SVENSKT NÄRINGSLIV
SWEDISH ENTERPRISE

Investing Sweden out of Recession

REFORMS FOR A BETTER INVESTMENT CLIMATE

CONFEDERATION OF SWEDISH ENTERPRISE
– RESTART SWEDEN – REFORM PACKAGE II
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Future competitiveness requires a better investment climate

The corona crisis risks causing an extremely deep recession. Close to 40 per cent of companies in Sweden have reduced investment in the past six months. Fewer than four out of ten people in Sweden are in work, which is the lowest level for more than 20 years. Unemployment is expected to reach peaks not seen since the economic crisis of the 1990s. The speed at which company investment restarts will be decisive in how rapidly Sweden recovers from recession.

If Sweden is to emerge from the crisis stronger, confidence in the future and the right reforms are needed. Sweden needs to prepare now to strengthen long-term competitiveness and combat unemployment. The state has a key role to play in reducing uncertainty and creating the stability needed for entrepreneurship, private investment, and jobs.

The rate of corona virus infections is lower, and the Swedish economy is in somewhat better shape in the third quarter than had been previously feared. More companies are looking to the future with confidence. Crisis measures are working. But the crisis is not over. Between and within sectors there are contrasting realities. In many companies and segments the outlook is bleak and dependent upon demand returning through society re-opening safely. Problems caused by delivery disruptions persist and also affect companies that are faring well. Uncertainty caused by the global downturn is especially acute for a trade-dependent country such as Sweden.

In this package of proposals, the Confederation of Swedish Enterprise presents restart measures in seven areas that seek to increase company investment, strengthen competitiveness, and drive job creation:

- Strengthen Sweden's position as a leading knowledge economy with increased investment in R&D.
- Unleash the potential of digitalisation and AI with, for example, better regulation.
- Facilitate the climate transition with, for example, increased electrification.
- Safeguard global trade by, for example, advocating reform of the WTO.
- Reduce regulatory burden with a new regulatory approach.
- Make investing in Sweden more attractive, with better regulations and reduced corporation tax.
- Use the EU's Recovery Fund to invest in Europe's competitiveness.

This is the second of three packages of reforms that the Confederation of Swedish Enterprise will present in 2020 under the auspices of its Restart Sweden programme. In June, we proposed a job creation initiative that included a raft of measures for implementation in the near future to strengthen private and public sector investment, increase openness and trade with the rest of the world, combat unemployment, and strengthen the supply of skilled workers.

Structural change is now accelerating in the wake of the crisis. How we work, travel, and shop is changing in Sweden and internationally. The longer the pandemic lasts, the more different the new normal can be expected to be. A more divided world with weaker supply chains risks creating considerable inefficiencies. Uncertainty and reduced investment capacity threatens potential benefits of new business opportunities in digitalisation. A cohesive Europe, where key trading partners can help each other on well-functioning markets, will be crucial to recovery. Appropriate use of the EU's Recovery Fund is central to this.

Sweden should be a leading knowledge economy that attracts investment and talent, accelerate digitalisation, develop more sustainable solutions and export environmental benefits. As global competition for skills and capital intensifies, investment must be made more attractive. In addition to the reforms proposed in this package, investment decisions are also influenced by a large number of other factors. Curbing crime in society, for example, is a basic requirement for a better business climate.

Companies are the engine of recovery. If business has the right conditions to invest, more people keep their jobs, demand is stimulated, and the wheels of the economy turn.

Six months of the corona crisis

A business sector out of sync

Business is out of sync. Stark differences exist within and between segments of the economy. While some companies are experiencing increased demand, especially those involved in digitalisation and e-commerce, others are facing severe challenges and are dependent on decisions related to government infection prevention measures.

Global conditions have a major impact on future business prospects. Bankruptcies in one sector can create impacts in another. Increased unemployment weakens household demand and has negative effects on the entire national economy. Although the situation has stabilised compared to the initial phase of the crisis, the situation remains extremely difficult. A widely held view in business is that structural transformation and digitalisation have been accelerated by the crisis, but at the same time they have been undermined by uncertainty over the future and reduced investment.

The following section provides a brief overview of the current situation in the construction and installation, retail and hospitality, industry, services, and transport sectors.

> **Although the situation has stabilised compared to the initial phase of the crisis, the situation remains extremely difficult.**

Construction and installation

The pandemic has affected the construction and installation sector unevenly. Installers were hit first, with 10 per cent of all employees temporarily furloughed as of July 1. During the first and second quarters, the sector was affected to a lesser extent than initially feared, due in part to long project durations and stable public sector investment. The number of people employed in the construction industry fell by 4 per cent.

However, conditions in the sector risk deteriorating. Economic uncertainty is affecting investment appetite broadly and is contributing to delays and cancellations of construction projects. Seven out of 10 members of the Swedish Construction

Federation are experiencing delays to construction projects; six out of 10 report a fall in orders, something that affects all companies in the construction supply chain. Increasingly short lead times threaten quality standards. A quarter of members are experiencing financing problems. Increased competition, price pressure and unemployment threaten to make the situation worse. The risk of corners being cut in the segment increases when professional builders are laid off at the same time as demand for private renovation is rising. More layoffs, redundancies, and increased unemployment is also a risk in services related to construction, for example architects, consultants, and engineers.

Retail and hospitality

The crisis has hit retail and hospitality extremely hard. At the same time, the picture in retail has been two-sided. Sub-segments such as food retail, hardware and DIY have, on an aggregated level, experienced relatively good growth rates. However, footwear and clothing, for example, are under pressure. Overall, hospitality remains in deep crisis. In the big cities, hotels lost 75 per cent of accommodation income in August compared to the same period in 2019, while some companies experienced a slight recovery during the summer, for example, in coastal tourist areas. The part of the sector that is dependent on consumption connected to work, tourism, travel, or border trade continues to face severe challenges; and amusement parks and night clubs, for example, are effectively banned from trading.

At the beginning of August, the number of employees in retail and hospitality who were, or had been, on temporary contracts amounted to approximately 170,000. Many companies in retail and hospitality are expected to face an extremely tough autumn. Restrictions on gatherings and guidance relating to working from home is hitting shops and restaurants hard. Severely reduced travel and the avoidance of physical meetings, conferences, and trade shows hits hotels and camp sites hard. The crisis has accelerated the digital structural transformation that the sector had already experienced for several years.

Industry

World and Swedish GDP, and industrial sectors have, to a certain extent, bounced during the summer, from what was an extremely deep downturn in the spring. An estimated half of the downturn in industrial production has been recovered, but the situation varies considerably between different segments. The corona pandemic has resulted in a general reduction in demand and disruption to deliveries. Initially, industry prices fell. The Swedish krona weakened, however, which drove up profitability. But since April, the krona has strengthened. Just as in the wider economy in general, the effects of this varies between different parts of base industry and between different products.

Mining has performed relatively well. The logging and packaging sectors have experienced increased demand in the wake of the pandemic, inter alia due to increased e-commerce and the use of disposable products. Sections of the paper industry has been particularly hard hit. The market for pulp started the year strongly but it has experienced a pronounced fall since April in terms of deliveries and exports. Steel and metal segments has been hard hit, in part due to a downturn in German automotive industry, and weak growth is expected to continue partly due to softer growth in Europe. Order books and sentiment are extremely weak within steel and metal segments and continued reductions in staff levels are expected.

