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SWEDISH ENTERPRISE

Effects of limiting the number of subcontractor tiers to two

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Contents

Synopsis	2
1. Introduction	5
2. Background and theoretical premise	7
2.1 Greater specialisation in the business sector	7
2.2 Specialisation is good for the economy	9
2.3 Higher construction costs and lower productivity harm the economy	12
2.4 Rationales for shorter subcontractor chains are dubious	17
3. Limitation is contrary to EU law	20
4. Regulation in other countries	22
5. The construction market	24
5.1 Sweden	24
5.2 EU	27
6. Review of costs associated with limiting number of subcontractor tiers in the construction sector	30
6.1 No statistics on subcontractor tiers are available	30
6.2 Supporting data based on interviews	31
6.3 Sweden	32
6.4 EU	33
7. If the regulation is applied to all sectors.....	35
8. A better solution than legislation	37
Appendix 1. European construction market	38
Bibliography	41

Synopsis

The European Parliament is currently discussing a regulatory framework aimed at limiting the number of subcontractor tiers. The proposal was initially concentrated on the construction sector but has since come to cover the business sector as a whole, with a number of sectors specifically singled out. In addition to the construction sector, these include the agricultural sector, household services, the transport industry, food production, cleaning services, the tourism industry and healthcare services. While the proposal most widely discussed in the European Parliament pertains to limiting the number of subcontractor tiers to two (i.e., three levels in total), the much more far-reaching proposal to limit the number of contractor/supplier tiers to a total of two has also been discussed.¹

This report analyses the effects such a proposal would have on the construction sector, focusing on Sweden but also addressing the EU as a whole. While the emphasis is on a theoretical review, a number of rough estimates of potential cost effects are also presented.

The conclusions of the report can be summarised as follows: The specialisation and increased utilisation of subcontractors and sub-suppliers that has characterised the construction sector and other industries in recent decades has been extremely positive and has resulted in higher productivity, greater competitiveness and more innovation. A regulatory framework that limits opportunities for specialisation is therefore extremely negative. This would be the case if the number of subcontractor tiers were to be limited.

Introducing regulations that limit the number of subcontractor tiers to two would have a number of negative effects; primarily:

- Poorer utilisation of machinery and employees
- Fewer opportunities to leverage economies of scale
- Less competition
- Fewer opportunities for small companies
- Lower productivity
- More bureaucracy at all levels, from client to lowest subcontractor tier
- Poorer delivery reliability and risk diversification if the option to use niche companies with specialist expertise is limited

¹ In the latter case, the legislation would permit only one main contractor and one subcontractor tier.

Overall, the additional annual cost in Sweden in the short term is estimated at SEK 13 billion (conservative estimate) to SEK 25 billion (higher alternative). For the EU as a whole, a conservative estimate of the cost of introducing the regulations is EUR 30-45 billion per year in the short term.

Estimated short-term cost increase with introduction of two subcontractor tier limitation

	Low cost estimate	High cost estimate
Sweden	13 Bn SEK	25 Bn SEK
EU	30 Bn EUR	45 Bn EUR

There is a risk that the cost will be significantly higher in the long term. The primary reasons for this (over and above the short-term effects) are the heightened impact of poorer and distorted competition, disadvantaged small companies and lower levels of innovation.

The negative effects of the proposal, which will entail more costly construction, are exacerbated by the facts that Sweden and the EU are already carrying heavy infrastructure and construction debts, and that there is a growing need for more construction for security policy reasons. Measures that serve to make construction investments and European competitiveness more expensive are therefore economically costly and dangerous.

The main factors normally cited as advantages of shorter subcontractor chains include the potential reduction in number of accidents, less risk of criminal activity and undeclared work, and the provision of better working conditions. However, the available statistics clearly show a significant improvement in all of these areas within the construction sector, in parallel with an increase in the number of specialised companies and subcontractor tiers. It is therefore doubtful that the regulation would have any actual effect.

This report demonstrates quite the reverse: that having fewer subcontractor tiers may impair the work environment and increase the number of accidents (as it increases the risk that companies further down the chain will be unable to hire top-level suppliers to build special scaffolding, protection, etc., but will rather do it themselves despite lacking the requisite expertise or equipment to do so), and that specialised companies will have greater opportunities to purchase more modern equipment better suited to the work environment (as they will be able to utilise it more often). As regards criminal activity and the use of illicit labour, the companies interviewed state that there is a risk that the proposal will aggravate these problems, mainly because higher costs for legitimate businesses make illicit or criminal operations more profitable. The disparity in competitiveness would be greater, to the benefit of criminals.

Other measures to combat crime and unscrupulous companies are therefore required, and are even more important. Above all, improvements in the cross-border exchange of verified information between Member States is crucial to facilitate the monitoring of companies and individuals. Improved control mechanisms are essential for combatting work-related crime.

Moreover, limiting the number of subcontractor tiers is most likely a contravention of fundamental EU law pursuant to the Treaty of Lisbon, which took effect in 2009 but is itself based on the Treaty of Rome from 1957. Restricting companies' ability to utilise subcontractors violates the freedom to conduct a business and the freedom of contract. Subcontracting is part of the freedom of contract and is protected by the EU Charter of Fundamental Rights, as well as by laws covering freedom of establishment and the free movement of services. The proposed regulation also fails to meet the proportionality requirement; i.e., that costs and negative effects must be reasonable in relation to what is achieved. It also handicaps small companies and is not competition-neutral. Current EU legislation is already capable of addressing labour law issues in subcontracting chains through directives on equal treatment of workers, reporting and transparency, and imposing requirements for subcontractors to apply equal treatment.

This report is focused on the construction sector. Looking at the business sector as a whole, a typical industrial company currently has 3-4 subcontractor tiers, but significantly longer chains of up to 13-14 tiers are found in more advanced and complex industries such as the automotive and mechanical industries. Large parts of the service industry – such as the tourism industry, transport industry and business services – often have more than two subcontractor tiers. Regulations that limit the number of subcontractor tiers would, in practical terms, render the entire concept of modern business logic unworkable for industry and large parts of the service sector. The consequences for trade, jobs and growth would be devastating.

Summary:

The proposal to limit the number of subcontractor tiers would:

- Reduce specialisation
- Impair competition
- Mainly impact small companies
- Increase costs
- Reduce growth
- Contravene fundamental EU legislation

1. Introduction

This report presents the potential effects of limiting the number of subcontractor tiers in the construction sector, a proposal currently under consideration in the European Parliament. The proposal was initially concentrated on the construction sector but has since come to cover the business sector as a whole, with a number of sectors specifically singled out. In addition to the construction sector, these include the agricultural sector, household services, the transport industry, food production, cleaning services, the tourism industry and healthcare services (Danielsson, 2025). It is therefore entirely possible that the proposal may ultimately cover the business sector at large.

This report is focused on the effects on the construction sectors and construction costs. While the proposal most widely discussed in the European Parliament pertains to limiting the number of subcontractor tiers to two (i.e., to a total of three levels: one main contractor, two subcontractor tiers), the much more far-reaching proposal to limit the number of contractor/supplier tiers to two in total has also been discussed. This report is based on the limit being set at two subcontractor tiers – i.e., one main contractor with two subcontractor tiers. Limiting the number of contractor levels to a total of two would, naturally, result in much greater negative effects and costs.

This report discusses the potential effects of limiting the number of subcontractor tiers to two, based on a theoretical premise based on and verified by interviews with construction companies (main contractors as well as specialised companies operating in Sweden and abroad). The companies' assessments serve as the basis for the general calculation showing the extent of the effects in terms of increased construction costs. Statistics for the construction sector in Sweden and the EU as whole are presented in support of these calculations.

It is important to begin by stressing that specialisation and increased trade between companies has been one of the key drivers of greater productivity, competition, technological development, growth and prosperity. A television set is perhaps the best illustration of this. The price of a colour television was the same in 1970 as it is today, around 4,000 Swedish kronor. Adjusted for current value, however, the price has decreased 90 percent. Although the effects have not been as large in all sectors, the trend is the same: Specialisation increases productivity and prosperity. This also applies to the construction sector.

As a result of increased geopolitical and trade tensions, coupled with the fact that the EU has fallen behind the US and China in terms of fast-growing new sectors (largely associated with AI and further development of digital technology), the

EU Commission and Council of Ministers have directed much more focus to the importance of competitiveness. This, in turn, calls for increased specialisation. The proposal to limit the number of subcontractor/sub-supplier tiers is in this respect entirely misguided and will serve to reduce competitiveness.

The review of the effects of limiting the number of subcontractor tiers to two is therefore focused on the construction sector, but is valid for all sectors. In discussions on the regulation, however, it is sometimes argued that the limitation should apply across the board – i.e., that a limit of two sub-supplier tiers should be introduced for all sectors. If this were to happen, the entire concept of modern business logic would be rendered unworkable. It would also completely undermine the ideas supporting the EU's single market, with free movement of goods and the ambition to increase integration and specialisation between companies. The cost to the economy would be exorbitant.

European Parliament deliberations on limiting the number of subcontractor tiers have included no statistics, analyses or investigation of the resulting effects or costs. Nor does the report to the European Parliament (Danielsson, 2025) include any such analysis. This is a serious defect, considering the considerable effects the proposal is likely to have. It also indicates a more fundamental problem, with political decisions too often neither based on an accurate description of reality nor focused on identifying the most cost-effective economic solution.

This report is a first attempt to improve the working basis for decision-making and demonstrate the potential scale effects of the costs. The focus is on analysing the effects in Sweden and, more broadly, for the EU as a whole. It does not account for effects in other individual Member States.

