

Chapter 6: Investment Climate

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Openness to Foreign Investment

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The General Government Attitude Toward Foreign Direct Investment

Sweden is widely known as an attractive country in which to invest. Until the mid-1980s, Sweden's approach to direct investment from abroad was quite restrictive and governed by a complex system of laws and regulations. Since then, Sweden's entry into the European Union (EU), as well as doubts about the effectiveness and desirability of controlling foreign direct investment (FDI), have greatly improved the investment climate and attracted foreign investors to the country.

Swedish authorities have implemented a number of reforms to improve the business regulatory environment that benefits investment inflows. Sweden is also seeking ways to ensure wider ownership in Swedish industry, which it believes will increase competition and lead to greater efficiency. As a result, foreign ownership in Sweden has increased rapidly in the last decade. Approximately 50 percent of foreign ownership has come through acquisitions, and 30 percent through new establishments. Foreign-owned firms now employ almost 25 percent of the work force in the business sector. To an increasing extent, those employees work in service industries. Foreign ownerships are dominated by EU countries.

The Swedish government has pursued a macroeconomic policy that is favorable to the business sector. Inflation is stabilized around 2 percent (currently slightly below). With

its conservative monetary policy, the government has prepared the country for future membership in the European monetary union. The referendum on whether Sweden

would join the third stage of the European Monetary Union, EMU, was held in September 2003. The outcome – a majority voted for Sweden to remain outside the monetary union -- means that a strong shift in public opinion will have to occur before future political leaders risk calling another referendum on the issue. It is not likely that Sweden will join the Euro area for at least the next five years.

The conditions for doing business in Sweden have improved significantly in the last decade: corporate taxes have decreased and are now in the mid-range for Europe. Combined with a well-educated labor force, outstanding telecommunications network, and stable political environment, Sweden has become more competitive as a choice for American and foreign companies establishing a presence in the Nordic region. Sweden is ranked among the most competitive, corruption-free and technologically- advanced economies in the world.

FDI inflows to Sweden surged in the second half of the 1990s, a trend fueled by accelerating globalization, deregulation in Sweden, and the country's entry into the European Union. FDI inflows have been uneven though, with substantial decreases recorded for 2003 and 2004. However, 2005-2007 figures point to a solid recovery. Despite the substantial FDI inflows, the stock of Swedish assets held abroad still exceeds the stock of foreign assets in Sweden by 12 percent.

In 2006, U.S. companies with 109,620 employees were established in Sweden, many of which are active in computer software or hardware, pharmaceuticals, the automotive industry, telecommunications or finance. This makes the U.S. the largest employer (accounting for 20 percent of the work force employed by foreign-owned firms; the trend is rising) among foreign-owned companies in Sweden, followed by the U.K. with 67,138 employees, and Finland with 56,557 employees.

Surveys conducted by investors in recent years ranking the investment climate in Sweden show rather uniform results: positives mentioned are competent employees, low to moderate corporate tax rates, excellent infrastructure, ease of establishing a business, early adaptors, reliable judicial system, and good access to capital. On the minus side are the high cost of labor, rigid labor legislation, high individual tax rates, and the overall high costs in Sweden.

Laws/Rules/Practices Affecting Foreign Investment

During the 1990s Sweden made considerable progress deregulating its product markets. In a number of areas, including the electricity and telecommunication markets, Sweden has been on the cutting edge of reform. These reforms have resulted in more efficient sectors and lower prices, though electricity prices are actually in the medium to high range. Nevertheless, a number of practical impediments to direct investments remain in Sweden. These include a fairly extensive, though non-discriminatory, system of permits

and authorizations needed to engage in many activities and the dominance of few, very large players in certain sectors, such as construction, electricity and food wholesaling.

Regulation on foreign ownership of financial services has been liberalized. Foreign banks, insurance companies, brokerage firms, and cooperative mortgage institutions are permitted to establish branches in Sweden on equal terms with domestic firms, although a permit is required. Swedes and foreigners alike may acquire shares in any company listed on the Stockholm Stock Exchange.

Government monopolies: Despite extensive deregulation, foreign and domestic investors are still barred from the retail sale of pharmaceuticals and alcoholic beverages, although reform has been long promised in the pharmacy distribution, and parts of the alcoholic monopoly have been ruled improper by the EU. Sweden has undertaken to divest 17 of the state-owned companies this year, including the famous vodka, "Absolut."