Demand for Swedish-produced drugs has increased during the corona crisis. Production within chemical and rubber/plastics has, however, fallen considerably, driven in particular by the European automotive industry coming to a standstill. Volumes in the pharmaceutical sector have suffered due to deliveries to hotels and restaurants falling sharply. Furthermore, food exports have also fallen.

Services

The services sector has been hit hard. For innovation-driven companies, the spring and summer have been extremely challenging. For IT and telco, the crisis remains palpable, but there is a certain degree of optimism about prospects going forward. The travel sector has been severely affected. The furlough level among travel agencies and tour operators is currently 83 per cent.

Healthcare companies have faced challenging circumstances and have been affected in different ways depending on the type of services they provide. As the pandemic subsides, there will be pent up demand for healthcare interventions as large numbers of check-ups and treatments have been delayed. Among service providers, around 16 per cent of companies have made full-time employees redundant. Many key entry-level jobs on the labour market have disappeared or are at risk of disappearing. Sales data from recruitment companies shows negative growth of around -26 per cent during the second quarter of 2020 compared to the same period last year.

> **For more hard hit sectors to recover, demand needs to return, and society open up safely.**

Transport

During the spring, passenger travel decreased by between 80 and 90 per cent with sales falling sharply. The situation remains extremely precarious. Sweden's Ministry for Foreign Affairs continues to advise against travel outside the EU and the call to refrain from all but essential travel on public transport is still in place.

During the second quarter, passenger traffic on the railways fell 75 per cent in terms of passenger numbers and revenue in the commercial long-distance segment. There was also a fall of approximately 50 per cent in contracted rail services. Freight traffic had considerable challenges even before the crisis and the fresh falls in volumes represent a renewed threat.

Air traffic is increasing slowly and in 2021, passenger numbers are projected to be less than 50 per cent of 2019 levels. In August, the number of bankruptcies in the taxi sector doubled compared to the same month in 2019. Commercial bus services, pre-booked and tourist services have seen a drop of 95 per cent. Contracted traffic has also decreased by between 50 and 90 per cent. Demand for passenger traffic is dependent on progress in infection control, an eventual vaccine, and harmonisation of different countries' travel restrictions. Longer term changes are currently difficult to determine. A clear trend is the acceleration in the growth of e-commerce that results in greater demands in terms of making logistics more efficient.

The need to maintain crisis measures

For more hard hit sectors to recover, demand needs to return, and society open up safely. In various segments, where economic activity is effectively banned, demand remains extremely weak. These sectors continue to need crisis support, so that otherwise sound companies are able to survive. A concrete and clear political plan for the way forward is necessary and active efforts related to when and how changes to restrictions are made, so that companies can gradually and responsibly revive their businesses. Restrictions and legislation that are ineffective and illogical need to be reviewed.

Many of the crisis measures that have been introduced have meant that many companies have so far been able to furlough and retain employees. Enabling more people to retain their jobs has also contributed to household purchasing power and dampened increases in social costs for individuals, the state, and municipalities.

It is positive that the government has announced that it wants to extend its transition support. However, these measures need to be better suited to reducing distortions in competition between companies and segments. Appropriately framed, transition support can be the most effective crisis measure, which is why it is reasonable to extend it further.

One of the most widely used measures during the earlier stages of the crisis were payments made to temporary workers. Opportunities for temporary work may need to be extended, depending on the extent and duration of the crisis.

The deferral of corporation tax payments was an important liquidity measure. However, an amortization option should be introduced for employer contribution payments, preliminary income tax and VAT when the deferral period expires. Otherwise, the tax is due 12 months after the deferral has been granted, which makes it difficult for many companies to restart and risks increasing the number of bankruptcies. Steps should also be taken to ensure that the exemption from the representative tax liability will also apply to an amortization solution.

Sick leave payments, which meant that all employers have been able to claim all sick leave costs from the state from April to July, have contributed to relieving the cost burden. For August and September, sick leave costs were no longer fully reimbursed. Instead, different percentages apply depending on a company's size and the amount of sick leave costs. The Confederation of Swedish Enterprise welcomes the government's proposal that the sick leave payments allowance available for August and September now be extended to the end of the year, so that companies can continue to be compensated for sick leave costs that exceed normal levels until December 31, 2020.

It is also welcome that during the autumn, the government and parliament will introduce income support for the self-employed, something that the Confederation of Swedish Enterprise proposed back in March as one of the measures in our three rescue packages published during the spring.

The temporary crisis measures need to be successively complemented and replaced by reforms that boost long-term competitiveness. Incentives to work need to be re-established. Temporary changes to social security payments and grace days that were introduced need to be restored in time to avoid negative impacts on the labour market and thereby competitiveness.

From crisis to restart — previously presented reforms and impact on the budget

In June this year, the Confederation of Swedish Enterprise presented the first of three packages of proposals designed to restart the Swedish economy. The Mobilising for jobs – reforms for a more competitive and sustainable Sweden package includes some 20 concrete measures, which are possible to implement at short notice, to strengthen the business environment and make it the engine for jobs that Sweden needs. To strengthen investment appetite and reduce uncertainty, a clear signal is needed to prevent high tax rates on jobs and companies. This would give business better conditions to restart.

One of the main proposals that we presented in June was to reduce the cost of employing young people. Sweden's relatively high taxes in an international context continue to be a barrier to employment and the number of hours worked in the economy. It is positive that the government and its allied parties reduce employer contributions for younger workers in the autumn budget, although the Confederation of Swedish Enterprise would prefer this measure to be made permanent and given more teeth. The government's temporary measure should be seen as a first step to build on. A permanent reduction in employer contributions would establish stable conditions that would facilitate job creation.

The budget also includes proposals for temporary corporation tax relief of SEK 7 billion for investment in machinery and inventories. The aim of this measure is in line with suggestions made by the Confederation of Swedish Enterprise, although these were in the context of another technical solution, (in June the Confederation suggested a previously proposed right to tax relief; the government suggests a tax cut), and for a considerably shorter period (for investment made in 2021).

A large number of other proposals that the Confederation of Swedish Enterprise published in June have been included in the budget bill. These include an expansion of the R&D rebate, more advantageous taxation on expertise, investment in broadband, increased funding for roads, repairs to the rail network, and increased backing for industry. These proposals are good, but in many cases, measures fail to go as far as the Confederation had suggested. The Confederation continues to call for the implementation of all the restart measures that we have presented.

Unfortunately, the budget also includes elements that will make any recovery in employment more drawn out. The decision to extend the increase in unemployment benefit weakens incentives to increase and find work, which will keep unemployment high and result in fewer people needing to support more people.

From crisis to recession – economic assessment

Six months after the corona crisis became global, Sweden can look back on some of its weakest months of growth on record. Many companies have been forced into bankruptcy, people have lost their jobs, and large numbers of countries have seen their national debt increase. Some of the problems caused by the crisis are transient, while others risk being long-term and more serious.

In the spring, when the Confederation of Swedish Enterprise and many other actors published economic forecasts, there was considerable uncertainty regarding how quickly the virus would spread. In the initial phase, lockdowns in parts of many countries were far-reaching and stock market falls were alarming. The economic situation going forward remains hard to judge. Uncertainty in many segments is considerable and the path back from standstill may be long and arduous.

The situation on the labour market is uncertain. Temporary furlough schemes are in widespread use, and many layoffs made at the start of the crisis remain in place. Hundreds of thousands of people are affected and unemployment is likely to rise further from today's already high levels. Young people's position on the Swedish labour market in particular has worsened dramatically since the outbreak of the corona pandemic. During the past year, the number of young people claiming unemployment benefit at the Swedish Employment Agency has jumped 50 per cent.

