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# RESIDENTIAL BUILDING SUPPLIES MARKET STUDY SUBMISSION

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*\*Image courtesy of Toa Architects*

This submission is authored by Brent Reihana on behalf of the National Māori Authority. Information contained within has been gathered from a number of sources and methods including; conducting desktop review of published articles, interviews with experienced Māori industry staff and comparison of historic data.

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## Introduction

Nga Ngaru is a National Māori Authority established to advocate on behalf of Māori when it comes to economic, social, and environmental issues. Nga Ngaru is a member-based organisation comprised of individuals, Iwi and community-based organisations, Māori business and industry, academia and researchers. As one of the Registered Māori Organisations, our work spans a wide range of fields from research and analysis to the development of economic development strategies in support of our members while also focusing in on innovative approaches to innovation around social services.

The Authority also runs workshops, forums, and events to ensure our members are both well informed and educated when it comes to hot button issues, governance and management training, best practice and the development strategies and programs that improve the way organisations operate. Nga Ngaru is also the owner of the quality assurance and development platform known as Koru Quality.

## Overview

Restrictions on the supply of construction materials critically affected the operation of the construction industry flowing onto a restrained housing supply. Covid-related factors exacerbated pressure points within the industry and identified blockages and restraints that overtly existed but were detrimental and in some cases fatal to industry operations. Industry supply mechanisms artificially inflated prices and barriers to entry resulted from the strength of dominant suppliers who integrated vertically and horizontally preventing innovation and market competition.

The effect on Māori operating in the industry as employees, self-employed contractors and business owners is immediate. The effect on their whanau whanui while in some cases softened by supporting industry employment is real and must be considered. Longer-term ramifications on housing supply and availability for Māori while less obvious are a deeper concern for generations to come.

## Market Study Response

Addressing the study broadly initially from an economic perspective, identified similarities across industries such as telecommunications and groceries where competition crowded out smaller competitors to the detriment of lower socio-economic groups. One of which, Māori as a treaty partner is common in all market studies not only because of the economic characteristics but also due to low levels of priority attributed to the partnership status.

There are several factors that exacerbate this situation, some of those market forces can be attributed to wider government functions, some to market behaviour and others to complete avoidance of an obligation that has been a culture of a government, industry and social practice. A one-size fits all approach has failed to recognise both partners noted in te tiriti.

This paper broadly identifies these factors and while solutions have been considered, this paper seeks to initially open up these factors for a broader discussion.

## Market forces

Historic and systemic forces are well beyond the scope of this study nonetheless these factors. Such factors however, must be considered to ensure a true if not correct baseline to make any comparison from and with is recognised. The industry started with little formal reference to Māori however, it is widely recognised that Māori make up a significant percentage of the labour force in the construction industry. Any resulting change that has taken place is therefore trivialised and marginalised against the economic progress of the country. Māori continue to survive and prosper in spite of this.

The measurement to assess recommendations for Māori consideration must be made from a point in time where it can be recognised that Māori was disadvantaged. The legislative threshold test for such a disadvantage is where Māori was not specifically considered. Given the duopoly, the 1990's for Carter Building Supplies and 1919 for Fletchers Construction.

## Supply-side

The Carter/Fletcher duopoly effect forces operators away from smaller suppliers towards these two large suppliers. The effect is a two-fold win for the duopoly. It's widely known that a majority of operators would use both suppliers in an effort to ensure supply locations and cost benefits both work advantageously. While the argument could be described as competitive in nature, in practice, it operates to increase barriers to entry for smaller operators.

It's common practice for smaller operators to compete on factors such as innovation, entrepreneurship and positive historic relationships. Restricting suppliers from entering and or staying in the market decreases all mentioned factors, ensuring operators and therefore the market remain price takers.

Adding to this, the industry practice or default reliance on inspection, accreditation and qualification practices where the outcome is a bottleneck funnelling towards one process or one system. Reliance on such systems remaining in place favours incumbent organisations able to control volume and price.

Higher market barriers to entry further prevent smaller suppliers from entering the market. First, is the aversion of operators to move away from incentive schemes that provide rebates and loyalty rewards. Second, the resources required to signal a prohibitive and risky venture alongside the regulatory impositions.

Smaller suppliers unable to compete on price and inventory are disadvantaged when competing with larger suppliers. Cooperation between these groups could afford some shelter benefits however the rebate and incentives adds another layer of complexity. Providers of precast, prefabricated, pre-used, modular<sup>1</sup> and pre-used modular components for the industry have significant hurdles first to enter and then operate within the industry. These types of products are attractive to Māori and other lower socio-economic consumers.

### Wider government functions

Government processes are slow to recognise and respond to the economic benefits of innovative factors that include matauranga Māori in construction practices, processes and regulations. Ultimately these changes could take place at a legislative level however the process is expensive and slow to establish and implement.

A 2015 report<sup>2</sup> suggests the outcome of Māori lower completion rates in education is a lower employment entry level into the construction industry however, 50% "...hold skilled positions as managers, professionals, technicians and trade workers". With self-employment in the construction sector amounting to approximately 1 in 5 Māori<sup>3</sup> there is a suggested direct causal link between the supply chain and business continuity. However, where there is a large number of small firms in the market there is higher volatility in the industry.