2. Background and theoretical premise

2.1 Greater specialisation in the business sector

One notable trend in the global economy in recent decades has been the increase in specialisation between companies and countries. Vertical trade – i.e., trade in intermediate goods and services imported to a country for use in other products that are consumed in that country or eventually exported – has increased significantly. As shown by Hummels et. al (2001), vertical trade is a characteristic feature of modern world trade.

OECD estimations indicate that intermediate goods comprise more than half of countries' imports of manufactured products, and that over 70 percent of imports of services pertain to intermediate services such as business services. Vertical trade is part of a broader trend towards the geographical division and fragmentation of production, with various stages or parts of the production chain taking place in different parts of the world. Briefly put, global trade today is increasingly comprised of the flow of goods and services in global value chains (Confederation of Swedish Enterprise, Globala värdekedjor, konkurrenskraft och löner, 2018).

This development has been made possible by technological advances as well as reduced trade barriers and more efficient transports. Trade has been liberalised by the World Trade Organisation and through regional trade agreements. But the greatest trade liberalisation has been achieved when countries have themselves decided to remove trade barriers. Trade, and particularly vertical trade, has consequently grown dramatically.

The trend is towards companies, as well as countries and regions, specialising as regards function, or steps in the value chain, rather than entire production processes or, in the case of countries, entire industries. Companies in 'old industrialised countries' such as Sweden and most EU countries are increasingly focusing on research and development, design and marketing – i.e., various types of knowledge-intensive work.

While there was a rapid shift towards global value chains for many decades, the crises of the past decade – with the pandemic and associated transport crisis, Russia's brutal war of aggression against Ukraine, and most recently the tariff chaos threatened and partially implemented by US President Trump – have brought this

development to a standstill and have, in part, replaced it with greater regionalisation (towards regions America, Europe and Asia). This does not primarily mean that companies have elected to manufacture more within the group/company and to buy fewer goods and services from external suppliers. Rather, they are reviewing where their suppliers are located, whether externally or within the same group, and increasing purchases from suppliers in the same region.

Developments in the construction sector in Sweden and the EU are following this general trend, with increased specialisation between companies. In Sweden, building contractors/building companies have traditionally had a range of skill sets available to them in the form of in-house carpenters, masons, concrete workers, painters, floorers, tilers, etc., while subcontractors were primarily hired for specialised work such as electrical and telecom installation and ventilation, heating and sanitation installation, etc. (SOU 2022:115). This has gradually changed so that the main construction company (general contractor) plays a greater role than previously as co-ordinator and administrator. A lesser share of construction work is done by people employed by the general contractor, and is rather done by various types of subcontractors and specialised companies.

This development has led to a rapid growth in various specialised companies, and in large companies having a relatively smaller workforce and instead purchasing more from sub-suppliers and subcontractors. One indication of this is the reduction in the number of employees in Sweden for the three largest construction companies (Skanska, NCC and Peab) by around one-third between 2000 and 2023.²

Another clear indication is the 58 percent increase in the total number of construction companies in Sweden, from 77,000 to 122,000, in 2024 (Statistic Sweden's Enterprise Register). Meanwhile, construction output in fixed prices has increased 32 percent (according to the National Accounts). Just over one-quarter of these companies are classified as construction or civil engineering contractors. The rest are various types of specialised construction companies. The average company has thus become smaller. The number of specialised construction companies – i.e., ground clearing; concrete work; electricity, water, sheet metal installation; various types of painting – has increased from 57,000 to 88,000.

The same development can be seen in the EU, where the number of companies has increased by 250,000, or five percent, in the past two years alone.³ Just as in Sweden, it is the number of specialised companies that is growing – a clear indication of an increase in specialisation and the importance of subcontractors.

² From 38,278 to 26,335 working in Sweden, according to respective company's annual report.

³ No previous statistics available.

2.2 Specialisation is good for the economy

Based on existing economic theory, we can determine that increased specialisation has a range of advantages. These include:

- ***Better utilisation of machinery and employees.*** With ‘all companies’ having their own resources and associated machinery, the utilisation rate is lower and the costs per actual hour of utilisation are thus higher. Small companies are also unable to hire when specialist expertise is needed on a one-off basis. Jobs with many specialised components, where each part is relatively small but requires specific expertise, it is logical to break down the work into parts that are outsourced to subcontractors – who then outsource some of this work that is even more specialised. Our interview survey shows that installation companies (normally in the second subcontractor tier) may in turn have two subcontracting tiers to ensure cost-efficient, high-quality work. A limitation to two subcontracting tiers therefore has the greatest impact on larger, technically advanced projects that have a great need for specialist expertise. With the current model, capital and employees can both be utilised more efficiently and thus with greater productivity. If companies higher up in the chain need to invest more in machinery and/or increase the number of employees, this will result in investment costs, training costs, etc.
- ***Greater flexibility.*** The ability to purchase capacity and expertise as needed – e.g., in the event of unanticipated circumstances – provides much greater flexibility than purchasing own machinery and/or hiring own staff.
- ***Economies of scale.*** Through specialisation, companies can produce larger lots and volumes of different products/services, thereby benefitting from the economies of scale that are often available. These can be found in R&D and marketing, as well as in production.
- ***Less risk of project delays*** thanks to greater flexibility.
- ***Better competition.*** The larger market for sub-suppliers and subcontractors enables more competition, which in turn has a positive impact on price trends, innovation and productivity. It becomes easier to utilise foreign subcontractors, which is also positive from a cost and innovation perspective. When the main contractor does not need to have such a large staff, more companies are able to compete at this level – i.e., competition increases at all levels. Limiting the number of subcontractor tiers would likely result in main contractors opting to have several subcontractors directly under them (producing a horizontal rather than vertical group of subcontractors) and, accordingly, fewer small or medium-sized companies would be capable of shouldering this main responsibility. This benefits large companies, resulting in less competition. (It also increases the risk of cartels and/or monopsonies.) If smaller companies are unable to bring in their own subcontractors when, for example, projects are changed during the project period, this further reduces their willingness to bid on projects and thereby reduces competitiveness.

- ***Competition is not distorted by group structures.*** Limiting subcontractor tiers to two risks distorting competition, since groups with multiple legal entities can be directly impacted by the two-tier limitation, unlike businesses with all operations covered by one corporate identity number. This in turn risks steering the market towards a specific corporate form, rather than towards a good business model (see also following bullet point).
- ***Benefits small companies.*** The larger market creates business opportunities for many entrepreneurs. This has the same positive effects as the ‘better competition’ bullet point above. Limiting the number of subcontractor tiers would result in many small companies losing the opportunity to serve as subcontractors for larger companies, as they would be unable to outsource parts of the process for which they lack expertise. New companies also account for a significant share of innovations and tend to adapt more quickly to new technologies and new methods. Small companies are also generally better at employing foreign-born workers, which has a positive impact on labour market integration.
- ***Risk diversification.*** Multiple tiers of subcontractors can also be a method of reducing risk. It allows a company to compete for larger projects that it does not have enough staff to manage on its own, since it can expect to be able to outsource parts of the work and risk to other companies if it wins the contract (Lind, 2020). Distributing the risk among fewer actors can therefore result in higher costs. From a subcontractor’s perspective, the opportunity to sell its expertise to a wide range of customers – and hence in many cases further down the chain – is also an opportunity to reduce the risk of individually unprofitable contracts threatening the company. The subcontractor is less dependent on each individual contract.
- ***Greater productivity.*** Companies and employees that are specialised in specific tasks can expect to be more productive than those who perform such tasks less frequently. Limiting the number of subcontractor tiers reduces opportunities to utilise the very best for each part of the construction chain.
- ***Freedom to choose business model.*** Legislation requires all companies to use a business model that does not necessarily suit them. If companies do not have the freedom to choose how they want to work with subcontractors, there is a risk of reduced competition and innovation.
- ***More responsive to and able to meet customer demands.*** Customers are imposing higher quality requirements for climate, environment and security standards. Greater specialisation has therefore been necessary (scaffolding is best and most efficiently built by companies specialised in scaffolding, concrete foundations are best built by concrete workers, etc. – and not by generalists.) Not all construction companies have the breadth or expertise required to carry out a project.

Uncertainty surrounding the regulation and its application increases risk and drives up costs. This uncertainty includes which sectors that will be affected, possible exemptions and, not least, how staffing agencies will be defined – as subcontractors or not? The inclusion of staffing agencies would dramatically reduce flexibility as well as resource utilisation (as companies would need to maintain more of their own staff). Another uncertainty pertains to the treatment of self-employed people and those who run their businesses through sole proprietorships (i.e., entrepreneurs who do not have their own companies and pay an ‘accounting firm’ to manage practicalities and serve as formal employer). A third uncertainty concerns technical consultants, architects, etc. – will they be included or not?

The companies interviewed confirm, substantiate and illustrate the above points by expressing that limiting the number of subcontractor tiers to two risks resulting in:

- More bureaucracy at all levels, from client to the lowest subcontractor tier, particularly at the outset but also in the longer term. In many cases, the main contractor needs to contract directly with multiple actors – often without sufficient specialist expertise on the client’s part. This can result in an increase in consultants, boundary-defining issues, greater legal complexity and more disputes.
- Increased administration and higher monitoring costs to ensure that sub-suppliers do not use subcontractors.
- Fewer opportunities for smaller companies with specialist expertise to win public contracts.
- Poorer delivery reliability if the option to use niche companies with specialist expertise is limited. The long-term reliability of buildings and facilities may also worsen.
- One possible consequence of a two-tier limitation is that more public procurement contracts will be awarded to the original client – i.e., that municipalities, regions and the government will need to independently procure specialised contractors separately to a greater extent. The expertise to do so is often lacking, however. This further affects roles, co-ordination and division of responsibilities in the project. There is greater uncertainty.