The crisis is costly for individuals, companies, and countries. Many attempts to soften its negative effects have been well-targeted and necessary. However, they have resulted in increased debt burdens for the world's economies. When the world has come through the crisis, debt will have increased to record-high levels. This can be a cause for concern if growth does not quickly return to higher levels. Strong economic growth is necessary to prevent the mountain of debt becoming onerous going forward.

This is especially the case in economies with ageing populations where the proportion of people of working age is decreasing.

The situation is still serious for companies. Some businesses have been forced into bankruptcy but the total number of bankruptcies to date has not increased as much as had been feared in the spring. Some of the support programmes that have been introduced have probably contributed to limiting the number of bankruptcies. The accumulated number of bankruptcies, however, remains at elevated levels and projections for the autumn and the coming years are uncertain.

Indications that activity in the Swedish economy has gradually started to recover since the initial phase of the crisis is found in answers to a survey conducted by the Confederation of Swedish Enterprise among its member companies. In answer to the question "How much of your production capacity do you currently use?", more companies now say that they are using a greater proportion of their capacity, compared to the second quarter of the year. Many other indicators that pointed downwards in the spring now point upwards. However, such improvements in confidence indicators are from an exceptionally weak base in which economic activity has been extremely low.

Growth in recent months has been driven primarily by household consumption and exports. In terms of investment, the second half of the year is forecast to be weaker. It takes longer to delay investment than it does consumption. This is probably one reason why consumption fell considerably more than investment during the second quarter. Therefore, some of the expected fall in investment is yet to appear and will not register until the third quarter. In the wake of the financial crisis, it was not until the first quarter of 2009 that investment fell, while the most pronounced GDP decrease occurred in the last quarter of 2008. Continued falls in investment during the second half of this year is therefore likely.

In 2020, the Swedish economy is set to contract by 4.4 per cent, before growing by 3.2 per cent in 2021, and by 3.0 per cent in 2022. Growth lost due to the corona crisis will not be recovered until the second quarter of 2022. This is several quarters earlier than previous assessments made before the summer and this is due primarily to the contraction at the height of the crisis not being as deep as many analysts feared.

However, it is not possible to equate a recovery in GDP to pre-crisis levels with claiming that we managed to return economic activity to normal levels in the same period. Sweden will still be in recession at the end of 2022. By then, the recession will be milder than it is today, but major problems remain – particularly on the labour market. So economic activity will be below trend activity, also known as potential activity, throughout the year. How much trend growth will be lost in the coming years depends to a large extent on how well human capital can be applied and developed, and what happens to investment.

The labour market faces structural change. Digitalisation, new working patterns, and new skills needed going forward will affect job market opportunities. The crisis has probably accelerated these transformative processes and their effects on the labour market. In the wake of the crisis, therefore, matching people with jobs on the Swedish labour market may be problematic. Many of those who lost their jobs will find it harder to return to the labour market, which will drive up equilibrium unemployment in the coming years. In a normal economic cycle, the labour market typically lags, in upturns and downturns. For unemployment, this means that economic conditions need to stabilise before unemployment reaches its equilibrium. Swedish unemployment is therefore judged not to have returned to its pre-crisis levels or its equilibrium during the forecast horizon.

Growth lost due to the corona crisis will not be recovered until the second quarter of 2022.

Table 1 Economic assessments in figures (previous estimates in brackets). Annual per cent growth unless otherwise stated.

	2020	2021	2022
GDP, actual	-4.4 (-6.1)	3.2 (3.4)	3.0
Unemployment, per cent of labour force	8.7 (9.7)	9.5 (10.4)	8.6
Fixed gross investment	-8.1	0.1	7.7

Source: Confederation of Swedish Enterprise.

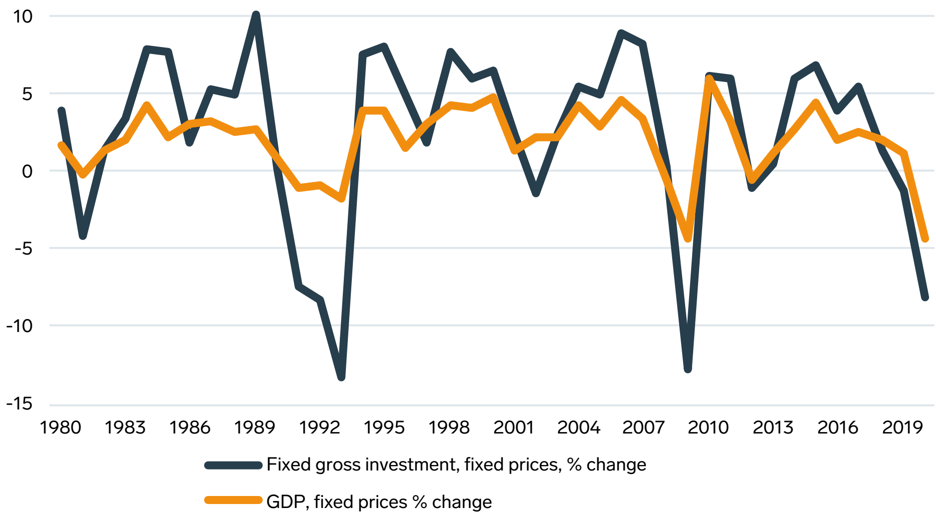
Construction of the Sweden of tomorrow starts during the crisis

When companies experience a sharp fall in sales and uncertainty about the future is substantial, companies delay everything that is not absolutely necessary in the short term. But over time, companies are unable to grow if they do not invest in their business. Machinery, software, knowledge, and business models need to be maintained and developed to sustain companies' productivity. Investment is necessary to achieve this.

The crisis can be seen as an opportunity to encourage companies to introduce new technologies and new working practices and allow old business models and technologies to be modernised. Digitalisation and environmental technologies in particular offer considerable opportunities for Swedish companies to invest now for future growth. For the national economy, improved business productivity provides the foundation for greater prosperity – through also tax revenue, employment, and rising real wages. The basic requirement to achieve this is a stable economic environment. What we need now is a pledge not to hike taxes on companies and jobs. Along with reforms that improve the investment climate.

Historically, investment has fallen sharply when Sweden goes into recession. It appears that this pattern is set to repeat itself. Sweden took many years to shake off the economic crisis of the 90s, while recovery after the financial crisis was faster. How rapidly we get investment going again will be a decisive factor in how quickly we get ourselves out of the current crisis. Figure 1 shows fixed investment and GDP since 1980. Current total investment in Sweden has dropped as much as it did during the financial crisis.

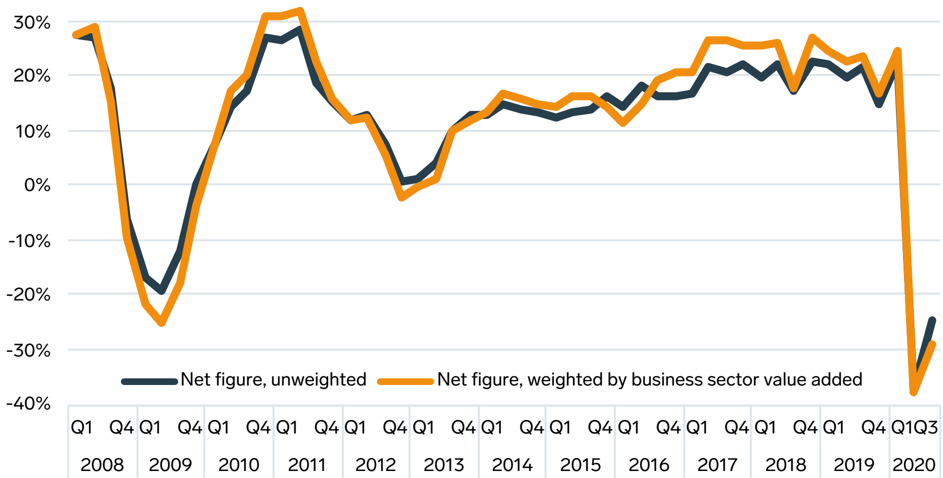
Figure 1. Swedish GDP and investment 1980–2020



Source: 1980–2019: Statistics Sweden; 2020 (full-year projection): Confederation of Swedish Enterprise.

