The politics of electricity deregulation in Sweden: the art of acting on multiple arenas

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This article investigates the deregulation of the Swedish electricity industry as a political process. Discussions about deregulation started in the late 1980s. A first step in the process was the corporatization of the Swedish state-owned utility Vattenfall in 1992. The deregulatory process culminated with the new Electricity Law, which entered into force in 1996. We investigate in historical depth how a diverse range of actors contributed to shaping both the new institutional environment and the political discourse. The article scrutinizes not only the formal political decision-making process and the activities of a variety of ministries, boards and agencies, but also the processes by which energy companies and other relevant industrial actors influenced the outcome of the regulatory reforms. We explicitly focus on activities taking place on both political and business arenas, showing that major stakeholders acted on several arenas simultaneously to influence the deregulatory process and that the large power companies were most skillful in doing so. We also show that activities on the political and business arenas mutually reinforced each other in shaping the new regulatory framework.

1. Introduction

Deregulation of infrastructure sectors – including not only energy, but also telecommunications, aviation, railways, financial services, etc. – has been one of the most significant trends in economic policy since the 1980s. The quest for deregulation is often described both as a theoretically informed and an ideologically rooted policy that takes as its point of departure the belief in competition as a positive force in the development of infrastructures, thereby challenging the monopoly oriented regulatory policies that traditionally dominated infrastructure sectors. Deregulation proponents argue that liberally oriented regulatory reforms will raise both the static and the dynamic efficiency of infrastructures, and make these behave more like ‘normal’ industries.

Not surprisingly, given the importance of the subject, the phenomenon of deregulation has in recent years been subjected to a vast number of studies, particularly within economics and political science (for good overviews, see e.g. Midttun, 1997; Al-Sunaidy and Green, 2006). These studies have scrutinized the arguments for and against deregulation and have also tried to assess the effects of regulatory reforms on the actual performance and dynamics of infrastructure sectors.

Much less at focus has been the study of deregulation as a political process, in which a diverse range of actors contribute to shaping the political discourse and the new institutional environment. As a result, despite the omnipresence of the debate about deregulation, we do not know much about how and why the new, deregulated institutional frameworks have actually come into existence.

The purpose of this article is to fill part of this gap. We set out to investigate the deregulation of the Swedish electricity industry as a political process. In doing so, we scrutinize not only the formal political decision-making process and the actions taken by a variety of ministries, boards and agencies, but also the activities through which energy companies and other relevant industrial actors have influenced the outcome of the regulatory reforms. In this respect our study differs from most earlier studies that have tried to address the bumpy political roads to deregulated electricity markets, such as Isser’s (2003) study of the making of deregulation in the United States and Midttun’s (1995) comparative study of the historical background to regulatory reform in Norway and Sweden.

One study that has inspired us is Hirsh’s (1999) analysis of the origins of deregulation and restructuring in the American electric utility system. Like Hirsh, but in contrast to the above-mentioned studies, we explicitly focus on a very wide range of actors and stakeholders and how they struggle to influence the outcome of the deregulation process. In our analysis we focus on activities taking place on both political and business arenas, and how these interrelate. We argue that such a framework generates a better understanding of the political dynamics behind electricity deregulation.
The article is structured as follows. First, we present the major actors and the arenas on which they have acted to shape the deregulation process. We then briefly outline the pre-history of deregulation in Sweden, focusing on how the electricity system functioned under the old institutional set-up. This is followed by the core part of the article, which consists of an analysis of the parallel activities of relevant actors on the political arena and the business arena, whereby we move back and forth between the two. The last, concluding section analyzes the complex relationship between the activities on the two arenas. Our focus in time stretches from the first steps towards a new regulatory framework in the late 1980s to the launch of the main elements of the new regime in 1996.

2. Major actors and their arenas

Let us first briefly introduce the arenas and the major actors that were of central importance for the Swedish deregulation process. We will distinguish between two general arenas: the political arena and the business arena.

2.1. The political arena

Within the political arena, the Parliament was one significant sub-arena, and many negotiations and debates on the envisioned regulatory reform took place there. Major actors were both individual Members of Parliament and their political parties and fractions. Another important political sub-arena were the Government Offices. Important actors here were the responsible Ministers and their top advisors. The deregulatory process coincided with a turbulent era in Swedish politics, with the political power balance shifting twice as a result of elections held in 1991 and 1994. This meant that the responsible Ministers were frequently replaced and that, instead, a group of non-political government officers played important roles in maintaining a continuity.

Other actors that came to influence the deregulatory process were found within the realm of state boards and agencies. These have traditionally had a strong position in implementing government policies and parliamentary decisions, but they have increasingly also come to shape policies in the first place (cf. Lindvall and Rothstein, 2006). The most important state agency, in the case of electricity deregulation, was the State Energy Board (Statens Energiforsk).1 It was, among other things, responsible for energy forecasting and the funding of energy-related research. In the 1980s the Board was dominated by people with an engineering background, but in the years around 1990 a number of young energy economists were recruited, and they formed an ‘avant-garde’ in formulating arguments and, later, methods for deregulating electricity in Sweden.

One political sub-arena of special interest was made up of government investigations. All major reforms in Sweden are as a rule prepared by special investigations (called ‘commissions’ if they have a particularly strong mandate) with one or several investigators, a professional secretariat recruited from ministries or state agencies and, in addition, a number of ‘experts’ which are often representatives of major stakeholders. The investigations that dealt with the deregulation of electricity were thus a meeting ground for the major actors and stakeholders.

2.2. The business arena

A key category of actors were the large electricity companies. These acted mainly on the business arena, although they also tried to influence the activities on the various political arenas. The twelve largest companies produced around 90% of all electric power in Sweden and cooperated closely with each other, forming a ‘power club’. Among the twelve, the Swedish State Power Board, Vattenfall, played a special role, generating around half of the country’s electricity and being in charge of operating the national high-voltage grid.

