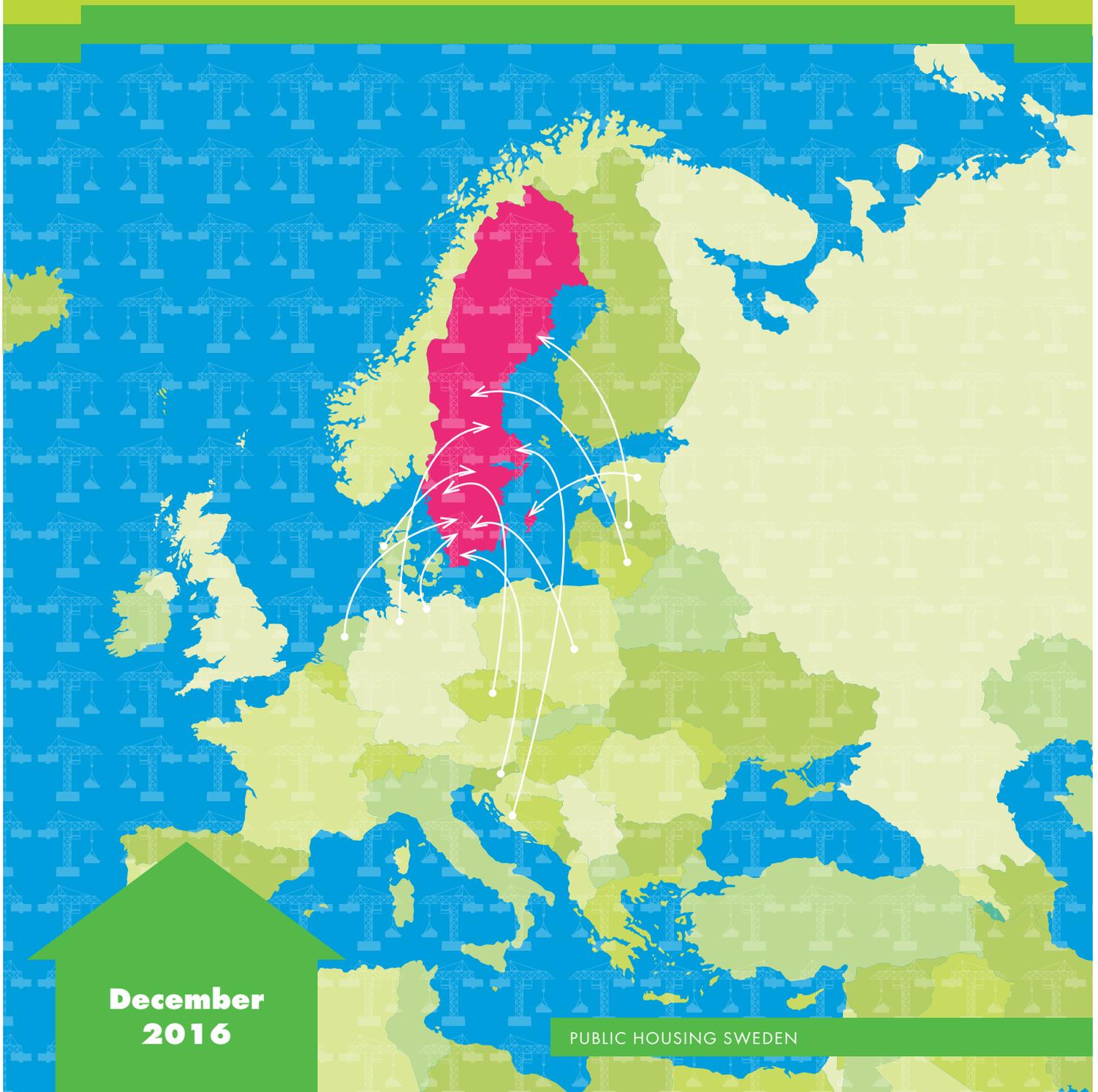


MAKING IT EASIER FOR FOREIGN CONSTRUCTION COMPANIES IN SWEDEN



**December
2016**

PUBLIC HOUSING SWEDEN

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Introduction

Sweden will need 710,000 new homes within ten years according to the latest construction needs forecast from the National Board of Housing, Building and Planning. This housing shortage is far from a city phenomenon, but a real issue in around 250 of Sweden's 290 municipalities.

