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The Commissioners
Commerce Commission New Zealand
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By email:

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Residential building supplies market study: Cross- Submission to Commerce Commission

This paper sets out the position of the New Zealand Building Industry Federation (NZ BIF) in response to initial discussions and the submissions made to date for the Commerce Commission Residential building supplies market study.

NZ BIF is an independent and neutral organisation which represents New Zealand's building supply chain. Our membership includes the full range of supply chain participants – manufacturers, importers and distributors – as well as other service providers as they relate to the building industry supply chain. We support, advocate, and seek to advance the needs of the wider building industry.

NZ BIF has encouraged its members to engage with the market study and to provide submissions. Given the range of industry participants we represent, we believe it is best for their individual submissions to stand for themselves. NZ BIF itself remains willing to engage with the Commission and provide a pan-industry perspective where the Commission considers such a discussion would be helpful. We encourage you to contact us for that purpose at any point.

That said, we offer some high-level observations about the Preliminary Issues Paper and the submissions received.

The scope of the study

The terms of reference for this market study are narrow. They restrict the study to a limited class of building products, relevant to limited parts of residential buildings. By contrast, the building supplies sector is vast (approximate estimates point to up to 800,000 product lines). The products within the terms of reference only make up a small proportion of what is available in the market and what goes into the overall cost of housing.

We therefore urge caution in extrapolating conclusions about factors affecting competition in relation to the products which are the subject of the study into conclusions about the building supply chain as a whole, including whether the building products supply chain as a whole is competitive and functioning in the best interests of consumers.

Similarly, based on the Deloitte 2018 study it is also clear that building products generally account for only a modest percentage of the total cost of a new home in New Zealand – somewhere in the order of 16-19%. The wider issue of housing affordability in New Zealand is affected by many factors, including the significant rise in the cost of land, labour, the cost of obtaining consent, and

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taxes. The issues within the scope of this study will only ever be a part of a potential solution to housing affordability. For those reasons it will be important to be realistic about what can be achieved through this process to advance the question of housing affordability.

Competition in the building materials sector

As the Preliminary Issues Paper recognises, we do not consider that it is self-evident that there is a “problem” with competition in the building materials sector. Despite the rapidly evolving challenges of the COVID-19 pandemic over the last 24 months, including significant price increases for freight, imported materials and products and labour, the building supply chain has shown a high degree of resilience to continue to meet unprecedented demand for housing.

To date there have been at least four studies (including the 2018 Deloitte Report) confirming that building material prices in New Zealand are not meaningfully more expensive than similar markets. There are also market differences between New Zealand and Australia (which include transport costs, less scale, different products and designs, etc) and which may explain the differences which exist. Previous studies by the New Zealand Commerce Commission and the Productivity Commission have not found any reliable evidence of competition concerns.

In this context we agree with the point made in the Preliminary Issues Paper that the existence of market concentration and/or vertical integration do not necessarily mean there is a problem with competition in the sector. The 2018 Deloitte report observed that while there are some high market concentrations for manufacture of key products this reflects the uniqueness of New Zealand’s geographic / demographic small size relative to other jurisdictions like Australia. The nature of the New Zealand market also means that for some building materials, vertical integration is an essential part of delivering competition and we concur with submissions that correctly assert “its existence [does not] provide any evidence of impediments to competition.”

Reform of regulatory settings needed

The cost (including time and delays) of New Zealand’s regulatory and consenting environment for building supplies and construction are a major driver of housing prices. If New Zealand’s regulatory environment (including the cost of approval and compliance for new products under the Building Code) could be made more efficient NZ BIF believes it would significantly reduce the cost of building supplies, as well as broaden the scope of alternative or substitute products available for the building and construction sector.

New Zealand’s Building Consent Authorities are both expensive and slow in the consenting and approving the use of new products and alternative solutions. This has limited innovation and the introduction of green building supplies and led to a sector where the pragmatism of delivering a consented, on-budget project dominates over the ultimate quality of the built environment. We strongly support consideration of the impact of regulatory and standards systems on competition and choice in the building supplies market in New Zealand as part of this market study.



Conclusion

We are keen to work together with the Commerce Commission and the wider building sector to find solutions to the cost of housing in New Zealand. But we also know it is not building products alone but also a host of other factors – including increases in the cost of land prices, the cost of consenting, and the cost of compliance for new products – that play a part in increasing housing costs. The narrow scope of the current market study means that, in this process, the Commission will only be able to consider a (small) number of the factors relevant to those increases. Both the Commission and policy-makers should keep that in mind as the study proceeds.

Yours faithfully

A handwritten signature in black ink, appearing to read "Julien".

Julien Leys
Chief Executive