Legal Aspects: Swedish company law provides various forms under which a business can be organized. The main difference between these forms is whether the founder must own capital and to what extent he or she is personally liable for the company's debt. The Swedish Law, Act (1992:160) on Foreign Branches, applies to foreign companies operating some form of business through a branch, as well as to people resident abroad who run a business in Sweden. A branch must have a managing director who is resident within the European Economic Area (EEA). All business enterprises in Sweden (including branches) are required to register at the Swedish Companies Registration Office. An invention or trademark must be registered in Sweden in order to obtain legal protection. Special permission from the Financial Supervision Authority is necessary for a bank from a country outside the EEA to establish a branch in Sweden.

Taxes: Sweden has a corporate tax of 28 percent. Companies can make pre-tax allocations to untaxed reserves, which are subject to tax only when utilized. The availability of this allocation makes Sweden's effective corporate tax rate about 26 percent of undistributed profits. Certain amounts of untaxed reserves may be used to cover losses. Personal income taxes are among the highest in the world, but the new pro-business government elected in 2006 has but a priority on reducing this burden. Since public finances have improved due to extensive consolidation packages to reduce deficits, the government has been able to reduce the tax pressure as a percentage of GDP. Currently, it is below 50 percent for the first time in decades. One government initiative has been to introduce tax reductions to encourage employers to hire long-term unemployed people. In 2008, the government plans to introduce additional cuts for personal income taxes. In 2007, the new government eliminated the one percent wealth tax and succeeded in reducing property taxes.

One tax reform to help bring foreign experts to Sweden is a deduction on key foreign personnel's income tax. The tax is based on 75 percent of his or her income. This applies to foreign key personnel ("experts") employed by a Swedish company. The tax relief is not applicable to individuals assigned to Sweden by a foreign company that has

no operations in Sweden. U.S. companies have reported difficulty at times in being able to establish expert status and have occasionally found the process opaque.

Dividends paid by foreign subsidiaries in Sweden to their parent company are not subject to Swedish taxation. Dividends distributed to other foreign shareholders are subject to a 30 percent withholding tax under domestic law. Profits of a Swedish branch of a foreign company may be remitted abroad without being subject to any tax other than the regular corporate income tax. Sweden has no other foreign exchange controls or restrictions.

The Swedish system of A/B preferred stocks has been identified by some both in and outside of the EU as an obstacle to efforts take over Swedish companies, as well as the free flow of capital.

Incentives: The Swedish government offers certain incentives to set up a business in various targeted economically-depressed areas. Loans are available on favorable terms from the National Board for Industrial and Technical Development (NUTEK) and the regional development funds. A range of regional support programs, including location and employment grants, low-rent industrial parks, and economic free zones are also available. Regional development support is concentrated in the lightly-populated northern two-thirds of the country. There are also several national, regional, and European funds that give subsidies for starting enterprises, as well a range of incentives provided by the Swedish government to research and development programs.

Stock options: Swedish regulations on taxation of employee stock options have been very restrictive, but since July 2007 there is no exit taxation and no specific rules regarding taxing stock options received before a move to Sweden. Instead, cases of double taxation are resolved by applying tax treaties. The changes cover not only moves within the EU, but all countries including the U.S.

Environmental Policies: Sweden has a wide range of specific environmental policies, including economic instruments. Economic instruments currently in place cover a range of incentives, among them taxes and charges on emissions and pollutants, environmentally differentiated charges and subsidies. Sweden also relies quite extensively on regulation and control of certain areas, most notably agricultural farming practices, land use, hazardous chemicals, waste management, and licenses for certain emissions from fixed facilities. The legislation covering these and other aspects of environmental regulation is the Environmental Code (January 1999). Extended producer liability is another important part of Swedish environmental policy, which Sweden has successfully promoted in the EU since its presidency in 2001. The EU directive “REACH” (Registration, Evaluation, Authorization and Restriction of Chemicals) was a Swedish initiative that came into force in June 2007.

There are no foreign exchange controls in Sweden, nor are there any restrictions on remittances of profits, of proceeds from the liquidation of an investment, or of royalty and license fee payments. A subsidiary or branch may transfer fees to a parent company outside of Sweden for management services, research expenditures, etc. In general, yields on invested funds, such as dividends and interest receipts, may be freely transferred. A foreign-owned firm may also raise foreign currency loans both from its parent corporation and credit institutions abroad.