The companies interviewed also stress that the negative effects will most likely increase in the long term. Initially, the direct effects will be seen primarily in increased bureaucracy and administration costs, increased costs due poor personnel and machinery utilisation, higher tender prices when purchasing subcontractor services, greater risks and less flexibility that will need to be compensated for. Costs will increase in the longer term – primarily for the economy – due to poorer and distorted competition, poorer conditions for small and new companies, fewer innovations, more costly public procurements and, as a consequence of all this, lower productivity growth. The companies’ quantitative assessment of costs is presented in section 7.

In sum, specialisation has resulted in lower construction costs, greater flexibility, greater productivity, more entrepreneurship and innovation. A statutory limit on the number of subcontractor tiers would result in higher construction costs and prices, less flexibility and reduced competition. The negative effects would increase over time.

2.3 Higher construction costs and lower productivity harm the economy

The above review clearly indicates that introducing regulations that limit the number of subcontractor tiers to two would result in higher construction costs and lower productivity/efficiency. The negative effects are expected to increase over time. Obviously, this would harm the construction sector – and would also harm society at large in several ways.

Firstly, overall construction costs have been increasing faster than general price levels for many years. The regulations under discussion would exacerbate this situation. Construction costs have generally increased faster than the general cost trend. In Sweden, the construction cost index has increased 63 percent since 2010, compared with a 44 percent increase in the producer price index (PPI). (It is important to note, however, that the fastest cost increases have been in costs other than direct construction costs, such as land and connection charges, material, etc.).⁴

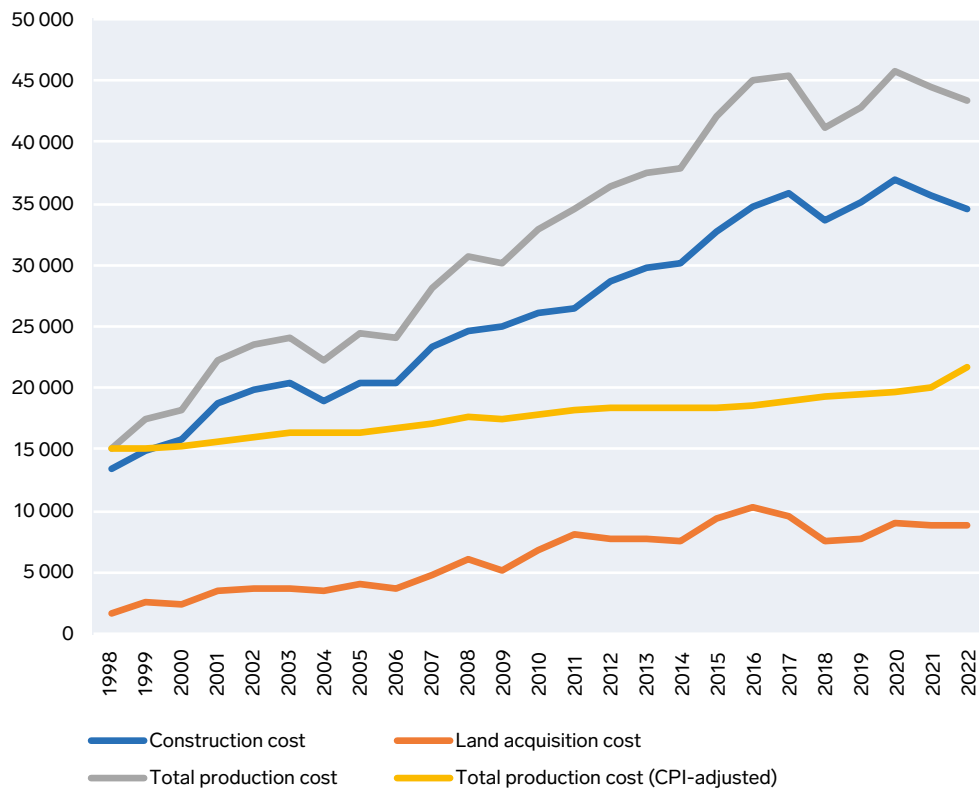
Circumstances are the same for the EU as a whole. Since 2015, construction costs within the European Union have risen at a markedly faster rate than general industrial producer prices (PPI). Overall, construction costs in the EU rose 49 percent between 2015 and 2024, compared with an increase of around 40 percent for the PPI in general. The cost increase is even greater for new residential construction.

⁴ The production cost for a block of flats increased 189percent to SEK 43,425 per m² during the period 1998-2022. In 2022, construction costs accounted for 80percent of production cost, with land costs accounting for the remaining 20percent. The construction cost trend is thus the primary driver of total production cost. In relative terms, however, land costs have increased significantly more than construction costs (particularly after 2006), having risen a total of 419percent since 1998 while construction costs increased 159percent during the same period. The rise in material prices, which are largely determined by the international market, is the most significant explanation for the construction cost increase. During the 1998-2023 period, material costs increased by nearly 195percent, transport and energy costs by just over 175percent and construction workers' wages by approximately 80percent. Total cost carried by main contractors increased approximately 136percent.

Of the total cost of a housing project, construction costs (including material) account for approximately 53percent; VAT for 15percent; land, groundwork, municipal fees and connections, etc. for 20percent; and developer costs (administration, interest during construction, etc.) for 12percent.

Development of production costs

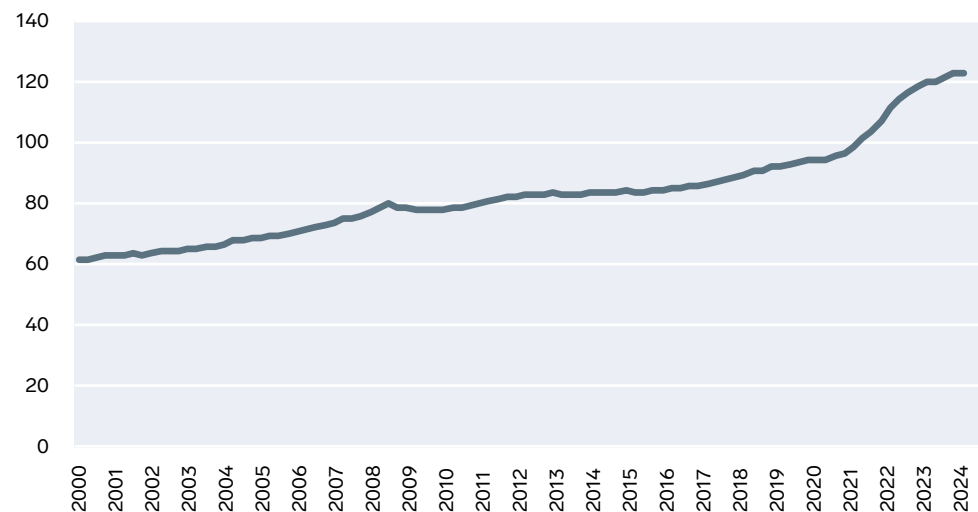
Cost per square metre for a newly constructed apartment block in Sweden



Source: Statistics Sweden, Swedish Construction Federation

EU Construction producer prices

New residential buildings. 2021 = Index 100



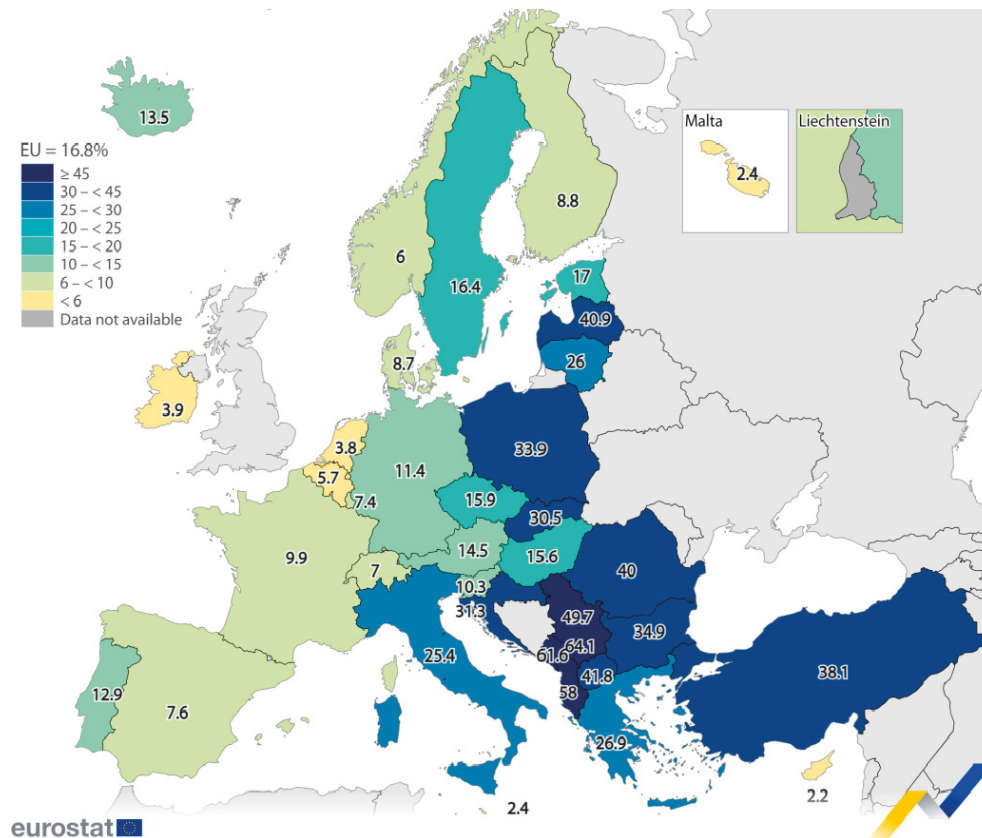
Source: Eurostat

Secondly, Sweden and the EU have extremely important maintenance and investment requirements as regards railway infrastructure, municipal water and sewerage networks, energy infrastructure and also defence infrastructure – alongside new security requirements that are putting considerable pressure on public spending. It has therefore become even more important to build as cost-efficiently as possible. Sweden's maintenance debt (unperformed road and railway maintenance) is currently estimated at just over SEK 70 billion. As a result, three out of four companies in Sweden report that infrastructure is an obstacle to their growth (Confederation of Swedish Enterprise, 2023). The EU's infrastructure debt is estimated to amount to around EUR 2,000 billion by 2040, if current GNP levels remain constant. Over the next 15 years, the level of investment would need to increase approximately 0.35 percent as a share of GNP.