The electricity industry also comprised a large number of medium-sized municipal energy companies, which besides electricity distribution networks often had a certain power production of their own. Similarly to the large producers, some of these companies tried to act on both the business and the political arenas.

Electricity users were also actors in shaping the new regulatory structure. Similarly to the electricity companies, they acted mainly on the business arena. They included first and foremost large industrial users, notably in pulp and paper, steel and other electricity-intensive sectors, for whom the cost of electricity was of vital importance for maintaining their international competitiveness. Some of these companies were shareholders in the large power companies.

Other consumer groups, such as households, did not take part in shaping the deregulatory process to any significant extent. Perhaps more surprising is the observation that the Swedish environmental movement, which had played a considerable role in shaping national energy policy since the early 1970s, played a very minor role in shaping the new regulatory landscape. The absence of the environmental movement in the regulatory debate suggests that it did not grasp the revolutionary significance of the reforms.

In summary, then, relevant actors in the deregulation process consisted of political parties and their representatives; government officers and experts at ministries and government agencies; larger and smaller electricity companies; and large industrial users of electricity. The arenas on which they acted in the deregulatory process included the political arena – with the Parliament, the Government Offices and a number of state agencies and boards as major sub-arenas – but also the business arena where electricity was sold and bought.

3. The emergence of a collaborative regime in electricity supply

Before the deregulation, the regulatory structure of the Swedish electricity market was based on the Electricity Law from 1902. The law had been amended a number of times, but its main characteristics remained the same. Key components of the regulatory structure were ‘area concessions’ and ‘line concessions’. These gave electricity companies a monopoly, for a certain period of time, on building and operating electricity networks within a certain geographical area or along a certain corridor, respectively. The law stated that electricity consumers within a defined area could only buy electricity from the concession holder. Conversely, the concession holder was obliged to provide electricity to anyone in the area who wished to be connected to the grid.

When the Electricity Law was introduced in 1902, it was a response to an already ongoing construction of electricity networks mainly in the southern part of Sweden. Most of these networks were local, but in the early 1900s several regional electricity companies were created for the purpose of building

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1 The Energy Board was in 1991 merged with two other state agencies to form the Swedish Agency for Economic Development (NUTEK).
large hydropower plants and regional power grids. Some of these companies were privately owned, but more common was a joint municipal and/or industrial ownership. The Electricity Law paved the way for the creation of regional monopolies. Moreover, a number of the largest waterfalls belonged to the state, and in 1909 a state power board was established to harness these falls and to provide Swedish industry with cheap power: Vattenfall. It quickly grew to become the dominant electricity producer in Sweden. In the beginning of the 20th century a bipolar structure emerged within Swedish electricity supply, with Vattenfall and the large regional companies generating and transmitting power and with mostly municipally owned companies distributing electricity to the end users.

In the 1930s a rapid exploitation of the vast hydropower resources in the northern part of the country began, and many new high-voltage transmission lines were built that connected the new power plants in the north to major cities and industries in the south. In 1947 the social democratic government decided to make Vattenfall responsible for the operation of the new national grid. A special ‘grid contract’ was signed between Vattenfall and the other major companies, regulating generators’ access to the grid. Through the national grid, the previously independent regional systems were interconnected, and in the course of the following decades an extensive power exchange developed among the twelve largest power companies, forming a power pool with the character of a ‘club’ from the mid-1960s. The Swedish electricity sector was thus characterized by a close cooperation between private, municipal and state-owned power companies. This regime was often referred to as the ‘Swedish system’.

When most of the hydropower resources in the north had been exploited, the Swedish power companies, with abundant support from the government, decided in the mid-1960s to start building nuclear power plants. A decade later this policy became highly contested and a referendum on nuclear power was held in 1980. The outcome of the referendum was a decision to phase-out the twelve nuclear power reactors that had been or were being built, by the year 2010. Nuclear power was still at the heart of the energy policy debate in Sweden at the time when deregulation of the electricity sector started to be discussed. After the nuclear disaster in Chernobyl in 1986, a decision was taken to start phasing out the first Swedish nuclear reactors in the mid-1990s.2

During most of the 20th century, Swedish electricity production and consumption grew exponentially, doubling every 12 years on average. From 1987, however, the growth in electricity consumption suddenly stopped and since then there has been virtually no growth at all (Högsetius and Kaijser, 2007). The transition to a new era without growth coincided with the first steps towards a deregulated electricity market.

4. The corporatization of Vattenfall as a first step towards a deregulated electricity market

When electricity deregulation emerged as an issue in Sweden in the late 1980s, it had been preceded by liberally oriented reforms in other sectors. The most widely debated deregulation concerned the decision in November 1985 to abolish all ceilings on electricity prices. This was a major step towards a deregulated electricity market.

This policy was partly reversed in 1991, but in 1999 and 2005 two reactors (both at the Barsebäck nuclear power plant in southern Sweden, owned by Sydkraft/EON) were eventually shut down. The remaining ten reactors, however, are still in operation today and the construction of new ones has started to be considered.

in a wide range of public sectors such as health care, education, children day-care, etc. These developments influenced political thinking about possible reforms in the electricity sector. However, this sector was regarded as highly complex in a technical sense and therefore particularly difficult to do something about. Moreover, the existing regulatory regime was seen by many as functioning very efficiently, with an extensive power exchange among the large power companies and a long track record of low electricity prices.

The point of departure for deregulation of electricity in Sweden took the form of new ideas about Vattenfall’s role in the electricity system and its organizational status. Vattenfall had from the outset had the legal form of a ‘commercial government agency’ (‘äffärsverk’), which among other things meant that all major investment decisions had to be formally approved by the Parliament. This could be a tedious process. As a matter of fact, Vattenfall had for decades lobbied for a ‘corporatization’ – i.e. a transformation of the commercial agency into a joint-stock company – arguing that the government agency form reduced its flexibility. Such a transformation had traditionally been opposed by the Social Democrats and the Left Party, which feared that the state would lose control of the state-owned enterprise and thereby also of electricity prices. These arguments did not disappear, but in the mid-1980s they started to be challenged in connection with the neo-liberal economic policy trends that had started to gain momentum. In addition, Vattenfall started to see expansion to foreign markets as a new way to generate growth in connection with the stagnation in domestic electricity consumption, and the government agency form was regarded as unsuitable for this purpose.