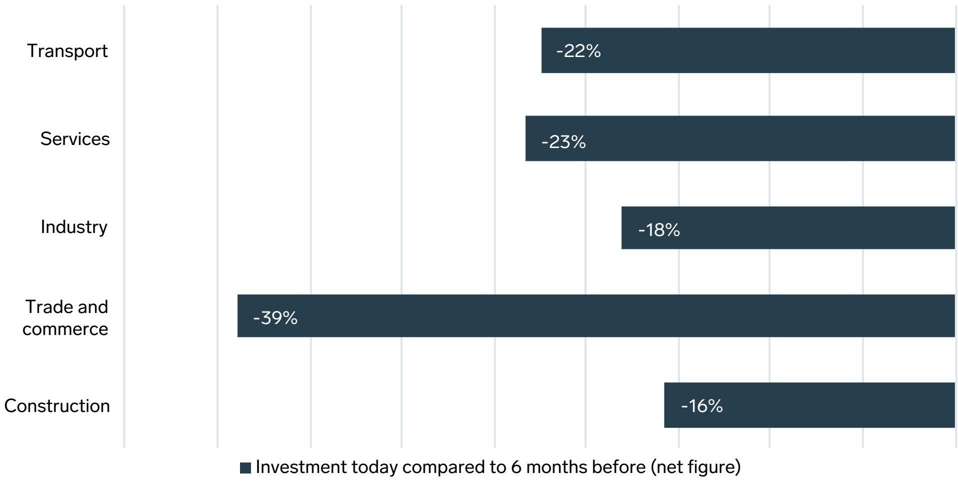
The Confederation of Swedish Enterprise's companies panel conducted in September shows the same picture. Business investment fell dramatically during the third quarter at an even deeper and faster rate than during the financial crisis of 2008–2009 (Figure 2). The panel also shows that companies in the retail and hospitality sector reported the largest downturn in investment, (minus 39 per cent), although all sectors represented on the panel reported considerable reductions (Figure 3).

Figure 2. Business investment now compared to six months before



Source: Confederation of Swedish Enterprise' company survey, September 2020. Question: "Compared to six months ago, how has your company developed in terms of the following factors? – Investment".

Figure 3. Business investment compared to six months before — by sector



Source: Confederation of Swedish Enterprise's company survey, September 2020. "Trade" includes the hospitality sector.

Despite the crisis' broad impact on the economy, there will be some companies that have the capacity to invest in the coming years. There are therefore grounds to make rule changes which facilitate investment made by these companies. Furthermore, unnecessary uncertainty should not be added by, for example, raising taxes on companies and jobs.

If investment rises during a recession, demand for input goods, machinery, raw materials, labour, consultants etc. increases. This drives overall demand in the economy and stimulates GDP. This can have an immediate effect in terms of preventing bankruptcies, redundancies, and unemployment. Crises also create new business opportunities as new needs and challenges emerge. Companies and entrepreneurs need to invest today to be able to offer solutions to these needs and challenges.

Our reform proposals

1 Strengthen Sweden's position as a leading knowledge economy

Historically, Sweden has been, and in many ways remains, a successful knowledge economy. However, international competition is intensifying. For example, global investment in R&D tripled between 2000 and 2017. Growing numbers of countries now conduct high quality research and compete for global companies' R&D investment.

In contrast, companies' R&D investment in Sweden, measured as a proportion of GDP, has fallen by a third in the past 20 years. So Sweden is losing ground and is becoming less knowledge-intensive, albeit from a high level, compared to the rest of the world. This bodes ill for the future and is a clear sign that the Swedish R&D climate is insufficiently attractive. To reverse this trend, bold targets are required along with robust reforms.

Research, investment, and human capital are closely interlinked. A skilled workforce is necessary for advanced business activities. The willingness to make extra effort, take more senior positions, and work more affects companies' profitability and revenue, and thus opportunities for further growth and investment in the long term. The labour supply and performance incentives in Sweden – which enable companies to attract and retain skilled labour – are crucial for new investment and company expansion. When other countries raise their game, Sweden also needs to strengthen its position as a knowledge economy and be more attractive to talent and innovative companies.

Increasing state investment in research will increase private sector R&D

Sweden needs to target an increase in co-ordinated investment in R&D of one per cent of GDP by 2030. This would correspond to an annual increase in investment of around SEK 50 billion. It this target is achieved, total R&D investment would amount to 4.3 per cent of GDP, which is the same level Sweden invested in the early 2000s. Of this increase, the state should provide 25 per cent and business 75 per cent. This target is backed by several leading major companies, (see Swedish daily DN opinion piece published September 5, 2020 and elsewhere). Government support would trigger a ripple effect in the form of increased private investment. The goal should be continuously monitored and followed by measures that increase the attractiveness for business to allocate investment into conducting research in Sweden.

To achieve this, the government needs to ensure that:

- The state increases its investment in R&D. The level of research grants should therefore gradually increase and reach increments of SEK 6 billion by 2024, (the current budget proposes SEK 3.75 billion). Thereafter, grants should increase successively until the state's share of the target has been achieved.

Ensure that research is relevant to business

To ensure that increased state funding for research genuinely provides a ripple effect in the form of private R&D investment, it will be necessary for research that is conducted at our universities to be conducted within relevant areas for business to a greater extent than is currently the case. To increase the quality and relevance of academic research, considerable economic incentives should be linked to institutions' core research funding. One proposal is the re-introduction of the former allocation indicator based on external funding, and to significantly strengthen its business component.

The lack of mobility, both between academia and business and in terms of geographical mobility, is seen by large Swedish companies as one of Sweden's weaknesses. Today, it is more the rule than the exception that researchers stay their entire careers at the same institutions they did the doctorates at. More value must be attached to business experience when applying for university posts than is the case today.

EU rules established to protect data and personal privacy, (GDPR), for example, make it harder to conduct AI research. In certain other countries, for example Denmark and the Netherlands, national legislation has been drawn up in such a way so as to exempt research. Swedish law contains no such right, and thus prevents opportunities for innovation connected to digital innovation. The Data Protection Act should be amended to enable this type of important business research.

The government needs to ensure that:

- Universities and colleges that successfully collaborate with companies are prioritised when research grants are distributed among institutions.
- A mobility bonus is introduced linked to research funding that rewards researchers who move between academia and business.
- Research is exempted from the Data Protection Act to enable innovation.

Facilitate investment in knowledge by lowering taxes on employment

For Sweden to be a leading knowledge economy, key people, researchers, specialists, managers, and experts among others need to be willing to work and be located in Sweden. Major and important investment needs to be made in the coming years, especially in areas such as medicine, biotech, AI, energy technologies, and electrification. When high-tech companies invest in their businesses, skilled labour is also needed. Investment and human capital are therefore strong complements to each other, and companies that find the right skill sets will also find it easier to invest in Sweden.