Thirdly, construction investment is a prerequisite for competitiveness and the green transition. Infrastructure investments in particular have an extremely high growth effect, given that efficient transports, energy transmission, etc. have a direct positive impact on all business sectors as well as on households. The growth multiplier for infrastructure investments is estimated to be well above one in most EU countries, and in some cases two (European Commission, 2024).

Fourthly, there is a persistent housing shortage in Sweden and the EU, which also impairs labour market functionality and thus curbs growth. Eurostat's statistics show, for instance, that 16.8 percent of EU residents lived in overcrowded households in 2023. Map 1 below shows that the proportion was highest in Latvia, Romania, Bulgaria, Poland and Croatia. The lowest levels (under 6.0percent) were found in Cyprus, Malta, the Netherlands, Ireland and Belgium.

**People living in an overcrowded household, 2023
(%)**



The data also show that, in 2023, nearly nine percent of EU residents lived in households that spent at least 40 percent of their disposable income on housing, considered a 'cost overburden' according to the EU definition. This percentage fluctuated significantly between EU countries (see Map 2). Greece had the highest share, with 28.5 percent. Other countries with a relatively high overburden included Sweden, Bulgaria, Luxembourg, Germany and Denmark. The lowest levels of housing cost overburden (below four percent) were found in Cyprus and Slovenia.

be working in the EU). If the need for this workforce were included, the EU's future demand for labour would likely be significantly higher. As a case in point of the EU's labour shortage, Germany has reported that 53 percent of construction companies and 61 percent of civil engineering companies have difficulties in filling vacancies (Reuters, 2024). In France, one study showed that 74 percent of construction companies' recruitment plans in the construction sector were difficult to implement.

2.4 Rationales for shorter subcontractor chains are dubious

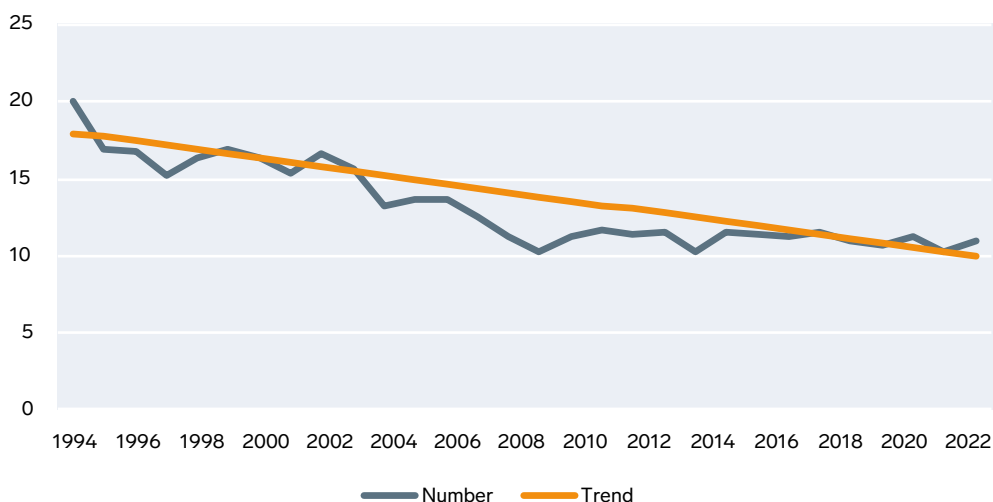
The factors normally cited as advantages of shorter subcontractor chains include:

- Greater control of the chains results in fewer accidents
- Greater control of the chains reduces risk of criminal activity and exploitation of illicit labour
- Improved working conditions and work environment, mainly for companies further down the chain
- Greater engagement if more employees are connected directly to the project and its main contractor

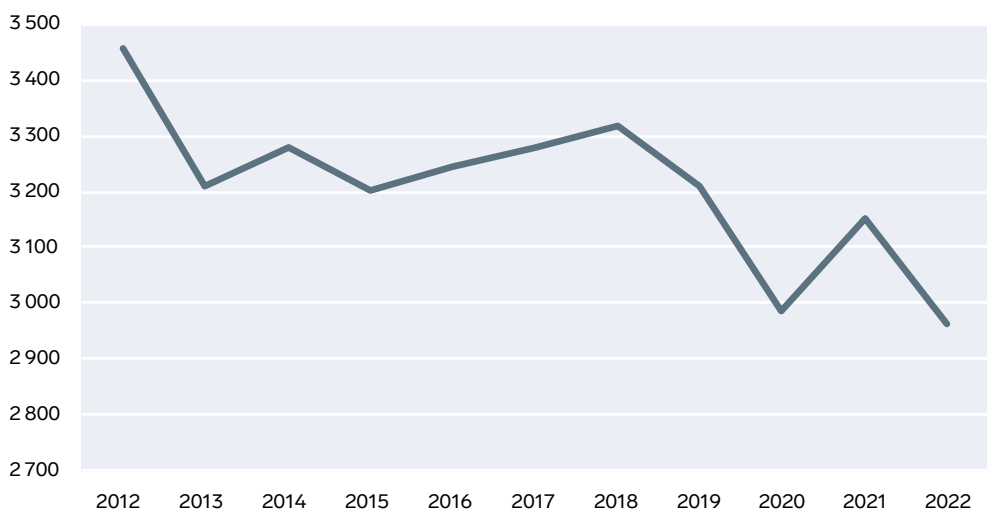
However, it is unclear what effect a limitation to two subcontractor tiers would actually have. While the number of companies has increased dramatically and subcontractor chains have become longer, the number of accidents has decreased in Sweden and the EU (see diagram below). This is illustrated in a feature published (5 Feb 2025) in Bygginindustrin, a trade magazine, in which an interviewed entrepreneur says, 'The issue of business legitimacy isn't solved by limiting the number of subcontractor tiers. When we identify shortcomings, it's just as likely that they're in the first and second tiers as it is in the few cases where we have multiple tiers.'

Occupational accidents in building and construction

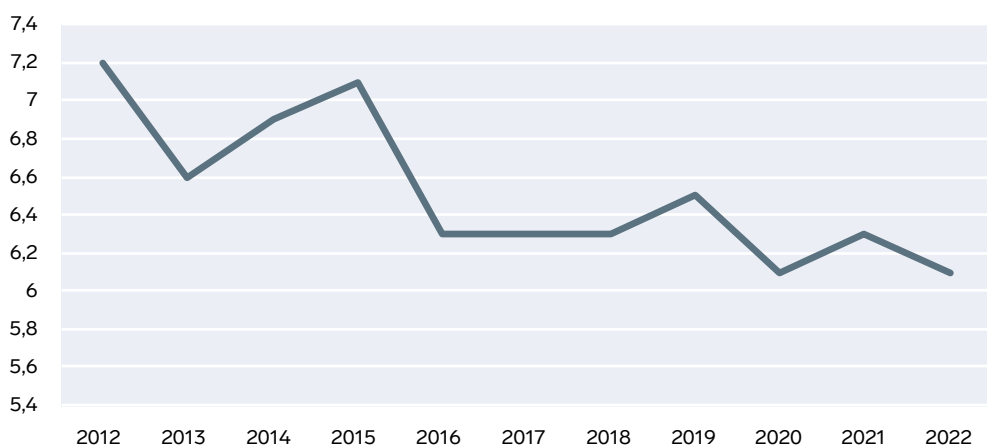
Number of accidents per 1,000



Source: Swedish Construction Federation

Non-fatal accidents per 100,000 employees, EU total

Källa: Eurostat

Fatal accidents per 100,000 employees, EU total

Source: Eurostat

Several of the companies interviewed indicate that the *proposal for fewer subcontractor tiers may actually result in a poorer work environment* and more accidents. This is due to two factors:

- Greater risk that companies further down the chain are unable to hire top-level suppliers to build special scaffolding, protection, etc., but will rather do it themselves without having the requisite expertise or equipment.
- Specialised companies will have greater opportunities to purchase more modern equipment better suited to the work environment, since they will be able to utilise it more often than companies that would utilise it less often and thus have significantly higher capital costs.

In terms of *crime and exploitation of illicit labour, the companies interviewed point out that the proposal may in fact create greater problems*. This is mainly because increasing costs for legitimate businesses makes it more profitable for illegitimate and criminal businesses. The disparity in competitiveness increases, to the benefit of criminals who are not concerned about complying with the law.

It should also be noted that there are currently *several important initiatives at the EU level that address many of the problems targeted by the subcontractor proposal*; e.g., the digital wallet, ESSPASS and the regulation on electronic employee tax returns. These tools illustrate that different measures are needed to solve problems effectively. Perhaps the most important measure for combatting crime is to improve the cross-border exchange of verified information between Member States to facilitate the monitoring of companies and individuals. Despite the limitations, the fundamental need for control mechanisms is crucial for combatting work-related crime.