Beginning in 1985, several parliamentary debates addressed the future of Vattenfall and its organizational status. In 1987, the Social Democrats and their energy minister, Birgitta Dahl, proposed a new model for the economic governance of Vattenfall. The aim was to create more freedom for investments while increasing the state’s yield demands on the agency. This resulted in a government bill that was approved in June 1988 (Swedish Government, 1988).

Related discussions took place within the Expert Group for Studies of Public Finance (Expertgruppen för studier i offentlig ekonomi, ESO), a liberally oriented think-tank under the Ministry of Finance. In 1989 this body presented a report entitled ‘What Should the State Own?’ and in June 1990 another report was published that specifically addressed Vattenfall. The latter report argued that the state’s yield demands on Vattenfall were still much too low and that cost awareness within the organization needed to be increased. ESO argued, in this connection, that the organizational form of a commercial government agency had become outdated, and that it was time to transform Vattenfall into a joint-stock company. While suggesting that this company would initially be fully state-owned, it also discussed the possibility that a part of Vattenfall might be privatized in the future (ESO, 1988, 1989).

Vattenfall, meanwhile, did not merely sit and wait for these reports to appear. It took an active role in two ways: first, it sought possibilities to get around the political constraints related to its commercial government agency status. It launched a number of internal organizational reforms, which initially concerned only selected parts of the organization, but which were ultimately aimed at a full corporatization. Vattenfall experimented with new organizational forms by corporatizing

2 This policy was partly reversed in 1991, but in 1999 and 2005 two reactors (both at the Barsebäck nuclear power plant in southern Sweden, owned by Sydkraft/EON) were eventually shut down. The remaining ten reactors, however, are still in operation today and the construction of new ones has started to be considered.

3 During the second half of the 1980s the Ministry of Environment was responsible for energy issues, but in January 1990 this responsibility was transferred to the Ministry of Industry.
its divisions for hydropower engineering and construction in 1988 (Vattenfall, 1989). For Vattenfall this played the role of a general rehearsal for a possible corporatization of the whole group. One purpose was thereby to test whether trade unions would find a corporatization of Vattenfall acceptable. This was a sensitive topic, but the unions turned out to be surprisingly positive.

Secondly, Vattenfall renewed its lobbying campaign aimed at corporatization. In summer 1990, Vattenfall’s general director Carl-Erik Nyquist published a major debate article in the leading Swedish daily, Dagens Nyheter. He referred to ongoing developments in Britain, Norway and above all within the European Communities (EC), where the Commission aimed at creating a competitive and internationalized electricity market for Europe. Nyquist noted that this would create totally new conditions for producing and selling electricity in Europe, and he argued that Vattenfall must be given the same possibilities as other large European electricity companies to take part in this new common market. Therefore it was necessary to corporatize Vattenfall by transforming it into a joint-stock company. Nyquist wrote that the ‘pace of development’ was very high within the EC, and although Sweden itself was not part of the EC he saw it as necessary that the country adapted to the European development (Nyquist, 1990).

New minister of industry and energy at this time was Rune Molin, who took over energy policy issues from Birgitta Dahl in early 1990, following an internal power struggle within the Social Democratic Party concerning nuclear power. Dahl was in favour of initiating the nuclear phase-out in the mid-1990s, but this policy was strongly opposed by the trade unions, which threatened to withdraw their support for the government. As a result of the conflict Dahl had to hand over energy matters to Molin, who was a trade union man. Molin proved willing to listen to Vattenfall’s arguments for a corporatization, seeing it as a long-term way of strengthening Vattenfall as an industrial enterprise. For Molin corporatization meant that the Swedish state would remain the sole shareholder. He and his party were strong opponents to a privatization of Vattenfall.

A few months later a window of opportunity appeared for changing Vattenfall’s status. Sweden was heading into a serious economic crisis, and in October 1990 the government launched a radical ‘crisis package’ of measures and reforms to counteract the negative economic development. Electricity did not at all play any decisive role in the overall crisis context, but Molin saw it as an opportunity to include a proposal that Vattenfall be corporatized. The formal argument was that it would make Vattenfall more efficient and that this would increase state revenues (Swedish Government, 1990). Another important element in the crisis package was a declared intention to apply for a Swedish EC membership.

From a liberal or right-wing political perspective a corporatization of Vattenfall was interpreted positively not only because it implied a loosened state control over the electricity system but it was also seen as a first step towards a possible privatization of Vattenfall (possibly preceded by a division of the group into several separate companies) and a deregulation of the Swedish electricity market. Importantly, the social democratic government was also susceptible to the idea of a deregulated market; while opposing a privatization of Vattenfall, the quest for increased competition received a lot of attention under Rune Molin as minister of industry.

In spring 1991 Molin presented an ambitious government bill, in which a new ‘industrial policy for growth’ was outlined (Swedish Government, 1991). As part of this bill Molin proposed that Vattenfall be transformed into a state-owned joint-stock company on January 1, 1992, and that at the same time a new commercial government agency, Svenska Kraftnät (Swedish Power Grid), be established for managing and operating the national high-voltage grid.

5. From corporatization to competition

Despite the widely cited political desire – in both social democratic and centre-right economic policy – to increase competition and improve the efficiencies of markets in infrastructure sectors, it was still very unclear to policymakers how such ideas could be realized in practice. The government was here assisted by the State Energy Board. A group of young economists working at this agency had since the mid-1980s become interested in the functioning of energy markets, which, as they found out, deviated considerably from what was being taught in university textbooks. In particular, they were interested in the lack of profit maximization as a driving force in electricity. Just before the government presented its growth bill in spring 1991, the agency had launched an ‘internal’ investigation of the electricity market (Eng, interview).