A relatively remote and cold country, with a small domestic market and few large cities must adopt a strategic approach to attract skills and investment. We cannot influence every factor that influences such decisions, so it is all the more important that we do what we can. If we fail to do so, we are at considerable risk of investment and jobs going to other countries that offer benefits that Sweden cannot match.

Lower marginal tax would strengthen incentives, increase the labour supply, and lead to more companies looking more positively at allocating investment, production, and research to Sweden. Over time, this would result in more jobs, increased growth, and greater prosperity.

In addition to these links between marginal taxes and investment, research shows that lower marginal taxes result in more hours worked, which means that companies get more out of their highly-paid employees. More hours worked mean that companies' production increases, and that companies' goods and services gradually improve. These two mechanisms establish new job opportunities as companies' suppliers need to employ more people to produce more. This multiplier effect also creates new jobs among groups with incomes below the threshold for national income tax.

In August, the Confederation of Swedish Enterprise and the Association of Swedish

Engineering Industries released a report in which these linkages were quantified for the industrial sector. The analysis shows that a halving of national income tax could create the equivalent of approximately 16,000 new jobs in the industrial sector alone. Of these, 7,000 would be entirely new jobs. A reduced marginal tax would of course apply to all business sectors and could therefore be expected to have similarly positive effects in terms of job creation in other sectors of the economy.

As a step towards bringing Sweden into line with internationally competitive marginal taxes, national income tax should be cut by five percentage points on January 1, 2021. Swift action is appropriate and has already been prepared by a consultation process in summer 2020. The fixed public finance effect of the proposal is calculated to amount to SEK 13 billion (FASIT, SCB). When the increase in the number of hours worked, production, and investment are included, the actual amount will be considerably lower than that. Calculations show that the behavioural effects that have been described above will mean that the reform will entirely finance itself in a few years' time.

2 Unleash the potential of digitalisation and AI

The crisis has accelerated digitalisation. However, new business opportunities that have emerged risk being held back when investment is put on hold. Reforms that help companies and the public sector to take fresh steps in the use of data and artificial intelligence (AI) are necessary for Sweden to compete internationally. Digital development is a precondition for future competitiveness and to manage the climate transition.

With key competitor countries such as Germany and Finland now investing in digital, it is especially important that Sweden also lifts its ambition levels. Business is driving development in the sector, but laws and regulations need to be updated to unleash its potential. Sweden must work together with other EU countries to ensure opportunities for dataflows, e-commerce agreements, use of cloud services, and the use of AI.

Establish a co-ordinated process for accelerated digitalisation

In order for society to fully benefit from technological progress, a raft of measures are needed to strengthen the use of data and AI. To accelerate work on this, a co-ordinated process and clear follow-up is needed. No later than June 2021, more substantive steps must have been taken to ensure international dataflows, increased use and access to data, and better regulations for AI applications.

Therefore, the government should:

- Appoint a new Chief Digital Officer (CDO) with a clear mandate and responsibility to drive forward and monitor Sweden's work to promote the use of data and AI at the national level and in the EU. The CDO office should be given a central role in government and be results-orientated. A high-level group with representatives from business can also be brought in.
- Together with business, develop a national digitalisation programme, publicly and privately funded, which robustly and strategically strengthens both the application of, and research in the field.
- Develop a national intellectual property strategy. Digitalisation puts high demands on the optimal use of knowledge-based assets.

Ensure opportunities exist for data transfer and e-commerce

The ability to transfer data between different actors and countries is vital for digitalisation and the data economy. Data transfer is also increasingly a precondition for global trade but is being made harder by complicated and restrictive rules related to the transfer of personal data between, for example the EU and the US. Costly and time-consuming procedures make life particularly difficult for small and medium-sized companies.

Digital trade barriers must be removed. The EU Commission must advocate for the inclusion of ambitious rules on dataflows in the EU's free-trade agreements and in the e-commerce agreement which is currently being negotiated by more than 80 countries within WTO. The wording of this agreement needs to be more ambitious to ensure that data can be moved across borders and at the same time manage national data localisation requirements, i.e. requirements in terms of where companies store data.

In terms of Swedish national interests, it is vitally important that technology protectionism is resisted in the EU and technological capacity is improved. Public and private sectors need access to the most advanced technologies. Efficient and secure data management must be prioritised.

Sweden's regulatory framework regarding the necessary processing of personal data in relation to crime and infringements of the law should be amended. These changes are necessary to enable Swedish companies to obtain export licences and support efforts that combat organised crime and at the same time comply with UN and OECD guidelines on corporate social responsibility and whistleblowing.

Therefore, the government should:

- Encourage efforts to establish a common EU infrastructure for the sharing of personal data and non-personal data.
- Encourage EU Commission work on transfer mechanisms that enable data transfers to third countries. Modernisation and clarification of standard contractual clauses (SCCs) is especially important to ensure international dataflows.
- Encourage the EU Commission to revise proposals for wording on dataflows in the EU's free-trade agreements and in WTO negotiations on an e-commerce agreement, so that data can be transferred between countries and unreasonable data localisation requirements are banned. The proposals must resist national exceptions on personal data and strive for international harmonisation. Data transfer mechanisms that seek to guarantee adequate security for personal data must be explicitly enshrined in trade agreements.
- Collaborate with other leading digital EU member states to strengthen the technological capacity and competitiveness of business.
- Amend regulation 2018:219 to include the right to transfer personal data relating to criminal offences to third countries in accordance with international commitments and in relation to the authorisation of export licenses.
- Give the Swedish Data Protection Authority the task of drafting regulations that allow the screening of personal data against international sanction and blocking lists in accordance with government bill 2017/18:105.

Improve the regulatory framework regarding the use of data and AI

The acceleration of digitalisation is based on increased data use. There must therefore be a technically easier and legally secure way to share data freely.

Societal and environmental risks need to be identified and regulated effectively without creating barriers to innovation. More regulatory changes are needed so that

Swedish companies and universities can be leaders in AI development. To strengthen the innovation environment it is also appropriate to introduce so-called regulated sandboxes and experiment clauses in legislation.

Therefore, the government should:

- Clarify existing regulations that apply to AI by adopting guidelines. Retain principle-based and technology-neutral laws that currently apply. These can apply over time and establish predictability for investment.
- Robustly advocate the EU to fully harmonise data protection regulations (GDPR), knowledge-based assets, and cyber security (CSA).
- Actively support efforts by international standardisation organisations to establish market-relevant technical standards that can be developed into norm-giving international standards. Micro-management of these efforts must be avoided.
- Allow the handling of personal data in closed development settings free from applicable rules with the introduction of experiment clauses and sandboxes in all relevant national and EU regulations.
- Amend supplementary Swedish data protection laws to enable research and innovation.
- Make data fully available in accordance with the EU's open data directive.
- Add a supplementary directive to the ongoing government enquiry into how individuals can be given greater transparency and control over how their personal data is used by public authorities so that private actors are also included in line with Estonia's and Finland's X-Road project. The aim should be to establish a model for sharing personal data within EU.
- Protect the use of international data to produce AI and AI-results of the highest quality. The relevant principle is that AI results are ethical and legal, not the data's geographical origin.
- Give Vinnova the task of continued support of the Sweden AI initiative with a stronger business focus and innovation hubs with the aim of facilitating AI use.
- Work for balanced regulations in relation to risk, including the promotion of clear risk analysis for the identification of high-risk AI, irrespective of sector or area, establish clear regulations and propose that the checklist for reliable AI (so-called ALTAI) becomes an established self-certification system in the EU.