The most comprehensive meta study of the construction sector, subcontractor systems and the risk of various types of crime (Lohne & Drevland, 2024) finds no direct connection between the number of links in the chain and the occurrence of crime. The report finds that the complex structure of the industry, in which each project is a new one, makes transactions difficult to monitor. The many different subcontractor models add an additional level of complexity to the organisation of construction projects. Selecting and managing subcontractors appears to be the key to project success and is dependent on sound project management. Criminal activities, particularly those involving subcontractors, call for robust preventive measures. Strengthening controls through regular audits, due diligence and transparent procurement is essential for preventing corruption and fraud. Improved protection for workers is needed to counteract exploitation, with stricter labour laws and confidential whistleblower systems. Finally, closer co-operation is needed between construction companies, law enforcement agencies and regulatory bodies, along with a centralised compliance database, to further reduce criminal activity and promote ethical industry standards. The report does not present any thoughts on legal requirements for the number of subcontractor tiers. The conclusions of the study are largely the same as those previously corroborated by the construction sector.

3. Limitation is contrary to EU law

The right to conduct a business is a fundamental right pursuant to Article 16 of the EU Charter of Fundamental Rights. The Charter, which became binding law when the Treaty of Lisbon came into force in 2009, dates back to the 1957 Treaty of Rome. The rights and freedoms specified in the Charter may only be restricted if prescribed by law, and the essence of the rights and freedoms must be respected. Every such limitation or restriction must also be proportionate to what is achieved, and may only be made if it is necessary and genuinely satisfies the public interests recognised by the Union or the need to protect the rights and freedoms of others.

Limiting the length of the contractor chain would, in practical terms, involve a ban on conducting business for many companies, making it impossible for them to operate. This can hardly be considered a proportionate measure in relation to the alleged need to limit the length of contractor chains.

A detailed analysis of the legal conditions for introducing a limitation to the number of subcontractor chains clearly shows that doing so would most likely violate fundamental EU law on the freedom to conduct a business (Sinander, 2025). As the analysis shows, subcontracting is part of the freedom of contract and is protected by the EU Charter of Fundamental Rights, as well as by laws covering freedom of establishment under Article 16 of the EU Charter of Fundamental Rights and the free movement of services.

Subcontracting is therefore covered by the right to conduct a business, meaning that:

- Those who conduct business activities have the right to choose their business partners (freedom of contract)
- All limitations must be prescribed by law, respect the essence of the right and be proportionate (pursuant to Article 52 of the Charter)

The legal analysis also shows that measures that limit the number of subcontractor tiers would be a new and disproportionate intervention that would impact small and medium-sized businesses in particular. Measures that restrict subcontracting must meet proportionality requirements and be necessary to achieve legitimate objectives, such as protection of workers. As the above-referenced report (Lohne & Drevland, 2024) clearly shows, the proposal under discussion does not meet these requirements.

The proposed regulation very likely contravenes EU laws on free trade in services and freedom of establishment in other Member States. Restrictions on subcon-

tracting can constitute obstacles to these freedoms, particularly in cross-border situations. The Court of Justice of the European Union (CJEU) has in several cases (including Borta UAB and Vitali) invalidated national regulations restricting the use of subcontractors on the grounds that such regulations were disproportionate.

Another problem is that ‘subcontracting’ is defined as one party to a contract transferring its obligations to a third party. There are obvious legal difficulties in defining what constitutes such a third party and what is considered subcontracting as compared with outsourcing or the purchase of products. It is also legally unclear as to what constitutes a ‘subcontractor chain’, as the term needs to be clearly distinguishable from other terms such as ‘supplier chain’ or ‘value chain’ that are used in, e.g., EU sustainability legislation (CSDDD).

Moreover, there are already several tools included in EU legislation that can address labour law issues in subcontracting. The most significant ones are:

1. Equal treatment of workers: e.g., in the Temporary Agency Work Directive (2008/104), which requires the equal treatment of temporary agency workers.
2. Reporting and transparency: e.g., in the Corporate Sustainability Due Diligence Directive (CSDDD) and the Public Procurement Directive (2014/24), under which the submission of subcontractor data can be required. The Pay Transparency Directive, to be introduced next year, can also be included here.
3. Direct responsibility (liability): e.g., in the Employer Sanctions Directive (2009/52) and Posting of Workers Enforcement Directive (2014/67).⁶

None of these mechanisms impose a direct prohibition on the number of subcontractor tiers. Introducing such a measure would therefore be unprecedented in EU law.

At the same time, it is important to stress that tightening these regulations may have negative consequences in terms of costs, productivity and competitiveness. The decisive consideration is that changes must be made based on the fundamental rules on freedom to conduct a business, the principle of proportionality, and with regard to the EU’s competitiveness and growth.

The conclusions of the legal analysis can therefore be summarised as follows:

- Limiting the number of subcontractor tiers would constitute a disproportionate interference with freedom of contract and freedom to conduct a business. This risks harming small companies and competitiveness in general.
- All proposed restrictions must be preceded by thorough impact assessments that take into account rights prescribed by the Charter, the competitive situation, and environmental and social consequences. This is currently entirely lacking.
- There are already regulations in place that can be used to achieve the proposal’s objectives.

⁶ As regards the possibility of introducing direct subcontractor liability, it is necessary to delineate the limits of liability clearly and carefully. There is otherwise an obvious risk that a direct liability mechanism will have the same negative effects as a limitation on subcontractor tiers. Accordingly, it may also be incompatible with the right to conduct business.

4. Regulation in other countries

In 2017 Norway introduced a 'staffing agreement' for the construction and civil engineering industry, which limits the number of subcontractor tiers to two in public construction and civil engineering projects. It applies to public procurements in the construction and civil engineering sector, but is also used in several instances in the private sector.

Regulation in brief:

- Maximum of two subcontractor tiers: No more than two tiers (levels) below the main contractor in government construction and civil engineering projects. The regulation applies at the group level; i.e., does not cover subcontractors within the same group.
- Exceptions: Exemptions may be granted in special cases when technically or practically necessary. Multiple tiers may also be acceptable if necessary to ensure sufficient competition.

Spanish law limits the subcontracting chain to a maximum of three levels. Furthermore, it establishes other limitations in the case of self-employed workers or companies that primarily provide labour, which will not be permitted to subcontract work.

The law provides for the possibility of an additional level in the subcontracting chain as an exception in a number of situations. In these cases, if the project management deems it necessary, subcontracting may exceptionally be extended to an additional level, provided that the project management records its prior approval and the reason or reasons for this in the Subcontracting Book.

Subcontracting companies are required to be registered in the REA (Register of Accredited Companies) and to comply with requirements regarding solvency, preventive training and job stability. The law establishes the joint and several liability of the main contractor in certain cases, particularly with regard to labour and social security obligations.

Several other countries also have regulations that impact subcontractor chains, but that are primarily designed to ensure wage and working conditions (largely to safeguard national companies from low-wage competition). In most cases, these regulations require the main contractor to ensure various minimum levels, which vary in scope and design. This type of regulation is in place in countries including Germany, Poland, the Netherlands, Hungary and Italy.⁷

A new law in Belgium, introduced in early January 2025, prohibits a subcontractor from procuring its entire contract from its own subcontractor.⁸

Few evaluations of these regulations have been made. While the experience in Norway appears to be mainly positive, the impact on crime has been minor. Most of the results are due to the tougher ID checks that were concurrently introduced.⁹

In Spain, a reduction in the number of accidents is cited as the greatest change. Overall, the number of accidents in the construction sector has been halved since introduction of the regulation.¹⁰

7 In California, a law was introduced in 2020 that regulates when a subcontractor is to be considered an employee and is thus entitled to the same conditions as the company's own employees. The proposal, designed mainly to improve working conditions for various types of 'gig jobs', is estimated to result in a 15-30percent cost increase for these 'purchases' for the purchasing company (Pie Insurance, 2025).

8 The main contractor can assign the contract (100percent) to subcontractor 1, who is prohibited from assigning the entire contract to subcontractor 2.

9 Like ID06 in Sweden, the Norwegian regulation requires everyone on a building site to carry identification and requires the building site to be closed to outsiders as far as possible.

10 As mentioned above, however, there has been a general decline in the number of accidents in the construction sector within the EU during the period.

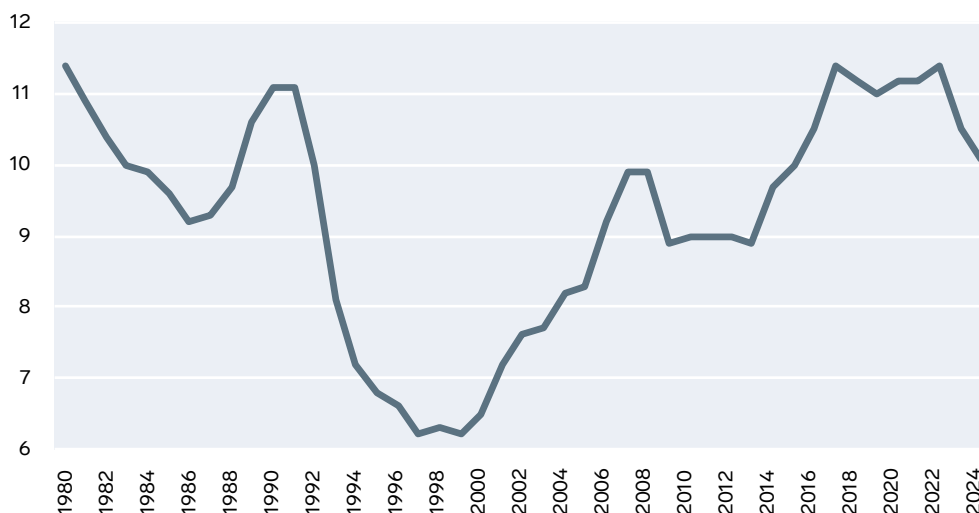
5. The construction market

5.1 Sweden

Statistics from the National Accounts show that in 2023 (the last year for which data is available), construction output in Sweden was just over SEK 873 billion, of which the industry's resource consumption was just under 520 billion and value added approximately SEK 354 billion. Measured as share of GNP, the industry's value added was just over six percent.

