

“Marathon to fix a severely broken market has started”

**Final post conference Submission to Commerce Commission, Residential Building Supplies
Market Study**

Summary Points

- What can reasonably be achieved in the final report – which will start the journey to reducing residential housing construction costs closer to the international benchmark costs.

- 1** Fundamentally reform BCAs
- 2** Abandon BRANZ and recommend new modern organisations benefit from the levy
- 3** Set OSM targets (recommend 2026)
- 4** Set EPC rating commencement date (recommend 2032)
- 5** Benchmark the cost of NZ social house construction versus international best practice
- 6** Use EU competition conventions in restraining market incentives of vertically integrated manufacturers, distributors, and construction companies.
- 7** Publish a 5 year follow up plan, to diagnose and monitor the performance and initiate repair of more broken market structures within house construction.
- 8** Redefine and publish the problem the ComCom is trying to fix which is *“it costs 4x the international benchmark to assembly economy segment houses “*

Summary

Draft Report item	Problem Diagnosed	Suggested Fix
Regulatory standards	Too complex, no competition	Publish competition as an objective. Review and move to 3 rd party insurance
Specification of materials	Market power creates monopolies	Remove branding in the process , particularly in Govt Procurement
Competition between suppliers	There is none, vertical integration removes incentives	Force structural or operational separation
Competition between merchants	The 3 rd operator (who initiates all the competition) struggles as its not vertically integrated	Force government procurement through the 3d operator
Rebates and loyalty	Influence swamping fractures competition	Disclosure of all rebates and entertainment
OSM introduction	There is no scalable OSM in NZ OSM is needed in NZ to meet 2032 EPC targets	Govt Procurement must facilitate circa 50% of Scalable OSM by 2028
Green Building Materials	Behind OECD benchmarks, failing to meet Climate change Targets	Set staggered use targets from 2028 to 2040

Government Procurement	The numbers illustrate worst practice and Government fertilising abusive monopolies	Greenfield Scalable construction enterprises, move to promote competition and new products
Plaster Board Case Study	Illustrates power of regulatory capture	Time for structural separation and study of impact on productivity
Structural Timber Case Study	Pyrrhic Competition exists	Need 3rd player at scale and at Technology
Concrete and Cement	Looks like Pyrrhic competition when the international benchmarks exist	Illustrates need for new scale at house assembly
Section 36 changes – does this mean anything	Some rebates will become illegal	
Reform of the Commerce Commission	Mkt Studies is a new process, Building Materials and construction is a huge sector	Broken Markets division, needs to exercise ongoing competition scrutiny of important complex market fixes

Comment on the conference and major points of reference

Sausage rolls were the MWNZ team have ever tasted at any ComCom conference, and we would like to thank the catering team. We urge publication of the recipe.

We thank the Commission for a professionally run conference with an agenda of pertinent items,

Our major Feedback discussion items are

- 1) BCA reform
- 2) BRANZ reform
- 3) Green Building materials introduction
- 4) Structure of the current wholesalers and distribution networks
- 5) Introduction of Proper OSM
- 6) Targets the Commission should set for this broken industry and broken markets
- 7) Notes from Plasterboard Case study
- 8) Notes from Structural Timber
- 9) Comments to support the Māori
- 10) Where is everyone? why we were concerned at the lack of participation

BCA reform

MWZN believes a fundamental reform is needed, but a focus on

- 1) International benchmarking
- 2) Less BCA's
- 3) Centre of excellence BCA
- 4) Approx. 5 rather than 65 BCA/s
- 5) Changed language on materials, competition, OSM and "economy Market segment " in BCA processes

BRANZ reform

BCA's levy tax on the construction industry to research materials \$40m of taxes are wasted and evaporated in silly reports, misguided academic PhD pursuits and Brand Name exploitation.

MWNZ calls for the disbandment of BRANZ and a completely new start, with an organisation which works for consumers, not the incumbent industry providers.

Sir Keith Holyoke assisted in the set up of BRANZ and he was the last politician to review its progress, Sadly Sir Keith died almost 40 years ago, and the organisation has not benefited from comprehensive review since the 1970s. Its noteworthy that the levy is revenue based, when essentially, it's a fixed cost review program. BRANZ has become a private university, for no public benefit.

The evidence presented clearly by Elephant board in the Conference illustrated why BRANZ must be reformed, Fletcher owned GIB board, sponsored 17 organisations which inevitable impact their products, particularly at the regulatory level .(see appendix 1)

Parts of the BRANZ levy should be redirected to

- 1) **Consumer NZ.** Its outrageous a creditable organisation like Consumer NZ doesn't activity participate in answering the question why does it cost 4x the international price to build an economy segment entry level home . Its outrageous that such a complex industry has no scalable organisation representing consumers in such a large part of household budget. It represents Central govt failure, and lobby over load that the industry suffers from . *Money recycled from BRANZ will facilitate this .*
- 2) **OSM** with the Government's house building progress being so large , this has pushed costs higher , OSM advocacy and cost out research needs more attention, this is why some of the BRANZ money needs to go here , without "independent money " OSM NZ is *Influence washed* with incumbent money.
- 3) **Māori** , specialist money and outcomes are needed to fix Māori housing outcomes, but also the Māori participation in the industry . Specifically senior tradespeople, BCA certifiers architects. Using some the of BRANZ money , specifically to help Māori would be a better allocation that the incumbent levy uses , where Sir Keith Holyoake's' government were not focused on Māori Outcomes

Green Building materials introduction

We urge the commission to publish Draft Targets and create a debate as to the timing of this

