

already benefit from support, mainly addressed to the agricultural sector. Any aids by the Community under Objective 5b¹ could be extended to new sectors of activity in rural areas, to environment, training and other measures as well as cover new areas within agriculture, such as the reparcelling of farms.

Environmental measures are very important in Sweden. The programme to reduce plant nutrients losses and the programme to reduce the damage of using pesticides both seem to have some elements comparable with EC legislation on extensification, but many others have no equivalent in the EC. Important aid measures are applied, in Sweden, in support of landscape conservation. Their content is largely comparable with the recent Community decision, in the context of the CAP reform, on agri-environmental measures. The adaptation of the Swedish forest and environment legislation could require adaptations but should not cause any major obstacle.

Both Sweden and the EC give plantation grants for forest. Swedish grant levels are relatively low compared to EC maxima. On the other hand the conversion grants for planting forest on arable acreage are higher than the EC level. Conditions of eligibility should be examined more carefully to see if they correspond to EC eligibility conditions.

Economic and social cohesion

1. As this report describes elsewhere,² the Swedish economy has experienced quite a serious recession since 1989, registering rates of inflation (10% in 1990, 3% in 1991) and unemployment (5.7% in February 1992) which, although lower than the Community average, are nevertheless a far cry from the country's past standards. In Norbotten county in the far north, unemployment is now at 9.5% and has even reached 15% in some municipalities. Elsewhere, the recession has exacerbated employment problems in areas converting from traditional industries such as paper, steel and iron mining.

2. The current economic climate is affecting the different regions to varying degrees.

The north-west of the country is the least developed, in terms of both per capita income and employment, while the inland areas to the south (Jönköping, Älsborg, Åksbirgn Skaraborg and Västmanland) are the most industrialized. However, these divergences between regions are not as pronounced as those between Community Member States.

3. Although the Swedish Government introduced changes in its regional aid policy in 1990 (giving priority to direct aid for infrastructure projects, targeting the sectors of the economy in greatest difficulty and reducing the degree of aid) too much regional aid still appears to exceed the levels applied in the Community.³

4. The Swedish regions⁴ will be eligible for Community structural Funds under regional Objectives 1, 2 and 5b⁵ only if they satisfy the conditions laid down in Regulations (EEC) Nos 2052/88 and 4253/88.⁶

¹ See 'Economic and social cohesion', below.

² See 'The Swedish economy and the Community', p. 8.

³ This point is dealt with in the section on competition.

⁴ In the absence of regional division into NUTS, the eligibility of Swedish regions for Community funding will have to be assessed on the basis of the counties (*län*) and the areas receiving regional aid in Sweden.

⁵ (a) *Regional objectives*

1. Promoting the development and structural adjustment of the regions whose development is lagging behind (whose per capita GDP is lower than or near 75% of the Community average);

2. Converting the regions seriously affected by industrial decline (eligibility criteria: unemployment rate higher than the Community average, proportion of total employment accounted for by industrial employment equal to or above the average, falling industrial employment);

5b. Promoting the development of rural areas (criteria: high level of total employment accounted for by agricultural employment, low agricultural income levels and low socio-economic development in terms of GDP per capita).

(b) *Horizontal objectives*

3. Combating long-term unemployment;

4. Facilitating the occupational integration of young people;

5a. Adjustment of agriculture and forestry production, processing and marketing structures.

⁶ Regulation (EEC) No 2052/88 of 24.6.1988 (OJ L 185, 15.7.1988) and Regulation (EEC) No 4253/88 of 19.12.1988 (OJ L 374, 31.12.1988).

5. According to the criteria currently in force, the Swedish regions are not eligible for funding under Objective 1. As regards Objective 2, the industrial regions will have to be assessed on the basis of the most recent figures available at the moment of accession with a view to determining whether or not areas particularly affected by industrial decline are eligible.

6. Some of Sweden's rural areas furthest removed from the country's (and the Community's) economic centres may, in that they have greater transport and communications problems, meet the eligibility criteria for Objective 5b. As with Objective 2, the regions concerned will have to be assessed in detail on accession.

7. A number of the more important horizontal measures listed above under Objective 5a have no equivalent in Sweden — for example, farm investment aid or processing and marketing aid in the agriculture and forestry sectors. Other measures, such as aid to young farmers, do have equivalents in Sweden, which will have to introduce certain changes if it is to satisfy the eligibility criteria laid down by Community legislation.

8. In view of the recent increases in unemployment, Sweden could probably benefit, to a certain extent, from aid granted by the European Social Fund under horizontal Objectives 3 and 4. However, if long-term and youth unemployment levels remain relatively low compared to the Community average, Sweden would probably qualify for only fairly modest amounts under these two objectives.

9. With a view to the application of Community rules, notably as regards the structural Funds, the Swedish Government will have to supply the appropriate national and regional data drawn up to Community standards.

10. The accession of Sweden would bring Arctic and sub-Arctic regions into the Community for the first time. The climatic and demographic features specific to such regions would increase the regional and social diversity and would need to be taken into account in EC structural policies.

Taxation

1. The level of the overall tax burden in Sweden (taxes and social security contributions) is the highest among OECD countries and substantially higher than the average of the EC Member States. However, the tax reform introduced during the last three years will tend progressively to reduce the overall level of the tax burden.

Furthermore, the structure of the tax burden in Sweden, i.e. the distribution of the burden between different types of tax and social contributions, is comparable to that of the Community.

2. The areas of company taxation and direct taxation were not covered by the EEA Agreement and will have to be discussed during the accession negotiations. Sweden is expected to be able to introduce these measures without any need for transitional periods. Sweden will also have to accept the Convention of the Member States of the Community on the elimination of double taxation in connection with the adjustment of profits of associated enterprises.¹

3. Sweden operates a complete value-added tax system, which was introduced in 1969. Until 1992, in common with other Nordic countries, Sweden had a single VAT rate system, at a level of 25%. In 1992, the standard VAT rate was lowered from 25 to 22% and a reduced rate of 18% was introduced applying notably to foodstuffs.

In the context of the present Swedish policy which is directed at a continuous lowering of the tax pressure, the possibility of further reducing VAT rates would bring Swedish rates closer to the EC minimum levels: 15% for the VAT standard rate and 5% for the reduced rate.

4. Sweden presently applies 23 excise duties, which are characterized by their very high rates, especially in the energy sector and for alcohol and tobacco products.

The Swedish tax level on alcoholic beverages is, as a matter of health policy, significantly above the minimum rates decided for post-1992. Sweden would be able to maintain this

¹ Council Directive 90/436/EEC (OJ L 225, 20.8.1992).

level of taxation after accession, but would have to consider the consequences of the abolition of restrictions on private individuals' purchases in other Member States.

Tobacco products are subject to a specific tax. There would be no obligation for Sweden to change the rate levels on tobacco products as the Community legislation will be based on minimum levels. Sweden will have only to adapt its way of calculating the tax.

Mineral oils are subject to three different taxes apart from VAT: energy tax, CO₂ tax and sulphur tax. In view of the need for approximation to the Community average, Sweden has adopted a new energy taxation, maintaining the current environment objective but with a reduced level of taxation.

There are at present a number of other products which are subject to excise duties. Several of the latter are however to be abolished on 1 January 1993. Unlike the excise duties on mineral oils, tobacco products and alcoholic drinks, duties on other products are not being approximated to the Community level. Member States are permitted to keep such duties provided that they do not give rise to border-crossing formalities in trade between Member States.

Competition

1. Driven by the need to integrate the Swedish economy into the Community market, the government has radically altered its anti-trust legislation, which had previously allowed an economic environment to exist in which cartels flourished. The Swedes have made considerable efforts to bring their competition laws into line with Community legislation.

The biggest change concerns the replacement of the old system involving abuse control with a new one based on the Treaty of Rome and outright bans. This is an encouraging development, but the new rules have yet to be effectively implemented: this will largely be the responsibility of the newly created Swedish Competition Board.

2. Progress in the field of State aid has also been encouraging, with the total amount

disbursed to companies having halved between 1986 and 1990. Nevertheless, closer inspection reveals the existence of a number of aid packages that may not be compatible with a common market. Examples include a number of export subsidies and certain cases of regional aid, sectoral aid and aid cumulation.

3. There are some concerns about State monopolies of a commercial character, within the meaning of Article 37 of the EEC Treaty, the alcohol monopoly being one that is particularly worrying. To date, the Swedish Government has taken no steps to remedy this situation in preparation for the entry into force of the EEA, which contains similar provisions to Article 37 of the EEC Treaty.

However, in sectors such as electricity and rail transport, in which enterprises are granted special or exclusive rights within the meaning of Article 90(1) of the EEC Treaty, legislative reforms that should open up the Swedish market have been announced for 1992. These reforms will have to be assessed in the light of developments in Community policy.

4. All in all, the anti-trust law changes and the reduction of overall State aid will help the integration of the Swedish economy into the Community, but these measures do not of themselves justify the conclusion that Community competition rules can be implemented in Sweden without difficulty. The effectiveness of the EFTA Surveillance Authority and the application of the *acquis communautaire* from 1 January 1993 will be a vital test, particularly in respect of certain State aids and the alcohol monopoly, which is giving cause for concern.

Fisheries

1. Despite its long coastline, Sweden's maritime fisheries sector is not as large as that of its neighbours. As things stand, its accession therefore seems unlikely to change the nature of the common fisheries policy appreciably. Sweden also seems unlikely to have any major problem in adapting its fishing policy, given the commitments on opening up markets made under the EEA Agreement.

2. Nevertheless, the full appreciation of the *acquis communautaire* will require a detailed examination of reciprocity of access to fishing waters and of the exploitation of resources (in particular the adaptation of Sweden's system of management to the Community's quota-based system) and the organization of markets, because of the total lack of legislation on the subject.

3. After accession Sweden will participate fully in the common fisheries policy. In the mean time, the Community must closely monitor the development of its fishing links with countries such as the Baltic States and the Russian Federation, with which specific agreements providing for quota exchanges have been agreed for 1992.

Transport

1. All questions concerning the extension of the Community legislation in the transport sector to Sweden are treated in the EEA Agreement. No transitional periods or exemptions will apply for Sweden in this case, which proves that the Community and Swedish transport policy are evolving in the same direction.

2. Compared to the Community, Sweden is applying in national transport higher weight and dimension limits for heavy vehicles. The length of 24 metres and the maximum weight of 64 tonnes are considered economically necessary for timber transport, in particular. Vehicle weights and dimensions in national transport would have to be discussed in the accession negotiations.

Industry

1. For the majority of the industrial sectors no problems are expected in relation to Sweden's likely membership as most of the relevant Community *acquis* will already be adopted by Sweden by virtue of the EEA Agreement. Transitional periods were restricted to exceptional cases and strictly limited in time. As a result, Swedish legislation will already be, not later than 1 June 1995, adjusted to the obligations of Community membership in almost all areas.

2. In some areas, nevertheless, such as in the chemicals, motor vehicles or construction sectors, particular issues remain to be addressed in the context of the accession negotiations.¹

External trade

1. As a member of the European Economic Community, Sweden would be bound by the Common Customs Tariff and by the Community common commercial policy towards third countries.

2. The Swedish tariffs on industrial products are comparable with those of the Common Customs Tariff (CCT). The average level of MFN duties for such goods is 4.6% and 5.6% respectively.²

3. The introduction of the common commercial policy would mean the application to Sweden's external trade of the relevant basic provisions of the Treaty of Rome (and notably those of Article 113 of the EEC Treaty) as well as of the Community *acquis* in this field and in particular:

- (i) the common import regime,
- (ii) the rules concerning dumping or subsidization by countries not members of the Community,
- (iii) the common export regime,
- (iv) the so-called new commercial policy instrument,
- (v) the rules concerning the prevention of imports of counterfeit goods,
- (vi) the Community's system of generalized tariff preferences towards developing countries.

4. Any trade policy instruments or measures currently applied by Sweden would have to be modified or repealed so as to bring Swedish law into conformity with her obligations under the above *acquis*. Given Sweden's current liberal trade policy for industrial products, none of these is likely to

¹ These are analysed in Part Two, 'Industry', p. 29.

² See also 'Customs union', p. 26.

give rise to major difficulties. Sweden has an anti-dumping regime based, as is that of the Community, on the GATT anti-dumping code. Sweden has introduced in 1972 a generalized preferences system characterized by total exemption from import duties for goods to which the system applies as well as no tariff quotas or ceilings. A comparison between the two GSP systems, by experts of the two sides, is under way.

One possible area of difficulty could be the application in Sweden of Community decisions concerning economic relations with third countries taken following decisions reached within the framework of political cooperation (or future common positions or joint actions of the CFSP). There might also be problems in the application of Article 59 of the ECSC Treaty.¹

5. Sweden would have to take over the existing agreements the Community has established with third countries in the area of preferential agreements. The most important are those with the (remaining) members of EFTA, the Europe Agreements with the countries of Central and Eastern Europe, the various Mediterranean agreements and the Lomé Convention. None of these should give rise to any substantial difficulty for any of the parties involved. In certain cases, the Community itself might need to renegotiate its existing agreements with certain partners to take account of Sweden's accession, to the extent the technical adaptation or transitional periods were called for, e.g. the EEA Agreement, bilateral textile agreements and preferential agreements with third countries.

6. Sweden has no restrictions on the imports of textiles and clothing and has not signed the protocol of extension of the agreement regarding international trade in textiles (MFA). The Swedish trade in textiles would have to be subject to the Community own regime on imports of textiles as it emerges from the discussions presently taking place in the context of the Uruguay Round. Any resulting increase in protection which might arise out of the Swedish accession might need to be compensated by increases in quotas to reflect the traditional trade flows between Sweden and third countries.

7. Sweden would have to repeal the trade agreements it presently has with third parties. As a general rule this should not pose major difficulties, since Sweden only has few free trade agreements, most of which with European partners. A particular case that would require close scrutiny refers to the Baltic States with which Sweden has entered into free trade agreements while the Community still has relations based on MFN treatment.

8. Sweden would have to cease to be a member of EFTA, her relations with these countries being henceforth ruled by the EC's own agreements with the EFTA countries. The EEA Agreement would cease to be applicable to the bilateral relations between Sweden and the Community.

The implications of Sweden's accession to the Union for trade relations with third countries would have to be the subject of a GATT assessment under Article XXIV of the General Agreement.

Development cooperation

1. Sweden has been traditionally closely involved in development cooperation aid, the amounts consecrated to that purpose corresponding to one of the highest proportions of GDP in the world. The experience gathered by Sweden in the area of development cooperation would represent an asset to the Community, particularly in the context of the establishment of a common development policy arising from the Treaty on European Union.² Sweden would have no difficulty in accepting all the *acquis* and joining all the international agreements the Community has established in this area. Sweden would participate in new areas of development cooperation; for example, Sweden has presently no system for compensation for losses in export earnings of the Stabex or Sysmin type.

2. As far as the relations with the ACP States are concerned, the accession of

¹ See also 'Foreign and security policy', p. 18.

² Through the addition to the EEC Treaty of Title XVII, containing Articles 130u to 130y.

Sweden to the Community would imply the accession to the Lomé Convention and the participation in the EDFs.

3. A protocol of accession would be concluded in order for Sweden to become a contracting party to the Lomé Convention. Indeed, under Article 358 of Lomé IV, the Community is required to inform the ACP States of its decision to enter negotiations in view of the accession of a third country. Regular contacts between the Community and the ACP States are foreseen to take place during accession negotiations. Once these negotiations are concluded, the Community and the ACP States will enter negotiations in order to establish a protocol of accession and adopt any adaptation or transitional measures deemed necessary.

Foreign and security policy

1. Sweden's external relations have traditionally been determined by her policy of neutrality, which dates back to the 19th century. The Swedish policy of permanent neutrality, although never defined or incorporated in law, pursued the same goals as other permanent neutralities: pre-ordained neutrality in possible wars through restrictions on foreign policy in peace time. The policy, designated as 'non-participation in alliances in peace time, aiming at neutrality in war', was based on a national consensus. This consensus is now evolving.

Sweden's neutrality was furthermore characterized by her strong commitment to maintaining the capability of ensuring its own defence. Sweden has thus developed an important military capability.

2. Up until the end of the cold war, membership of the European Community was considered by Sweden to be incompatible with her policy of neutrality. The latter has not however prevented Sweden, since 1945, from playing an active international role with the emphasis on the UN, EFTA, Nordic cooperation, CSCE, the Baltic States, the G-24 exercise and in the provision of development assistance to the Third World. Sweden has participated in many peace-keeping missions in the UN context, placing its military expertise and capacity at the

service of her commitment to the UN system and to peace.

3. The unification of Germany, the emergence of the new democracies in Central and Eastern Europe, the dissolution of the Warsaw pact and the transformations undergone by the former Soviet Union have led to a major reassessment of Swedish external policy. In a statement to the Riksdag on 14 June 1991, on the Swedish membership application, Prime Minister Carlsson considered that, in these new circumstances, conditions had improved for the realization of a vision of a united Europe, living in peace, prosperity and social justice, through a broad cooperation in which Sweden had an important role to play. Noting that throughout Europe, the European Community was regarded as a major driving force for cooperation and development, Sweden considered that, as a member, her possibilities of influencing this future cooperation would be increased. This was one of the important factors in the Swedish decision to apply, without reservation, for membership of the European Community.

4. The election of a new government in September 1991 confirmed a change in attitude towards Swedish security policy and neutrality. Prime Minister Bildt's policy statement of 4 October 1991 declared that 'the formulation of Swedish foreign and security policy will change in a changing Europe'. Today, the Swedish Government declares that the term 'policy of neutrality' is no longer an adequate description and prefers instead to speak of 'Swedish foreign and security policy with a European identity'. The government has indicated an openness to closer cooperation with European partners in the security field. It considers, none the less, that Sweden retains sole responsibility for her own defence.

5. The Swedish application must be viewed against her willingness and ability to fulfil the obligations arising out of the European Union's external policies in the broadest sense, from the common commercial policy of the Community to the provisions of Title V, on common foreign and security policy (CFSP), of the Maastricht Treaty. Sweden will have to accept the *acquis* in all of these areas, as it may have developed by the time of her accession.