Public housing companies throughout Swedish have to address politically set targets for the annual number of homes to be built. The overall objective for the public housing sector is to build 75,000 new homes between 2015 and 2020.

However, this cannot be achieved regardless of price level. The capacity of construction companies is limited, and as there are many parties interested in engaging them tender prices are set accordingly. Sweden has the highest construction prices in the EU.

The housing companies within Public Housing Sweden, which has 300 member companies, have jointly produced a standardised apartment block to facilitate the procurement of greater volumes centrally and the conclusion of framework contracts with construction companies.

Some of our member companies have also undertaken recruitment trips in Europe to encourage foreign companies to build in Sweden.

This report describes seven foreign construction companies on the threshold of one of the construction industry's sub-markets that has to date been exclusively Swedish. These seven companies were interviewed about the trade barriers that exist and what would make it easier for the companies to establish themselves in Sweden.

This report was written by the journalist Fredrik Karlsson on behalf of Public Housing Sweden.

Public Housing Sweden's comments on the report are shown on page 12.

Summary

The report clearly shows a problem with lack of competition in the public housing sector's procurements. The report also demonstrates ways of making it easier for foreign companies to take on projects in Sweden, thus increasing competition.

These interviews with the seven foreign construction companies reveal how much there is to learn, understand and do if you want to enter the Swedish market. They must learn about Swedish building regulations as well as rules relating to the work environment and contracts, in addition to translating documents, acquiring local supplier networks and assuming financial risks.

Despite all of these difficulties, these seven companies are on the threshold of the Swedish market – some have taken their first step over. This step would seem more surprising than it is that the market has been exclusively Swedish up until now.

The advice derived from these companies includes points that the Swedish Government and public authorities as well as Public Housing Sweden and its contracting member companies all need to look at more closely.

For example, terms, rules and conditions can be internationalised. All correspondence and contracts can be written in English, and information about the Swedish building regulations can be assembled in one place where it is easily accessible.

In Sweden we have a house construction industry in need of change – however we can do more to make it easier for those prepared to participate in this change.

Alarming situation

710,000 new homes need to be built within ten years according to the latest construction needs forecast from the National Board of Housing, Building and Planning.

Public housing companies accounted for approximately 13 per cent of new homes built and 20 per cent of new apartments in apartment blocks built over the period 2009 to 2013.

Swedish housing companies are being called upon to increase their construction rate. The public housing sector's overall target is 75,000 dwellings between 2015 and 2020.

According to a report from the Swedish Competition Authority, *Allmännyttans upphandling av bostadsbyggande – anbudskonkurrens och utveckling* [The public housing sector's procurement of housing construction – tender competition and development], housing companies prefer to procure the entire works from one contractor. Over 80 per cent of the new construction projects included in the Competition Authority's investigation were procured as turn-key contracts. This format was chosen to provide coordination advantages and afford better access to the contractors' resources and competence. At the same time, procurement organisations are largely geared for dealing with turn-key contracts.

The average number of qualified tenderers was around 4.1, which is slightly lower than for public procurements as a whole.

The Swedish Competition Authority reviewed procurements from 2009 to 2013. Several housing companies testify that for them the situation has deteriorated since then. There has been an economic upturn between 2014 and 2016, and the services offered by construction companies are no longer solely of interest to the public housing sector.

DIFFICULTIES FOR MAJOR PROCURERS

Familjebostäder i Göteborg receive, for example, two to three tenders per procurement provided this is a 'partnering procurement'.

Partnering is not really a form of procurement but widely used as a special form of turn-key contract where property developers and contractors cooperate during the construction with full transparency. This format has become very popular with large construction companies in recent years. So much so that in some places they do not put in tenders for anything other than partnering procurements. However, small Swedish companies and foreign construction companies are excluded when *Familjebostäder* or other procurers opt for partnering.