More up-to-date statistics show that construction investments totalled approximately SEK 645 billion in 2024 (a one percent year-on-year decrease, after a five percent decrease in 2023). Of this amount, approximately 32 percent pertains to housing, 45 percent to office space and the remaining 22 percent to facilities. Construction investments thus correspond to 11 percent of GNP.

Construction investment as a share of GDP
Percentage



Source: Statistics Sweden, Swedish Construction Federation

Building development**2023 price level, percentage change compared with the previous year**

Sector	Investment volume, Bn SEK	% change at constand prices		
		Outcome 2024	Forecast 2025	2026
Housing	207.2	-12	1	5
New construction	80.9	-20	0	7
Renovation	106.7	-5	1	3
Holiday homes	5.2	-50	3	10
Transaction costs	14.3	17	10	7
Non-residential premises	288.5	5	2	1
Private	189.3	4	2	1
Public	99.2	8	4	2
Civil engineering works	149.5	4	6	7
Private	77.6	7	6	7
Public	71.9	2	5	6
Total construction investments	645.1	-1	3	4

	Number	% change at constand prices		
		Outcome 2024	Forecast 2025	2026
Employment in the construction industry	368 300	-4.0	-1.5	1.9

Source: Statistics Sweden (BAS), The Swedish Construction Federation

In 2024, nearly 370,000 people were employed in the construction sector (Swedish Standard Industrial Classification, SNI 41-43; based on Statistic Sweden's BAS statistics as calculated by the Swedish Construction Federation). Approximately two-thirds were employed by specialised companies that would be most affected by the introduction of regulations that limit the number of subcontractor tiers. In addition, approximately 120,000 people are employed in other sectors that are directly linked to construction companies as subcontractors.¹¹ The construction sector is dominated by small businesses, with a full 87 percent having no more than four employees.

¹¹ Each new job in a construction company creates roughly 0.7 new jobs in other construction companies (working as subcontractors) and around 0.5 jobs with subcontractors in other sectors. The aggregate job creation impact is thus +1.2 jobs per new construction job; i.e., a multiplier of 2.2 (Swedish Construction Federation, 2022). Other assessments produce a larger multiplier, with each new construction job providing three new jobs in other sectors (Parterna inom Byggindustrin, 7 March 2024).

Number of employed persons in the construction industry by sector 2024, SNI41–43

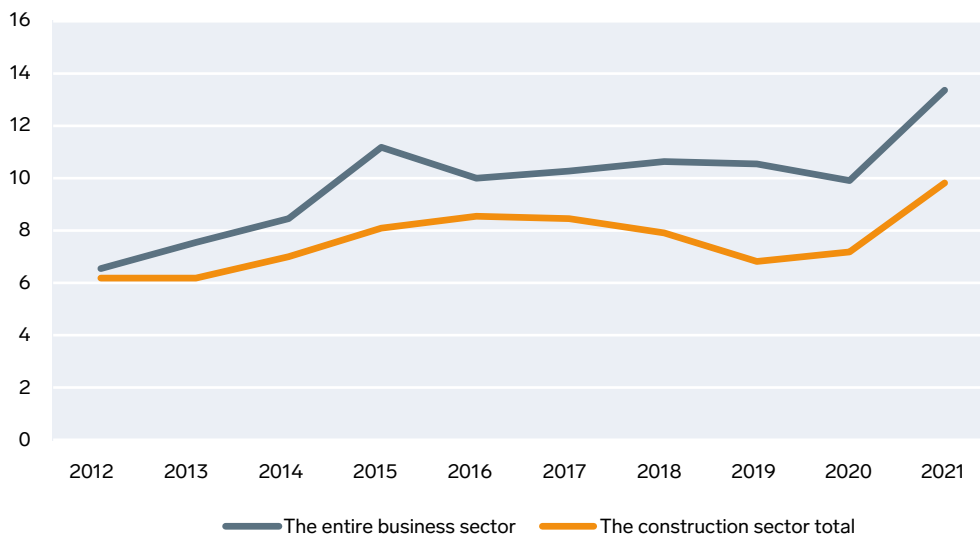
Sector	Employed 2024	% change	
		2023	2024
41. Construction of buildings	88,800	-1.5	-9.3
41.1 Development of building projects	1,200	-4.0	-12.4
41.2 Construction of residential and non-residential buildings	84,600	-1.4	-9.0
42. Civil engineering	37,500	9.7	0.7
42.1 Construction of roads and railways	25,300	2.9	-2.0
42.2 Utility projects	9,700	36.6	4.6
42.9 Other civil engineering projects	2,500	3.4	15.9
43. Specialised construction activities	245,200	1.1	-2.9
43.1 Demolition and site preparation	41,900	0.3	-1.0
43.2 Electrical, plumbing and other installation activities	102,200	3.4	-1.7
43.3 Completion and finishing of buildings	64,800	-0.7	-6.1
43.9 Other specialised construction activities	36,300	-1.0	-2.3
Total construction industry	368,300	1.2	3

Source: Labour Force Survey (SCB-BAS), The Swedish Construction Federation

As referenced above, it is primarily small, specialised companies that risk being impacted by restricting subcontractors. According to Statistic Sweden's Enterprise Register, a total of approximately 17,000 small companies employ roughly 40,000 people in the areas of plumbing (Swedish Standard Industrial Classification, SNI 43.221), ventilation (43.222), refrigerator and freezer installation (43.223), other plumbing (43.229), plastering (43.310), floor and wall covering (43.330), glazing (43.342), sheet metal roof covering (43.911) and other roof covering and frames (43.912). These companies, which employ more than 10 percent of the sector's jobs, are likely to be the ones most affected by the proposed limitation.

Construction sector profitability (measured as profit margin) is generally lower than the business sector as a whole. Civil engineering in particular reports significantly less profitability. Profitability for specialised construction companies is generally on a par with the industry at large, while profitability for pure construction companies is not far from the business sector as a whole.

Profit margins Percentage



Source: Swedish Construction Federation

5.2 EU

Turnover for EU construction companies amounted to EUR 1,250 billion in 2023. The single largest market was Germany (EUR 425 bn), followed by France (EUR 400 bn) and Italy (EUR 317 bn). According to Eurostat, 2023 turnover for the Swedish construction market was approximately EUR 61 billion.

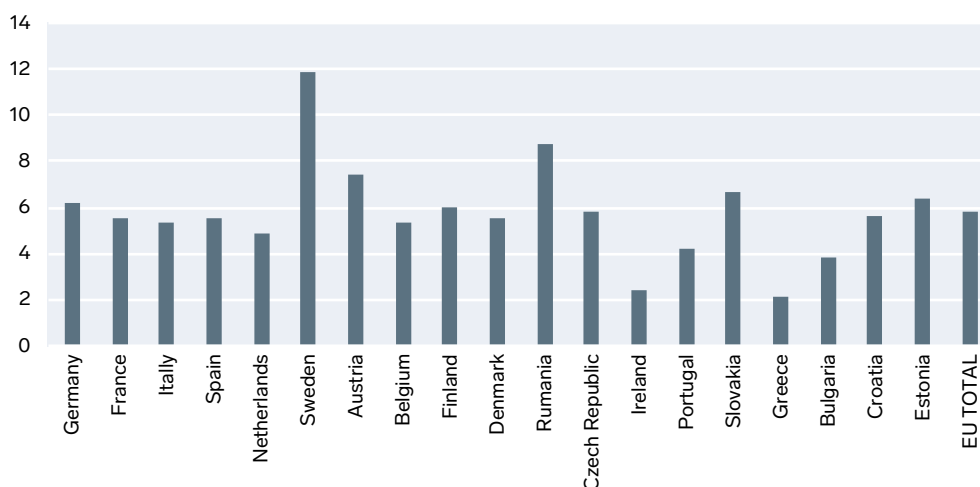
Of EU construction market turnover, civil engineering construction accounted for 16 percent (EUR 363 bn), house construction for 34 percent (EUR 790 bn), and other construction and installation activities for 50 percent (EUR 1,155 bn).

Of total turnover, companies' value added (i.e., total of wages, profits, capital costs and depreciation) accounted for EUR 872 billion, or 38 percent. Purchase of goods and services therefore accounted for just over 60 percent. This proportion is roughly the same as that reported above for Sweden.

Measured as a share of total GNP in the EU, the construction sector's value added accounted for just under six percent. Sweden ranks relatively high compared with the EU average. The construction sector accounts for the highest share of GNP in Romania, and the lowest in Greece.