6. The Swedish Prime Minister welcomed, on 11 December 1991, the decisions taken in Maastricht and stated Sweden's willingness, once a Member of the Union, to participate fully in the field of foreign and security policy. He has later confirmed that Sweden accepts all the provisions of that Treaty.

7. By declaring herself ready to accept all the provisions of the Treaty on European Union, Sweden would appear to have implicitly accepted that the Union will eventually frame, in the context of the CFSP, 'a common defence policy, which might in time lead to a common defence' (Article J.4).

The current Swedish position, nevertheless, still falls some way short of the objective of a common defence in the context of the European Union. The Member States of the Western European Union (WEU), in their declaration at Maastricht, invited Member States of the European Union to accede to the WEU or to become observers if they so wish. The majority view of the Swedish parliament is that only after Sweden has joined the European Union should the question of participation in the WEU be decided. Until then, the Swedish defence policy will remain one of military non-alliance.

8. The question is whether the traditional Swedish policy of neutrality—which is now evolving—might stand in the way of a full acceptance of the Union's external policies. Since the Swedish policy of neutrality is not rooted in national or international law, the doctrine of the anticipated effects in peace time of maintaining neutrality in war time is less developed in Sweden than it is in some other countries where there is a legal basis for neutrality.¹

In the domain of the common commercial policy, the Community's practice of imposing economic sanctions on certain third countries on the basis of Article 113 of the EEC Treaty, after a consensus to this effect has been reached within the framework of political cooperation (e.g. Argentina, USSR, South Africa, Iraq, Serbia-Montenegro) — a practice which is now codified in Article 228A of the Maastricht Treaty—might pose problems for Sweden. This is certainly not the case for sanctions taken pursuant to UN Security Council resolutions, since Sweden has always wholeheartedly supported such

sanctions and regarded them as not in conflict with her neutrality. Problems might arise however in relation to peace-time trading restrictions (of a political or strategic nature). They might lead to a policy conflict but Sweden's freedom to determine her position within the Union's institutions *vis-à-vis* such measures would remain unfettered, since it is not bound by any legal obligations of neutrality.

Insofar as accession to the ECSC Treaty is concerned, Article 59 (critical shortage) could theoretically lead to a situation where Sweden would be forced to prohibit the export of coal and/or steel (strategic commodities) to third countries. In time of war this would be contrary to the duties of a neutral State.

Furthermore, Chapter VI of the Euratom Treaty may force Sweden to deliver, or to agree to delivery by the Supply Agency, of source materials or special fissile materials to any Member State in time of war.

Finally, in respect of the CFSP, the question arises to what extent Sweden, which, as an armed neutral, has always laid great emphasis on the capability of defending the national territory, can fully share some of its objectives, such as the safeguarding of the independence and security of the Union, and the evolution towards a common defence policy of the Union (Article J.4).

9. An assessment of the relevant articles and associated declarations of the Maastricht Treaty leads to the conclusion that Sweden could fulfil all CFSP obligations. There is a strong consensus in Sweden favouring a full and active role for Sweden within the European Union. There remain reservations, however, regarding the eventual framing of a common defence policy and these reservations are even more marked as regards the possible establishment, in time, of a common defence. The Community would need, in the context of the accession

¹ It should be recalled, however, that in acceding to the International Energy Agency, Sweden has made exactly the same declaration as Austria and Switzerland which left it considerable freedom of manoeuvre to act as it wished in conformity with its status of neutral even in the face of binding decisions of the IEA in time of an energy crisis.

negotiations, to ascertain further the full nature of the present Swedish policy in order to be satisfied that this would not hamper the possible evolution in time of a common European defence. As the Commission already pointed out in its report on enlargement¹ of 24 June 1992, 'specific and binding assurances will be sought from (applicant countries) with regard to their political commitment and legal capacity to fulfil the obligations' of the common foreign and security policy.

Cooperation in the fields of justice and home affairs

1. Declaring its acceptance of all the provisions of the Treaty on European Union,² Sweden has implicitly indicated its acceptance of all the decisions concerning the cooperation in the fields of justice and home affairs, included under Title VI of the Treaty on European Union. These include asylum policy, the movement of nationals of third countries across the external borders of the Community, the immigration policy including conditions of entry, movement and residence of nationals of third countries. Sweden is particularly well informed on all these questions, having followed them closely because of their implications for the workings of the Nordic Passport Union Agreement.

In the last years, Sweden has restricted immigration to refugees and asylum seekers and to cases justified on humanitarian grounds. Sweden has considerable experience in dealing with matters related to refugees and asylum seekers and would not have difficulty in participating in cooperation in this area.

2. Sweden would equally be ready to join cooperation in the fight against drug addiction and fraud on an international scale, judicial cooperation in civil and criminal matters, customs cooperation and police cooperation for the purposes of preventing and combating terrorism, unlawful drug trafficking and other serious forms of international crime. Sweden has both the means and the will to cooperate fully in these areas and is already one of the partners regularly consulted in the Trevi framework.

Conclusions

1. According to the Treaty on European Union,³ a State which applies for membership must satisfy the three basic conditions of European identity, democratic status and respect for human rights. Sweden's democratic traditions and human rights record are as valid as her important place in European history and culture.

2. In the accession negotiations, the Union should take as a basis the rules and structures as they will exist following the entry into force of the Treaty on European Union.

3. As the Commission had noted in its report 'Europe and the challenge of enlargement', the accession of the EFTA countries who have applied for membership 'should not pose insuperable problems of an economic nature, and indeed would strengthen the Community in a number of ways'. The findings of the present report show that in the specific case of Sweden this would be particularly true as regards economic and monetary, social and environmental policies and synergy effects in the field of research and development.

4. Sweden has free trade in industrial products with the Community in the context of the free trade agreements of 1972.⁴ This relationship will be further developed in the context of the EEA Agreement. Furthermore, Sweden has close relations with the Community in the economic and monetary field, the Swedish krona being linked unilaterally to the ecu since 1991. Accession to the Union is expected to contribute to creating the conditions for strengthening the Swedish economy. As regards the Community's *acquis*, much of this will already be applied by virtue of the EEA Agreement.

5. There are some areas where problems might arise, but the Commission considers that it should be possible to solve these satisfactorily during accession negotiations. Although Swedish agricultural policy is evolving in very much the same direction as

¹ See footnote 1, p. 5.

² See Introduction, p. 6.

³ Articles F and O.

⁴ See footnote 1, p. 7.

that of the Community, accession would represent an important challenge for Swedish agriculture, resulting in lower prices, reduced support level and increased competition. Changes would be required also in a number of other sectors. State monopolies, such as that for alcoholic beverages, would have to be adapted. Competition in general would increase in a number of fields. Swedish national policy in relation to regions facing particular difficulties, such as the northernmost regions of Sweden, would have to be implemented in forms compatible with the Community *acquis*. Changes, mostly of a technical nature, would also be required in Swedish policies in a number of other fields such as fisheries, transport and industry.

6. The Union will on the whole benefit from the accession of Sweden, which would widen the circle of countries whose prospective economic, monetary and budgetary performance is likely to contribute to the development of the economic and monetary union.

7. In the area of foreign and security policy, the Community notes that Swedish policy has evolved significantly, especially since the beginning of the 1990s. There seems to exist a consensus in Sweden in relation to a full participation in the common foreign and security policy of the European Union. Sweden will be required to accept and be able to implement this policy as it evolves

over the coming years. There seem however to remain reservations in the Swedish position relative to the eventual framing of a common defence policy and, in an even more marked way, regarding the possible establishment in time of a common defence. The Commission recommends that in the context of the accession negotiations, specific and binding assurances from Sweden should be sought with regard to her political commitment and legal capacity to fulfil the obligations in this area.

8. As regards the adjustments to the Treaties referred to in Article O of the Treaty on European Union which would have to be made in the case of Swedish accession, these would obviously have to take into account not only the specific case of Sweden but also the fact that a number of other EFTA countries would be joining the Union at the same time.

9. On the basis of the above considerations, the Commission confirms in respect of Sweden the conclusion it reached in its report on enlargement as regards EFTA applicants in general. The Commission recommended that negotiations should be opened after the Member States have ratified the Treaty on European Union and concluded the negotiations on own resources and related issues. These conclusions were moreover confirmed by the European Council.

Part Two

Specific aspects

Agriculture and forestry

1. There are about 95 000 farms in Sweden with more than 2 ha of arable land.¹ Farm structures are mainly medium sized. The average arable land occupied per farm was 29 ha in 1990, the average dairy herd was 22 cows and the average pigs herd was 159 pigs. The economic importance of agriculture is relatively low, as it is in most Western European countries. In 1991 there were approximately 106 000 persons working in the agricultural sector. Out of these 84 000 worked full time which corresponds to 1.9% of the total number of persons in employment. The number of persons employed in agriculture is decreasing; from 1981 to 1991 the number of full-time employees has decreased from 3.1% down to today's 1.9%.

The contribution of agriculture to GDP in 1990 was about 1.2% in current prices. In real terms the share of agriculture has been varying over the last 10 years and, in fact, increased in 1989 and 1990. The contribution of forestry and logging to GDP was 1.3% in 1990, but for this sector the share has been declining over recent years.

External trade with agricultural and food products was about ECU 2.5 billion for imports and about ECU 1.0 billion for exports in 1990. Food trade as percentage of total trade was about 2.3% for exports and 5.9% for imports in 1990. The EC is the most important trading partner for Sweden, accounting for 47% of Sweden's food imports and 40% of Sweden's exports.

2. Traditionally Sweden's agricultural policy has, in many ways, been similar to that of the EC. A fair standard of living for the agricultural population, stability of markets and availability of supplies at reasonable prices, were, and partly still are, common objectives of the Swedish and the EC agricultural policies. The policy instruments used were to a large extent also the same: intervention arrangements on the internal market, a system of border protection combined

with export support for surplus production. These similarities reflect the similar economic and political conditions for agriculture between Sweden and the EC.

However, the agricultural policy reform in Sweden decided in 1990 has resulted in a number of important policy changes with effect from 1 July 1991. A major objective of the reform is to make food policy and agricultural production more market oriented in order to promote a more economical use of resources. This means that the agriculture sector should be subject to similar conditions to those of the other sectors. The Swedish farmers are to be reimbursed only for goods and services in demand. This implies a deregulation of the Swedish market. Consequently, price and marketing controls are gradually being phased out. The abolition of export subsidies is the most prominent measure of this deregulation. While the domestic market is deregulated the border protection against low world prices is, however, retained.

Targeted measures (direct payments), financed by budgetary means, are taken to ensure Swedish food security and to reach different environmental and regional objectives. The Swedish reform means a radical shift away from traditional policy instruments, which are still important parts of the CAP.

The Swedish reform will probably have a significant effect on the production of and markets for major agricultural products. The dismantling of export support and of most internal regulations is expected to reduce or eliminate earlier surplus production. To ensure a socially acceptable transition from a regulated to a free domestic market the deregulation will take place over a five-year transitional period. During this period different support arrangements are provided for reducing the surplus production, for example, by stimulating the permanent conversion of land to uses other than food production.

3. In 1989, due to the GATT Uruguay Round mid-term agreement, Sweden decided

¹ Figures for 1991.

not to increase price support, but to introduce direct payments to farmers. These payments were given in the form of headage of acreage payments and have been paid during the fiscal years of 1989/90 (ECU 156 million), 1990/91 (ECU 333 million) and 1991/92 (ECU 320 million).

Furthermore, the level of support in Swedish agriculture has been higher, as measured by producers' subsidy equivalents (PSE), than in the EC. In 1990, the general level of support was still about 15 to 20% higher in Sweden than in the EC. This higher level was also reflected in the relatively higher producer prices in Sweden. However, because of the adaptation of the Swedish food policy which is to be completed in the mid-1990s, the Swedish PSE figures are expected to be reduced to a level closer to that of the EEC.

4. The basic ideas behind the Swedish forestry policy can be summarized in two main principles: land which is suitable for forestry and not used for agriculture or other more important uses should be used for forestry; forests and forest land should be managed in order to give a high, valuable and sustained yield of industrial timber. Environmental and other common interests should also be satisfied. There is currently an evaluation and overhaul of the Swedish forestry policy in progress.

5. Sweden has a high standard of phytosanitary and veterinary legislation which differs partly from the one of the EC. However, phytosanitary and veterinary legislation has to some extent been covered in the EEA Agreement, and an adaptation of the Swedish legislation is therefore foreseen.

The situation by product

Crop products

Adjustments to certain Swedish market organizations will be needed. This applies particularly to cereals, oils and oilseeds, fresh and processed fruit and vegetables, sugar, wines and spirits.

1. The Swedish reforms related to cereals, introduced in 1990, are likely to have been completed by the time Sweden might join the Community: surpluses will have disappeared; border measures will have been changed in accordance with a GATT agreement and cereal prices will have adjusted accordingly. Moreover, conformity with the EC common market organization for cereals would mean the reintroduction of intervention buying and payments to farmers as well as a different hierarchy of administered prices. These modifications as such would not pose great technical or administrative difficulties although they might lead to the eventual reappearance of local surpluses and an increase of budgetary expenditure and PSEs.

2. For oils and oilseeds products and protein products as well as peas and beans and dehydrated fodder, important changes will be needed in order to comply with the EC market organizations and external trade regimes; this might give rise to a request for a transitional period, including a phased alignment of prices, as well as abolition of a fats levy and buying monopoly.

3. A number of changes will have to be made in Sweden's fresh and processed fruit and vegetable policy, primarily because of the lack of a market organization in Sweden. If a transitional period is instituted, it must be kept short.

4. In the sugar sector, while the adoption of the Community system should not pose any problems, certain new measures will nevertheless have to be taken, including production quotas, a compensation system for storage costs and production levies. Swedish sugar prices average out at between 82 and 99% of Community prices, and a transitional period may be required to bridge this gap. Swedish isoglucose production is economically insignificant.

5. Sweden should in general have no trouble adopting the *acquis communautaire* governing wine and spirits in its entirety and without recourse to a transitional period, since this sector was thoroughly examined in the context of the setting up of the European Economic Area (EEA). All non-tariff barriers—i.e. those arising from the definition

and composition of products and those concerned with oenological practices—appear to have been dismantled. Moreover, customs duties on spirits have been reduced to zero on both sides.

However, Sweden continues to allow wine-making practices that are incompatible with Community law,¹ and the monopoly problem² remains to be resolved.

6. No particular changes are required in Sweden's rules governing products such as starch, potatoes and seed. Accession will pose no problem as regards starch, since the Swedish and Community arrangements in this sector are similar and Sweden produces only a very small proportion of its starch requirement domestically. No transitional period will be necessary if the green rate is set at a level near the central rate. Nor will transitional measures be required for potatoes after accession, since the national market organization in this sector expired on 1 July 1991. The same goes for seed, where Sweden's overall level of aid is lower than the Community's.

Livestock products

7. Sweden's beef and veal policy was adjusted on 1 July 1991. The new arrangements provide for:

- (i) the retention of border control;
- (ii) export subsidies for a transitional period ending in 1993/94;
- (iii) the gradual elimination of internal market support;
- (iv) direct compensation payments to livestock farmers based on the size of their herds.

A system of premiums was also set up in favour of livestock farmers in the disadvantaged mountainous regions of northern Sweden.

Swedish prices are considerably higher than the Community's, and this must be taken into account during the accession negotiations. Sweden will also have to adopt the Community scale for the classification of adult bovine carcasses.

Trade between Sweden and the Community is currently limited, but could increase as a result of the arrangements negotiated for the

EEA, which provide for zero-duty import quotas. The Community arrangements for dealings with third countries could be applied in Sweden from accession.

To avoid discrimination between Swedish and Community producers, premiums and structural aids in particular should be harmonized as soon as possible after accession.

8. The Swedish sheepmeat sector is very small, and the Community arrangements (voluntary restraint agreements on imports and ewe premiums) should be applied from accession, with no transitional period.

9. Sweden has adopted a new policy on milk and milk products, designed to reduce support and bring market forces more into play. The complexity of the measures taken, particularly those covering 1991-96 (contributions payable per cow, price support, dairy surcharges), may require special transitional measures.

The Swedish Government may also request a transitional period for the gradual elimination of the differential between Swedish and Community prices.

10. A transitional period may also be requested in respect of the pigmeat, eggs and poultrymeat sectors. In all three sectors, Sweden will be required to eliminate all quantitative restrictions and direct production aids upon accession, and must adopt the Community scale for the classification of pig carcasses and Community egg and poultrymeat marketing standards as soon as possible.

Competition

Competition rules applying to businesses

The bill revising current competition law is based directly on Community competition legislation, reproducing Articles 85(4), (5)

¹ Namely the production of wine by fermenting grape must, in some cases using grape concentrate, in contravention of Regulation (EEC) No 822/87.

² See 'Competition', p. 15 and below.

and (6) and 86(13) of the Treaty of Rome and a number of the provisions of Regulation 17/62, including Articles 7, 8, 9, 10, 14, and 15. This bill, if adopted, will bring Swedish legislation broadly into line with the Community approach.

Subject to the Swedish parliament's adoption of the new law, which is scheduled to enter into force on 1 January 1993, this positive development gives rise to the following comments:

- (i) clear provisions covering implementation of the law (particularly in respect of investigations) have hitherto been lacking, and are of vital importance if the new legislation is to be effective;
- (ii) the new legislation provides for the imposition of fines of between SKR 5 000 and SKR 5 000 000, or 10% of turnover, which can only strengthen the new system;
- (iii) no sector is excluded;
- (iv) the bill confirms the establishment of the Swedish Competition Board, which will be responsible for granting individual exemptions; exemptions by category will be the prerogative of the government;
- (v) the merger control system will involve obligatory notification, to be followed up by an economic assessment including a competition test.

It must be stressed that the Swedish Government needs to adopt implementing measures that will give it the effective tools it has hitherto lacked.