The housing construction market is dominated by three major national companies and a number of large local companies. Relatively few small and medium-sized companies win procurements and many procurers find it difficult to get tenders from these companies.

No foreign companies are involved or compete in the public housing sector's procurements. "We need to do something to improve competition in our procurements," comments Anna Nordén, Head of Development for *Framtiden byggutveckling*, of which *Familjebostäder's* new building work forms part.

Familjebostäder is far from alone in this situation.

Roger Kjettsetberg, CEO Tierpsbyggen

TIERPSBYGGEN IS LOOKING FOR CONTRACTORS

The situation for some housing companies outside metropolitan areas may be even worse than it is for *Familjebostäder*; one example of this is *Tierpsbyggen*.

Although there is no great distance to either Gävle or Uppsala, the location of Tierp could be contributing to the contractors’ lack of interest in the housing company’s procurements.

Roger Kjettsetberg (CEO) admits that it is very difficult to get any tenders at all. They recently procured a contract for 54 one-room apartments split into two blocks. *Tierpsbyggen* received no tenders at all for the project, so had to go back to the builders and negotiate to get a contractor. However, this is hardly a favourable negotiating position and makes it difficult to build affordable homes.

There is never any prospect of sensible competition, and trying out other kinds of contract has not helped. “If we get any tenders at all, the prices are high,” explains Roger Kjettsetberg, CEO.

Tierpsbyggen manages 1,800 homes and is to build 40 to 50 new apartments annually. However, the company’s CEO does not understand how they are going to achieve this in the current situation. He knows that many of his Swedish colleagues also face the same problem.

KOMBOHUS PUSHES PRICES DOWN

There are policy objectives for how much the public housing sector should build, but this cannot be too expensive. Rents must be negotiated and set at affordable levels.

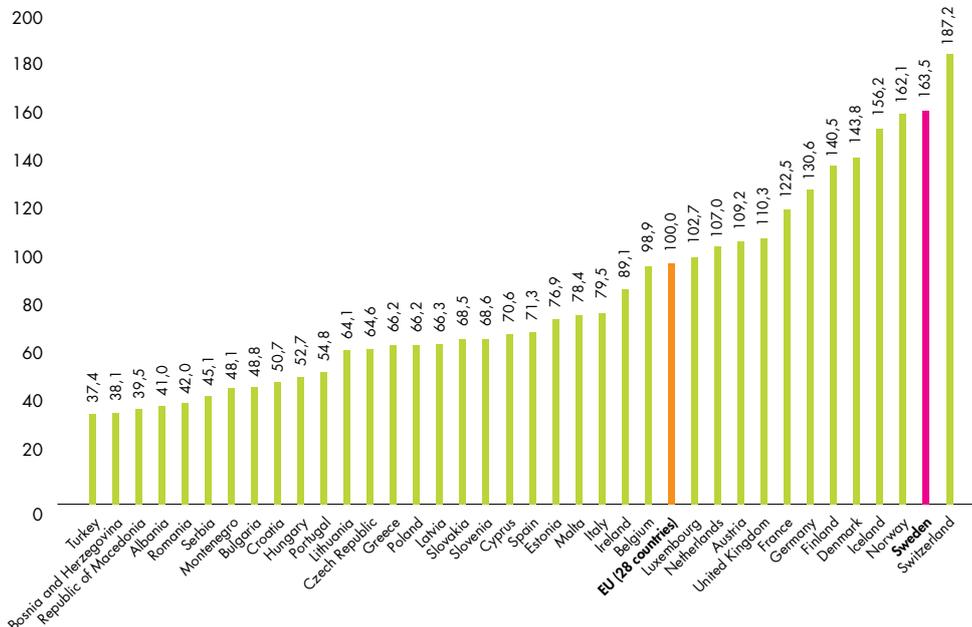
The high construction prices in Sweden have attracted attention for many years. Our prices are the highest in the EU and the second highest in Europe after Switzerland. Construction prices need to be forced down to increase housing construction in the public housing sector.