3 Facilitate the climate transition

Our electricity network is vital in enabling Sweden to manage the climate transition and phase out the use of fossil fuels. A well-functioning electricity network is also crucial to companies' investment appetite and their ability to grow and employ more people.

During the summer, it has become clear that the Swedish electricity network is in serious crisis. Despite the fact that we have been in deep recession, the system has experienced a lack of transmission capacity and power output. Essentially, this has been caused by policies failing to take overall responsibility to create the necessary conditions for effective electricity supply. For electricity users in southern Sweden, this has meant that power outages have become an everyday reality. The climate transition presupposes a long list of operational changes for business. Current environmental legislation is often an obstacle that delays and complicates new investment. Environmental legislation is thus self-defeating as the transition to a more sustainable society is made more difficult. In the future, we need to see a greater prevalence of circular business models that promote resource efficiency and recycling. A number of obstacles to such a development need to be addressed. Investment is also needed in energy efficiency measures in residential and commercial properties so that we use our electricity efficiently.

Bring forward the expansion of the national grid by ten years

The fact that the transmission capacity of Sweden's national grid between the north and south of the country is insufficient is a serious problem that risks dampening companies investment appetite and delaying society's climate transition. Deficiencies in transmission capacity create lock-in effects as the electricity that is generated by hydro and wind power in northern Sweden cannot be distributed and meet the electricity needs of southern Sweden to a sufficiently large extent. The situation is set to worsen in the coming years as it is estimated that a full 20TWh additional wind power will be added to the national grid in northern Sweden. It is clear that Sweden's electricity transmission authority, Svenska Kraftnät, needs to fast-track expansion plans for the Swedish national grid. In this context, the quality of regional and local networks should also be mentioned. Here too, severe capacity shortages exist in many areas.

According to Svenska Kraftnät, the planned expansion of the Nord-Syd (North-South) grid means that transmission capacity will increase from 7,300MW to 10,000MW. Total investment in this capacity increase will amount to just over SEK 53 billion. The implementation of the project is expected to take 20 years, meaning the expansion will not be complete until 2040. This investment will reduce bottlenecks in the national grid and will contribute to a stable electricity supply for the entire country. It is vital that these investments are brought forward, not least in light of summer this year when Svenska Kraftnät was forced to emergency action to safeguard electricity supply in southern Sweden.

As obtaining permits often adds to the time it takes to complete expansion projects of this kind, the installation of an underwater cable along the Gulf of Bothnia should be looked at as a possible alternative to achieve the desired expansion of capacity as quickly as possible.

Therefore, the government should:

- The government should commission Svenska Kraftnät to plan an extended transmission connection between SE2 and SE3 with 2,700MW capacity as early as 2030, instead of 2040 as currently planned. Other planned network investments should not be delayed.

Start the electrification of the road network

The electrification of the transport network represents a key way for Sweden to be able to transition into being a fossil-free society. To support this transition and at the same time strengthen business competitiveness, extensive investment is needed in national grid infrastructure. A robust national grid, with sufficient capacity, needs to be established in areas where the flow of goods and people is greatest. This is a basic precondition for more electrified long-distance transport by road. This fundamental electrical infrastructure is entirely necessary irrespective of which future technology choices are made in terms of how charging is done, (for example in the form of electric motorways or fast-charging stations). It is vital that such a strategic expansion is made quickly so as not to risk delaying the transport sector's green transition.

Therefore, the government should:

- The government should commission Svenska Kraftnät and the Swedish Transport Administration to draft plans in 2021 for an improved national grid infrastructure to support our key transport corridors.

Environmental legislation that facilitates investment for transition

In order for Sweden to meet the ambitious environmental and climate goals that have been set, extensive development of existing business activities will be required. In addition, entirely new activities need to establish themselves, for example battery manufacturing, new production methods for steel, and mining of natural resources. In all these cases, investment is required at levels that we have never seen before – at least if the ambitious schedules that these policies have established are to be met. Unfortunately, we currently see signs of the opposite happening, where environmental legislation is complicating and delaying new investment.

Long processing times for projects required to apply for permits and uncertainties associated with permit processes currently result in investment not being made or delayed. This is an obstacle to achieving Sweden's ambitious environmental and climate targets. Therefore, the environmental permit system needs reform with the aim of achieving a faster and more predictable and legally certain process.

The Swedish system, which in many instances has over-implemented EU legislation, results, for example, in measures and projects that – according to the EU would only require registration with a single authority in Sweden – are subject to exhaustive application processes. Consequently, authorities and businesses are swamped with work that fails to result in environmental benefit at the same time as key projects that drive transition are, at best, delayed, and at worst, cancelled.

Sweden's environmental permit system needs reform with the aim of achieving a more predictable and legally certain process.

This should be done by, inter alia:

- Focusing permit processes on projects where they are genuinely needed and allow more changes purely with notifications to supervisory authorities than is currently the case.
- Only reviewing changes to facilities and not subject the entire facility for review each time which is the case today.
- Tightening licensing authorities' management of processes so that unnecessary investigations are avoided.

A more circular economy supports the achievement of climate targets

The term circular economy is used to describe efforts to allow materials and products to circulate to a greater extent and thereby bring about greater resource efficiency. The term includes energy and resource efficiency, use of recycled and bio-based materials, design updates, reuse and recycling, and business models that involve the sharing of products, the repair, and sale of services instead of products.

The use of materials accounts for approximately 50 per cent of carbon dioxide emissions and the circular economy therefore plays a role in achieving climate goals. Current regulations need to be adapted to facilitate company investment in new circular material- and product flows. Changes should be made to a long list of regulations in the environmental sphere and in other areas. It is therefore important that the government's efforts at EU level and in terms of national strategy is characterised by sensitivity to the experience and needs of business.

Therefore, the government should:

- Within the framework of the EU's circular economy initiatives, Sweden should, inter alia, advocate for amendments to the definition of waste so that fewer materials and products are classed as waste and facilitate cross-border waste shipments.
- In Sweden's forthcoming circular economy action plan the government should, e.g. clarify the practical meaning of the term non-toxic from a risk-based approach, so that more circular flows can be made possible.

4 Safeguard global trade

The automatic reflex of many countries to close borders at the beginning of the crisis had immediate negative impacts on business and society at large. Throughout the crisis, the government has made welcome efforts to keep the Swedish border and borders within the EU open. This is one reason why Sweden's economy, although it has been hard hit, is likely to cope with the crisis better than many other countries. At the same time, obstacles remain along borders and arbitrary changes arise when governments attempt to manage and prevent the spread of infection. Freedom of movement is a basic precondition for competitiveness. The Swedish government should continue to argue for a functioning internal market and harmonised measures within the EES.

Trade is vital to Swedish prosperity. Many jobs are directly dependent on trade with the rest of the world. Some 1.3 million jobs in Sweden are reliant on exports. A successful restart requires functioning trade flows. This requires measures at national, European, and international level.

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A successful restart requires functioning trade flows.

Sign trade agreements regarding critical products

The corona crisis has highlighted Sweden's and the EU's need to safeguard access to critical products, such as drugs, vaccines, and healthcare equipment. Preparedness is undermined when deliveries of key goods is dependent on specific countries. It is particularly risky when countries around the world impose export restrictions on such goods – an unusual and drastic step. The state should not decide where companies locate their production. This would constitute an extremely serious intervention; such decisions must be left to individual companies. However, states should create the necessary conditions for production to be moved and to be diversified to more countries, inter alia with new free trade agreements, such as the EU's new agreement with Vietnam.