The economists at the State Energy Board approached the Ministry of Industry, informing Molin about their ongoing study. The minister was happy to hear of it, and he charged the Energy Board with investigating possible futures for the electricity market. Hence the internal agency investigation had suddenly become a formal government investigation with a concrete political purpose. The ministry also called a meeting to which a large number of stakeholders were invited, including representatives from the electricity industry. Around 40 people became involved in a reference group and four working groups as a part of the investigation (Eng, interview).

It immediately became clear that the large electricity companies were very sceptical about a deregulation of the electricity market. They argued that the electricity market already functioned very well and that Sweden had among the lowest electricity prices in the world. While acknowledging the advantages of limited wholesale competition in its already established form, they argued that full competition might lead to a total breakdown of electricity supply (Eng, interview). The economists at the Energy Board were of a different opinion. In their report to the government, which was presented in November 1991, they agreed that the electricity market so far actually functioned astonishingly well in the short-term and that its ‘static efficiency’ was high. But they were worried about its ‘dynamic efficiency’, i.e. its ability to efficiently respond to future requirements and demands. They argued that an overcapacity had emerged in the 1980s due to the fact that industrial demand had been lower than expected and that the power companies, for political reasons, had expanded nuclear plants faster than would have been economically optimal (State Energy Board, 1991). To strengthen their arguments, the group travelled to Britain and Norway, where liberal reforms had recently been implemented. They concluded that the reforms in these two countries had worked well and that they had not led to any breakdown of the electricity system.

The investigators at the Energy Board also noted that the planned corporatization of Vattenfall posed a threat to the future of electricity supply in Sweden, if the established regulatory structure remained unaltered. As long as Vattenfall had been a government agency, the political influence had been considerable,
contributing to keeping electricity prices down. But as a joint-stock company Vattenfall – even if it was state-owned – would have to comply with joint-stock company legislation and thus follow market economy principles. Vattenfall together with the other large power companies could then be expected to be restrictive in expanding production capacities in order to keep electricity prices as high as possible, seeking to maximize profits. In other words, the Swedish electricity market risked being transformed into a classical oligopoly. Therefore, the Board argued, it was crucial to create efficient mechanisms for free competition and for enabling the entry of further actors that could put the established companies under pressure. This called for new legislation that would open up all electricity networks, from the national grid down to the local distribution nets, making them accessible to all actors (State Energy Board, 1991).

6. The power companies: opposition and adaptation as parallel strategies

The electric power companies were not happy with the ongoing 1991 investigation that the Energy Board was carrying out. Both Vattenfall and the other large power companies within the ‘club’ felt that they had everything to lose. Their electricity markets were traditionally guaranteed within the areas of their regional monopolies, and a deregulation would imply that new actors were allowed to compete for their traditional customers. They also believed that deregulation would lead to lower electricity prices in a way that would seriously lower their income and increase their internal cost pressure.

How did the power companies act in this situation? A first strategy was to try to influence the political development, by seeking to prevent deregulation, or at least delay it. The largest companies participated actively in government investigations, where they presented their arguments for maintaining the old regulatory regime. Furthermore, they opposed deregulation on formal grounds, referring to the ‘grid contract’ (as discussed in Section 3). According to this contract, which was to be in force until 2004, only members of the ‘club’, i.e. the 12 largest electricity companies, were to have access to the grid. A deregulation would thus be a violation of this contract. (Magnusson, interview; Heden, interview). As we will see, however, the government was not willing to listen to this line of argument.

In addition a parallel strategy was developed. The large companies were well informed about ongoing developments abroad that pointed in the direction of deregulated electricity markets. The points of reference were Norway and Britain but also the EC. In the early 1990s the drive for deregulation of electricity within the EC was strong, and it seemed highly probable that member countries would have to deregulate their electricity markets within a near future. After the Swedish governments declaration in October 1990 that it intended to apply for membership in the EC it was seen as probable that Swedish energy companies would become part of a future deregulated European electricity market. Against this background, the power companies interpreted the coming of competition and cost pressure as nearly impossible to avoid, at least in the long term.

In this situation, the second-largest Swedish power company, Sydkraft, took the initiative in launching a new strategy of action. First, Sydkraft initiated a far-reaching cooperation with the large German utility PreussenElektra. Secondly, in January 1991, it was revealed that Sydkraft was to acquire the municipal energy company of Malmö, Sweden’s third largest city. Sydkraft paid 1.7 billion SEK for Malmö Energi, and thereby became a dramatically much larger company, particularly in the electricity distribution business, where it got direct access to Malmö Energi’s 160,000 customers. Strengthening its ties to consumers was seen by Sydkraft as a crucial way of reducing the expected negative effects of deregulation.

The Sydkraft-Malmö deal was publicly publicized, and it immediately lay open certain differences among actors and analysts regarding what was to be regarded as ‘normal’ behaviour within the electricity industry. The deal caused a lot of political turbulence at the local level, where the divestment of the municipal energy company was pursued as a way of counteracting strained municipal finances. The social democratic mayor of Malmö, who negotiated the deal, was fiercely criticized from party members on ideological grounds.

The Sydkraft-Malmö deal was followed in spring 1991 by another large power companies, Graningeverken’s, acquisition of the distribution-oriented energy company Svenska Energinät, with around 37,000 customers. The basic motive was the same as in the case of Malmö: to come closer to the consumers. Shortly after this deal, state-owned Vattenfall also joined the wave of acquisitions. In May 1991 Vattenfall together with the municipality of Uddevalla declared that they had agreed on a total sell-out of Uddevalla’s municipal energy operations to Vattenfall.

Several other deals of a similar style were being prepared at this time in Sweden; the largest one was Vattenfall’s attempt to buy the municipal energy company of Gothenburg (which in the end failed). All in all, around 20 mergers and acquisitions were reported to be under negotiation in June 1991.