Construction sector value added as a share of GDP 2023

Percentage

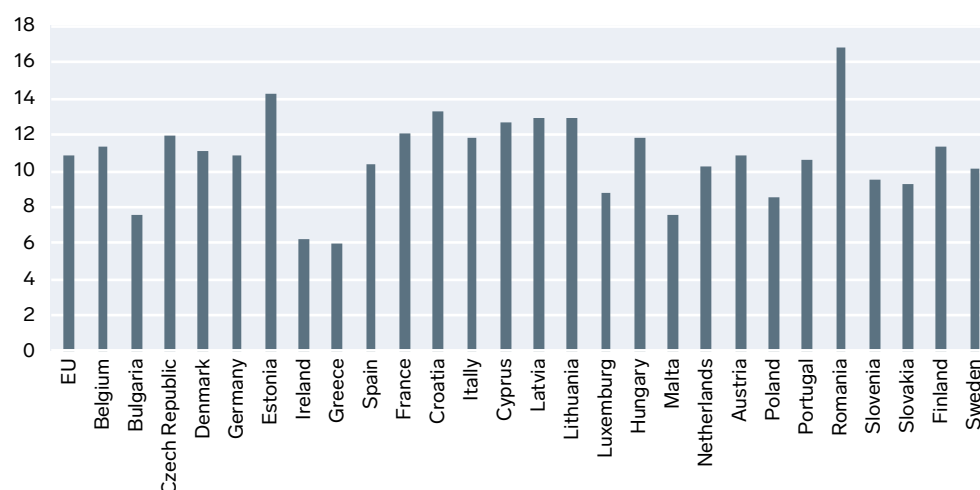


Source: FIEC (European Construction Industry Federation)

According to National Accounts statistics for 2024, *construction investments* amounted to approximately EUR 1,960 billion within the EU as a whole, corresponding to just under six percent of GNP. Country ranking is aligned with that for turnover, with Germany (EUR 465 bn) followed by France (EUR 353 bn) and Italy (EUR 259 bn).¹² Romania also ranks highest, and Greece lowest, in terms of construction investments as share of GNP.

Construction investments as a share of GDP 2024

Percentage



Source: Eurostat

¹² The European Construction Industry Federation (FIEC), a Europe-wide industry association, also reports statistics that diverge somewhat from Eurostat's due to differing definitions. According to the FIEC, total construction investment in 2023 amounted to approximately EUR 1,250 bn and total value added to EUR 831 bn. The number of employees in the sector is reported at 12.3 million.

In 2024, the industry employed just over 14 million people in close to 4,000,000 companies in the EU. This corresponds to around six percent of total employment within the EU. The average construction company therefore had 4.0-5.0 employees (the same applies to Sweden). A total of 2.4 million work in companies with no more than two employees.

For each construction sector employee, an additional 1.5-2 people are employed in other sectors – primarily the construction material, transport and investment goods sector (FIEC, 2025). A total of 30-40 million people in the EU are dependent on the construction sector.

For more detailed statistics, see Appendix 1.

6. Review of costs associated with limiting number of subcontractor tiers in the construction sector

6.1 No statistics on subcontractor tiers are available

There are no statistics or data for Sweden or the EU on the average length of the subcontractor chain, for either different types of projects or in total. A Belgian study (De Smedt, 2024) found that over 75 percent of all construction projects have only one subcontractor level (in addition to the main contractor), not quite 20 percent have two subcontractor tiers, and less than five percent have three or more tiers. For projects of more than EUR 500,000, just under 40 percent have one subcontractor tier, roughly 40 percent have two tiers, and 20 percent three or more tiers.

For Sweden, a report from Byggnads, a trade union, indicates an average of 2.4 tiers. Understandably, however, this figure does not include smaller projects in which Byggnads is not a contractual party. Another report, from construction company Skanska (published in Byggingindustrin, March 2025), specifies that 'Skanska's internal control systems indicate that approximately 98 percent of its subcontractors (house construction) are in the first or second tier.'

As noted above, there are no studies at the European level that have evaluated the cost implications of the trend towards more subcontractor tiers, or what a limitation on the number of tiers would involve. The factual basis for the European Parliament's deliberations is there extremely weak.

One can begin by noting that increased specialisation has had a positive effect – greater productivity and consequently scope for lower costs for customers, more rapid technological develop and/or more profit for companies – considering that this development would not have otherwise occurred. The positive effects are also reflected in the sharp increase in the number of specialised companies, as well as in increased trade and international competition in the construction market (both prioritised EU objective for the internal market).

6.2 Supporting data based on interviews

Rough calculations of the potential cost implications of limiting the number of subcontractor tiers to two is presented below. The estimates are based on interviews with around 10 Swedish construction and specialised companies that operate mainly in Sweden but also in other Nordic countries, Germany and Poland. The calculations should be viewed as rough estimates, given the limited number of companies interviewed.

The cost estimates pertain to the short-term cost increase resulting primarily from:

- More bureaucracy and administration
- Poorer utilisation of personnel and machinery
- Increased tender prices when purchasing subcontractor services
- Less flexibility – greater market risks

According to the companies' assessments (see section 1), economic costs will increase in the longer term due to poorer and distorted competition, poorer conditions for small and new businesses, fewer innovations and costlier public procurement. Taken together, this will result in lower productivity and lower growth.

The companies' assessments indicate that actual construction costs in the short term (excluding material/transport, etc.) could increase by 8-12 percent if the number of subcontractor tiers were to be reduced. This applies to projects with more than two subcontractor tiers. Given that the share of value added accounts for nearly half, this would result in a total cost increase of 3-5 percent. Costs would increase in other projects as well, due to lower overall resource utilisation among companies, less flexibility in projects, etc. In the following calculations, we assume a cost increase of 3-5 percent for all projects, along with a more conservative alternative with construction costs (excluding purchased material and services) for smaller projects (with fewer subcontractor tiers) increasing 1.5-2 percent.

The fact that profit margins are relatively low in the construction sector indicates that the effect will be felt mainly on cost/price side, rather than on the profit side. Moreover, long-term profit levels are determined by international return requirements – meaning that, if the industry is to attract the requisite capital, profits cannot differ from other investment alternatives over time.

6.3 Sweden

As regards Sweden, a 3-5 percent cost increase for all construction investments would correspond to a cost increase of SEK 20-30 billion (based on 2024 investment volume and excluding material purchases, etc.). This most likely overestimates the actual cost, however, as the majority of projects have no more than two subcontractor tiers.

The proposal to limit the number of subcontractor tiers to two is likely to have the most impact on larger projects. One option is to select ongoing construction projects with an estimated cost of at least SEK 50 million from Byggfakta's database.¹³ The database lists more than 1,700 such projects that were started during the past two years and are expected to be completed in the next three years. The estimated project value for these 1,700 projects is approximately SEK 380 billion, or around SEK 130 billion per year. A 10 percent increase in costs (and assuming that just over half of the cost is for purchased material, transport, etc.) would result in an additional cost of SEK 6-7 billion per year. Reducing the estimated project cost limit to SEK 20 billion would produce approximately 2,800 projects with an aggregate project value of over SEK 410 billion during the same time period. The difference in assessment of the additional cost is therefore minimal.

Added to this is a 1.5-2 percent cost increase for other projects. This can be estimated at approximately SEK 5 billion per year. The total cost increase in this alternative can be estimated at approximately SEK 12 billion.

In Sweden, the overall annual cost in the short term can be estimated at between SEK 13 billion (conservative estimate) and SEK 25 billion (high estimate).

A cost of SEK 12 billion corresponds to just under two percent of total construction investments, or around 0.2 percent of GNP. The higher alternative involves costs corresponding to just under four percent of construction investments and 0.4 percent of GNP. Additional costs not included in the above estimates:

- Reduced or costlier construction investments have a negative impact on growth and adaptation. This impact can be conservatively estimated to be at least as large as the direct cost effect. Because effective infrastructure is essential for all industries and a functioning labour market, special investments in infrastructure have a relatively high multiplier (1.5-2.5; S&P, IMF). As referenced above, it is primarily large civil engineering projects that are negatively affected by the proposal. Assuming the cost increase results in reduced investments (measured in volume) and a growth multiplier of two, the lost growth can be estimated at around SEK 25 billion (low cost alternative).

¹³ The database mainly includes major construction projects; it does not include private individuals' construction projects.

The above calculations pertain to the short term. The companies interviewed stress that the long-term effect may be significantly greater. In addition to the short-term effects, this is mainly attributable to:

- Poorer and distorted competition
- Fewer new enterprises
- Small companies disadvantaged by the regulation
- Less innovation
- Overall lower productivity growth

The companies' assessment is that the long-term cost effects in Sweden are likely to be at least twice as high as the above estimates; i.e., a total of SEK 25-50 billion per year (though it must be noted that these estimates are uncertain).

6.4 EU

Due to the lack of statistics on EU subcontractor chains, calculations on the EU level are also uncertain. Based on the Belgian study on subcontractor chains, cited above, and on Eurostat statistics, an initial calculation can be made assuming a cost increase in the EU of around 8-12 percent of the investment cost, excluding cost of material, transports, etc. This would entail costs of EUR 60-100 billion per year. However, as in Sweden's case, this would significantly overestimate the cost, since many projects have no more than two subcontractor tiers and are therefore impacted less directly by various additional costs such as increased bureaucracy, poorer resource utilisation, etc.

Although there is no database of EU construction projects as there is in Sweden, the European industry association does have somewhat more detailed statistics on various construction investment categories. An alternative calculation, based on assessments of the companies interviewed, is therefore to assume a cost increase of 10 percent (excluding material and other purchases) for investments in civil engineering construction (predominantly projects exceeding EUR 500,000), an increase of 2-3 percent for investments in new house construction, and of around one percent for other construction projects. Based on these assumptions, the annual additional cost can be estimated at EUR 30-45 billion per year,¹⁴ or 1.5-2.5 percent of the total investment volume.

¹⁴ A calculation based on turnover would produce an additional cost for the EU of EUR 7-12 bn per year.

Applying the same calculations as made for Sweden above, this would further indicate:

- A reduced growth effect (as mentioned above) due to decreased investments in the construction sector, particularly within the civil engineering sector, since effective infrastructure is essential for all industries and a functioning labour market. Also as above, it is primarily large civil engineering projects that are negatively affected by the proposal. Assuming the cost increase results in a corresponding decrease in investments (measured in volume), and a growth multiplier of two, the lost growth for the economy due to decreased civil engineering investments would be around EUR 30 billion per year, and a total of approximately EUR 60-80 billion when other construction projects are included (according to the conservative calculation alternative).

As in Sweden, the long-term negative effects are likely to be considerably greater. The economic cost, in the form of lower growth and fewer opportunities to deal with adaptation and security, will be extremely negative.