State aid

The government's decision to reduce State aid by a significant degree from 1986 on, and to undertake a major privatization programme, indicates that Sweden is falling into line with Community policy.

However, a number of programmes require careful analysis:

- (i) Decree SFS 1988:764, which contains the general principles governing State aid to industry, lays down conditions covering the cumulation of aid that appears to contravene Community competition law;
- (ii) the Commission should be informed as to the level of export and R&D aid: the

information currently at its disposal, particularly as regards the programmes coming under the Industrial Development Fund, indicates that the level of aid (50%) may be too high, given the definitions used. The level of aid to the energy research programme (100%) is certainly incompatible with Community policy, and the programme for the promotion of timber exports also receives a higher level of aid than Community rules allow. For these programmes to be acceptable, they must be limited to exports to third countries;

(iii) as regards holdings in public undertakings, a detailed examination of loan operations (Vattenhall AB) should be carried out, and the communication on public undertakings (OJ C 273, 18.10.1991) applied in its entirety;

(iv) in the case of Swedish regional aid, the methods and criteria used in the different arrangements suggest that it is not compatible with the common market. A particular problem is posed by the operating aid granted under some arrangements.

To conclude, the Swedish Government has made a notable effort to bring the various types of aid into line with Community legislation, although there are still some grey areas, for instance regional aid. Certain changes will have to be made if the *acquis communautaire* is to be applied in its entirety on Swedish accession.

State monopolies of a commercial character

On the basis of the information gathered, it is found that Sweden has State monopolies of a commercial character (within the meaning of Article 37 of the Treaty of Rome) for alcohol, pharmaceuticals, electricity and natural gas.

The entry into force of the EEA will oblige Sweden to bring the situation in these sectors into line with the relevant Community legislation where this is not already the case. As 1 January 1993 approaches, the Swedish Government would be advised to go ahead already with the revision of its legislation. The Commission will monitor developments in this sector closely.

The alcohol monopoly seems to be the most worrying. In this sector, Sweden maintains the following exclusive rights:

- (i) production of spirits,
- (ii) marketing and importing of all types of alcohol,
- (iii) exporting spirits and strong beers.

The justification for applying these exclusive rights is that they are a means of combating alcoholism and protecting public health.

The Court in its judgment of 12 March 1987 in Case 178/84 considered that the protection of public health should entail the erection of barriers to free trade only if absolutely necessary. The Commission is of the opinion that the health objective of the alcohol monopoly could be achieved by means which were less obstructive of competition.

In general, the granting of exclusive rights concessions must respect the basic principle of equal opportunities for all economic operators, whether domestic or from other Member States.

As we have already observed in Part One of this opinion, the Swedish Government has not yet taken any action to rectify this situation.

Customs union

1. Under the free trade agreements concluded in the 1970s,¹ customs duties and charges on imports and exports having equivalent effect and also quantitative restrictions on imports and measures having an equivalent effect were abolished a long time ago in trade between Sweden and the Community in industrial products originating in Sweden or the Community within the meaning of Protocol 3 to the Agreement.²

A supplementary protocol to the 1972 agreement was concluded between the Community and the EFTA countries including Sweden³ with the aim of phasing out quantitative restrictions on exports (except on ECSC products) by 1993. Agriculture is not covered by the agreement although there are specific agreements on certain agricultural products.

The establishment of the customs union should start from the position created by the application of these agreements and the conventions between the EEC and Sweden on the simplification of formalities in trade in goods, and on the establishment of a common transit procedure, which have been in force since 1 January 1988.

2. Adopting the Common Customs Tariff will be made easier by the fact that Swedish tariffs are generally comparable with the Community's, particularly for industrial products. In some sectors such as leather and hides, textiles, clothing, footwear and travel goods, Sweden at present applies higher duties than the Community. In the case of agricultural products Swedish tariffs are in the main *ad valorem*, and so it is more difficult to draw a comparison. The position is also likely to change with the conclusion of the current Uruguay Round negotiations under the GATT.

The Swedish duty applicable to industrial imports (all products) is a simple average of 5.1% or a weighted average of 4.6% (for the CCT, the simple average is 6.5%, the weighted average 7.4%); solely for those products subject to customs duties, the simple average is 6.9% and the weighted average is 5.9% (CCT: simple average = 7.2% and weighted average = 7.4%).

For Sweden as for the Community, almost all the industrial tariffs are bound under GATT (97% for Sweden; 98.8% for the Community).

For all agricultural products, the simple average of duty applicable is 2.8% and the weighted average 1.1%; for products subject to customs duty the simple average is 7.9% and the weighted average 7.7%.

3. Sweden has been applying the Harmonized System since 1 January 1988, as has the Community. Adopting the Combined Nomenclature should not pose particular difficul-

¹ See 'Relations to date between the Community and Sweden, p. 7.

² Latest consolidated version appears in OJ L 197, 12.7.1989, last amended by Decision No 3/91 of the EEC-Sweden Joint Committee of 6 December 1991 (OJ L 42, 18.2.1992).

³ Supplementary Protocol of 18 July 1989 (OJ L 295, 13.10.1989).

ties, since the Community's subdivisions are perfectly suitable for Swedish requirements and will enable Swedish statistical data to be refined.

4. Sweden will have to apply Council Regulation (EEC) No 802/68 of 29 June 1968 on non-preferential rules of origin for non-member States.¹ It must also accept the *acquis communautaire* on preferential origin (GSP, ACP, agreements with the Mediterranean countries and the countries of Central and Eastern Europe, etc.).²

5. Customs legislation proper which forms part of secondary legislation will have to be adopted by Sweden subject, of course, to certain adjustments which may prove necessary as a result of accession.

6. Sweden has concluded bilateral agreements with Finland and Norway setting up a system of administrative cooperation on common borders. On most major routes between Sweden and Norway there is only one joint (Swedish or Norwegian) customs office, which is responsible for applying customs legislation for both countries. With accession, these agreements would mean in effect that, if Sweden were to join the Community but Norway to remain outside, it would in some cases fall to Norwegian customs to apply Community legislation at the external border.

7. Sweden's accession would require a change in the definition of the Community's customs territory in customs legislation to include the additional words 'the territory of the Kingdom of Sweden'.

Fisheries

1. The fishing industry plays only a minor role in Sweden's economy: landings in national ports contribute only 0.06% of GDP and Sweden has a large trade deficit in fishery and aquaculture products.

On the assumption of Sweden's accession the number of fishermen in the Community would increase by 1.2%, fishing capacity (tonnage) would rise by 3%, production for human consumption would rise by 3.5% and the Community's trade deficit in fishery

products would increase by 4%. Sweden would also bring a fishing zone of around 125 000 km² into the Community.

2. Sweden's fishing fleet has not managed, any more than those of the Member States, to avoid the overexploitation of fish stocks in combination with surplus fleet capacity and job losses. The Swedish Government is particularly concerned to renew and modernize the fishing fleet, this accentuating the overcapitalization of the industry.

As a result, Sweden seems likely to need the same kind of structural operations undertaken for other Member States' fishing fleets: reduction in fleet capacity, the allocation of scrapping premiums (or a restriction of the fishing effort) in certain fisheries, coupled with a support programme for areas which are heavily dependent on fishing.

3. Sweden's landings are equivalent to around 3.9% of the tonnage landed by the Community fleet; in addition to species for human consumption (e.g. cod, herring, Norway lobster and salmon), some 37% of Swedish landings by volume are intended for processing into fishmeal and oils which are not for human consumption.

4. Sweden's processing industry is relatively small, ranking between those of Belgium and Portugal in output, and largely produces fish products from herring and cod. Like those of most Community countries, Swedish companies have been hit by rising prices for raw materials and, in particular, a scarcity of cod on the European market. The liberalization of trade with Sweden following accession will be welcomed by the industry in the Member States—Sweden's trade with Denmark is already considerable.

5. With regard to the monitoring of fishing activity, Sweden appears to be adequately equipped for inspection at sea. However, since it apparently does not have monthly statistics on landings and/or first sales it is difficult to put a precise figure on the operation of fishing vessels.

¹ OJ L 148, 28.6.1968.

² See 'External trade', p. 16.

6. The potential impact of Sweden's aquaculture industry on the Community's industry will be very small.¹

7. While Sweden's price support mechanism is likely to undergo some changes in the next few years, this issue could be problematic.² However, Sweden has given commitments in the EFTA and EEA Agreements which should bring its legislation more closely into line with the Community's as early as 1993.

Future negotiations will probably focus on three main issues:

- (i) regional price supplements (fixed supplements paid to fishermen in particular regions);
- (ii) the introduction of a reference price;
- (iii) active participation by producers' organizations in market management.

Transport

1. The Swedish transport sector contributes some 4% of GDP (1989). The number of employees in the sector is 220 000; 570 million tonnes of goods were transported in 1990. The most important part of Sweden's external trade is carried by sea (78% imports/53% exports). In internal trade, 59% of goods are transported by sea, 21% by truck and 20% by rail. Swedish transport policy's main concerns are the development of infrastructure, efficiency of the system, environment protection and road safety.

2. In Sweden there are 135 000 km of public roads and 280 000 km of private roads. There are 900 km of motorways and 3.5 million vehicles. Sweden has agreements on road transport with all EC Member States. As to passenger transport, occasional services are covered by agreements; in practice the ASOR Agreement applies. Regular and shuttle services are subject to authorizations. Sweden has an agreement allowing cabotage with a few neighbouring States. Concerning road-transport-related social legislation, in Sweden the drivers' working hours are regulated. In the framework of the EEA, Sweden has adopted Community Regulation 3820/85.

3. In 1989 a new railway policy was introduced. The State railways were divided in two separate organizations. The National Rail Administration is responsible for infrastructure investments and maintenance; the SJ is the operating company. State aids, other than State grants to infrastructure, do not exist. Infrastructure will partly be prepared for high-speed trains before the year 2000. The Swedish system is able to allow different operators on the network. The government aims to deregulate railway traffic by the beginning of 1995.

4. The merchant fleet under Swedish flag consists of 257 vessels (dead weight tonnage: 3.5 million tonnes). Sweden has ratified the code of conduct in accordance with Regulation 954/79. The country has no cargo sharing agreements or cargo reservation clauses in trade or maritime agreements. Sweden has several trade agreements with maritime clauses granting MFN or national treatment. Cabotage is reserved for Swedish flag vessels. Liner shipping between Gotland and other ports requires a concession. In the past, measures have been taken to improve competitiveness of Swedish flag shipping and stop flagging out. State aids were granted to shipping companies. The government is considering modifying its policy to enhance merchant marine's competitiveness.

5. In 1990 there were 533 aircraft belonging to scheduled airlines, carriers and other companies. SAS³ and Linjeflyg are the backbone of Swedish civil aviation. There is no monopoly on aircraft maintenance or stevedoring activities in airports in Sweden. Concerning cabotage in civil aviation, permission for domestic air traffic in Sweden can, in principle, only be given to Swedish authorities, companies and persons. When

¹ The Swedish industry is mainly geared to rainbow trout, which accounts for 80% of Swedish aquaculture production by value. Other product lines are marginal both in national terms and compared with Community output.

² Sweden's system for supporting prices set by the government involves paying price supplements calculated on the basis of guideline prices for the different species.

³ The Swedish part in SAS (three-sevenths of the consortium—the rest being Norwegian (two-sevenths) and Danish (two-sevenths)) is owned 50% by the Swedish Government.

the Agreement between the Community and Norway and Sweden on civil aviation enters into force, the *acquis communautaire* will be directly applicable in Sweden. Sweden will thus accept the relevant provisions on market access including cabotage. Regarding future legislation, it will also be taken over by virtue of a procedure defined in Article 12 of the Agreement.

Industry

1. Sweden has a small open economy with strong links with the EC and other EFTA countries. With regard to value-added, industry accounts for about 36% of GDP, with manufacturing sectors having a share of 30%, and employing 31% of labour in Sweden. The respective shares of the services sector are 57% and 60%. The companies that have grown particularly strongly in recent years are heavily R&D-led, e.g. in the chemical, pharmaceutical, electronics and telecommunications sectors. In addition to technology and the automotive industry, Sweden is best known for its paper and pulp plants, mining and the timber industry. The strongest growing sector, however, during the past 10 years has been the service sector.

2. The Swedish industry started facing competitiveness difficulties during the 1980s. The main structural features underlying this deterioration were labour shortage and physical capacity constraints. Although high profit ratios were restored by currency devaluation (16%), this generally favoured mature industries, rather than encouraging a shift into more innovative but possibly riskier areas. In order to increase competitiveness, the government intends to lower the tax burden, to open up markets and to adopt policies to improve corporate profitability.

Strong corporate sector profitability, while raising business investment, has failed to produce any market improvement in productivity. Investment in research and development has grown rapidly, but Sweden's share of high-tech production, both as a proportion of output and exports, remains low in comparison with other industrial countries. This may possibly be explained by Sweden's large multinational companies concentrating

research expenditure at home, while products are manufactured by foreign subsidiaries. Labour shortages, particularly for certain skills, high wage costs and marginal tax rates have discouraged investment in domestic productive capacity. In addition, Sweden's direct investment in Europe has risen sharply as companies prepared themselves for a unified European market.

3. For the chemical sector, which accounts only for about 3% of Sweden's GDP, membership would pose few difficulties. Some problems remain, mostly related to Swedish prohibitions on PET bottles, restrictions on imports of batteries, refunds for agricultural products used in the chemical sector and refunds for CO₂ tax for export oriented industry. These problems would be addressed during accession negotiations.

4. The motor vehicles sector plays an important role within the manufacturing industry. There is a serious problem resulting from the environmental classification of cars in Sweden in relation to the application of Community directives. Based on the EEA Agreement, Sweden has been granted a transitional period until 1 January 1995 for the application of the respective Community directives. The transitional period should thus expire, at the latest, at this date. Negotiations would nevertheless be required on current discriminatory effects of the Swedish environmental classification on cars fulfilling European requirements.

5. The economic trend of the Swedish construction sector, which accounts for about 8% of Sweden's GDP, is similar to that within the EC and Swedish firms are active in Europe. In relation to public procurement, the Community would require, in the course of the accession negotiations, to be reassured in relation to the non-existence of preferential treatment of local firms.

6. Sweden has fully liberalized all textiles and clothing imports, from 1 August 1991, and has not signed the protocol of prolongation of the Multi-fibre Arrangement. Thus, the acceptance of a more restrictive Community *acquis* poses some difficulties, although textiles and the clothing industry in Sweden account for less than 1% of GDP.

7. The non-ferrous metals industry in Sweden is privately owned and dominated by a single company. Sweden is currently Europe's biggest producer of lead and gold and the second biggest producer of silver. Sweden's accession would imply an increase of its customs tariff for a number of categories, as most tariffs applied in Sweden are below the corresponding EC tariffs (weighted average: 3.3% compared to 1.7%).

8. Sweden's wood and paper industry is one of the most important sectors of the Swedish economy, accounting for the biggest net export surplus and contributing more than 7% to overall GDP. The EC is the most important market for pulp and paper (75% of exports). Swedish and EC wood and paper industries are highly integrated. In the context of accession negotiations, discussions would probably concentrate on emission limits for mill effluent, which are stricter in Sweden than in the Community and on a packaging directive currently under consideration.

9. The following industrial sectors are essentially covered by the EEA Agreement and should thus pose no problem in the event of Swedish accession:

(i) the steel sector which is about the size of those of Luxembourg or the Netherlands and is strongly linked to the ECSC (60% of exports). During the EEA negotiations, Sweden accepted the Community's regulation on State aids to the steel industry. The special price rules for ECSC products are also applied by Sweden since the free trade agreement came into force in 1973. In the sector of iron-ore mining Sweden will increase considerably the available resources;

(ii) mechanical engineering where eventual competition problems will be subject to EC competition rules;

(iii) shipbuilding, where Sweden has reduced production capacity by 80% within the last 15 years and thus is now unimportant compared to the EC industry;

(iv) the aeronautics industry, where Sweden is already a member of the relevant GATT code and Swedish industrial associations are also members of the European umbrella organizations;

(v) pharmaceuticals, where economic trends in the EC and in Sweden are very similar.

10. For the majority of the industrial sectors no problems are expected in relation to Sweden's likely membership as most of the relevant Community *acquis* will already be adopted by Sweden by virtue of the EEA Agreement. Transitional periods were restricted to exceptional cases and strictly limited in time. As a result Swedish legislation will already be, not later than 1 June 1995, adjusted to the obligations of Community membership in almost all sectors.

Environment

1. Most Community legislation in this field will be adopted by Sweden in the context of the EEA Agreement. Work is already going on in Sweden with a view to adapting Swedish legislation to the obligations resulting from this Agreement. As regards legislation not covered by the EEA Agreement, there remain, apart from new legislation or proposals which have been adopted since the conclusion of the EEA negotiations, essentially the sectors of radiation protection, which has been left out of the EEA Agreement, and nature conservation, which is not covered.

2. The overall Swedish regulatory approach, in particular with regard to the control of emissions from industrial plant (relating to air and water pollution, and noise) differs from the one at Community level. It is characterized by framework legislation, in many fields completed by non-compulsory guide values issued by the government or the Environment Protection Agency, with compulsory limit values, however, being fixed through individually issued permits. Formal adaptations are likely to be needed due to this difference in approach. Although no direct comparison can be made as regards the required values because of the difference in approach, it appears overall that Sweden would have no problems with the standards required by EC legislation.

3. Difficulties are more likely to be encountered in the product-related area, where a balance needs to be struck between concern

for high environmental standards and the requirement of free circulation. This applies notably to some issues on chemicals such as CFCs and the classification of dangerous substances and to the waste Directives. All these issues have already been addressed, but not completely solved, in the EEA Agreement where they are linked in particular to the development of related Community legislation.¹

4. In some areas, including biotechnology and major industrial hazards, Sweden would have to develop further the legislative framework.

5. Some issues in the field of radiation protection will need to be addressed in more detail: the stricter dose limits prescribed by the relevant Swedish regulation, for instance. The position here will depend on the result of the revision of existing Community legislation.