At this time, however, the wave of mergers and acquisitions had started to give rise to fears and protests from several directions. Critical voices pointed at the increasingly obvious trend towards vertical integration (with power producers acquiring their own customers) and thereby, as it was argued, increased monopolization regarding the supply of electric power to the distributor level. In April 1991, the state agency responsible for overseeing competition and antitrust issues (Statens Pris- och Kartellnämnd, SPK) decided to carry out an investigation of Sydkraft’s acquisition of Malmö Energi. However, the investigation was cancelled after only two months. The reason, according to SPK, was that the electricity market was about to be deregulated. End consumers on a deregulated market would have the possibility to switch to another supplier if the vertical integration led to higher electricity prices. The conclusion was that Sydkraft’s acquisition of Malmö Energi could be accepted ‘against the background of the planned deregulation of the electricity market’ (SPK and NUTEK, 1991).

Within the government there was also a certain degree of concern. The development in terms of mergers and acquisitions was by many analysts regarded as a disturbing factor in the ongoing efforts to reform the electricity market. In late June 1991, the Ministry of Industry therefore decided to launch a separate investigation with the goal to make clear what was actually happening on the Swedish electricity market in terms of changes in ownership. In particular, the investigation was to study the possible effects of increased vertical integration.

The investigation was carried out jointly by SPK and another state agency, NUTEK, and the results were presented in December 1991, shortly after the Energy Board’s investigation on possible market reforms had been published. The investigators argued that the trend towards mergers and acquisitions in the electricity industry could be regarded as principally acceptable under the condition that the electricity market went through a deregulation. Their recommendation was therefore not to introduce any new legislation or other explicit rules with the purpose to put a brake to the trend of increased concentration. Instead, they recommended

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5 For a more detailed account of Sydkraft internationalization strategy, see Högselius (2009).
changing the institutional framework as quickly as possible, i.e. to deregulate the electricity market (SPK and NUTEK, 1991).

7. Towards political consensus on the need for deregulation

When the result of the two investigations on regulatory reform and vertical integration were presented in November and December 1991, respectively, the Swedish political landscape had changed. Elections held in September had paved the way for a new liberal-right coalition government led by the right-wing Moderates.

New minister of industry became Per Westerberg, who was a strong advocate of neo-liberally oriented reforms. Deregulation of the electricity sector and privatization of Vattenfall were favourite issues for him. Already before the two investigations had been presented, he intervened directly in the ongoing market development by stopping Vattenfall’s attempts to acquire Uddevalla’s municipal energy activities, which he regarded as a threat to effective competition. In November 1991 he ordered the deal to be cancelled. The minister’s intervention gave rise to angry protests from both Vattenfall and Uddevalla’s local government. Westerberg further declared that the government would not continue to adhere to the ‘grid contract’ from 1979, as had been requested by the power companies (see above).

On 1 January 1992 the corporatization of Vattenfall was formally carried out and the transmission grid was transferred to the new system operator, Svenska Kraftnät. This was an important change of the institutional framework in the electricity sector. Westerberg strongly wished to carry on the reforms by proceeding from corporatization of Vattenfall to a full deregulation of the electricity market. He strived for a broad political backing of the reforms and decided not to raise the issue of a possible future privatization of Vattenfall—an issue that was very sensitive for the Social Democrats. In connection to the severe currency crisis that shook the country in autumn 1992, the Social Democrats, joining the government coalition in a crisis package, even managed to make the government promise that any ownership changes in Vattenfall would have to be negotiated with the Social Democrats.

Positive and encouraging signals concerning the effects of deregulation came from developments abroad. Both in Britain and Norway, which had carried out regulatory reforms, significant decreases in electricity prices were registered during 1991. At the same time, the EC Commission in autumn 1991 decided upon a time table with new directives foreseeing transit rights in transmission grids along with an obligation from the side of the large power companies to present an open account of their costs for production and transmission of electricity (price transparency). These directives were to enter into force in January 1993.

An important development in this connection was that Sweden had filed a formal application for membership in the EC in July 1991 (under the then social democratic government). The application led to intense activities regarding the adaptation of Swedish legislation. Among other things, a new competition law was being prepared, and this came to influence the Ministry of Industry’s stance to mergers and acquisitions within the Swedish electricity industry. Within the EC, ‘vertical integration’ was not subject to the same criticism as it had been from Westerberg’s and other Swedish liberals’ side, but was regarded as acceptable under the condition that production and distribution were kept strictly apart in terms of accounting, i.e. cross-subsidization was not allowed.

Under a growing influence of EC developments, Westerberg changed his attitude to Vattenfall’s acquisition activities. Vattenfall now got clear signals from the government that it would not prevent any further acquisition attempts from the company’s side. This could also be interpreted as natural in the light of Vattenfall’s corporatization, a reform aimed at making Vattenfall act on similar conditions as other power companies.

In March 1992 Westerberg proceeded to present a government bill, ‘On a competitive electricity market’ (Swedish Government, 1992). In this bill he proposed to establish a government commission with the task to design a new Electricity Law that would enable access to the electricity networks for all actors. An interesting feature of this bill was that it emphasized that the Swedish electricity market already functioned very well, particularly in international comparison, with a highly rational use of resources and an excellent track record regarding security of supply. The goal of the reform, Westerberg stated, was to achieve an ‘even more rational’ use of resources, while providing customers with flexible conditions of supply at lowest possible prices. This high degree of satisfaction with an already existing system was an unusual point of departure for embarking upon a major reform adventure with unknown consequences.

The majority of Social Democrats did not have any strong objections to Westerberg’s bill; there was a fairly broad parliamentary consensus about the advantages with increased competition on the electricity market. The number of opponents to deregulation within the social democracy had decreased since the issue was first debated. This observation may be interpreted as part of a general shift in Swedish politics at the time, following the severe economic crisis in the early 1990s. Increased competition in combination with EC membership was now seen as crucial for the country’s economic future.