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<sup>1</sup> Housing for Migrants and Refugees in the UNECE region, 2019. < [https://unece.org/fileadmin/DAM/hlm/sessions/docs2019/Info\\_13\\_Housing\\_for\\_migrants\\_29\\_September\\_2019.pdf](https://unece.org/fileadmin/DAM/hlm/sessions/docs2019/Info_13_Housing_for_migrants_29_September_2019.pdf)>

<sup>2</sup> He kai kei aku ringa: The Crown-Māori Economic Growth Partnership, 1065-hkka-construction-report-february-2015-pdf. Building a Future, Māori in the Construction Sector, A report for the Māori Economic Development Advisory Board by the Ministry of Business, Innovation and Employment.

<sup>3</sup> Ibid.

Earlier this month the Reserve Bank signalled its interest in exploring avenues to ease regulatory access to capital for Māori. While the public relations exercise provided some excitement, the fishing expedition was met with some scepticism given changes in the resource management act and local council thinking and policy among other things are necessary to make any real change occur.

Changes must be made in the way the Building Act 1991 is applied in order to improve building approvals. A more efficient and effective method could be in regulation as opposed to legislation that fosters innovation, heralding a cultural shift in the industry.

## Conclusion

A whole of government co-ordinated approach addressing the crown resistance to include matauranga Māori, education and treasury to name a few.

Implementing legislation is slow, and costly and is constructed on the premise that the Crown is Sovereign. Traditional consultation with Māori is a tick-box exercise that engages to draw Māori into the Crown process and structure rather than recognise Māori sovereignty.

Mechanisms that hold the government to account where Māori are concerned, largely leave Māori outside of that process.

## Regulation

BCA reluctance to approve the use of new products indicates the market's reactive and therefore slow approach to innovation. Improvements are necessary not only to the current consenting processes but supporting CodeMark certification and BRANZ appraisals.

The implied outcome of this bottleneck is that only recognised and established products are approved. Following on from this is the halo effect whereby those associated suppliers are given preference when approval for new products is requested.

The negative effect for Māori (alongside other minorities) occurs on both the supply and demand sides. Consumers are affected by higher pricing. In the industry as employees, contractors, and self-employed Māori are affected in the following ways,

As industry operators on the supply side;

1. Price setting enables the organisation to set and control the market price to prevent or restrict price fluctuations in substitute or complementary goods.

Price setting reduces capacity and capability for Māori (as employees, self-employed and contractors) most are contractors or employees.

## 2. Product Supply

The tyranny of distance increases the supply chain challenges for Māori located in rural areas. Given that Māori makes up a higher proportion of lower socio-economic workforce and income levels, the situation affecting Māori living in rural areas is exacerbated.

## 3. Substitute availability

The above factors above (price setting and product supply) reduce competitive products and operators access to the market. Substitute goods are controlled by restrained regulatory practice (reliance on BCA over others) further increasing barriers and reducing innovation (OSM) and entrepreneurial practice (Regenerative Practice<sup>4</sup>).

## Conclusion

The economic viewpoint should be considered from a Māori perspective as an employee, self-employed, price taker within the industry. As a prospective home purchaser, the availability for choice and competitive pricing must also be considered.

## Alternative Practice opens the door for substitute products

Disruptive regenerative practices are successfully demonstrating how valuable outcomes can add value to those communities who adopt them. International practitioners of regeneration place a focus on social, environmental<sup>5</sup>, economic, cultural and intergenerational benefits. In many ways, the regenerative movement has taken a disruptive pathway to existence bypassing the regulative authority and adopting a common sense but strategic and informed approach<sup>6</sup>.

Many of these practices are based on matauranga Māori. Conferences bringing together practitioners of this industrial art form have researched and collaborated globally to test and share hypothesis and practices<sup>7</sup>. Many of these practitioners are internationally renowned in their particular fields within construction but Māori in academia and practice are leaders in this space<sup>8</sup>.

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<sup>4</sup> Whakaora: Our Thriving City Conference 28 July 2022, AUT < <https://ourthrivingcity.co.nz/resources/>>

<sup>5</sup> New Zealand as party to the Paris Agreement setting emission reduction targets for 2050.

<sup>6</sup> Associate Professor Amanda Yates, Co-Curator of Whakaora: Our Thriving City Conference, 28 July 2022.

<sup>7</sup> Ibid at 3.

<sup>8</sup> Ibid, <<https://ourthrivingcity.co.nz/speakers/>>



## Conclusion

The options to open innovation and entrepreneurship in this space exist, and are practised internationally. There is a wealth of knowledge and experience within Māori both historically and currently that continue to add value into the construction industry. Innovation of design, practice and including supply is critical.

## Key points

1. Historic failure to include Māori in decision-making to address concerns has disadvantaged generations of Māori and New Zealanders alike.
2. A whole of government coordinated approach is needed to address the crown, industry and social resistance to include matauranga Māori into all facets of the industry.
3. There is a disconnect and often complete void between the industry focus, strategic outcomes and benefits flowing to Māori.
4. We are concerned about the influence of larger operators such as Carters and Fletchers who continue to dominate the industry preventing innovation, competition and entrepreneurial behaviour.
5. A change is required to address legislative and regulatory changes occurring slowly and with a mere cursory inclusion for Māori as a stakeholder.
6. We are concerned that while there is a large Māori participation in the labour force and higher skill levels, there is a lack of consideration for Māori viewpoint in industry practice, regulation and legislation.

## Aspirations

1. We believe there is a willingness and need for a Māori strategy taking a matauranga Māori approach to inform policy and strategic direction within the industry where long-term benefits will flow to the Aotearoa New Zealand economy and society.
2. The Commerce Commission along with other government agencies have the ability to engage and include Māori in the decision-making process in a long-term, meaningful way. We would like to understand where this approach is and how it is progressing.