Expropriation and Compensation

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Private property is only expropriated for public purposes, in a non-discriminatory manner, with reasonable compensation, and in accordance with established principles of international law.

Dispute Settlement

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There have been no major disputes over investment in Sweden in recent years. The country has written and consistently applied commercial and bankruptcy laws, and secured interests in property are recognized and enforced.

Sweden is a member of the International Center for the Settlement of Investment Disputes and is a signatory to the New York Convention on the Recognition and Enforcement of Foreign Arbitration Awards. The Arbitration Institute of the Stockholm Chamber of Commerce is one of the leading arbitration centers in the world, with many of its cases originating in East-West business relations. An agreement between the American Arbitration Association and the Russian Federation Chamber of Commerce, stemming back to the 1990s, provides for arbitration to take place in Sweden under the rules of the United Nations Commission on International Trade Law, with the Stockholm Chamber of Commerce administering the cases and acting as appointing authority if needed.

Performance Requirements and Incentives

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Sweden imposes no performance requirements on presumptive foreign investors.

Right to Private Ownership and Establishment

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Rights of this kind are not specifically written into Swedish law, but individuals and Swedish entities are well-protected by the legal system. Private enterprises enjoy as great an access to markets necessary for conducting business operations, as do public enterprises.

Protection of Property Rights

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Swedish law generally provides adequate protection of all property rights, including intellectual property. As a member of the European Union, Sweden adheres to a series of multilateral conventions on industrial, intellectual, and commercial property. Sweden does have a problem, in part because of its high connectivity, with Internet Piracy: one out of every 10 Swedes has downloaded copyrighted material.

Patents - Protection in all areas of technology may be obtained for 20 years. Sweden is a party to the Patent Cooperation Treaty and the European Patent Convention of 1973, which both entered into force in 1978.

Copyrights - Sweden is a signatory to various multilateral conventions on the protection of copyrights, including the Bern Convention of 1971, the Rome Convention of 1961, and the WTO's trade-related intellectual property (TRIPS) agreement. Swedish copyright law protects computer programs and databases. The U.S. movie and music industries continue to complain about lack of enforcement of Internet piracy. Although the government has increased its efforts to go after illicit file sharing and other copyright infringements on the Internet, Swedish political parties remain divided on the issue.

Trademarks - Sweden protects trademarks under a specific trademark act (1960:644) and is a signatory to the 1989 Madrid Protocol.

Trade secrets - proprietary information is protected under Sweden's patent and copyright laws, unless acquired by a government ministry or authority, in which case it may be made available to the public on demand.

Transparency of Regulatory System

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As an EU member, Sweden has altered its legislation to comply with the EU's stringent rules on competition. As described above, the country has made extensive changes to its laws and regulations to harmonize with EU practices, all with a view to avoiding distortions in or impediments to the efficient mobilization and allocation of investment.

Efficient Capital Markets and Portfolio Investment

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Credit is allocated on market terms and is made available to foreign investors in a non-discriminatory fashion. The private sector has access to a variety of credit instruments. Legal, regulatory, and accounting systems are transparent and consistent with international norms.

The Stockholm Stock Exchange is a modern, open, and active forum for domestic and foreign portfolio investment. It is a government-owned institution and operates under specific legislation.

The balance sheet total of Sweden's banking sector was SEK 6,226 billion (USD 954 billion) in November 2007. This figure does not include affiliated housing mortgage companies, finance companies, or other firms owned by banks. Including them, the balance sheet total amounted to SEK 8,761 billion (USD 1,346 billion).

The banking crisis of the early 1990s changed the structure of the Swedish banking sector. A large number of savings banks were converted into commercial banks. Several foreign banks have established branch offices in Sweden, and several niche banks have started to compete in the retail bank market. A deposit guarantee system was introduced in 1996, whereby individuals get protection of up to SEK 250,000 (USD 38,000) of their deposits in case of bank insolvency.

Political Violence

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Sweden is politically stable and no changes are expected.

Corruption

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Sweden has comprehensive laws on corruption, which are fully implemented. It has ratified the 1997 OECD Anti-bribery Convention.