6. Sweden's accession to the European Community would imply addition of the Boreal region as a sixth biogeographic region addressed by the habitats Directive (at present: Alpine, Atlantic, Continental, Macaronesian and Mediterranean regions).

Owing to the occurrence in Sweden of natural habitat types and species not to be found elsewhere in the Community, the existing annexes to this habitats Directive would need to be adapted.

7. The accession of Sweden, with its sound and long-term environmental policy, would not only add to the quality of environmental standards, but would also promote a comprehensive approach aiming at an overall integration of environmental considerations in all relevant policy areas.

Energy

1. There are no major inconsistencies between the objectives of Sweden's energy policy and the Community's long-term energy policy objectives. Practically all of the *acquis communautaire* will be applied by Sweden as part of the EEA Agreement with the exception of Directives concerning emer-

gency response measures. As regards the EC Directives concerning emergency pipelines and stocks which are excluded from the EEA Agreement, these are not likely to create problems for Sweden once it is represented in EC bodies.

2. Sweden's final energy consumption over the past decade (1980-90) has declined by 10% from 36 Mtoe to 33 Mtoe. There was also a significant shift in the consumption of final energy demand. In 1990 electricity generated from nuclear and hydro powerplants accounted for around 55% of total primary energy supply (TPES). Biomass based on wood accounted for a growing, if small, part (6%) of TPES. Net imports of oil, coal and gas, as a percentage of total final consumption, has fallen from around 80% in 1979 to around 50% in 1989, which was identical to the Community's energy import dependency.

3. Sweden has 12 nuclear power reactors with a total production of 9 700 MW which delivers nearly half of its electricity. A political decision has been taken to phase out nuclear power by 2010 although the timing of this phase-out depends on alternative energy supplies being available. It is not clear what alternatives would be pursued if this scenario is maintained.

Sweden imports all its needs for natural uranium, conversion and enrichment but has an indigenous fuel fabrication capability. A new bill changing the nuclear legislation is presently under preparation. It should facilitate the adoption of the Community *acquis* in this area. Some matters relating to the application of the Euratom Treaty will have to be discussed in detail during accession negotiations, e.g. those relative to the concept of ownership of nuclear materials and the contracting system, which requires notably the conclusion of all supply contracts with the Euratom Supply Agency. The existing bilateral agreements on transfer of nuclear material between Sweden and third countries will have to be taken up during the accession negotiations.

4. Production of coal in Sweden is negligible and imported supplies account for only

¹ See also 'Competition', pp. 15 and 24.

5% of total primary energy. There is also no natural gas production in Sweden and it accounts for only a small fraction of total supply ($\pm 1\%$). As regards oil Sweden is totally dependent on outside supplies, the greater part coming from the North Sea but in the period 1979-89 it succeeded in halving its imports. Sweden maintains oil stocks that are significantly larger than those required by either the Community or the International Energy Agency.

5. Sweden is particularly strong in renewable energy with hydropower generating almost 50% of its electricity. Indigenous renewable fuels (wood biomass) account for about 6% of total energy supply and are being encouraged by favourable tax treatment and R&D support.

6. Despite the energy-intensive nature of Swedish industry and, owing to climatic factors, a significant use of energy in the residential/commercial sector, Sweden's consumption of energy per capita (3.84 toe in 1990) is similar to that of the Community—3.51 toe. This is explained by the development and application of extensive energy efficiency programmes.

7. Sweden has taken a strong stand in developing policies to address energy/environmental problems. It has been in the forefront in the use of economic instruments to support these policies. Its commitment to reduce CO₂ emissions to 1990 levels by the year 2000 is in line with the EC but it has already introduced a carbon/energy tax.¹

8. In recent years Sweden has embarked on several initiatives to enhance the market orientation of its energy sector, particularly as regards electricity where its consumption per capita is 150% greater than the Community average. These initiatives would be a positive impulse to developments currently taking place in the Community.

9. In the short term Sweden's energy situation poses no problems and fits in well with the Community's energy structure. However, given the politically formulated energy policy including the eventual phase-out of nuclear power, environmental restrictions on emissions and therefore fossil fuel use and further hydro development, a significant

energy gap could emerge in the medium to long term. To date no clear response has been given as to how this gap would be filled.

Research and development

1. Whilst Sweden contributes something like 1% of the total world research effort, it has one of the world's highest levels of spending on R&D as a proportion of gross domestic product—SKR 35 billion (approximately ECU 4.7 billion) which works out at about 3% of GDP.

2. The Swedish Government takes the view that the State remains responsible for research training and basic research whilst industry is expected to assume responsibility for applied research. Four per cent of R&D in Sweden is performed by governmental institutions compared with 32% in higher education and 64% in industry, according to the latest available statistics (1989). In terms of financial commitments, the private sector still leads with 60% of Swedish expenditure on research whilst the public sector puts up about 40%. It should, however, be remembered that 85% of company R&D is aimed at developing products and processes and only 15% is pure research.

At present, Sweden participates at programme level in EC areas of the environment, raw materials and recycling, applied metrology, the mobility of scientists, and nuclear fusion. At project level Sweden participates in areas of information technologies, telecommunications, industrial technologies, advanced materials and non-nuclear energies. Apart from the EC programmes, the two key organizations promoting cooperation in research are COST and Eureka, and Sweden has participated in both since they were set up in 1971 and 1985 respectively. Under the EEA Agreement, Sweden will participate fully in the non-nuclear related activities of the third EC framework programme.

3. Given the long-term cooperation between the EC and Sweden in R&TD

¹ See also 'Taxation', p. 14.

matters through the bilateral framework agreement of 1986 and within the future European Economic Area, the Swedish R&D sector will assimilate easily with that of the Community.

Swedish membership of the Community, therefore, would be of mutual benefit to this sector and would require no preconditions or transitional derogations.

Implications for the Community budget

The assessment of the effect of Swedish accession on the Community budget was, as with previous opinions, carried out on the basis of the approved budget figures for 1992, and on the assumption that Community legislation would be applied immediately and in its entirety in Sweden. It therefore does not allow for any transitional measures that may be adopted, nor for the dynamic effect of accession (for example changes in the trade flows). The simultaneous accession of one or more other countries might alter the income figures slightly.

Expenditure

Budget expenditure should increase by about ECU 1 billion, or 1.6%, broken down as follows:

EAGGF (Guarantee Section)

Additional EAGGF expenditure for Sweden should be relatively modest, focusing mainly on cereals, milk and milk products, oils and fats, and beef and veal.

The additional expense incurred would be between ECU 600 million and ECU 700 million.¹

Structural Funds

Most of the aid granted would be likely to come from Objectives 3 and 4 and also from Objective 5.²

On the basis of the regional structure of certain Member States similar to Sweden, it

is estimated that expenditure on aid would be in the region of ECU 180 million.

Other policies

Given Sweden's GNP, other expenditure would amount to ECU 200 million. To this should be added an increase in external policy expenditure commensurate with Sweden's GNP, i.e. ECU 85 million on the basis of 1992 figures. The breakdown of expenditure on Sweden shows that the proportion of the total accounted for by agriculture is near the current Community average (60%), but that the share of other expenditure is higher, at the expense of the structural Funds (Sweden: 18%; Community of 12: 27%).

Income

Traditional own resources³ would account for 27% of the total budget income from Sweden, i.e. something close to the Community average.

Sweden's VAT contribution (ECU 985 million in absolute terms) would be a proportionally lower share of GNP than the Community average. The GNP contribution would be ECU 475 million.

Sweden's total contribution should account for approximately 3.2% of Community expenditure (including expenditure on Sweden).

Services

1. Sweden's services sector is expanding steadily and accounts for nearly 58% of GDP in 1989. Once the EEA Agreement is in force, no problems are expected in the area of business services, as Sweden will be subject to the same obligations as EC Member States.

¹ This figure is being revised in the light of the CAP reforms.

² See 'Economic and social cohesion', p. 13.

³ Agricultural levies, sugar levies and customs duties.

2. Concerning audiovisual services the television Directive is part of the Community *acquis*. In the EEA negotiations, it was, however, agreed that European works would include co-produced works with European third countries with whom EFTA countries have agreements and that authorities will have the right, under certain conditions, to compel cable companies to scramble spot advertisements for alcoholic beverages. However, accession negotiations would have to be based on the full *acquis communautaire*.

3. The sector of financial institutions is covered by the EEA Agreement. Some of the directives covered by the EEA Agreement are subject to derogation in the context of the EEA Agreement, but will have to be fully adopted by Sweden in the context of membership. This applies *inter alia* to Articles 8 and 9 on the third country regime of Directive 89/646/EEC, Article 3 of Directive 89/117/EEC, Articles 29 and 29b of Directive 90/618/EEC and Articles 32 and 32b of Directive 90/619/EEC. It is anticipated that the above should not pose major difficulties.

Other sectors

Statistics

Sweden has a highly developed statistical system which could easily be adapted to the requirements of the EC statistical system. In the event of accession Sweden will play a leading role in the European statistical system particularly in areas where Statistics Sweden has developed expertise: environmental statistics, social statistics and studies of response burden on enterprises. In the statistical part of the EEA Treaty Sweden was not granted any permanent derogations.

Consumer protection

Swedish consumers enjoy a high degree of protection. This is largely due to the vital role played in the application of Swedish law by the ombudsman, who acts as an intermediary between the parties. Consumer protec-

tion is also secured by regulations that in some cases are more stringent than those applied in the Community at present, examples being food legislation and the regulations governing the labelling of cosmetic goods, a sector in which producers are required to register their products before marketing them.

In other fields, however, Swedish legislation appears very limited in scope (see the Consumer Credit Act 1977:981), and in other cases—for example advertising, package tours and contracts concluded away from business premises—Community legislation has no equivalent in Swedish law. In the run-up to the implementation of the EEA, which covers the entire field of consumer protection, changes will have to be made to ensure that Swedish consumers are afforded maximum protection.

Normalization and certification

In the area of normalization and certification there is a good and close cooperation between the Commission and the Swedish authorities. Swedish national regulations are often identical to the corresponding Community regulations. Concerning Directive 83/189/EEC on notifications in the field of norms and technical regulations, no problems are likely to occur.

Intellectual property

Given the fact that the Swedish laws on intellectual property are very similar to those in the EC, it is unlikely that problems will arise. Minor modifications of Swedish law might be sufficient to bring Sweden into total conformity with EC requirements.

Public procurement

Regarding public procurement Sweden will apply the EC directives without exceptions by virtue of the EEA Agreement. As a result, some of the existing Swedish rules will have to be amended.

Small and medium-sized enterprises

1. No significant problems are foreseen in the context of Sweden's accession to the Community regarding the implementation of Council Decisions 89/490/EEC of 28 July 1989 and 91/319/EEC of 18 June 1991 'on the improvement of the business environment and the promotion of the development of enterprises, and in particular SMEs, in the Community'. Sweden is already participating in several EC-initiated activities.

2. The national policy towards SMEs is shifting away from direct intervention and subsidies to indirect support for training, test facilities, information, etc. The aim of this policy is to create favourable conditions for businesses through the simplification of rules in the areas of ownership of firms, promotion of competition, and creating a market for private venture capital with no State interference which will promote new establishments and growth, productivity and innovation in small firms. Selective support measures for SMEs are being removed.

Education and training

1. In the framework of the bilateral agreements, Sweden has participated in the Comett programme as from 1990 and in the Erasmus programme as from 1992. Sweden is also a member of the G24 group and takes part in the Tempus programme.

In the framework of the EEA Agreement, Sweden (like the other EFTA countries) will participate in all education, training and youth programmes and activities as from 1 January 1995.

2. From 1 January 1993, all EFTA countries will participate in the 'Youth for Europe' programme and will continue participating in Comett and Erasmus.

Telecommunications

The *acquis communautaire* in the field of telecommunications is covered by the EEA Agreement. Sweden will integrate this *acquis* in the national legislation without any special derogations or transitional periods.

Statistical annex

Table 1 — Selected statistics

(Annual percentage change, unless otherwise specified)

| | European Community | | | | | | | | | |
|---|--------------------|------|------|------|------|--------------------|------|------|------|------|
| | Sweden | | | | | European Community | | | | |
| | 1988 | 1989 | 1990 | 1991 | 1992 | 1988 | 1989 | 1990 | 1991 | 1992 |
| GDP | 2.3 | 2.4 | 0.4 | -1.1 | -0.4 | 4.0 | 3.3 | 2.8 | 1.3 | 1.7 |
| Private consumption | 2.5 | 1.4 | -0.2 | 1.2 | 0.5 | 4.2 | 2.9 | 3.0 | 1.6 | 1.9 |
| Public consumption | 0.6 | 1.9 | 2.1 | 1.0 | 0.1 | 1.7 | 1.2 | 2.1 | 1.7 | 1.7 |
| Gross fixed capital formation | 5.8 | 11.8 | -0.9 | -7.3 | -9.0 | 8.6 | 7.3 | 4.2 | -0.1 | 0.7 |
| Exports of goods | 2.6 | 2.9 | -0.0 | -2.3 | 1.2 | 6.6 | 7.8 | 5.8 | 5.5 | 4.5 |
| Imports of goods | 4.6 | 7.0 | 0.6 | -7.5 | -0.9 | 8.6 | 8.9 | 5.8 | 5.5 | 4.3 |
| Trade balance ¹ | 2.1 | 1.2 | 1.0 | 2.3 | 2.7 | 0.5 | 0.2 | 0.0 | 0.7 | 1.0 |
| Current account ¹ | -0.4 | -1.8 | -2.8 | -0.9 | -0.5 | 0.1 | -0.1 | -0.3 | -0.4 | -0.5 |
| GDP deflator ² | 6.5 | 7.9 | 9.4 | 7.4 | 2.8 | 4.5 | 4.9 | 5.3 | 5.6 | 4.8 |
| Private consumption deflator ² | 6.0 | 6.9 | 9.7 | 10.2 | 3.1 | 3.8 | 4.9 | 4.8 | 5.2 | 4.6 |
| Unit labour costs ² | 3.6 | 7.4 | 9.7 | 6.1 | -2.1 | 3.3 | 4.2 | 6.1 | 5.8 | 3.7 |
| Employment | 2.7 | 1.5 | 0.7 | -2.2 | -3.2 | 1.6 | 1.5 | 1.6 | 0.2 | -0.1 |
| Unemployment rate ³ | 1.6 | 1.4 | 1.5 | 2.7 | 4.4 | 9.7 | 8.9 | 8.3 | 8.9 | 9.5 |

Sources: EC Commission services; national forecasts.

¹ Percentage of GDP in current prices.

² Percentage change.

³ Percentage of civilian labour force.

Table 2 — *Employment and production by sector, 1970-90*

| Employment share as percentage of total | 1970 | 1980 | 1990 |
|--|------|------|------|
| Agriculture | 10.8 | 7.9 | 5.3 |
| Mining, quarrying and energy | 1.5 | 1.6 | 1.5 |
| Manufacturing | 34.2 | 34.1 | 31.3 |
| Construction | 12.2 | 10.3 | 9.8 |
| Wholesale and retail trade, etc. | 19.1 | 20.1 | 21.0 |
| Transport, storage and communications | 8.6 | 9.6 | 9.8 |
| Finance, insurance, real estate and business services | 5.7 | 8.2 | 12.4 |
| Community, social and personal services | 7.8 | 8.3 | 8.7 |
| Private GDP | 77.5 | 68.5 | 67.2 |
| Public sector | 20.6 | 30.3 | 31.7 |
| Other producers | 1.9 | 1.1 | 1.1 |

| Production, share of value-added at factor cost | 1970 | 1980 | 1990 |
|--|------|------|------|
| Agriculture | 5.7 | 4.8 | 3.7 |
| Mining, quarrying and energy | 3.8 | 4.5 | 4.3 |
| Manufacturing | 34.9 | 31.0 | 28.4 |
| Construction | 11.6 | 9.8 | 9.9 |
| Wholesale and retail trade, etc. | 15.2 | 15.4 | 14.0 |
| Transport, storage and communications | 8.7 | 9.1 | 8.3 |
| Finance, insurance, real estate and business services | 15.3 | 20.8 | 26.5 |
| Community, social and personal services | 4.7 | 4.5 | 5.0 |
| Private GDP | 81.5 | 74.3 | 75.9 |
| Public sector | 17.6 | 24.3 | 22.5 |
| Other producers | 0.9 | 1.4 | 1.5 |

Sources: OECD; Statistics Sweden.

Table 3 — *Balance of payments**(billion SKR)*

| | 1988 | 1989 | 1990 | 1991 |
|-----------------------------------|-------|-------|-------|-------|
| Trade balance | 23.5 | 14.7 | 14.7 | 32.6 |
| Transportation (net) | 10.6 | 11.4 | 11.2 | 12.7 |
| Travel (net) | -13.6 | -15.6 | -19.0 | -20.5 |
| Services balance | -7.8 | -9.1 | -14.8 | -9.3 |
| Investment income (net) | -10.6 | -14.3 | -24.5 | -24.1 |
| Transfers (net) | -10.0 | -13.2 | -13.5 | -12.2 |
| Current account | -4.3 | -22.0 | -38.1 | -13.0 |
| (as percentage of GDP) | -0.4 | -1.8 | -2.8 | -0.9 |
| Direct investment (net) | -35.1 | -52.6 | -69.7 | -16.3 |
| Total private capital flows (net) | 27.5 | 76.7 | 95.4 | 28.4 |

Sources: OECD; Swedish Ministry of Finance.