One initiative is SABO’s Kombohus. This is an apartment block which is more affordable as it has been standardised and is procured in large volumes, making it easier for contractors to industrialise construction and reduce production costs. Public Housing Sweden conducts a central procurement and member companies can then engage builders under framework contracts. This proved positive, forcing prices down by 25 per cent.

8,200 apartments in over 100 municipalities have been built or are about to start using the Kombohus concept.

SWEDEN HAS THE HIGHEST CONSTRUCTION PRICES IN THE EU.

(Source: Eurostat)



The solution lies outside Sweden

This initiative is not enough to resolve the situation, and public housing companies have started to look beyond Sweden.

When the Swedish Competition Authority reviewed the matter in 2015, not one foreign construction company had built in the Swedish public housing sector. One company had submitted a tender for *Tanums Bostäder* but failed to win.

However, the situation in the other parts of the Swedish construction industry is clearly not so exclusively Swedish. There is an abundance of Polish and Baltic manual workers in the private market, foreign companies are engaged as sub-contractors and there are European giants in the civil engineering market.

There are special reasons for the latter which deserve mention. The Swedish civil engineering industry was previously characterised by its lack of competition. The Swedish Rail Administration and Swedish Road Administration (now merged into the Swedish Transport Administration) received few tenders for their procurements, often at high prices.

At the same time, a central government inquiry expressed blistering criticism about the state of the construction industry.

Skärpning gubbar! Om konkurrensen, kvaliteten, kostnaderna och kompetensen i byggsektorn [Get your Act Together Guys! Competition, Quality, Costs and Competence in the Construction Sector] (Swedish Government Official Reports – SOU 2002:115) gave the construction industry the thumbs down.

This prompted a number of initiatives, among others within the industry body Renewal in the Civil Engineering Industry. Methods, forms of procurement and attitudes were thoroughly reviewed and discussed. The state needed to get more roads and railway for its money.

Representatives of the Swedish Road Administration and Swedish Rail Administration went to Europe to attract foreign contractors for Swedish procurements. At best, they had Skanska, NCC and Peab for major projects, but rarely anyone else.

Despite no immediate interest, these agencies and, for example, the City of Stockholm continued to market their projects to foreign contractors. Interest gradually grew and in recent years around two-thirds of all major civil engineering construction contracts have gone to foreign contractors. Bilfinger Berger, Züblin, Hochtief, Strabag and Vinci are just some of Europe's construction giants that have secured contracts in the Swedish market, worth several hundreds of millions of Swedish kronor.

It is now the turn of the public housing sector to resort to the same measures to improve competition in an exclusively Swedish market.

Public Housing Sweden travelled to Poland with 15 of its member companies in May 2016. They took with them procurements for in total 2,000 apartments throughout Sweden.

Business Sweden assisted, through their cooperating partners, by introducing Polish construction companies that might be interested. Five different contractors were visited. Contacts were made and three of these companies have already come to Sweden for further

meetings. They have studied the tender documentation and started to prepare for their establishment in Sweden.

A similar trip was also arranged to the Baltic states in 2016 to make contacts with six new companies and interest these companies in our Swedish procurements.

SEVEN COMPANIES ON THE THRESHOLD OF SWEDEN

Seven foreign construction companies were interviewed for this report. They were chosen because they had shown an interest in the Swedish market, received procurement documentation and been in discussions with Public Housing Sweden and its member companies. The contractors' representatives have had time to find out about the challenges that exist, the trade barriers and the difficulties to be overcome. They are aware of the content of the tender documents, building regulations, work environment rules and collective agreements. Their experiences and opinions are important to those seeking to improve competition in the Swedish housing construction sector by getting more people interested in the housing companies' procurements.

Five of the companies are from Poland, which has the best established contacts with Public Housing Sweden, one company is Slovenian and one is Estonian.

The companies are quite large, although not as large as Europe's real construction giants. Two of the companies operate in Norway and the others have experience of several other markets outside Poland.

A few have already formed Swedish subsidiaries and some of the companies have done work in Sweden or are currently in the middle of projects as a main contractor or in cooperation with Swedish companies. These assignments will function as reference projects for the Public Housing Sweden procurements.