A specific trade deal is needed to increase security of supply of critical goods. Such an agreement would also send an important signal to the rest of the world and establish a model that demonstrates a preferable alternative than "bringing production home".

- The WTO's pharmaceutical agreement should be extended to include more countries and more products, broadening its scope from drugs to include medical technology etc.
- The agreement should not only remove import duties for these goods but also prohibit export restrictions, except in exceptional circumstances.
- Pending a formal WTO agreement on the above points, Sweden should advocate for an informal agreement with the same aims, where like-minded states guarantee access to critical goods.

Advocate reform of the WTO

The WTO is under severe pressure and criticism, but it is nevertheless the main forum for global trade policy. WTO agreements form the basis for and guarantee rule-based international trade and investment. The body is, however, in acute need of reform to function as intended.

In many countries, the corona crisis has resulted in the introduction of trade restrictions and a shift of focus away from improving the international regulatory framework to arguments over autonomy and bringing production home. Swedish companies are dependent on common WTO rules that establish predictable and transparent global trade. It is therefore important that Sweden, within the EU and WTO, takes on a leading role in reforming the organisation.

Therefore, the government should:

- Develop concrete proposals for how the WTO can be modernised. Particular focus should be placed on streamlining the dispute resolution process, where questions such as the number of judges, rule interpretation, and timeframes must be addressed.
- Encourage discussion with other countries on making majority decisions within the WTO on certain issues. Furthermore, the WTO secretariat should be given a stronger role with the capacity to start new initiatives and table compromise proposals during negotiations.
- Contribute to the drafting of new rules for digital trade, services, environment/climate, and subsidies. Sweden's National Board of Trade and the Swedish Competition Authority should be jointly tasked with drafting proposals om how new rules to limit states' scope to subsidise domestic industries can be formulated.

Ensure VAT on imports is deductible

It is appropriate to quickly amend legislation to ensure that import tax is deductible. Minor errors at border crossings to Sweden from countries outside the EU currently result in carriers not being able to claim input VAT – thereby adding 25 per cent to the price of a product. This has been a particularly significant problem in trade between Norway and Sweden and has worsened due to the pandemic. Individual companies are severely affected and there have been cases where the consequences have resulted in bankruptcy. Uncertainty over handling imports also risks creating negative effects for international trade flows in general. Other EU countries have solved this problem and a parliamentary bill has been prepared to do the same in Sweden.

Fixing this issue is one piece of the puzzle in the necessary resumption of trade with third countries. In the longer term, clearer regulations regarding imports will have positive effects for exports and jobs. The UK's withdrawal from the EU means that this issue is likely to intensify markedly at the end of this year. Therefore, this issue needs to be addressed urgently.

5 Reduce regulatory burden with a new approach

Companies' regulatory costs increase in Sweden by an average of SEK 1.2 billion a year. Rising regulatory costs leads to Swedish companies' ability to compete internationally being gradually undermined. The basic conditions we establish in Sweden should therefore be at least as favourable as in our competitor countries. Investment and the formation of companies are made less likely if regulatory burdens increase and these undertakings are perceived as being too complicated. In the wake of the corona pandemic, it is now important that the government takes robust measures to reduce companies' regulatory costs and administrative burdens and thereby improve the investment climate in Sweden. The government should therefore implement proposals from the Swedish Agency for Economic and Regional Growth for a new regulatory approach in Sweden, introduce early consultation with business in conjunction with the drafting of EU legislation, introduce guiding principles for negotiations on new EU legislation, and avoid over-implementation of EU legislation.

Implement Swedish Agency for Economic and Regional Growth proposals for a new regulatory framework in Sweden

The Swedish Agency for Economic and Regional Growth has recently submitted a report to the government – Förenklingsresan (The Simplification Journey) – in which the body, among a number of proposals, highlights the need of improving the regulatory framework in Sweden. The report contains detailed proposals which the government should implement as soon as possible.

The Swedish Agency for Economic and Regional Growth proposals break down into four main areas. The first part takes its inspiration from Denmark. The Agency suggests the establishment of a permanent "simplification" forum which would be tasked with proposing improvements to regulations and would actively participate in work on EU legislation.

The second relates to work within Swedish government departments, where the Agency suggests that each department and its relevant authorities are granted responsibility to continually implement regulatory improvements. The importance of constantly comparing legislation with equivalent regulations in neighbouring countries is a way to avoid additional burdens being placed onto Swedish companies.

The third area stresses the importance of transparency in improving regulations, and in the fourth area the Agency suggests that the Swedish Better Regulation Council is granted a greater mandate and more resources. It is proposed that the Council becomes involved in the legislative process much earlier and have the option of referring impact assessments deemed to be flawed. The Confederation of Swedish Enterprise believes that the Swedish Agency for Economic and Regional Growth's proposals are well-balanced and if implemented would significantly improve the situation in Sweden.

Introduce earlier consultation with business and establish guiding principles for EU co-operation

Sweden often acts far too late when new EU legislation is initiated because there is no clear structure for when to involve those with knowledge of the ramifications of new regulations. The lack of early consultation makes it harder to obtain sufficiently accurate impact assessments in a timely manner. In many cases, this results in poorer legislation, unnecessarily complicated regulations, problems with interpretation and implementation of EU regulations and costly delays in incorporating new EU directives.

Evaluation groups should therefore be set up with business and other relevant actors in those issues that are expected to result in EU legislation. Although a reference group has been established under the ministry of EU Affairs, there is a need to also establish additional preparatory groups for specific issues. The aim is to establish a permanent structure to collect views on EU initiatives in a clear and transparent way. This will enable business to meet the government and its representatives in an ongoing dialogue.

For consultation to be worthwhile, it should begin at a very early stage in EU preparations, preferably when the EU Commission formulates its thoughts on new legislation.

Clear principles should also be developed and complied with when implementing EU legislation that affects business. These principles must set out overall quality objectives that guide government departments and national authorities when negotiating positions are decided and impact assessments are produced. Such principles are used in Denmark but not in Sweden.

These should, for example, be formulated as follows:

- Safeguard Swedish business' competitiveness on the internal market and internationally. With help of a neighbour-check, examine how comparable countries implement EU directives and interpret EU regulations so that Swedish companies are not burdened with more onerous rules.
- Insofar as is possible and appropriate, EU rules should be implemented in Sweden through alternatives to regulation. This might involve information and advice, voluntary agreements or commitments, and market based self-regulation.

Impact assessments should include descriptions of directives' minimum requirements and an assessment of whether these will be met. It should also be clarified whether:

- The scope is expanded.
- The regulator fails to make full use of options to offer exemptions.
- Swedish national regulatory requirements are kept which are more detailed than those required by the directive.
- The directive's requirements are implemented earlier than the date provided in the directive.
- Unnecessarily strict sanctions or other enforcement mechanisms are used to implement the legislation correctly.
- In cases where minimum standards are exceeded, the impact assessment should include a justification for this, a description of which implementation measures are proposed and an assessment of what effects these would have on companies.

6 Make it more attractive to invest in Sweden

Taxes on corporate profits affect investment levels. A cut in corporation tax would immediately improve investment calculations, resulting in increases in investment. Companies that do not invest will be overtaken by competitors that do. Competition thus sees to it that lower taxes on profits lead to a general increase in investment. Dividend taxes have an indirect effect on investment. Willingness to invest is affected by calculations at the ownership level, which has a particularly significant role in smaller owner-managed companies. Dividend taxes also hamper the transition of capital from established companies to companies that have better growth prospects. This has a negative impact on business renewal.