Table 4 — *General government expenditure**(percentage of GDP at market prices)*

| | 1981 | | 1985 | | 1990 | |
|--------------------------|-----------------|------------------|-----------------|------------------|-------------------|------------------|
| | EC ¹ | Sweden | EC ¹ | Sweden | EC ¹ | Sweden |
| Consumption | 18.8 | 29.4 | 18.7 | 27.6 | 17.6 | 27.1 |
| Transfers | 20.5 | 25.7 | 21.4 | 25.9 | 20.6 | 26.5 |
| ● households | 16.9 | 19.1 | 17.5 | 19.1 | 16.8 ² | 20.5 |
| ● enterprises | 2.5 | 5.9 ³ | 2.5 | 6.1 ³ | 1.9 | 5.3 ³ |
| Interest payments | 3.7 | 5.3 | 5.0 | 8.4 | 5.0 | 5.6 |
| Investment | 3.0 | 4.1 | 2.8 | 3.1 | 3.0 | 2.4 |
| Net capital transfers | 1.0 | — | 1.1 | — | 1.0 | — |
| Total expenditure | 47.0 | 64.5 | 49.0 | 65.0 | 47.5 | 61.6 |

Sources: DG II; Swedish National Institute for Economic Research.

¹ EUR 12.² 1989.³ Includes subsidies to the agriculture sector and residential interest subsidies.

Table 5 — *General government receipts*

(percentage of GDP at market prices)

| | 1981 | | 1985 | | 1990 | |
|-------------------------------|-----------------|------------------|-----------------|-------------------|-----------------|------------------|
| | EC ¹ | Sweden | EC ¹ | Sweden | EC ¹ | Sweden |
| Indirect taxes | 12.5 | 14.3 | 12.9 | 16.5 | 13.0 | 17.7 |
| Direct taxes | 11.3 | 21.0 | 12.3 | 21.0 | 12.5 | 23.6 |
| Social security contributions | 13.7 | 14.8 | 14.6 | 12.5 | 14.4 | 14.8 |
| Other current receipts | 3.5 | 9.1 ² | 4.0 | 11.2 ² | 3.4 | 9.4 ² |
| Total receipts | 41.0 | 59.2 | 43.8 | 61.2 | 43.3 | 65.5 |

Sources: DG II; Swedish National Institute for Economic Research.

¹ EUR 12.

² Includes interest yields on national pension fund.

Table 6 — *General government revenue and expenditure*

(billion SKR, current prices)

| | 1990 | 1991 | 1992 | 1993 |
|--------------------------------|--------------|--------------|--------------|--------------|
| Revenue | 884.5 | 897.1 | 903.3 | 918.7 |
| Indirect taxes | 239.3 | 286.5 | 216.8 | 202.5 |
| Direct taxes | 319.6 | 226.3 | 297.5 | 318.9 |
| Social security contributions | 198.7 | 245.1 | 231.7 | 243.4 |
| Other | 126.9 | 139.2 | 157.3 | 153.9 |
| Expenditure | 832.5 | 918.3 | 960.0 | 992.2 |
| Consumption | 366.5 | 382.0 | 393.0 | 404.4 |
| ● central government | 104.9 | 109.1 | 109.5 | 113.2 |
| ● local government | 261.6 | 272.9 | 283.5 | 291.1 |
| Transfers | 358.5 | 413.9 | 436.5 | 451.5 |
| Interest | 75.3 | 85.9 | 91.0 | 92.6 |
| Investment | 32.2 | 36.5 | 39.4 | 43.5 |
| Financial saving | 52.0 | -21.2 | -56.7 | -73.3 |
| <i>As a percentage of GDP:</i> | | | | |
| Taxes and charges | 56.1 | 52.9 | 51.6 | 51.5 |
| Expenditure | 61.6 | 64.2 | 66.4 | 66.8 |
| Financial saving | 3.9 | -1.5 | -3.9 | -4.9 |

Sources: Swedish National Institute for Economic Research; Swedish Ministry of Finance.

Table 7 — *Financial saving in the public sector*

(Percentage of GDP)

| | 1990 | 1991 | 1992 | 1993 |
|--------------------|------|------|------|------|
| Public sector | 3.9 | -1.5 | -3.9 | -4.9 |
| Central government | 1.0 | -4.4 | -7.6 | -8.0 |
| Local government | -0.6 | -0.1 | 1.1 | 0.8 |
| Pension Fund | 3.4 | 3.0 | 2.6 | 2.3 |

Source: Swedish Ministry of Finance.

Table 8 — *General government revenue and expenditure*

(Percentage of GDP)

| | 1990 | 1991 | 1992 | 1993 |
|-------------------------------|-------------|-------------|-------------|-------------|
| Revenue | 65.5 | 62.7 | 62.5 | 61.8 |
| Direct taxes | 23.7 | 20.0 | 20.6 | 21.5 |
| Indirect taxes | 15.1 | 15.8 | 15.0 | 13.6 |
| Social security contributions | 17.3 | 17.1 | 16.0 | 16.4 |
| Other | 9.4 | 9.7 | 10.9 | 10.4 |
| Expenditure | 61.7 | 64.2 | 66.4 | 66.8 |
| Transfers | 26.6 | 28.9 | 30.2 | 30.4 |
| Consumption | 27.1 | 26.7 | 27.2 | 27.2 |
| Investment | 3.0 | 2.9 | 2.9 | 3.1 |
| Interest | 5.6 | 6.0 | 6.3 | 6.2 |
| Financial saving | 3.9 | -1.5 | -3.9 | -4.9 |

Source: Swedish Ministry of Finance.

Table 9 — *Agricultural production**(average 1988-90)*

| | 1 000 t | Percentage of EC production | Degree of self-sufficiency |
|----------|---------|--------------------------------|-------------------------------|
| Cereals | 5 537 | 3.5 | 123 |
| Wheat | 1 763 | 2.5 | 143 |
| Sugar | 386 | 2.6 | 110 |
| Potatoes | 1 216 | 3.1 | 89 |
| Pigmeat | 299 | 2.2 | 112 |
| Beef | 131 | 1.7 | 95 |
| Butter | 62 | 3.6 | 122 |
| Eggs | 122 | 2.6 | 105 |

Table 10 — *External trade in agricultural and food products**(billion ECU¹)*

| From/to | Imports | | | Exports | | |
|-----------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 1985 | 1989 | 1990 | 1985 | 1989 | 1990 |
| EC | 0.881 | 1.160 | 1.204 | 0.397 | 0.404 | 0.417 |
| (percentage of total) | 39.5 | 44.1 | 47.3 | 35.7 | 39.9 | 39.7 |
| EFTA | 0.307 | 0.390 | 0.372 | 0.214 | 0.259 | 0.268 |
| (percentage of total) | 13.8 | 14.8 | 14.6 | 19.2 | 25.6 | 25.6 |
| Total | 2.231 | 2.630 | 2.546 | 1.113 | 1.014 | 1.050 |

¹ Exchange rates: 1985: ECU 100 = SKR 656.323.
1989: ECU 100 = SKR 698.344.
1990: ECU 100 = SKR 749.881.

Table 11 — Farm structure

| | Agricultural area per farm (ha) | Area under cereals per farm (ha) | Dairy cows | | Cattle (incl. calves) (1987) | | Pigs | |
|----------------------------|---------------------------------|----------------------------------|---------------------------|-------------------|------------------------------|--------------------|---------------------------|--------------------|
| | | | Average per farm (number) | Holdings > 30 (%) | Average per farm (number) | Holdings > 100 (%) | Average per farm (number) | Holdings > 100 (%) |
| Sweden ¹ | 29.0 | 14.0 | 22.0 | 28.0 | 36.0 | n/a | 158.0 | 35.0 |
| FR of Germany ² | 16.0 | 8.6 | 16.0 | 37.8 | 35.5 | 23.8 | 62.4 | 37.1 |
| France | 27.0 | 13.9 | 20.0 | 49.4 | 42.3 | 28.5 | 175.7 | 69.3 |
| Italy | 5.6 | 3.9 | 9.7 | 42.0 | 19.7 | 34.8 | 19.3 | 71.8 |
| Netherlands | 14.9 | 9.4 | 37.6 | 84.0 | 69.6 | 51.7 | 405.9 | 76.4 |
| Belgium | 14.1 | 7.0 | 24.2 | 59.3 | 48.2 | 36.8 | 221.1 | 66.5 |
| Luxembourg | 28.6 | 10.8 | 31.8 | 74.2 | 71.1 | 55.6 | 53.8 | 37.4 |
| United Kingdom | 65.1 | 42.3 | 63.2 | 94.0 | 80.7 | 68.1 | 382.8 | 85.8 |
| Ireland | 22.7 | 6.8 | 20.9 | 59.9 | 32.9 | 25.9 | 200.0 | 89.3 |
| Denmark | 30.7 | 18.7 | 30.4 | 72.8 | 57.7 | 50.5 | 245.9 | 66.4 |
| Greece | 4.3 | 3.1 | 3.7 | 13.2 | 9.5 | 17.0 | 31.5 | 63.9 |
| Spain | 12.9 | 9.5 | 5.0 | — | — | — | — | — |
| Portugal | 4.3 | 1.7 | 3.6 | 14.8 | 6.3 | 16.5 | 9.3 | 41.1 |
| EUR 10 | 13.9 | 8.3 | 18.4 | 56.5 | 37.9 | 37.0 | 76.7 | 62.7 |

¹ Sweden: 1990.

EC: 1987.

² Excluding the new Länder.

Table 12 — *Protection level of agricultural production*
Gross unit PSE¹

(ECU/tonne²)

| | Sweden | | | EC | | |
|-----------------------|--------|-------|-------|-------|-------|-------|
| | 1985 | 1989 | 1990 | 1985 | 1989 | 1990 |
| Wheat | 109 | 86 | 150 | 76 | 47 | 83 |
| Coarse grains | 67 | 113 | 163 | 72 | 56 | 85 |
| Sugar (refined sugar) | 241 | 133 | 213 | 213 | 150 | 179 |
| Milk | 339 | 321 | 326 | 178 | 183 | 217 |
| Beef and veal | 1 281 | 1 996 | 1 369 | 1 589 | 1 911 | 1 799 |
| Pigmeat | 409 | 552 | 214 | 102 | 88 | 92 |
| Poultrymeat | 509 | 725 | 512 | 278 | 317 | 349 |
| Eggs | 586 | 656 | 533 | -62 | 174 | -6 |

Percentage PSE

(%)

| | Sweden | | | EC | | |
|-----------------------|--------|------|------|------|------|------|
| | 1985 | 1989 | 1990 | 1985 | 1989 | 1990 |
| Wheat | 46 | 41 | 73 | 40 | 27 | 46 |
| Coarse grains | 40 | 53 | 73 | 40 | 35 | 52 |
| Sugar (refined sugar) | 67 | 35 | 60 | 76 | 49 | 57 |
| Milk | 80 | 67 | 71 | 65 | 59 | 69 |
| Beef and veal | 42 | 49 | 42 | 53 | 55 | 54 |
| Pigmeat | 21 | 25 | 12 | 6 | 6 | 6 |
| Poultrymeat | 29 | 38 | 29 | 20 | 26 | 28 |
| Eggs | 47 | 53 | 48 | -6 | 16 | -1 |

¹ Net unit PSE (producers' subsidy equivalents) for animal products.

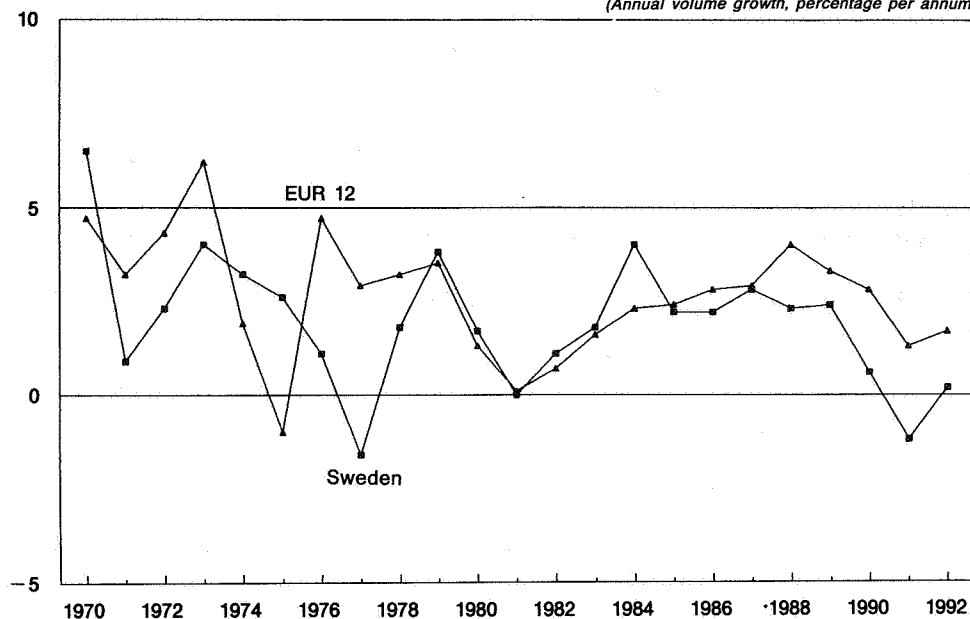
² Exchange rates: 1985: ECU 100 = SKR 656.323.

1989: ECU 100 = SKR 698.344.

1990: ECU 100 = SKR 749.881.

Graph 1 — GDP growth in Sweden and the EC, 1970-92

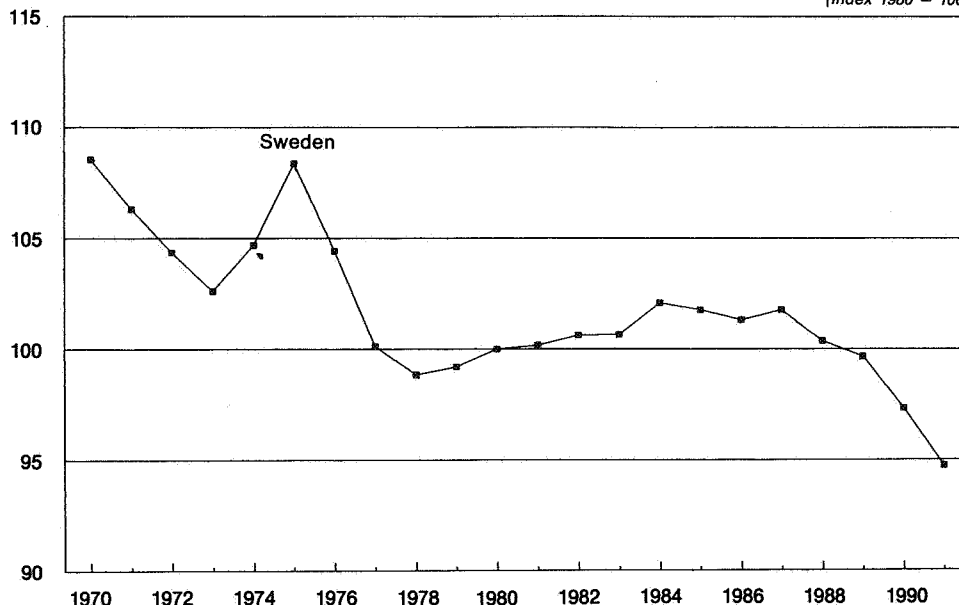
(Annual volume growth, percentage per annum)



Sources: Eurostat; EC Commission services.

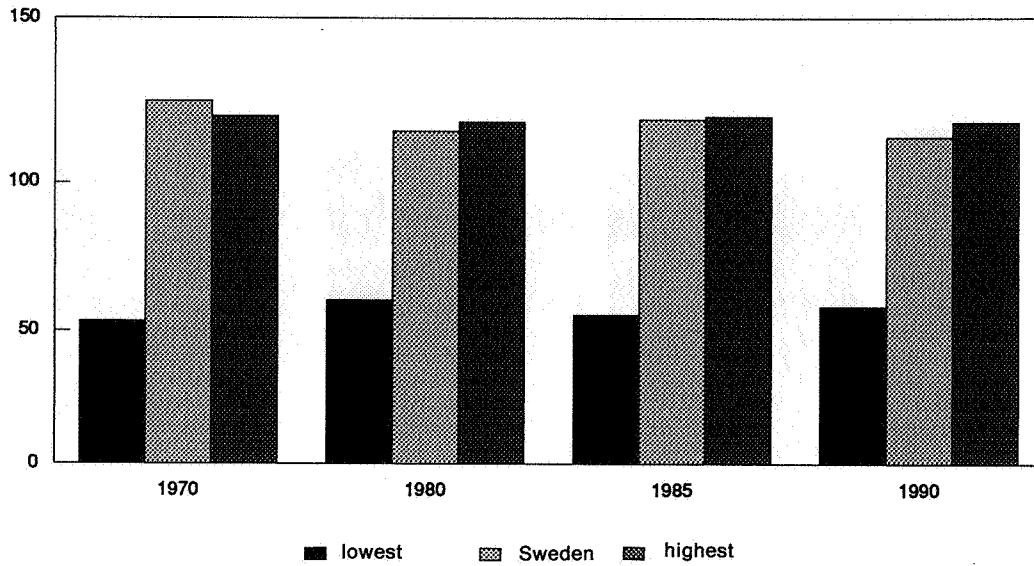
Graph 2 — Relative GDP for Sweden and the EC, 1970-91

(Index 1980 = 100)



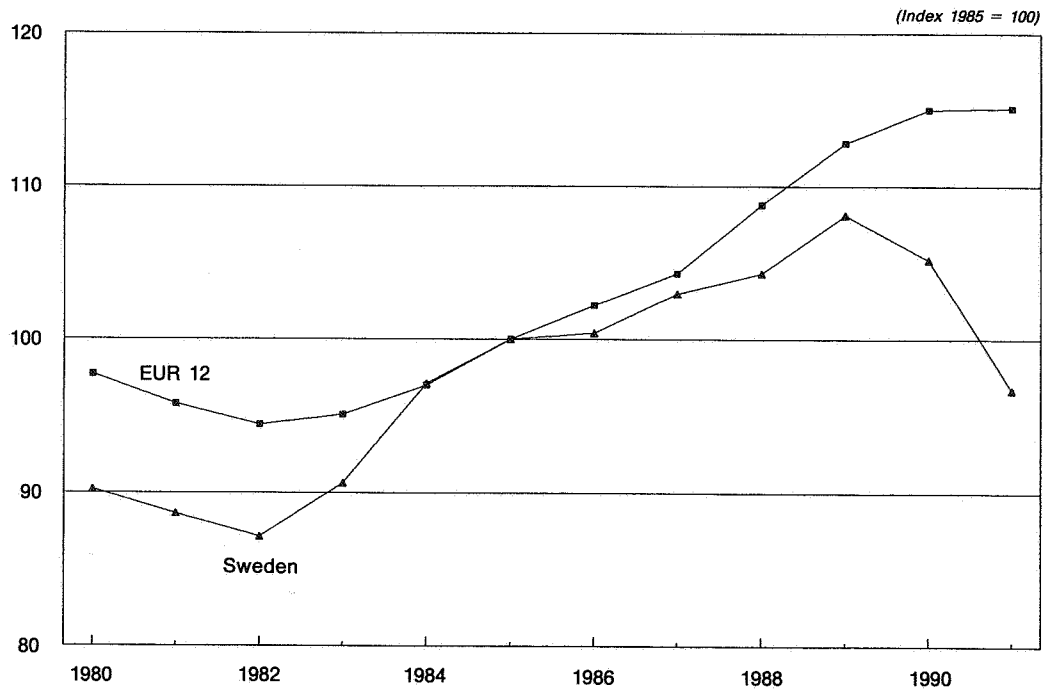
Source: EC Commission services.