Bilateral Investment Agreements

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Sweden has concluded investment protection agreements with the following countries:

Cote d'Ivoire, Madagascar, Senegal, Egypt, Serbia, Slovenia, Malaysia, Pakistan, China, Sri Lanka, Yemen, Tunisia, Hungary, Poland, Bolivia, Morocco, the Czech Republic, Slovakia, Argentina, Latvia, Lithuania, Estonia, Indonesia, Chile, Vietnam, Bulgaria, Hong Kong, Peru, Belarus, Albania, the Russian Federation, Oman, Ukraine, Republic of Korea, Laos, Venezuela, Turkey, Zimbabwe, Uruguay, Macedonia, and South Africa.

There is a bilateral taxation agreement between the U.S. and Sweden, but no bilateral investment protection agreement.

Labor

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Sweden's labor force of 4.5 million is disciplined, well- educated, and experienced in all modern technologies. About 80 percent of the workforce belongs to labor unions. Swedish unions have helped to implement business rationalization and strongly favor employee education and technical progress. Management-labor cooperation is generally excellent and non-confrontational. Labor, employers, and the government all openly welcome U.S. investment and involvement in the Swedish economy.

Sweden has co-determination legislation, which provides for labor representation on the boards of corporate directors once a company has reached a certain size. This law also requires management to negotiate with the appropriate union or unions prior to implementing certain major changes in company practices. It calls for a company to furnish information on many aspects of its economic status to labor representatives. However, in the end, management has the final say. Labor and management usually find this system works to both sides' benefit.

There is no fixed minimum wage by legislation. Instead, wages are set by collective bargaining. The traditionally low wage differential has increased in recent years as a result of increased wage-setting flexibility at the company level. Still, Swedish unskilled employees are relatively well paid, while well-educated Swedish employees earn less than their colleagues in competitor countries. The average increases in real wages in recent years have been high by historical standards, in large part due to price stability. Even so, nominal wage increases in recent years have been slightly above those in competitor countries, about 3 percent annually. Some U.S. companies have encountered high costs due to the need to pay overtime during non-regular hours regardless of how many hours the employee worked during so-called regular hours.

Employers must pay social security fees of 32.82 percent, consisting of statutory contributions for pensions, health insurance and other social benefits.

Sweden has ratified most ILO conventions dealing with workers' rights, freedom of association, and collective bargaining, the major working conditions, as well as occupational safety and health conventions.

Foreign-Trade Zones/Free Ports

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Sweden has foreign trade zones with bonded warehouses in the ports of Stockholm, Goteborg, Malmo, and Jonkoping. Goods may be stored for an unlimited time in these zones without customs clearance, but they may not be consumed or sold on a retail basis. Permission may be granted to use these goods as materials for industrial operations within a free trade zone. The same tax and labor laws apply to foreign trade zones as to other workplaces in Sweden.

Foreign Direct Investment Statistics

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| Year | 2004 | 2005 | 2006 |
|---|------|------|------|
| Year end exchange rate (SEK per 1 US dollar) | 6.61 | 7.95 | 7.03 |

Table I: Flow of FDI into Sweden (SEK Billion)

A positive value indicates that investment is larger than disinvestment. (Note - stat. for 2006 are up to November)

| Selection of countries | 2004 | 2005 | 2006 |
|------------------------|-------|-------|-------|
| ----- | ---- | ---- | ---- |
| Denmark | -0.3 | 3.3 | 2.9 |
| Finland | -21.4 | -18.8 | -5.0 |
| Germany | 3.3 | -4.8 | -0.3 |
| U.K. | -1.9 | -10.3 | 65.0 |
| Netherlands | 23.7 | 2.8 | -5.0 |
| Norway | -12.2 | 2.1 | 18.5 |
| United States | 39.6 | 8.1 | 16.0 |
| Reinvested earnings | 41.2 | 38.0 | 36.6 |
| Total | 85.7 | 70.5 | 165.7 |
| Total/GDP (percent) | 3.5 | 2.8 | 5.7 |