At least one of the companies has already submitted a tender for a Kombohus procurement and is eagerly awaiting the outcome, while others are planning their first tenders.

In a nutshell – these are construction companies that are already in the Swedish market or on its threshold.

BUILDING REGULATIONS CAN BE HARMONISED

Med gemensamma regler bygger vi billigare [Common rules to reduce construction costs], a report produced by Housing Nordic (NBO), a non-profit collaborative body for cooperative and public housing companies in the Nordic countries, demonstrated how rules differ from country to country. Each country has its own tangle of rules and regulations for energy, wet area standards and planning procedures. The report highlights several points that governments in the Nordic countries need to agree on:

- **Common technical rules and regulations.**
- **Common definitions and methods of measurement.**
- **A harmonised building permit process.**
- **Training in how to interpret the rules.**
- **Regulation of architects' copyright issues.**

Each country is a small market with the same problems: homes need to be built, but prices are high. Common rules would mean that the same standardised buildings could be built throughout the Nordic countries. It would then become a large market, where the builders could industrialise processes and production methods.

Harmonisation of the rules would eventually provide more affordable homes.

What do the foreign companies say?

The seven companies have decided to enter the Swedish market. They envisage difficulties and challenges but are determined to overcome them. The companies' representatives highlighted the challenges they face during their interviews.

The primary challenge for the companies is to get to grips with all of the applicable rules. It is a jungle to disentangle. In Sweden we do it our way, use our own language, build according to our standards – and require them to do the same.

Several of them would like help in ascertaining what the rules really are.

“We would prefer to have better access to information in English about the rules in Sweden relating to staff issues, unions, pay levels and access to Swedish building regulations.”

Language is a recurrent theme of the interview responses. Information about applicable rules in Sweden has to be gleaned from different sources. Pay, work environment, building regulations, law – all of this information is in Swedish and located in different places.

Reference is made in procurements to Swedish standard conditions, such as the general contract form ABT 06, and these are full of industry vocabulary and abbreviations/acronyms that are difficult for the translators engaged by the foreign companies to master. The companies appear to be unaware of where documents are available in English.

“Use more international technical language without abbreviations/acronyms that not everyone knows.”

The construction companies would also like the tender documentation to be in English if the housing companies are seeking tenders from foreign contractors. Several of the companies explain that other countries generally use English as the main language for procurements, but in Sweden it is also a requirement for all documentation to be in Swedish.

“If Public Housing Sweden or another Swedish company wants to use foreign builders, it would be easier if the documentation for the project and tender was in English and not Swedish.”

The companies would also prefer to see greater transparency concerning certifications/authorisations and no requirement for site managers to be Swedish-speaking.

“It is difficult for us to recruit a Swedish site manager, for example for a construction project in Småland or Blekinge.”

To be considered as a total contractor, there are a number of requirements to comply with which entails a great deal of responsibility. One way of attracting more foreign companies might be to find other ways of procuring, which some of the company representatives discussed. Turn-key contracts could still exist, but a construction project might be split into two – one contractor being responsible for the groundworks and another for constructing the building. This is for example done in Norway.

Other forms of contract should also be possible, such as general construction contracts, where the property developer assumes greater responsibility during the construction process and procures sub-contracts from various contractors. This would – if the foreign companies are to be believed – increase their interest. It would also mean that small Swedish companies would gain the muscle to take on contracts.

However, this kind of structure requires greater competence and involvement from property developers, and also makes the procurements of less interest to large Swedish companies.

There is an old adage in the construction industry: that there is not just one construction market in Sweden but a number of local markets. The construction companies, contact networks and even the rules and regulations may vary in different parts of Sweden. Although the opportunity for municipal authorities to impose specific local requirements has been restricted, we in no way have a uniform national market.

“We would need help locally in finding different skills such as, for example, scaffolders or crane drivers. The Public Housing Sweden companies could produce a list of companies with which to work.”

Pay levels for construction workers lack transparency. The collective agreement with the Swedish Building Workers' Union specifies piecework as the main form of pay for new construction work, which means that the pay level is decided afterwards. Average pay differs significantly across the regions, and both form and level of pay must be negotiated locally with the Union.