Graph 3 — Per capita GDP in Sweden and the EC, 1970-90



Note: Purchasing power standard for EUR 12 = 100; EC except Luxembourg.

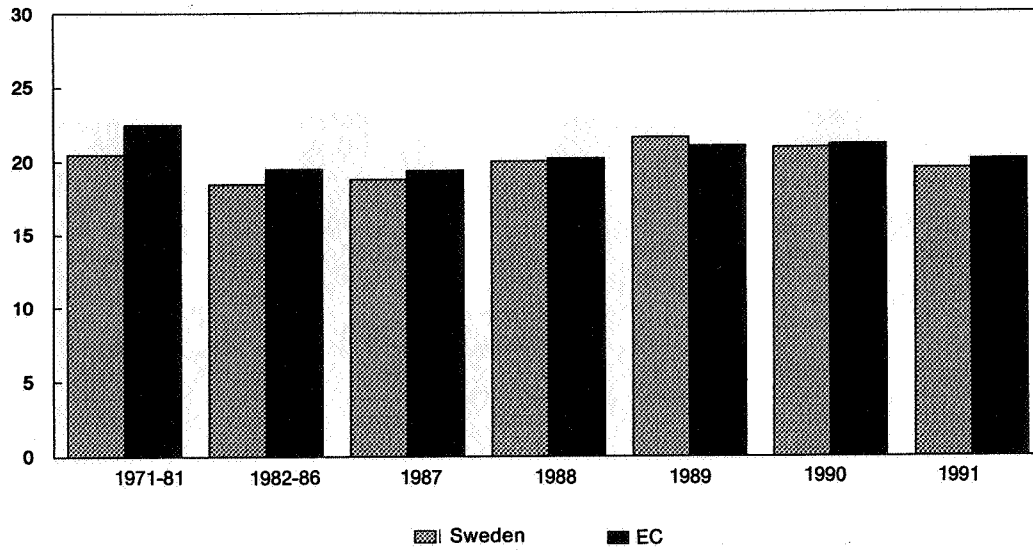
Graph 4 — Industrial production in the EC and Sweden, 1980-91



Sources: OECD; EC Commission services.

Graph 5 — Investment/GDP ratio in Sweden and the EC, 1971-91

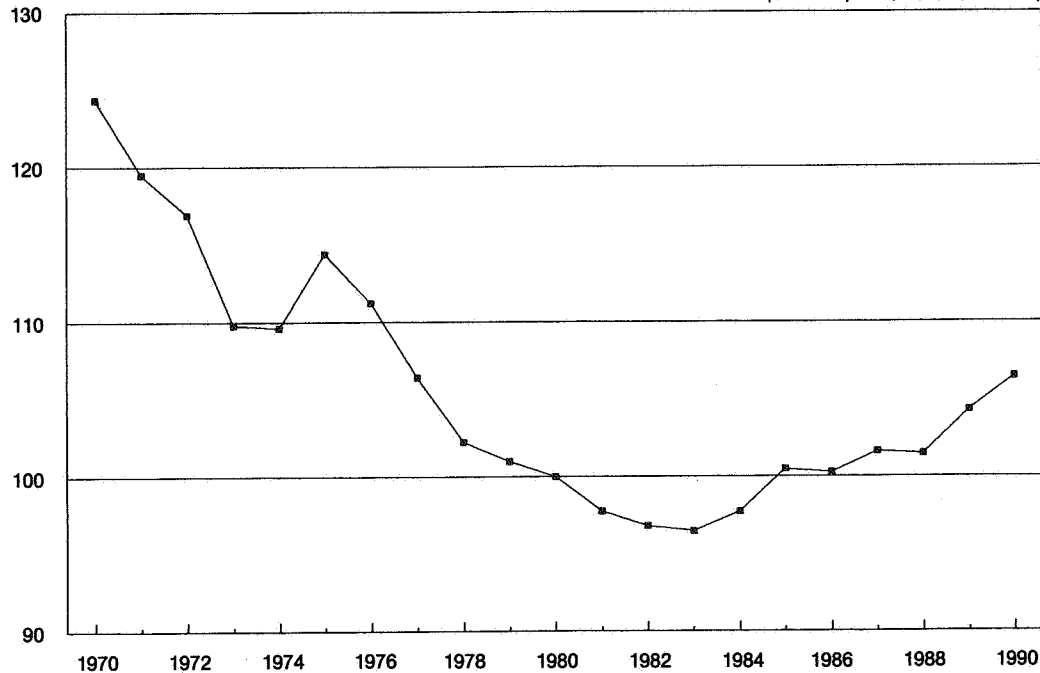
(Percentage of GDP; current prices)



Source: EC Commission services.

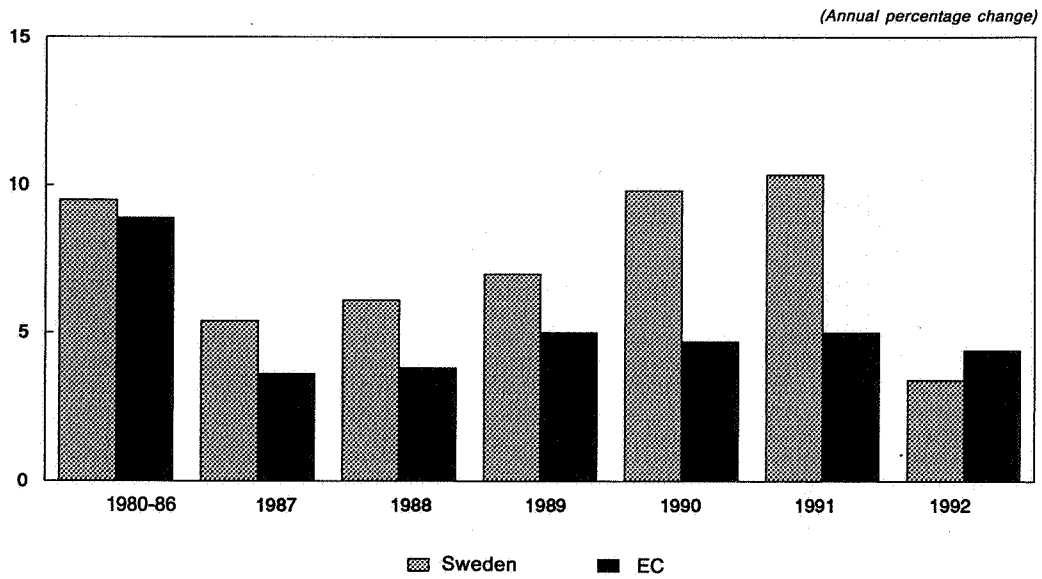
Graph 6 — Relative internal demand for Sweden and the EC, 1970-90

(Constant prices, index 1980 = 100)



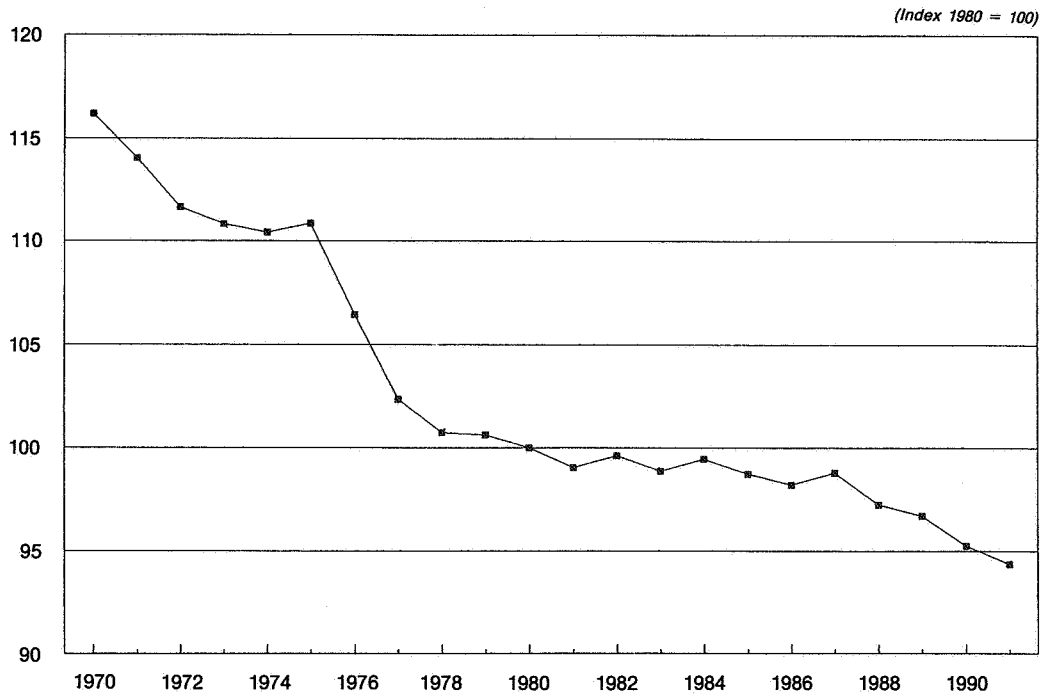
Source: EC Commission services.

Graph 7 — *Consumer prices in Sweden and the EC, 1980-91*



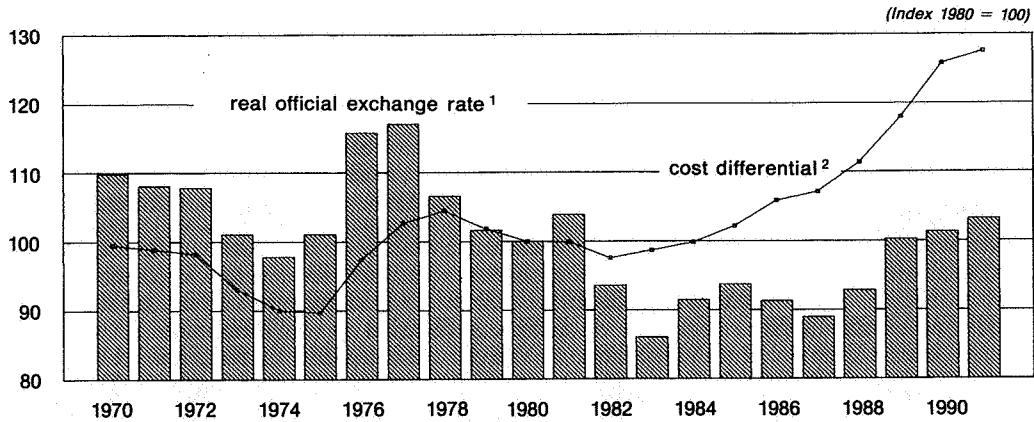
Sources: 1980 to 1991, EC Commission, DG II; 1992 forecast: OECD, December 1991; EC Commission, spring 1992.

Graph 8 — *Relative productivity for Sweden and the EC, 1970-91*



Sources: Eurostat; EC Commission services.

Graph 9 — Cost differential and real effective exchange rate relative to the EC, 1970-91

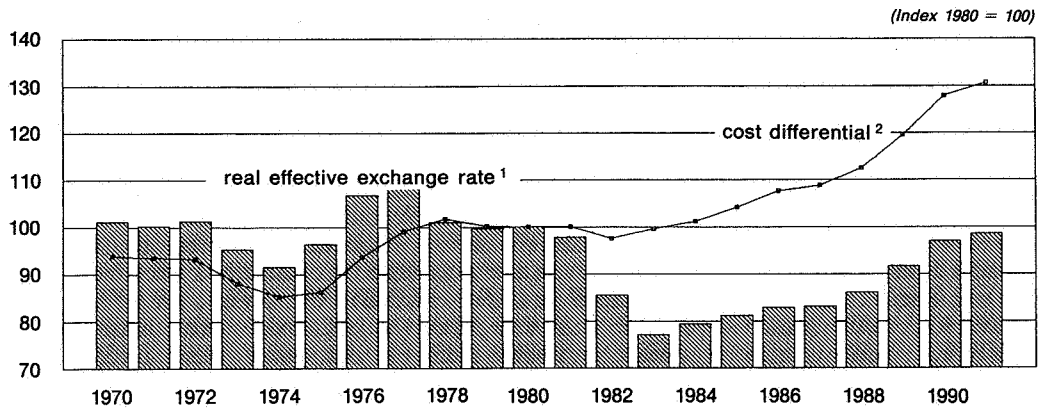


¹ Relative unit labour cost at common currency.

² National currency.

Source: EC Commission services.

Cost differential and real effective exchange rate relative to industrialized countries

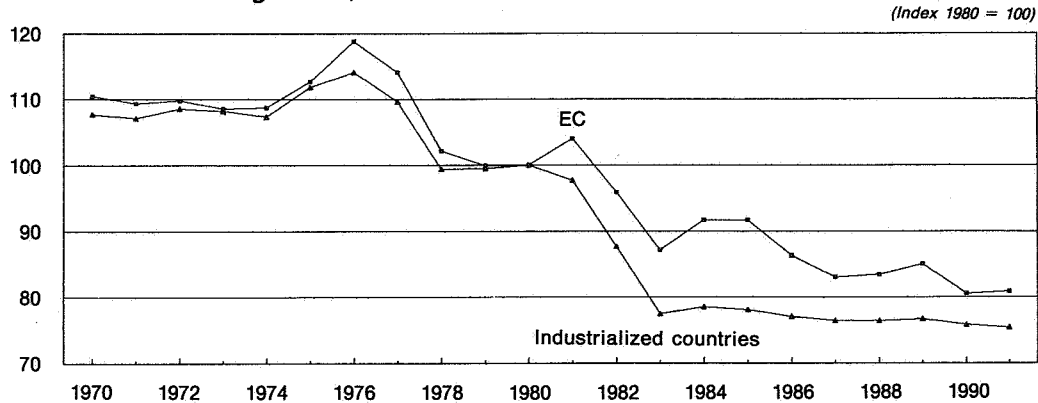


¹ Relative unit labour cost at common currency.

² National currency.

Source: EC Commission services.

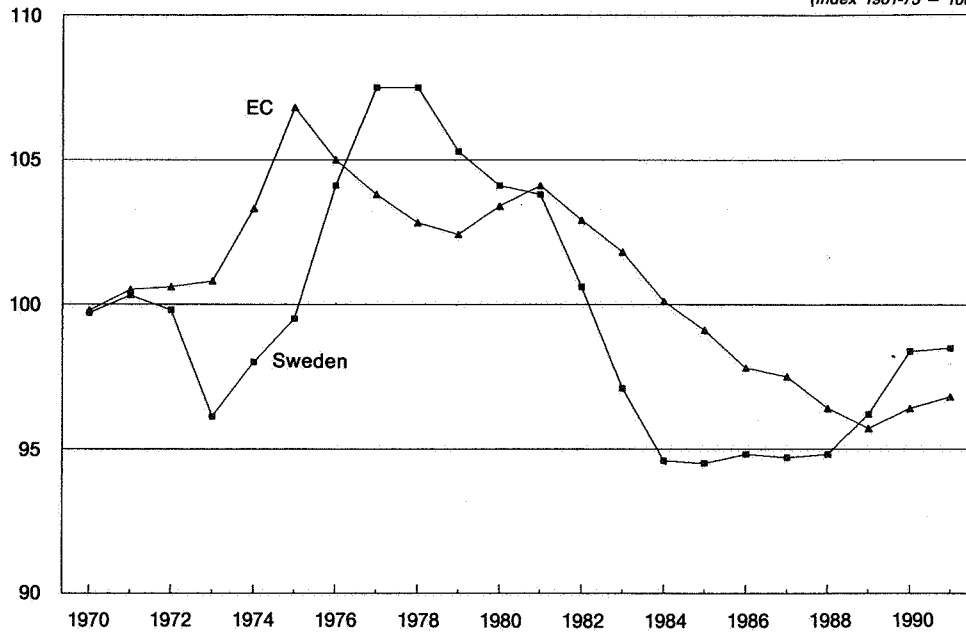
Effective exchange rate, vis-à-vis the EC and the industrialized countries



Source: EC Commission services.