8. Smaller electricity companies take action

The small and medium-sized electricity companies were in general positive to a competitive electricity market. They saw it as a way of avoiding being dependent on their traditional regional supplier, and like the large power companies they also believed that increased wholesale competition would lead to lower bulk electricity prices. But they were uncertain about their own role on a future deregulated retail market and feared that they might be too small to act successfully. Furthermore, their municipal owners were often tempted to divest the electricity business as a quick fix to deficits and debts in the overall municipal economy.

In the case of Uddevalla, Per Westerberg had first refused to accept a divestment. Following his turnaround with respect to allowing Vattenfall to acquire smaller electricity companies, the newly corporatized giant made a new attempt to acquire Uddevalla’s municipal energy business. However, the Social Democrats in the municipal administration had now changed their opinion regarding cooperation with Vattenfall, and the acquisition attempt failed.

As an alternative to a cooperation with Vattenfall, Uddevalla launched a cooperation with three nearby municipalities – Trollhättan, Vänersborg and Lysekil – which together with a few industrial companies in the region created the jointly owned electricity trading company Fyrstad Kraft AB. The purpose of creating the new firm was to build a stronger basis for negotiating large-scale electricity supplies with the large power companies. Bargaining power seemed to become increasingly crucial, particularly in view of the expected deregulation of the electricity market.

But Fyrstad Kraft did not wait for deregulation to be implemented. Already in early 1993 – long before any formal deregulation had occurred – it started to profile itself as an aggressive actor in negotiations with the large power companies. Traditionally the four municipalities had had Vattenfall as their wholesale electricity supplier, but Fyrstad now initiated talks...
with a Norwegian supplier consortium, Eurokraft. By pointing at an advantageous offer from Eurokraft, Fyrstad tried to put Vattenfall under pressure to lower its prices. Vattenfall was highly irritated about this new behaviour from its municipal customers. ’Vattenfall remains the sole supplier to the munici-
palities until the market has been deregulated’, it was stated from the side of Vattenfall, which seemed both surprised and scared about how the electricity market already appeared to be changing radically despite the fact that no market reforms had yet been decided upon. Fyrstad Kraft disregarded Vattenfall’s statement and proceeded to sign an agreement with Eurokraft in February 1993. The development inspired municipalities in other Swedish regions to create similar joint electricity trading companies, putting their traditional bulk electricity suppliers under pressure.

Vattenfall and the other large suppliers, however, refused to give Eurokraft and other alternative suppliers access to the relevant electricity networks, referring to existing legislation and valid area concessions. A debate started in which the actual meanings of the old Electricity Law from 1902 were interpreted in different ways. In June 1993, finally, NUTEK, which was the responsible agency in these matters, ruled that the large power companies had the right to refuse to transit other suppliers’ electricity to the municipalities. This decision upset not only the municipalities, but also led to considerable irritation at the Norwegian Ministry of Energy.

However, there were also cases where municipalities actually succeeded in switching to a new supplier. Järfälla just outside Stockholm was a case in point, where the new political climate concerning the electricity market was reflected in an intense struggle between Järfälla’s traditional supplier Vattenfall and Stockholm Energi, to which Järfälla wished to switch. In this case Vattenfall could not physically prevent the alternative power supply, as Järfälla was situated on the border between Vattenfall’s and Stockholm Energi’s regional networks, and the struggle ended with Vattenfall’s giving in.6 Independently of this case, however, Vattenfall itself sought and managed to attract new municipal customers in the wider Stockholm region. Hence, by starting to think and behave in a more competitive way, both municipalities and their wholesale power suppliers started to transform the very fundamentals of the Swedish electricity market several years before any formal deregulation was actually decided upon.

9. Struggles about a new regulatory regime

Following the broad acceptance of the March 1992 government bill, several investigations were initiated with the goal to design, at a more detailed level, the competitive electricity market. The investigators consisted of a group of persons who largely overlapped with those responsible for the earlier, preliminary investigations. Minister of Industry Per Westerberg, having received broad political backing for going ahead with deregulation, regarded the concrete design of the reforms as a task for experts – economists, lawyers and engineers – rather than for politicians. However, in most investigations representatives from the large power companies and other stakeholders were also included.

The first investigation that was launched focused on preparing for a new Electricity Law. It presented its first results in June 1993, suggesting a reformation of the existing concession system. The concessions, which were temporary monopolies for a given region or a given transmission line, were not to be abolished. It should hence not be allowed for new entrants to construct competitive electricity networks. These were seen as natural monopolies. But new entrants were to be given the right to use the networks of the concession holders, against a reasonable fee. The investigators stated that the reform could be launched in July 1994 at the earliest (Energy Law Commission, 1993).

The representatives from the large power companies in this investigation used their right to come up with reservations against these suggestions. They argued that it was ‘extremely important’ that a more thorough investigation be carried out concerning the possible effects of the proposed reforms, before a decision about a deregulated electricity market could be made. They also suggested that the new regulations be introduced stepwise and initially apply to larger deliveries of electricity only, and that they be based on multi-year agreements. The motive was to prevent that ‘a too large part of the market is taken over by actors with short-term or speculative interests’. Hence the large power companies continued to seek ways of delaying a full deregulation.

A second investigation focused on the prospects for an electricity exchange. This investigation became even more controversial. It was carried out by the new transmission grid agency, Svenska Kraftnät, and was finalized in June 1993. The idea of an electricity exchange where producers and customers of electricity could freely trade electricity was seen as a mighty symbol of a free market. However, the large power companies fiercely opposed this idea, wishing to retain the cooperative tradition from the ‘club’ arrangement established in the mid-1960s. They produced a report of their own that they submitted to the investigators, in which they argued that the established ‘production optimization’ led to an optimal use of the country’s electricity resources and that an electricity exchange would lead to lower efficiency. On a deregulated market the power companies would be more restrictive in their use of hydropower resources, and the result would be an increased use of fossil fuels, with negative effects in terms of sulphur and CO₂ emissions. The annual costs for society were estimated at 800 million SEK per year (Svenska Kraftnät, 1993, Appendix 5).7

The distribution companies, in contrast, were strongly in favour of an electricity exchange. The companies stated in a joint report to the investigation that their relations with power producers had recently, particularly during the past few months, ‘undergone significant changes, which point towards a stance from their side with competition-limiting elements’. They provided several examples (most of which have been discussed in the previous section). Against this background, the distributors argued that it was ‘extremely important that an electricity exchange is established at the same time as electricity networks are opened up, and that this is not unnecessarily delayed’. On the other hand, they also uttered a fear that a few large power producers would gain a very dominant position on the exchange. In order to prevent such a development, the distributors suggested that Vattenfall’s size on the production side be reduced, that the electricity exchange as soon as possible be enabled to intimately cooperate with other Nordic electricity exchanges and that a strong supervising agency be created (Svenska Kraftnät, 1993, Appendix 8).