Although this also applies to Swedish companies, some of the foreign companies preparing to work out their tender costs have highlighted the system as lacking in transparency.

Some company representatives go even further and criticise the labour market model where parties thrash out pay and conditions, and in particular are critical of the Union. A couple of representatives consider it odd that they have to enter into contracts with the Union (collective agreements) and that union officials can impose requirements on the company.

"The Swedish Building Workers' Union is acting outside the law."

These builders refer to EU rules relating to free movement and allowing foreign workers to work in Sweden for the minimum wage. There is no minimum wage in Sweden, which is considered a problem.

"A major step forward would be for the Union to change its attitude towards foreign companies."

SUMMARISED CONCLUSIONS OF THE INTERVIEWS

The interviews with the builders clearly demonstrate how much there is to learn, understand and do for those wishing to enter the Swedish market. Perhaps it is not so strange that this part of the construction market is currently exclusively Swedish.

However, the major construction needs and limited capacity of Swedish construction companies mean that there is good reason to attract foreign companies. This may also improve competition and force prices down.

Internationalising terms, rules and conditions would make it easier for foreign companies.

Companies want tenders and information to be in plain English and easy to understand, which also applies to the documentation that the companies are themselves required to submit.

They propose having one contact person to whom they could refer with questions, lists of the documents required and lists of potential sub-contractors.

13 SUGGESTIONS FROM THE CONSTRUCTION COMPANIES – HOW YOU CAN HELP US

The foreign companies were asked to suggest measures that would make it easier for them to become established in Sweden. The 13 proposals below are a summary of their answers.

1. The Government should clarify what the Swedish industry organisation and trade union model, which is not part of the government, means and provide information about this.
2. The Government should provide better information about applicable Swedish rules for pay levels, work environment and personnel issues. This can be done on a website in English.
3. The governments of the Nordic countries should ensure that they have common building regulations.
4. The union should have a more positive attitude towards foreign companies. Accept that they work according to the minimum wage, which is not current practice in the Swedish construction market.
5. The public authorities should ensure that all official documents are available in English.
6. The public authorities should produce a list of the paperwork required to build in Sweden and also what documents are required in order to build in Sweden.
7. The public authorities and Public Housing Sweden* should not use Swedish abbreviations/acronyms that are not internationally recognised in procurement documentation.
8. The public authorities and Public Housing Sweden* should recognise professional skills from other countries, for example, for the erection of scaffolding, crane drivers and wet area work authorisation.
9. The public authorities and Public Housing Sweden* should make it easier to use tools and materials that are not from Sweden.
10. Public Housing Sweden* should accept an English-speaking site manager in the tender requirements for construction projects.
11. Public Housing Sweden* should ensure that the tender documents and other documentation and correspondence is in English.
12. Public Housing Sweden* should split up contract works to enable the participation of companies without the organisation and manpower to take on an entire turn-key contract.
13. Public Housing Sweden* should produce a list of sub-contractors that can be engaged.

* Public Housing Sweden and its member companies.

Comments by Public Housing Sweden

One of the cornerstones of EU cooperation is the internal market, in which goods, services, capital and people move freely. This report acknowledges that there are trade barriers for foreign companies establishing themselves in Sweden. These barriers are something that must be addressed by each country's government and other stakeholders in each market if EU cooperation is to achieve its full potential.

Sweden has a considerable housing shortage, while there is a lack of capacity to build what is required. A properly functioning common European market is very important in this situation. We observed inadequacies in how the market functions in the course of Public Housing Sweden's strategic initiative to improve capacity and get more building contractors from outside the Nordic countries to establish themselves in Sweden. There are a number of small barriers that taken together form a major road block. We are pleased to say that despite this there are companies from outside the Nordic countries determined to contribute by providing their knowledge and capacity to build homes for the Swedish public housing companies.