Graph 10 — Real unit labour costs¹ in Sweden and the EC, 1970-91

(Index 1961-73 = 100)

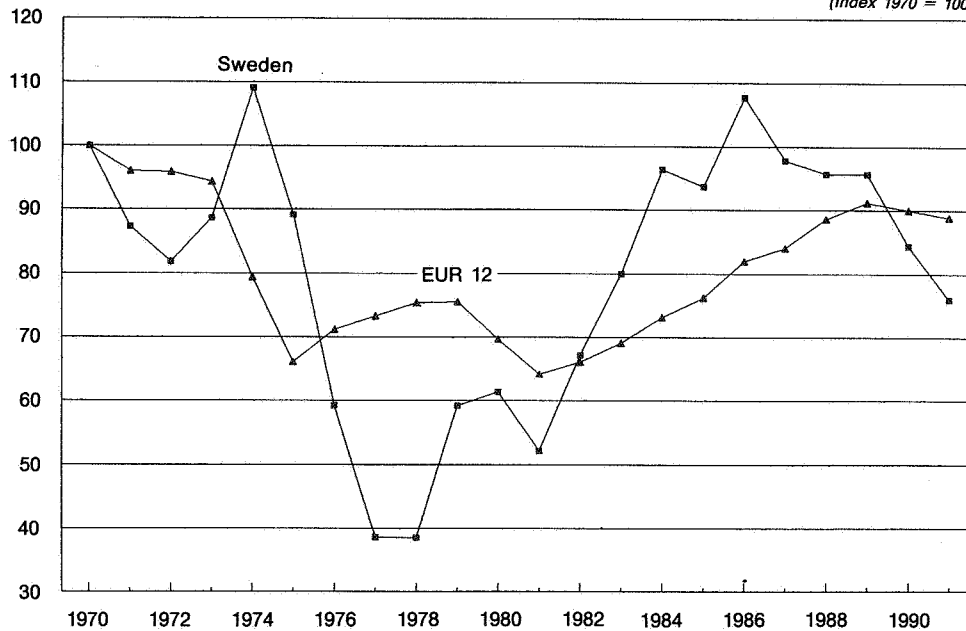


¹ Deflator GDP.

Sources: Eurostat; EC Commission services.

Graph 11 — Profitability development in Sweden and the EC, 1970-91

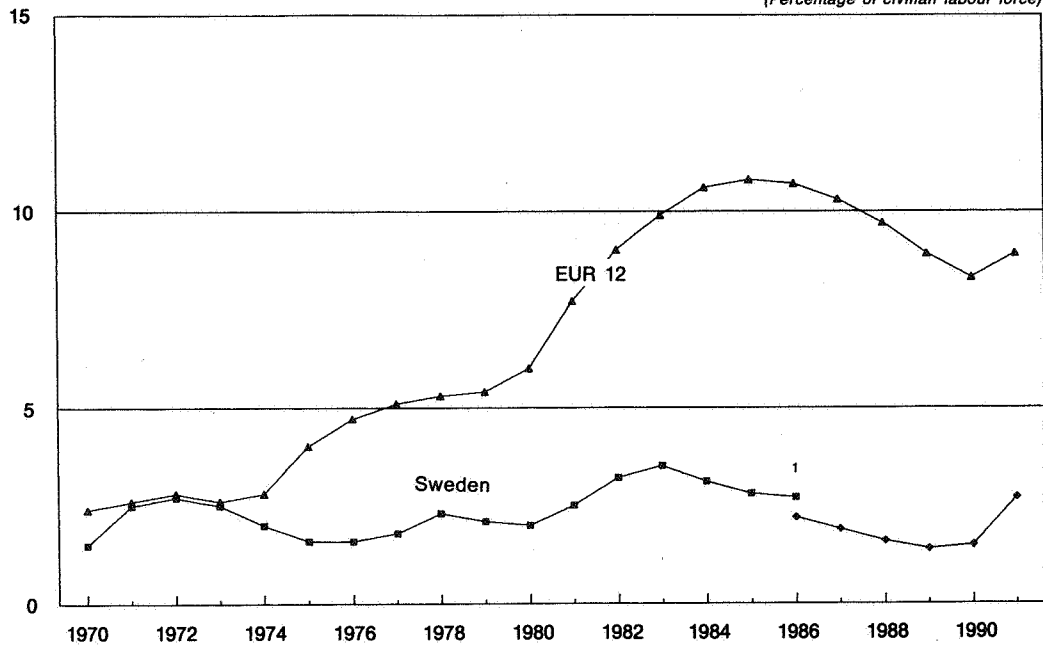
(Index 1970 = 100)



Sources: Eurostat; NIER, Sweden.

Graph 12 — Unemployment in Sweden and the EC, 1970-91

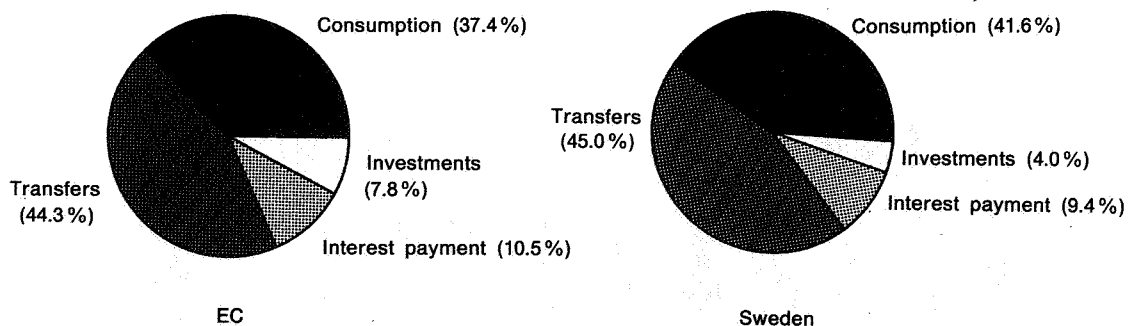
(Percentage of civilian labour force)



¹ Change of calculation method.

Sources: Eurostat and national sources (Sweden).

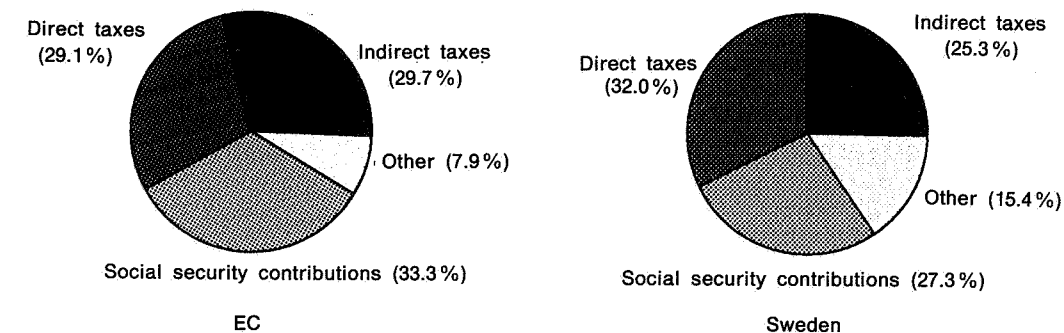
Graph 13 — Breakdown of general government expenditure, 1991



Source: EC Commission services.

Source: Swedish Ministry of Finance.

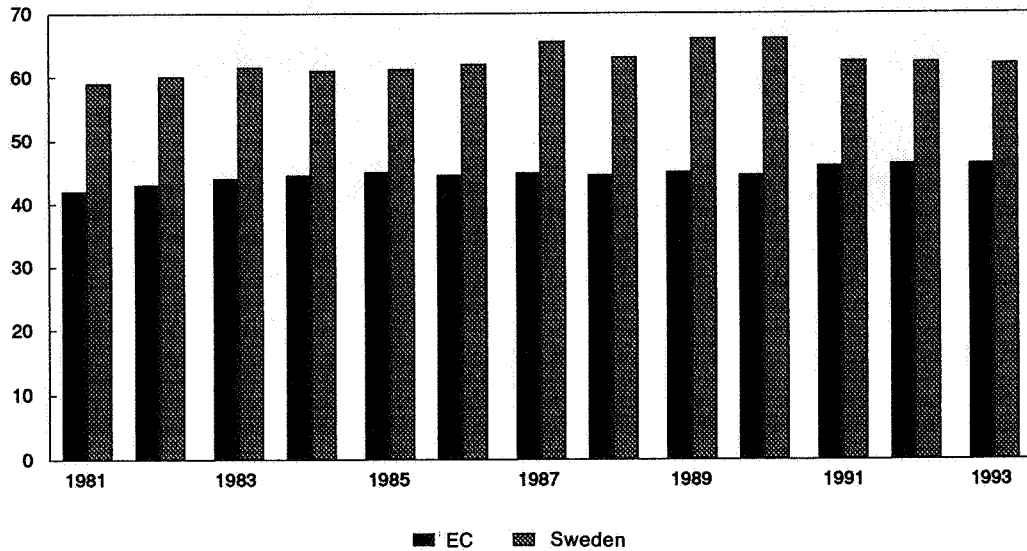
Graph 14 — Breakdown of general government revenue, 1991



Source: EC Commission services.

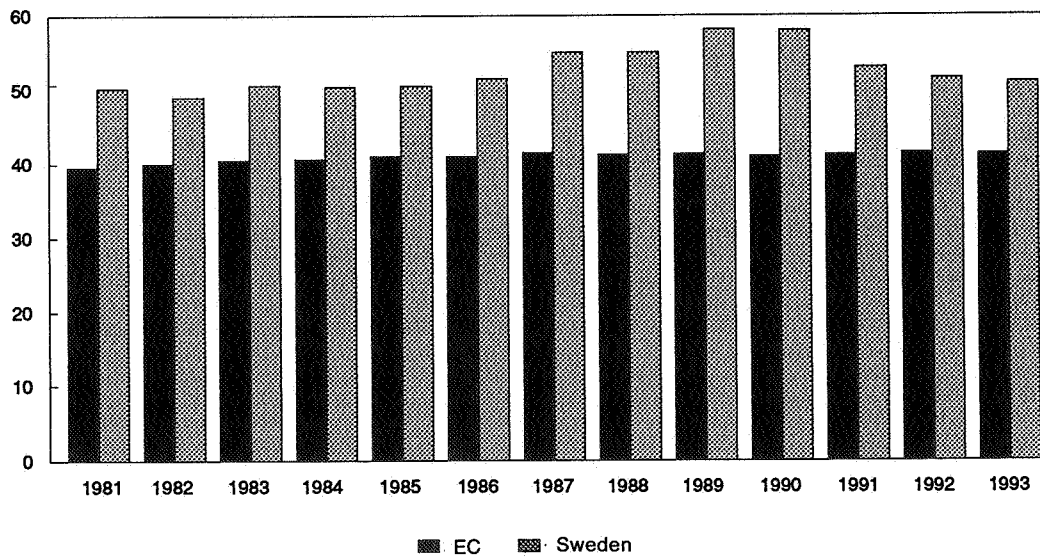
Source: Swedish Ministry of Finance.

Graph 15 — *General government revenue (as percentage of GDP), 1981-93*



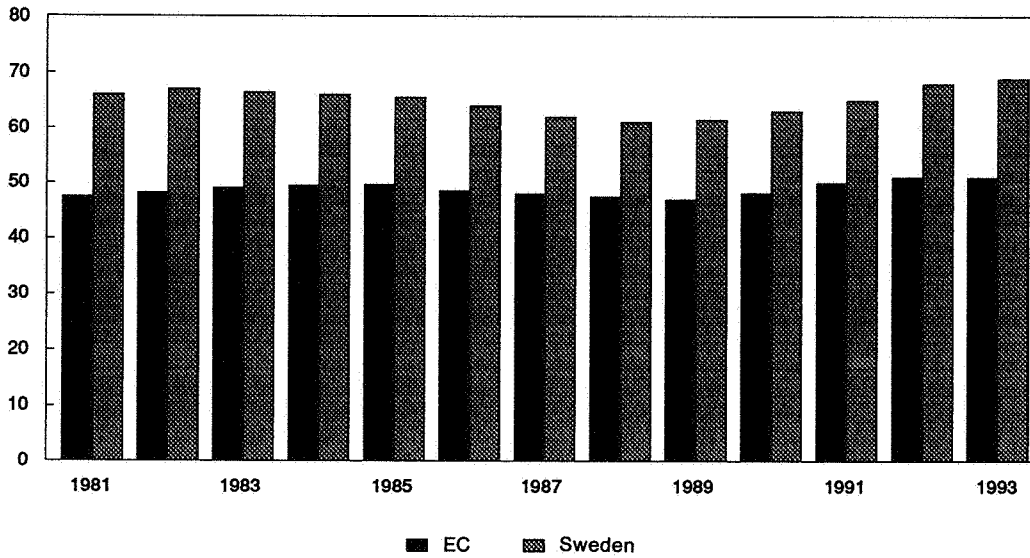
Sources: EC Commission services; Swedish National Institute for Economic Research; Swedish Ministry of Finance.

Graph 16 — *Taxes and social security contributions (as percentage of GDP), 1981-93*



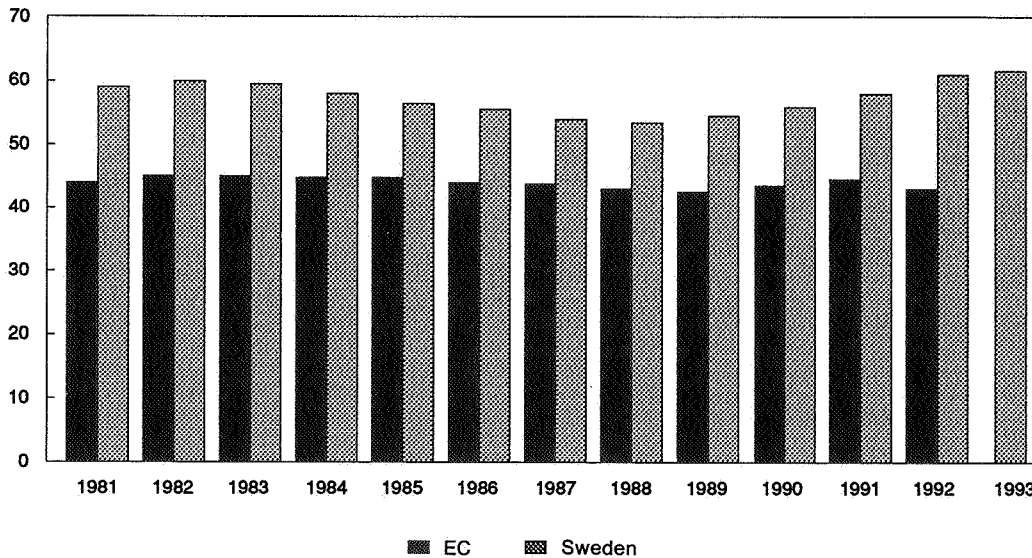
Sources: EC Commission services; Swedish National Institute for Economic Research; Swedish Ministry of Finance.

Graph 17 — *General government expenditure (as percentage of GDP), 1981-93*



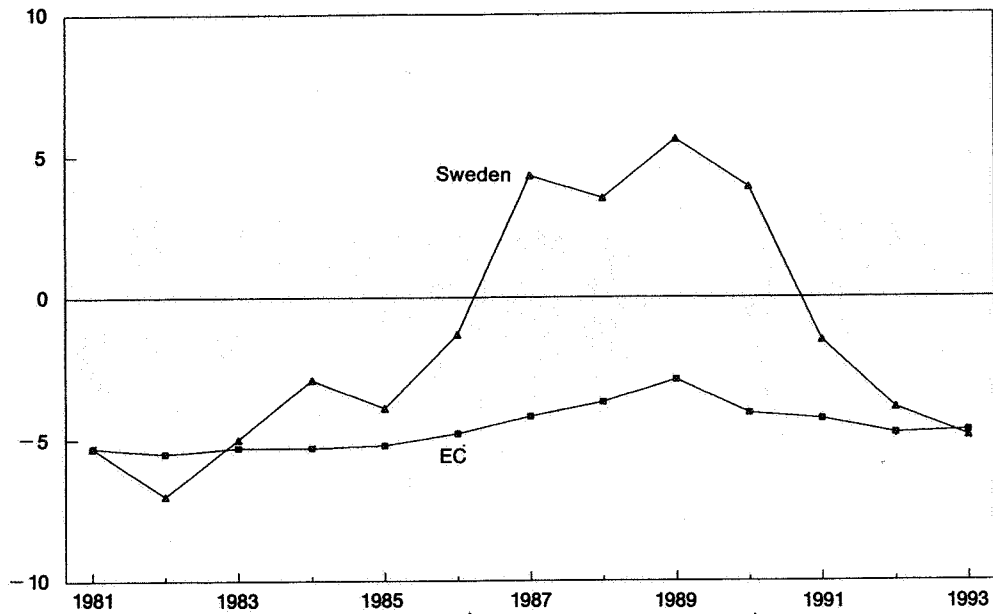
Sources: EC Commission services; Swedish National Institute for Economic Research; Swedish Ministry of Finance.

Graph 18 — *Public expenditure (excluding interest charges) (as percentage of GDP), 1981-93*



Sources: EC Commission services; Swedish National Institute for Economic Research; Swedish Ministry of Finance.

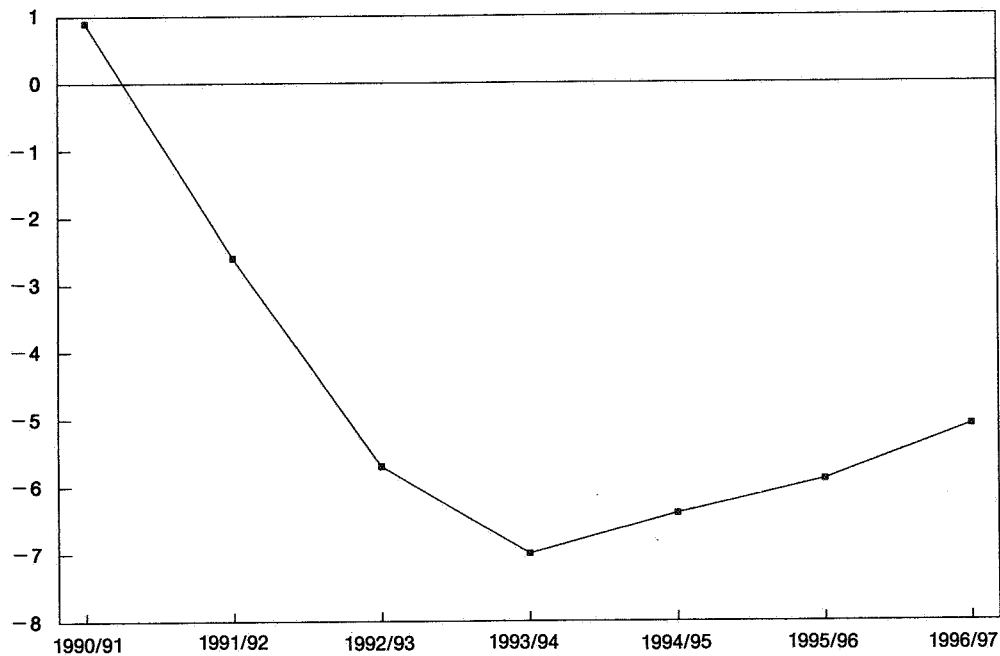
Graph 19 — *Public deficit (as percentage of GDP), 1981-93*



Note: Net lending/borrowing by general government.