The investigators at Svenska Kraftnät finally recommended that an electricity exchange be created, pointing in particular at its role for enabling price transparency. The exchange should be established stepwise, first consisting of a wholesale market, which was later to be complemented by a spot market. It was also stressed that the Swedish electricity exchange should as soon as possible include...
possible be integrated with the already existing Norwegian electricity exchange and possibly with other markets as well (Svenska Kraftnät, 1993).

It should be noted that the large industrial users of electricity kept a low profile during these struggles, although most of them were in favour of a deregulation. What complicated matters was that their main lobby organization, the Federation of Swedish Industries (Industriförbundet), also had the large power companies as members. Furthermore, some of the largest energy-intensive industrial companies were major shareholders in the large power companies. This made it difficult for Swedish industry to speak with a single voice.

10. Political turmoil

In the midst of the ongoing investigations, in which various actors tried to influence the shaping of the future electricity market, the Social Democrats suddenly announced that they had changed their stance. The party's new spokesperson in economic and energy issues, the later Prime Minister Gőran Persson, announced in March 1993 that his party no longer supported the government's efforts to deregulate the electricity market. Persson's argument was based on a worry regarding the oligopoly situation with a few large power companies being too dominant. He found it unlikely that true competition could be introduced on such a market. Persson thought that this would ultimately lead to a situation where the government would be forced to split Vattenfall into several smaller companies (and privatize these), and this was something that he wanted to prevent, since Vattenfall was an important government asset that could also be used as a powerful instrument in energy policy. He also argued that the reforms in Britain and Norway were facing problems and that there was a growing opposition towards the plans for deregulation within the EC. Persson called for further investigations of the consequences of deregulation and of developments abroad, though in vain (Jansson and Magnusson, 1993).

By the end of 1993, all necessary 'technical' investigations for the regulatory reform had been finalized and in mid-February 1994, Minister of Industry Per Westerberg could present a government bill to the Parliament (Swedish Government, 1994a). It suggested to launch the reform on 1 January 1995. In contrast to the parliamentary debate two years earlier, the changed social democratic stance meant that the parliamentary debate preceding the voting was very intense. The main spokesperson from the social democratic side, Reynold Furustrand, pointed out that Westerberg was a 'strongly ideological person' and that the reforms he proposed would most probably be followed by a privatization of Vattenfall. He also pointed out that the regulatory reform process within the EC (which on 1 November 1993 had become the European Union) had come to face stagnation, as several member states were opponents to an opening up of the electricity market to competition. Therefore, according to Furustrand, it was hard to see why it was such a hurry to carry out a regulatory reform in Sweden. He declared that if the Social Democrats won the upcoming national elections in September 1994, they would not allow the reform to enter into force (Swedish Riksdag, 1994). However, the coalition government, with the help of votes from the populist party New Democracy, won the vote, and hence the Parliament decided to deregulate the Swedish electricity market from 1 January 1995.

The elections in September 1994, however, altered the political power balance and a new social democratic government took office. A month later, the new government presented a bill proposing that the previous decision to deregulate the electricity market be cancelled (Swedish Government, 1994b). In mid-December 1994 – only two weeks before the reform should have entered into force – this bill was approved by the Parliament with the votes from the Social Democrats and the left and green parties. As major reason for this decision the government pointed at the need to further investigate the issue. This time the investigation was entrusted to an already working parliamentary commission – the Energy Commission – which was investigating Swedish energy policy at large. It was now charged with an additional task of analyzing the consequences of the proposed electricity reform from a broader energy, environmental and industrial policy perspective. It was also to analyze the slowed-down pace of institutional developments within the EU and what this might imply for Sweden.

The Commission was requested to work fast, and several experts from the previous investigations were adjoined to its secretariat. After only four months it presented a report concerning the electricity reform. The main conclusion was that there were ‘decisive reasons’ for letting the proposed reform enter into force. It found, among other things, that a deregulation would not reduce the possibilities for pursuing an active energy policy – on the contrary, it would increase the possibilities, since marketization would make it possible to use economic incentives concerning environmental impacts. The Commission recommended a few minor amendments to the reform that had been proposed by the previous government, but all in all it supported it. It recommended that the reform enter into force on 1 January 1996 (Energy Commission, 1995).

This time, Vattenfall and the other large power companies did not voice any loud protests against the proposed reform—despite the overarching similarity with the previous reform, to which they had objected strongly. Most probably, this meant that the large companies had already achieved what they wanted: a delay in the reform that had made it possible for them to prepare through strategic mergers and acquisitions, as well as through more tactical preparations.

The government decided to follow the recommendations of the investigation, and in May 1995 it presented a bill which was very similar to the one presented by Westerberg a year earlier (Swedish Government, 1995). How can this rather remarkable turnaround of the Social Democrats be explained? It was not because Göran Persson had lost influence; on the contrary he had become a strong minister of finance. Possible explanations are that the opposition against Westerberg's bill had at least partially been a tactic move as part of the election campaign; depicting Westerberg as a hard headed neo-liberal was a rewarding rhetoric among the parties core voters. Also the fact that Vattenfall was not as strongly opposed to the reform anymore may have been of importance; social democratic politicians were traditionally very supportive of Vattenfall.