Estimated short-term cost increase with introduction of two subcontractor tier limitation

	Low cost estimate	High cost estimate
Sweden	13 Bn SEK	25 Bn SEK
EU	30 Bn EUR	45 Bn EUR

7. If the regulation is applied to all sectors...

As discussed above, there is some uncertainty as to how the regulation being discussed in the European Parliament is to be interpreted. It is clear that it pertains to the construction sector but, if enacted, will it also apply to other sectors? And there are other uncertainties if the regulation pertains only to the construction sector – if so, will it also apply to construction companies' purchases of other services and from suppliers outside the construction sector (e.g., transport, material and other types of services)?

A typical industrial company has 3-4 tiers of sub-suppliers, but significantly longer chains of up to 13-13 tiers are found in more advanced, complex industries like the automotive and machinery industries (Aom, 2024). There are no statistics or studies clarifying the tiers on which direct or indirect¹⁵ industrial employment is found. But overall, in Sweden the number of people employed by industrial suppliers is greater than the number directly employed in the construction sector – an indication of the sector's dependence on subcontractors (Industriekonomerna, 2023). The negative effects discussed in section 1 would therefore be considerably greater. In practical terms, the entire concept of modern business logic would be rendered unworkable for industry and large parts of the service sector. The consequences for trade, jobs and growth would be devastating!

Implementation of such restrictions would, in general, have the most impact on small companies. This would in turn have far-reaching negative effects on the European market and on Europe's competitiveness. Small and medium-sized companies – the backbone of our economy – could lose the capacity to compete on equal terms. These are the companies that are often the drivers of new ideas and technologies and that, given the right conditions, can become tomorrow's market leaders. Limiting the number of subcontractor tiers would severely weaken Europe's competitiveness and growth – and this at a time when the issue of international competitiveness is all the more crucial due to the dramatic increase in geopolitical and trade tensions.

¹⁵ I.e., people working at companies that supply goods and services to industry.

With the shortening of value chains over the past 15 years, value added chains/sub-supplier systems have changed. To a large extent, these chains have become regional, as in North American, Europe and Asia. The experiences gained from the pandemic and the resulting supply disruptions have been accelerated by the war in Ukraine, highlighting the importance of redirecting supply chains to regions judged to be more stable and reliable. Trump's recent tariff threats and tariff chaos have exacerbated this trend. The changes have not, however, resulted in any perceptible break in the statistical trend regarding the number of suppliers, but rather in where these suppliers are located. The ability to choose sub-suppliers has become more important with the increase in international competition. Reducing the number of subcontractor tiers would also be in direct opposition to the EU Commission's increased emphasis on competition, growth, security and job creation.

Rather than imposing restrictions that hinder companies' ability to grow and specialise, the focus should be on making things more difficult for companies that cheat – something that would benefit all market operators. Europe can strengthen its global economic position by promoting a competitive market in which companies are able to grow and specialise without unnecessary obstacles.

8. A better solution than legislation

This analysis shows that the specialisation and increased utilisation of subcontractors and sub-suppliers that has characterised the construction sector and other business sectors in recent decades has been extremely positive and resulted in greater productivity, increased competitiveness and more innovations. Regulations that restrict opportunities for specialisation are therefore highly negative. Regulation would undermine labour market functionality and reduce growth in the construction sector and the economy as a whole.

Legislation is the wrong way forward. The collective Nordic construction industry has therefore presented proposals that meet the objectives of combatting crime and unfair competition. The joint proposal can be summarised as follows:

The proposal to limit the number of subcontractor tiers and increase controls addresses significant work environment and criminality problems. But there is no 'one size fits all' solution. Addressing these issues in a proportionate manner must be left to each Member State. The construction industry is comprised of small and medium-sized companies. Limiting the number of contractors on a construction site would, in practical terms, impede competition and have a negative impact on the sector's labour and skills shortage. This is particularly important considering the geopolitical situation and the construction industry's role in crisis readiness. The EU's focus should be on increasing productivity and growth, not on seeking solutions through overregulation.

Practically speaking, the single most important measure is to ensure that controls are carried out and that unscrupulous companies are stopped. This requires, above all, the capacity to share information much more easily and quickly within and between countries. The unscrupulous and often criminal enterprises that find it possible to operate under cover of this shortcoming are a threat to the work environment, to employees and to all legitimate companies.

Appendix 1. European construction market

Turnover, EUR million

YEAR	2021	2022	2023
European Union	1,901,158.89	2,152,734.60	2,308,109.58
Belgium	81,237.27	95,236.46	103,614.31
Bulgaria	10,533.36	11,944.79	14,649.27
Czechia	39,145.83	48,035.84	51,867.64
Denmark	44,498.36	50,550.93	49,760.94
Germany	367,828.23	402,858.23	425,691.23
Estonia	6,588.22	7,895.40	7,897.53
Ireland	36,221.20	45,907.68	46,471.10
Greece	11,407.66	14,738.05	16,865.61
Spain	152,645.05	173,804.34	188,643.85
France	359,858.71	387,923.15	400,599.65
Croatia	8,748.47	10,410.17	12,890.47
Italy	213,951.10	266,583.50	317,404.97
Cyprus	5,250.11	5,862.34	6,341.24
Latvia	4,523.98	5,471.04	5,949.32
Lithuania	8,145.05	10,202.68	11,801.24
Luxembourg	10,536.83	11,069.70	10,445.54
Hungary	27,697.33	30,224.79	32,160.00
Malta	1,912.43	1,985.23	2,089.47
Netherlands	129,032.61	145,201.09	154,450.93
Austria	63,033.16	70,071.00	72,043.75
Poland	103,805.73	117,049.35	128,148.55
Portugal	27,655.40	31,971.13	35,504.92
Romania	29,200.68	36,247.96	44,592.81
Slovenia	7,592.21	9,158.18	10,840.45
Slovakia	12,574.09	14,882.52	16,162.40
Finland	43,197.36	45,871.64	45,286.39
Sweden	94,338.46	101,577.43	95,936.00
Iceland	3,234.37	4,154.92	4,689.19
Norway	66,903.16	74,616.73	65,795.93
Switzerland	76,447.58	83,073.01	90,898.13
Bosnia and Herzegovina	2,335.85	2,872.92	3,193.57
Montenegro	:	1,023.38	1,138.12
North Macedonia	1,682.75	2,027.49	2,114.65
Albania	2,553.68	2,863.25	:
Serbia	11,102.18	12,996.97	14,412.97

Employment

YEAR	2021	2022	2023
European Union	13,417,785	13,849,153	14,125,432
Belgium	328,415	347,992	358,786
Bulgaria	153,822	152,548	158,785
Czechia	398,984	408,595	413,056
Denmark	195,382	201,133	199,726
Germany	2,618,160	2,780,210	2,780,641
Estonia	54,719	57,870	53,820
Ireland	170,446	198,109	187,008
Greece	167,620	170,727	184,238
Spain	1,310,030	1,298,704	1,350,153
France	1,994,586	2,050,666	2,129,384
Croatia	134,352	140,198	149,165
Italy	1,457,006	1,573,005	1,623,703
Cyprus	36,692	37,540	39,016
Latvia	68,383	64,466	60,649
Lithuania	123,940	132,077	135,037
Luxembourg	52,228	53,573	52,734
Hungary	319,775	334,269	327,796
Malta	16,491	17,761	18,824
Netherlands	525,245	546,607	556,843
Austria	352,610	360,785	360,428
Poland	1,170,955	1,157,775	1,147,276
Portugal	379,596	398,684	430,383
Romania	494,593	493,422	516,252
Slovenia	77,099	82,602	85,714
Slovakia	182,014	193,734	200,053
Finland	179,504	185,583	178,917
Sweden	455,138	410,518	427,045
Iceland	15,970	17,623	18,989
Norway	263,692	273,108	274,297
Switzerland	323,473	323,317	325,957
Bosnia and Herzegovina	41,151	40,764	41,166
Montenegro	:	15,674	17,734
North Macedonia	32,833	31,877	30,344
Albania	53,874	55,739	:
Serbia	115,234	114,715	116,641

Number of companies

YEAR	2021	2022	2023
European Union	3,733,404	3,910,992	3,956,573
Belgium	128,788	142,700	142,864
Bulgaria	21,373	22,461	23,926
Czechia	189,868	195,730	199,428
Denmark	35,946	36,826	36,409
Germany	380,348	382,005	382,861
Estonia	14,489	16,582	16,986
Ireland	70,459	77,676	65,387
Greece	66,723	70,604	73,924
Spain	387,436	417,447	418,214
France	530,278	564,574	572,932
Croatia	26,678	28,728	31,443
Italy	512,130	529,357	521,371
Cyprus	9,710	10,026	10,322
Latvia	10,394	10,467	10,451
Lithuania	35,550	39,492	41,502
Luxembourg	4,591	5,009	4,531
Hungary	122,023	131,629	124,786
Malta	5,377	5,470	5,750
Netherlands	231,679	254,389	273,647
Austria	40,438	41,601	41,982
Poland	417,438	415,118	421,187
Portugal	97,352	102,468	107,853
Romania	94,015	99,127	105,122
Slovenia	21,246	22,670	24,146
Slovakia	117,975	128,640	135,793
Finland	54,512	56,140	56,878
Sweden	106,588	104,056	106,878
Iceland	6,297	6,638	7,001
Norway	59,582	59,788	60,646
Switzerland	22,255	22,332	22,588
Bosnia and Herzegovina	5,067	5,523	5,923
Montenegro	:	5,236	6,065
North Macedonia	5,517	5,780	5,877
Albania	5,035	5,769	:
Serbia	15,778	15,576	16,281

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