Sources: EC Commission services; Swedish National Institute for Economic Research; Swedish Ministry of Finance.

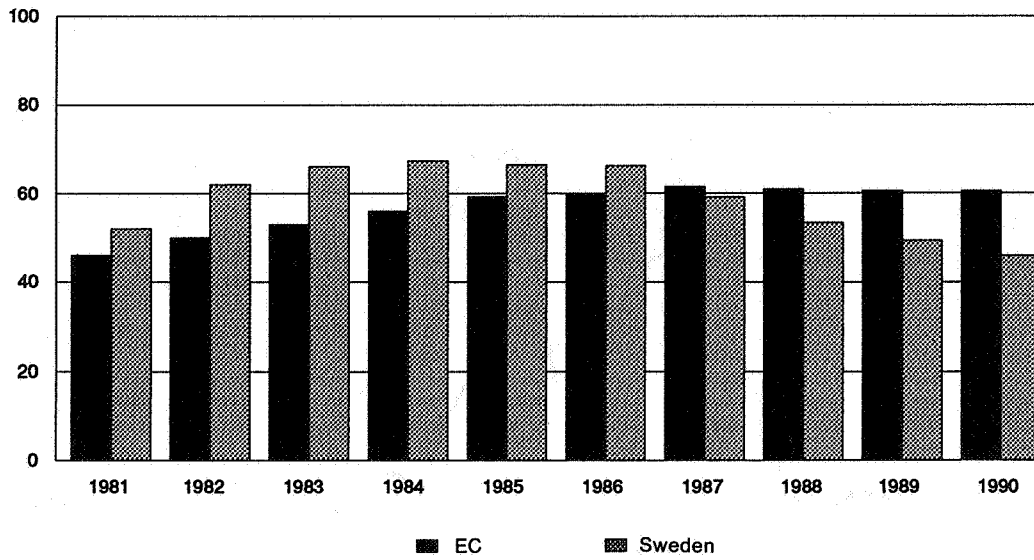
Graph 20 — *General government budget deficit (as percentage of GDP)*



Note: Calculation of consequences, given present rules, from 1991/92 to 1996/97.

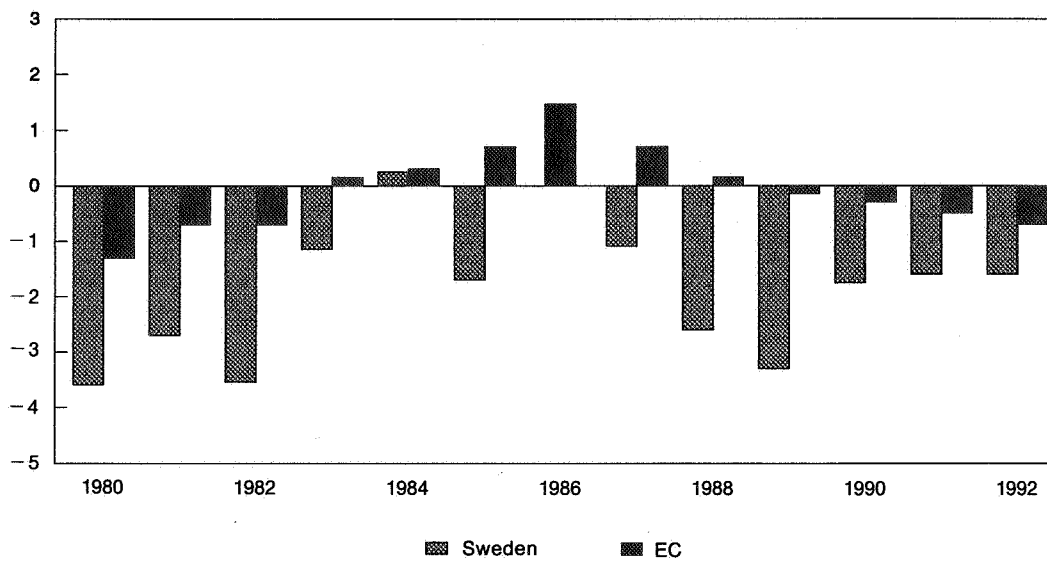
Source: Swedish Ministry of Finance.

Graph 21 — Public debt (as percentage of GDP)



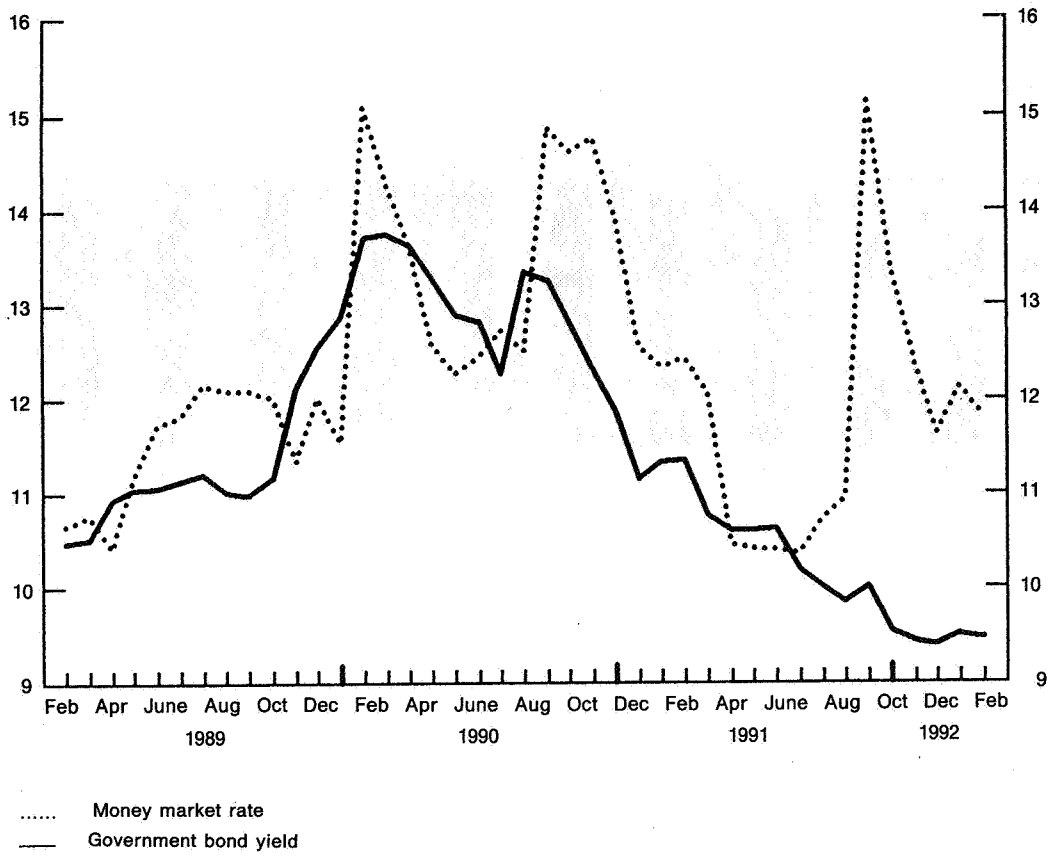
Sources: EC Commission services; Statistics Sweden.

Graph 22 — Current account as percentage of GDP in Sweden and the EC, 1980-92

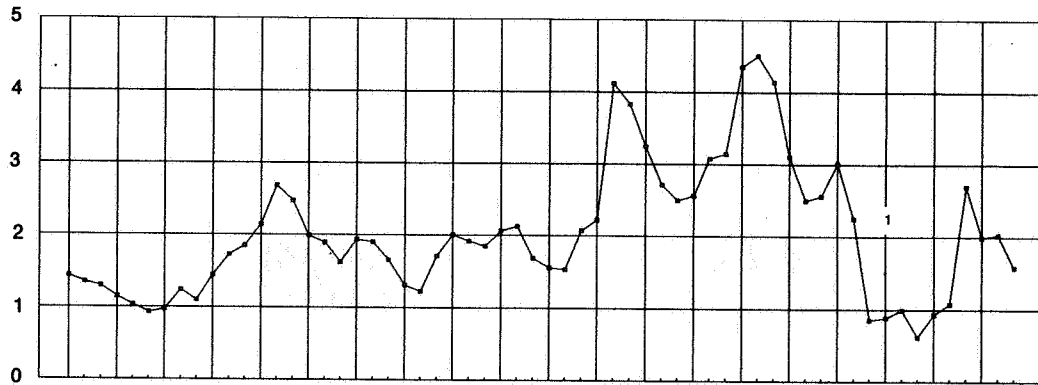


Sources: Eurostat; EC Commission services.

Graph 23 — Monetary market rate and government bond yield



Graph 24 — Interest rate differential, Sweden vis-à-vis main trading partners, 1987-92

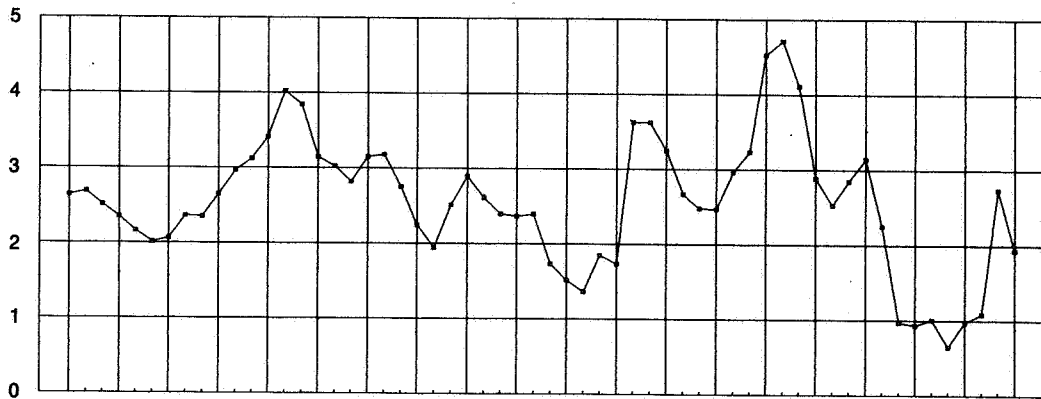


Apr 1987 Oct 1987 Apr 1988 Oct 1988 Apr 1989 Oct 1989 Apr 1990 Oct 1990 Apr 1991 Oct 1991
 Jul 1987 Jan 1988 Jul 1988 Jan 1989 Jul 1989 Jan 1990 Jul 1990 Jan 1991 Jul 1991 Jan 1992

¹ From May 20, they correspond to the ecu currencies.

Note: Six-monthly rates, 15 trade-weighted eurocurrencies.

Interest rate differential, Sweden vis-à-vis ecu currencies, 1987-92

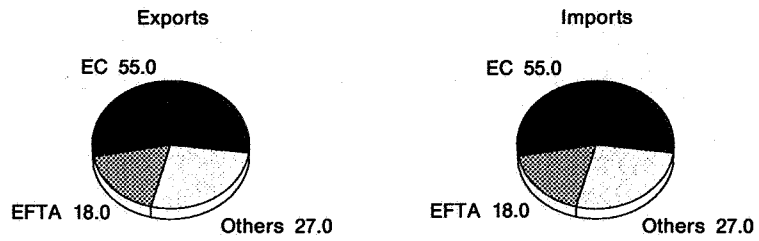


Apr 1987 Oct 1987 Apr 1988 Oct 1988 Apr 1989 Oct 1989 Apr 1990 Oct 1990 Apr 1991 Oct 1991
 Jul 1987 Jan 1988 Jul 1988 Jan 1989 Jul 1989 Jan 1990 Jul 1990 Jan 1991 Jul 1991 Jan 1992

Note: Six-monthly rates, monthly averages.

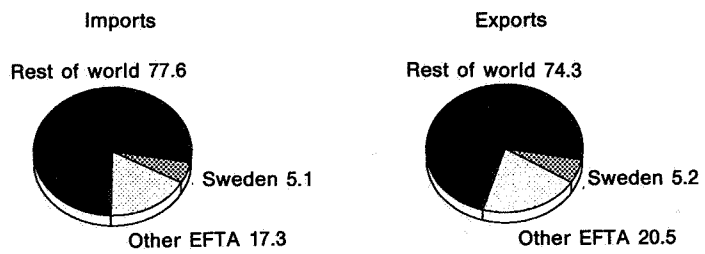
Graph 25

Sweden's trade with the EC, 1991 (%)



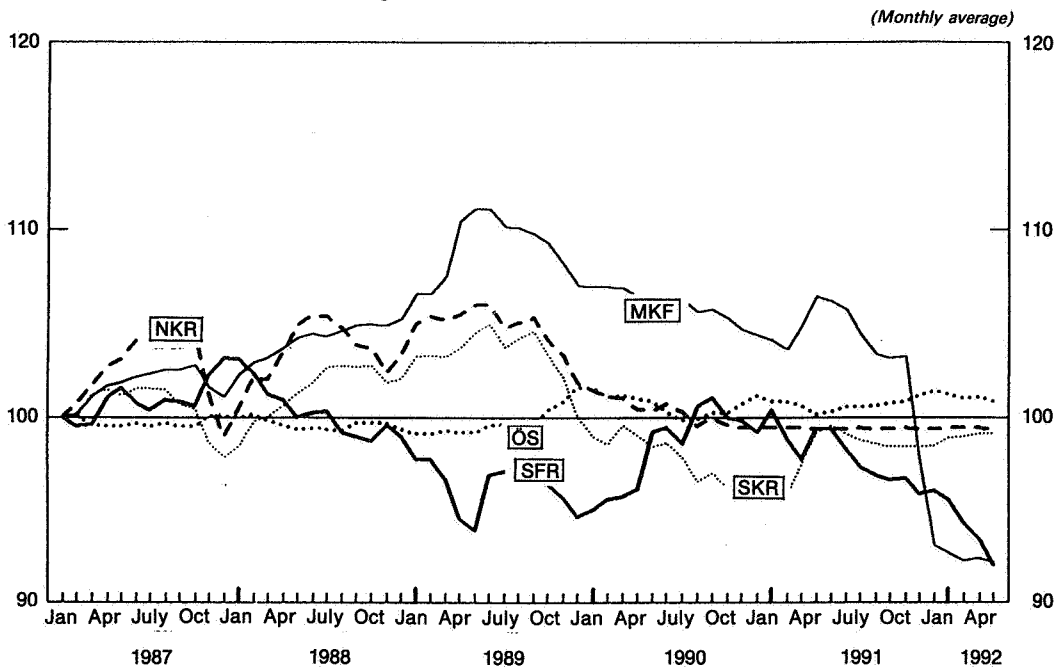
Source: Foreign trade statistics.

EC trade with Sweden, 1991 (%)

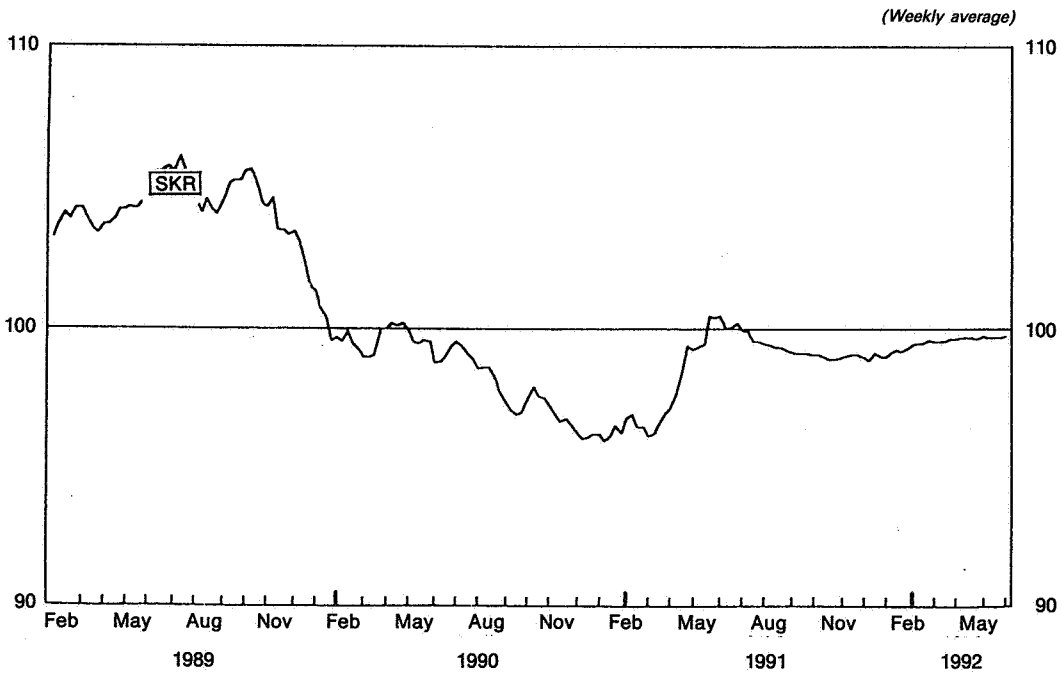


Source: Eurostat.

Graph 26 — Exchange rates of Swedish krona vis-à-vis the ecu
 Exchange rates of EFTA currencies in ecus



Exchange rate: ECU/SKR



European Communities — Commission

The challenge of enlargement — Commission opinion on Sweden's application for membership

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