When the new bill was debated in the Parliament in October 1995 the liberal and right-wing parties all supported the bill, but they also made critical and sarcastic remarks about the social democratic turnaround. More surprisingly, not only the left and green parties opposed the bill, but also a fraction of the Social Democratic Party. In Swedish parliamentary tradition it is very unusual that members of parliament confront their own government, and this demonstrates the controversial nature of the issue. However, with the support from the opposition parties on the centre-right, the bill still received an overwhelming majority in the final vote.

On 1 January 1996, the new electricity law entered into force and the Swedish electricity market was deregulated. Formally, it was a one-step full deregulation that completely opened up all networks to competition. In practice, however, most smaller consumers were not touched by the reform, since if they wished to switch to a new supplier they had to buy a relatively expensive
electricity meter, for hourly metering of their consumption. The reform was amended in this respect in November 1999.

The turbulence on the electricity market, which had started already several years before the reform was implemented, continued during the first years of the deregulated era. A first peak came already around Easter 1996, with a dramatic wave of mergers and acquisitions that decisively reshaped the actor landscape for the foreseeable future. The result was a radically increased market concentration on the production side, with three large producers – Vattenfall, Fortum and E.ON – controlling around 90% of power generation. The trend towards vertical integration also continued. Many municipalities and industries, which had traditionally owned much of their power production, felt uncertain given the market turbulence, and fearing that they would not be able to survive on a market with substantially reduced electricity prices, many of them opted to divest their energy production, selling their power plants to larger actors. Hence market concentration further increased. This trend was accelerated as an effect of severely strained municipal budgets. All in all, in the period from 1991 to 2002, 100 of Sweden’s 286 municipalities divested their energy production, while 51 municipalities also divested their distribution networks (Bladh, 2002).

11. Conclusion

What then, can we learn from the story told in this article? First, it shows that there were several driving forces in the quest for deregulation. The point of departure was clearly the new ideological climate in Swedish and, more broadly, Western politics since the early 1980s, emphasizing competition as a positive force in increasing efficiency in infrastructure and public sectors. Another factor that triggered the interest in a reform of the electricity sector was the halt in the previously very fast expansion of electricity demand in Sweden. But once the political process aimed at investigating the pros and cons of possible reforms had been initiated, other forces came into play. The various stakeholders in the electricity market assessed the probable outcome for themselves of a potential deregulation, and accordingly acted to support, prevent or delay the process on the political arena, while at the same time, on the business arena, adapting to and preparing for what they regarded as the most probable outcome of that process. The result was an increasingly self-reinforcing process with a high level of interdependency between the political and the business arena.

A main lesson from our story is that important stakeholders acted on several arenas simultaneously to influence the process. The large power companies were most skilful in this art. In a first phase they lobbied actively to achieve a corporatization of Vattenfall, and this became the first step in the formation of a new regulatory regime. The decision created a pressure to continue the deregulatory process, with the establishment of a competitive market as the main target. In the second phase the power companies became afraid of the consequences of a major reform of this kind and they participated actively in government investigations with the aim to stop, slow down or modify the reform process. However, most of them believed that a reform was inevitable in the long run, and therefore they started, at an early stage, to prepare for the deregulated future that they, on the political arena, actively opposed. They did so on the business arena, particularly through intense efforts to acquire distribution companies (thereby strengthening their links to end customers). They also sought to strengthen their market power through acquisitions of other power producers. Thus, the large power companies pursued seemingly different strategies on different arenas.

Most municipal power companies and large industrial electricity consumers were positive to a deregulation and they, too, tried to act on several arenas. However, they did not have the same resources as the big power companies to influence the various investigations that were carried out on the political arena. Moreover, they were more divided in their assessments of suitable strategies for market action as a way of preparing for deregulation. Many decided to divest their power business to a larger company, while others sought cooperation with other small actors to increase their bargaining strength.

When it comes to politicians and government officials, these mainly acted on the political arena, which is not surprising. However, they could also have acted on the business arena, by preventing the big power companies from acquiring municipal companies. Indeed, they argued that this trend might increase monopolization and lead to higher electricity prices. However, their actual response was not to try to stop the wave of mergers and acquisitions. Instead, they thought the threat of monopolization could best be counteracted by deregulating the electricity market—as soon as possible. Thus, the market turbulence in the first half of the 1990s served to further strengthen the deregulatory momentum. When it became clear that the regulatory reform process within the EC faced stagnation from the mid-1990s, the Swedish deregulatory process had already acquired such a strong momentum that deregulation, as perceived by many actors, was inevitable—despite increasing criticism among political representatives. The Social Democratic turn-around before supporting the reform demonstrates that the reform was indeed a politically sensitive issue.

Finally, it is interesting to note that the actual effects of major regulatory reform projects are highly uncertain and difficult to predict. The large electricity companies within the ‘club’, for example, expected that a deregulation would be to their disadvantage and this was the major reason for their opposition to the envisaged reform. With hindsight, it is clear that the large power companies actually profited considerably from the changes, and nowadays, earning enormous profits on the deregulated market, they are satisfied with the reform. It is important to remember, however, that their stance was a very different one in the early 1990s.

Municipal and industrial actors largely supported deregulation, expecting to profit from it in terms of lower electricity prices and greater flexibility and freedom on the market. For many of these actors it seemed unnecessary to own their own energy production on a deregulated market, and a wave of divestments followed. However, electricity prices have in reality not experienced any clear decline, and many municipal and industrial actors nowadays deeply regret that they sold out their energy production. Major industrial interests in Sweden nowadays even argue for a return to the old regulatory framework.

Hence nearly all actors were completely wrong in their initial predictions of how deregulation would affect them. However, the most powerful actors were able to influence the outcome to their own benefit by skillfully pursuing parallel strategies on political and business arenas. This is something to reflect upon for politicians and policymakers arguing for far-reaching regulatory reforms.

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