Source: Statistics Sweden

Table II: Stock of FDI in Sweden, by Country (SEK Billion)

| Selection of Countries | 2004 | 2005 | 2006 |
|------------------------|------|------|------|
| ----- | ---- | ---- | ---- |
| United States | 256 | 247 | 225 |
| Netherlands | 237 | 243 | 254 |

| | | | |
|---------------------|------|------|------|
| U.K. | 218 | 201 | 247 |
| Finland | 166 | 141 | 154 |
| Belgium/Luxembourg | 71 | 104 | 162 |
| Germany | 92 | 103 | 115 |
| Norway | 70 | 91 | 124 |
| Denmark | 43 | 59 | 66 |
| Switzerland | 55 | 46 | 47 |
| France | 30 | 38 | 44 |
| Total | 1302 | 1363 | 1552 |
| Total OECD | 1267 | 1297 | 1482 |
| Total EU | 880 | 901 | 1073 |
| Total/GDP (percent) | 54 | 55 | 53 |

Table III: Stock of FDI in Sweden, by industry (SEK Billion)

| Sector | 2004 | 2005 | 2006 | |
|--------------------|-------|-------|------|------|
| | ----- | ----- | ---- | ---- |
| Manufacturing | 675 | 700 | 772 | |
| Power utilities | 104 | 133 | 164 | |
| Construction | 46 | 69 | 69 | |
| Merchandise trade | 88 | 60 | 126 | |
| Other services | 149 | 85 | - | |
| Bank and insurance | 18 | 48 | 66 | |
| Total | 1302 | 1363 | 1552 | |

Source: Statistics Sweden

Table IV: Swedish Net FDI Flows Abroad (SEK Billion)

A positive value indicates an inflow, where investment is larger than disinvestment (statistics for 2006 are up to November).

| Selection of Countries | 2004 | 2005 | 2006 |
|------------------------|------|------|------|
| ----- | ---- | ---- | ---- |
| Denmark | -5.5 | 15.4 | -2.2 |
| Finland | -7.1 | 23.0 | -1.0 |
| Norway | 28.5 | 0.9 | 1.5 |
| U.K. | 34.5 | 30.4 | 11.3 |
| Germany | 13.9 | 5.2 | -3.3 |

| | | | |
|---------------------|-------|-------|-------|
| USA | -3.8 | -19.0 | -4.0 |
| Netherlands | 23.8 | -19.0 | 2.6 |
| Reinvested earnings | 25.9 | 84.9 | 97.7 |
| Total | 155.5 | 200.9 | 155.7 |
| Total/GDP (percent) | 6.4 | 8.1 | 5.3 |

Source: Statistics Sweden

Table V: Swedish Stock of FDI Abroad, by Country (SEK Billion)

| Selection of Countries | 2004 | 2005 | 2006 |
|------------------------|------|------|------|
| ----- | ---- | ---- | ---- |
| Finland | 199 | 257 | 288 |
| United States | 214 | 246 | 216 |
| U.K. | 141 | 181 | 205 |
| Netherlands | 152 | 162 | 181 |
| Denmark | 112 | 131 | 132 |
| Norway | 116 | 119 | 122 |
| Germany | 86 | 90 | 92 |
| France | 41 | 46 | 44 |
| Total | 1379 | 1625 | 1760 |
| Total OECD | 1291 | 1479 | 1584 |
| Total EU | 865 | 990 | 1200 |
| Total/GDP (percent) | 57 | 65 | 60 |

Table VI: Swedish Stock of FDI Abroad, by industry (SEK Billion)

| Sector | 2004 | 2005 | 2006 |
|--------------------|------|------|------|
| ----- | ---- | ---- | ---- |
| Manufacturing | 547 | 757 | 838 |
| Power utilities | 33 | 36 | 35 |
| Construction | 34 | 43 | 42 |
| Merchandise trade | 70 | 64 | 111 |
| Bank and insurance | 249 | 239 | 355 |
| Other services | 158 | 92 | 55 |

| | | | |
|-------------------------|------|------|------|
| Transportation, storage | 158 | 229 | 162 |
| Total | 1379 | 1625 | 1760 |

Source: Statistics Sweden

Major Foreign Investors

Major U.S. investors, in terms of number of employees in Sweden, include: Volvo Car Corporation (Ford, 20,600 employees), Manpower (9,385), SAAB Automobile (General Motors, 5,705), IBM Corporation (3,373), McDonald's (2,369), Hewlett Packard (1,725), Lear corporation (1,261).

Major foreign investment in the past few years has been in the chemical and pharmaceutical industries, as well as in the energy and automotive sectors. Other sectors that figure prominently include the IT-sector, consulting services, staffing services, and the defense industry.