The findings from these interviews represents valuable knowledge for Public Housing Sweden, the public housing companies, Swedish public authorities and decision-makers. We consider that there are good opportunities to remove trade barriers and increase the number of tenders, while respecting Swedish labour market rules. One important precondition is to gain a mutual understanding of each other's perspectives and experiences. We are hopeful that the initiatives from foreign construction companies will increase housing construction in Sweden and promote sustainable homes, healthy finances and good working conditions. We have a lot to learn from each other and it is now high time to do so. Trade barriers must be removed to deal with the prevailing housing shortage.

Many stakeholders have a responsibility to improve the opportunities for a common European market without trade barriers. Public Housing Sweden is one such stakeholder and will continue to actively work to:

- **Disseminate knowledge among Public Housing Sweden's member companies about how to implement procurements to enable foreign contractors to compete on equal terms as local and national contractors, in accordance with the proposals set out in this report.**
- **The Kombohus Flex procurement concept enables Public Housing Sweden's member companies to reduce trade barriers by, for example, permitting English-speaking site managers and foremen, if the member company so wishes.**

But it is not enough for just Public Housing Sweden to work to improve conditions for new construction. More parties must assume responsibility for removing trade barriers. Public Housing Sweden together with other Nordic property developer organisations identified the need for common Nordic building regulations within a development project¹ for NBO. In its report entitled *Med gemensamma regler bygger vi billigare*, NBO points out that:

¹ *Byggherrar i Norden* [Property Developers in the Nordic countries], http://www.nbo.nu/bdh_filearea/NBO_ByggherrariNorden.pdf

- **The Nordic countries need common technical rules and regulations, including common definitions and methods of measurement.**
- **We need a harmonised building permit process. The building permit process varies from country to country and often differs between different municipal authorities within the same country. Common and clear rules would simplify the process.**
- **We need training in how to interpret the rules. Politicians and public servants need to be trained in how to interpret the rules and regulations to avoid arbitrariness.**

Several of the trade barriers between EU countries involve sub-standard or hard-to-access information. However there is now a golden opportunity to do something about these trade barriers. The Swedish Government gave twelve^[2] public authorities a mandate in January 2016 to review how to gather information about Swedish rules, laws and market conditions. The aim is to make it easier for foreign employees, employers and people running their own businesses that are operating or intend to operate in Sweden. The mandate will culminate in a web portal with an overall presentation of information, which is to be presented on 31 January 2017.

Public Housing Sweden considers that the aim is commendable. The official mandate provides an excellent opportunity to enhance the possibilities of an improved common market. However, to maximise the effect, Public Housing Sweden proposes that:

- **The information need be broken down to industry level. Clear information channels are required within different industries. Specific advice represents the key to good usability and thereby real support for foreign contractors. Builders consequently need their own channel, including checklists and guides.**
- **Each information channel should provide clear information about:**
 - General legislation
 - Industry-specific laws
 - Industry-specific market conditions
 - Tax rules
- **The National Board of Trade should assume the main responsibility for the web portal. This agency is currently responsible for matters affecting foreign trade, the EU internal market and EU trade policy. Within the area of the EU internal market, the agency works in particular to promote a properly functioning internal market characterised by the free movement of goods, services, capital and people and which promotes growth and competitiveness.**

Public Housing Sweden therefore encourages these twelve public authorities, and in particular the Swedish Work Environment Authority (which has coordination responsibility) to propose that the web portal be divided by industry. We also encourage the Government to allocate the funds necessary for the National Board of Trade to perform the assignment and maintain the web portal to ensure that it provides the best possible support for those foreign contractors that want to get involved and build in Sweden.

² The Swedish Work Environment Authority, Swedish Public Employment Service, Swedish Social Insurance Agency, National Board of Trade, Swedish Competition Authority, National Mediation Office, Swedish Migration Board, Swedish Tax Agency, Swedish Institute, Business Sweden, Swedish Agency for Economic and Regional Growth, National Agency for Public Procurement

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Public housing companies throughout Sweden are actively constructing housing. However, this cannot be achieved regardless of price level. The capacity of construction companies is limited, and as there are many parties interested in engaging them tender prices are set accordingly. Sweden has the highest construction prices in the EU.

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