

## Submission on Regulation and the Impact it has on Building Materials Competition

Monopoly Watch is a public policy group researching affordable housing in NZ, the Challenge is, *“Why is NZ building Social Houses at \$4k a sqm when international best practice is \$1k per sqm”*

We thank the Commerce Commission for opening the market study and making definitions and frameworks to review this substantial problem in NZ.

### Regulation is everything

Building materials	Regulated
Consents	Regulated
Assembly	Regulated
Inspections	Regulated
Builders’ qualifications	Regulated
100% of building costs	All subject to regulation

**This simple chart illustrates how important it is to adjust a bizarre NZ regulatory system and fundamentally reform regulation from every step, international consultants must be hired to do this as Kiwis are captured by the large companies in NZ and the lack of lobbyist legislation.**

Every process, material, assembly, plan, drawings, consent, is all regulated, in recent years increased regulation has been added, particularly to protect councils from inbound litigation.

This is where the inefficiency and cost escalations have occurred, a fundamental rethink is needed from a clean sheet of paper basis, with a new asset class formation in NZ; “the Social house “or similar, there is no specific legislation to assist in getting costs out of scalable standardised design entry level quality houses “.

The BCA process of Kainga Ora (KO), needs to be expanded to cover materials and supply chains.

KO needs to be able to enter the building materials supply market. KO had the capability to fix the Plasterboard market, it was missed. This is where the regulation of government entities needs to be fixed. The NZ government turbo charging the construction market was needed to address a housing crisis, however it’s caused a supply chain crisis, independent of Covid

## **Our primary concerns are**

- 1) There are too many BCAs in NZ and the impetus for transformation is weak and diluted by vested interest groups which want to deflect responsibility for the high cost of construction in NZ. It Concerns MWNZ that there is no international benchmarking of this function which is a sensible pathway to repair this tattered process in NZ.
- 2) The NZ plaster board crisis is so severe that the large group of skilled world class builders are unable to engage in this consultation process, because they are fighting day to day to stay in business and don't have time to talk strategically about industry transformation.
- 3) There is no definition or segmentation of the problem or targets in regulators. There has been sensible improvement in quality of houses built in NZ, but no orchestrated steps to reduce cost or introduce new technology. Improvement in quality must be simultaneous worked with reducing costs. This can only be done by regulation in a fragment market.
- 4) The vested interest in the status quo needs to be considered, when deciding how to transform this industry, it is noteworthy that Fletcher finances several groups (NZ BIF) who dominate and pretend to transform the industry, but they are conflicted by the ownership of vicious monopolies.
- 5) Institutional confusion is a clear and present lobbyist tactic caused by the use of such misinformation (for example the Deloitte Report), which sends the fragmented industry playing a blame game for higher costs, rather than looking for fundamental reform. This has created yet more regulation, which has preserved the status quo.
- 6) Financial incentives and scale aren't available to transform and fix the industry.
- 7) Patents are mis-used in building materials.
- 8) There is no creditable literature discussing how costs can be taken out by any of the Governmental organisations that are increasing standards.
- 9) There is no tidy, independent, vision for how regulation in NZ can be fixed, this is why international benchmarking is so important.

## **What is the plasterboard crisis illustrating to ComCom at this time of a market enquiry?**

- 1) It's a regulatory train smash, where a failure and a game to preserve a long-held monopoly inflicts pain and destroys small businesses, confusion sits as to what caused the crisis.

- 2) It is where a standardised commodity product can be swapped out, and there is usually a glut of plasterboard internationally, bespoke, gamed unreliable regulations preserve this product.
- 3) It has damaged this ComCom market study as the large group of sophisticated building professionals are unable to consult into the market study enquiry but are forced to hunt our building materials and change sequencing programs on building sites.
- 4) There was a ComCom enquiry into Plasterboard in 2014," no *one would talk to us* "(was the favourite comments from CC Economist). This report needs to be revisited and the disfunction highlighted. The suggestion that gib is structural bracing is a global embarrassment, "*the emperor is wearing no clothes* ".
- 5) All efforts to blame the crisis on Covid supply chain break downs should be ignored, a malicious monopoly preservation should be exposed and board members of the Fletcher Holding company should resign. Upstanding Community Focused honourable men and women board members of Fletcher have smashed small business NZ, by their acceptance of misinformation and their unprofessional disrespect of ESG commitments the board has made.
- 6) *It is not just price or supply chain reliability, but time and process to install which is the weapon used to preserve the plasterboard monopoly and damage productivity.*

#### **How should the plasterboard problem be fixed?**

- Government commission should ask the Fletchers board to respond.
- International consulting engineers should prove to the Commission that the structural bracing is a farce and just a pretend matter to preserve their rapturously profitable monopoly and gateway product.
- A thorough review of the regulation processes and culture at BRANZ should be examined.
- BRANZ needs to be dissembled by statue and a new organisation set up with new targets on productivity and cost of assembly.
- Order of Council to allow swap out to other brands and use of other bracing.

#### **Reforms and Suggestions to create competition, improve productivity and reduce costs for builders via regulation**

- 1) **Start Again** - Fundament reform of BCA's, removing regional differences (except climate and seismic), shrink numbers, use experienced builders as inspectors.
- 2) Abandon BRANZ and **start again** with a new agency, which has cost per sqm target.

- 3) Set up a new agency to commence the transformation of building at scale and transforming an entire market segment of house construction in NZ with the power to look at everything, give this agency cost of construction target. So big is the problem and so large are the savings this agency will cost nothing in the medium term as the taxpayers would save circa \$2bn a year from a 10% cost of production reduction.
- 4) Regulate scalable sites, differently (over 5000 units).
- 5) Look at how the risk mitigation industry has blown out of control in inspections, consenting and BCA differences, -review this and start again working to targets and international best practise.

### **Targets for build costs of social housing**

We have regulation and regulation and regulation in NZ. The problem with the economics team in the ComCom and MBIE is too expensive to build houses (4x international best practise pricing). We need regulation that has a target ingrained in how it operates, i.e., process in regulation focused on cost out and targets. Today the regulation is about preventing building failures and leaky homes.

The regulation needs to cater for a new asset class, "social houses ", built to a new price point and higher standard.

### **Specific regulation**

- 1) How Building merchants operate and who can own them
- 2) Windows
- 3) Plasterboard
- 4) Roofing Iron
- 5) Timber framing
- 6) OSM and modular
- 7) Productivity process in the building industry
- 8) Where productivity comes from in social house assemble

### **SUMMARY of SOLUTIONS**

- 1) Consider dis-abandonment of BRANZ and a fresh start, with a focus on the affordable building targets
  - a. There is no mention of productivity
  - b. There is no mention of cost of construction
  - c. It's failed in its mandate
  - d. A crisis has occurred in part by its lack of foresight

- 2) Consider an entire refurbishment of the BCA 's a clean sheet of paper, swap into five or six nationwide groups only using BIM and digital. Focus on affordable building targets.

Thank you for considering the Monopoly Watch position.

Tex Edwards