Lower corporation tax and better regulation for increased competitiveness

To encourage companies to invest more, corporation tax should be cut, and the competitiveness of the regulatory framework improved. There is broad consensus that corporation tax is very detrimental to capital formation since it reduces return on investment. Corporation tax has a direct impact on companies' investment calculations, and thus it also affects the scope and type of investment made by business. On the macro level, reduced corporation tax and a competitive regulatory framework result in increased production, (GDP increases due to increased investment), higher employment, and in the long run increased productivity. Higher productivity is also a precondition for long-term real wage increases. To stimulate investment and increase Swedish competitiveness, the Confederation of Swedish Enterprise calls on the government to cut corporation tax from 20.6 to 18 per cent.

It is estimated that this proposal would reduce tax revenues by a static SEK 18 billion. Given the expected positive effects on investment, employment, production, and wages, it is believed that this measure would be highly self-financing in the long term.

Competitive corporate taxation presupposes that both the formal corporation tax rate and the provisions that regulate income and expenses forming the basis on which the tax is calculated compare favourably internationally. In addition to a reduced formal tax rate, the government should urgently begin work on increasing the competitiveness of the Swedish interest deduction limitation rules.

In the Swedish legislation that introduced the general limitation on interest deductions in the corporate sector and where the targeted interest deduction limits were amended, the government announced that a review of the new legislation should start within two years from it entering into force. The reasons for this follow-up were, inter alia, the need to analyse the effects of the new rules on Sweden's competitiveness.

On behalf of the Confederation of Swedish Enterprise, consulting firm KPMG reviewed the competitiveness of the Swedish interest deduction limits. The review showed the need to improve competitiveness of the Swedish rules. Both the general deduction limit and the targeted rules need adjustment so that incentives for investment and competitiveness are improved.

Encourage investment in smaller companies

Large companies account for a large share of employment, but rationalisations and productivity gains make small, growing companies particularly important to economic transformation. Conditions for small and medium-sized companies are key to the growth of our prosperity.

Entrepreneurship is associated with risk; for example giving up a job with stable income, mortgaging your own home to raise capital, taking responsibility for employees, and making long-term investment decisions. The fact that entrepreneurship is associated with a high degree of risk has been made especially clear during the ongoing pandemic.

Several improvements are needed. One would be to improve the so-called simplification rule under the "3:12 rules" of the Swedish tax code, which govern how much dividend owners of smaller businesses can pay out that is eligible for capital gains tax instead of income tax. This would facilitate investment in smaller and recently-established companies. Opportunities to finance investment in growing companies also improves if capital is distributed through dividends and subsequently channelled to companies with greater potential, instead of staying in existing companies for tax reasons. Since it was introduced in 2005, the level/scope in the simplification rule has been revised upwards three times, from 1.5 income base amounts to the current 2.75 income base amounts. This has been done to both simplify and facilitate investment and new hires in smaller and recently-started companies.

This measure would result in significant simplification for thousands of business owners; capital gains tax can be calculated easily and predictably, (and without costly advisory support).

Therefore, the government should:

- Raise the base amount in the simplification rule from 2.75 to 4 income base amounts. It is calculated that this measure would affect central government revenue by SEK 500 million in the short term.
- Introduce a lower limit – a floor – to the simplification rule to also guarantee smaller shareholders a reasonable base amount. As the base amount in the simplification rule is to be divided between all shares in a company, the possibility for individuals with small shareholdings to have dividends taxed as capital gains rather than income is extremely limited. SEK 250 million should be set aside for this measure.

7 Use the EU recovery fund to invest in European competitiveness

As up to three quarters of our goods exports go to Europe, Sweden's opportunities for a successful restart are intrinsically linked to positive growth and demand trends within the EU. Four areas must be prioritised for the EU recovery plan to play a role in this process. The environmental sphere, where a policy for competitive companies must be combined with reduced emissions. Digitalisation, where conditions for international leadership must be established by promoting innovations and technological development. The internal market, with focus on removing new and old trade barriers. And continued development of an open global trade with other countries through, inter alia, more free trade agreements.

As a central component of the EU recovery plan agreed in July, EU heads of state and government decided to establish a recovery fund totalling EUR 750 billion, corresponding to SEK 8,000 billion. The fund is to be used during the period 2021 to 2024, with the intention of promoting growth and employment focusing on green and digital transition. Sweden may be allocated the equivalent of approximately SEK 38 billion for nationally-focused measures.

If the money is used properly, the recovery fund will create good conditions for recovery and growth throughout the EU. Conversely, its misuse may result in red tape and waste, severe distortions of competition and may complicate or delay necessary structural changes. It is therefore important that Sweden ensures that its allocation and other countries' use of these funds genuinely contributes to building Swedish and European competitiveness for the future.

Ensure clear criteria

In order for the fund to make a genuine contribution to transition and long-term competitiveness, it is of the utmost importance that the EU Commission and the EU Council defines clear criteria for allocating funds.

The criteria and routines for their implementation must ensure that:

- Focus is placed on Europe's long-term competitiveness and sustainable growth.
- Funds are used for long-term investment, not short-term consumption.
- Funds do not go to distortive subsidies.
- Funds do not distort competition between private companies.

- Funds are not used to favour domestic companies over companies from other member states.
- Rules and administration do not increase red tape for companies.

Establish an "EU Recovery Scoreboard"

It is insufficient to simply establish sensible criteria to ensure good results. Continuous follow-up is necessary. The EU has used a variety of results tables for many years, so-called "scoreboards", including for the single market. Similarly, by setting up a scoreboard for all recovery packages in the EU that are financed by the recovery fund, it is made clear what results support measures in member states have been in terms of growth, employment etc.

A well-designed scoreboard would help to:

- Allocate resources efficiently.
- Develop and share best practice.
- Accelerate the green and digital transitions.
- Reduce the risk of sub-optimisation of national measures.
- Strengthen European competitiveness.

Consequently, the EU Commission should establish measurable goals for each of the respective criteria for the recovery fund and follow up implemented initiatives through a publicly available "scoreboard", as well as ensure that the support measures are evaluated continually and adjusted if necessary.

Invest funding allocated to Sweden in future competitiveness

To gain access to support from the fund, Sweden must submit a national recovery plan that needs to be approved by the EU. The Confederation of Swedish Enterprise shares the Commission's conclusions that "private investment must be supported, and this requires reforms". Investment is crucial to achieve goals regarding transition, digitalisation, jobs, and growth. The sharp decline in investment – and business investment in particular – that has occurred during the corona crisis is therefore cause for deep concern.

The Swedish national plan should, in essence, have the same focus as nationally-funded restart measures and seek to build competitiveness for the future. This is well in line with the EU's national recommendations to Sweden and the EU's overarching criteria for the fund. Furthermore, it is important that the EU-funded measures are not considered in isolation. Rather, they should be seen as part of national measures with similar aims.

We propose that the Swedish recovery plan focuses on the following:

- Measures that increase investment in R&D.
- Initiatives that increase access to labour with in-demand skills.
- Bring forward public sector investment and maintenance with a focus on areas that increase the economy's productivity and business competitiveness.
- Green transition and measures to safeguard electricity production and transmission.
- Digital competence and infrastructure to enable increased use of data and AI.

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