Item	Comment	Target numbers
Introduction of EPC rating	Its inevitable that NZ will catch up to the rest of the OECD and start heat rating buildings and green rate them	2032
Introduction for OSM target	OSM targets are needed to <ol style="list-style-type: none"> 1) Reduce construction waste 2) Reduce cost of EPC rating compliance 3) Advance productivity 4) Reduce cost 	50% of All Govt Built houses by 2030

Introduction of compulsory EPC rating for all rentals	This is an inevitable step as a pathway to energy efficiency	2032
Introduction of mandatory recycling for all demolition	This needs to be staggered starting at 5% moving to 50% over 15 years	2028
National EPC introduction document	This is a \$600bn regulatory step , (1.2m houses x capital cost) ex land . This needs consultation, the Commission needs to initiate this , as cost and competition will mean marginal costs will reduce not expand	2024

ITM 's position in this industry transformation cannot be overlooked, ITM behaves like a 3rd operator, (which isn't vertically integrated) ITM provides all the marginal competition, innovation and change . This needs to be considered in a revised review of the pressures placed on them by materials suppliers, and the large vertically integrated competitors.

Structure of the current wholesalers and distribution networks

MWNZ feels that the Commission is misguided in the lack of focus on international rules on vertical integration, and what actually the commission can do to improve markets. Structural separation (or at least operational separation) , is something that it can do . The Commerce Commission cannot police every nightclub, pub and building site in the country to improve competition, but it can make a credible recommendation to separate businesses structures that inhibit competition.

Its noteworthy, Saint Gobain is selling Jewson's in the UK , (its distribution arm) and its noteworthy that Fletchers have Manufacture , distribution and Construction and roading unheard of structure anywhere in the world .

Only a naïve teenager would think that fletcher distribution is not concerned about its sibling companies.

MWNZ feels that the game theory analysis could be improved in the final report as to the impact that ITM has , it is the 3rd operator , it doesn't; have vertical integration and its scarted of what Fletcher and Carter could do to it . there was a lack of "new competition people " at the conference . Had those in house assembly business attended they would have testified that ITM is the best logistics and service desk by far . Franchised owners, know their clients and sequencing and logistics is a major major issue for productivity and price competition in building. ITM improve competition in service (productivity) as many small builders don't have logistics teams (they outsource to ITM sales people)

More should be done to ensure that ITM preserves its vibrancy and improves its status, particularly around the awarding of government procurement , (** Plasterboard working example explained offline)

Introduction of Proper OSM

Scale and continuity need to be set up for major league contractors – who are not vertically integrated on day 1 .

Targets should be set on

- 1) % of govt procurement in OSM
- 2) Scale of orders and continuity (7 yrs and 3k pa)
- 3) EPC ratings for OSM outputs
- 4) Open source procurement and sales (so new supply chains can be opened up to wholesale
- 5) Māori ownership % of OSM contractors
- 6) Māori off take of the production

Targets the Commission should set for this broken industry and broken markets

We urge the commission to publish conclusions on what it would take to create a vibrant “economy class market segment “ so the kiwi consumer and taxpayer stops using Aston Martin Assembly techniques to build Toyota Corollas.

We urge the commission to publish empirical targets for the following in the final report

Issue	Comment	Solution
Target price per sqm for govt build social houses	NZ Taxpayer builds the worlds most expensive social houses	Scale, OSM & new supply chain will start the process to reduce pricing ,
Year to start EPC ratings (Energy Performance Certification)	Its inevitable this journey will begin	The Commission need to recommend a Date and conceptual terms to this introduction
Year to start making EPC “ D “ mandatory in all rental houses	OECD benchmarks will mean eventually houses need to	Starting in 2032
Passive heat targets for sun	The “ <i>Tikanga Process</i> “ inside Māori needs to be used in a wide application	Starting in 2026
Year target to start mandatory recycling of demolition works	This would be useful in the final report, as it matches up with the use of Green building materials and also reflects 50% of NZ houses need to be rebuilt	Starts in 2028
Series of target dates for bench markets in product pricing	Pricing and comprehensive installation times need to be published	
Series of target dates to attach competition metrics	Social house construction has only just been restarted; how can you get to somewhere that you don’t know where it is	Price and volume targets need to be revisited
Māori OSM Distribution targets		20% of OSM targets should be Māori deliveries

Notes from Plasterboard Case study

We urge the commission to research further the “time to install “concept in more competitive plasterboard markets . we urge the commission to see past the “we are great service to our clients “ and look at the total cost to install including the Productivity differential as a consequence of the extra monopoly preservation, gig . Its noteworthy to understand how there is no incentive to attach the plasterboard to panels (in OSM steps) as it would lead to a fracturing of the market .

Notes from the Plasterboard crisis assist in understanding government procurement better . the NZ govt , was on target to buy approx. 11% of all Gib board (commercial buildings , Schools , corrections , Défense dept , commercial buildings Kainga Ora houses etc) . The moment it was able to switch supplier, not only did it loosen supply but also it gave creditability to other product lines and systems.

Illustration of what worst practise government procurement is, materials and productivity systems aren't in the competition mix, because of the sub scale process that occurs inside the productivity study.

The Commission need to consider the success in public house construction numbers as recent as 6 years ago the NZ govt was building less than 100 houses, next year they are on budget to build over 7000, this kick start of a entire industry , needs fine tuning , we urge the commission to benchmark on what government scale means to procurement , and what agency should handle it . Also should the state monopolise social house procurement at Scale or should they follow OECD best practise have several agencies compete at scale for procurement of high quality assembled houses .

Notes from Structural Timber

The structural timber industry looks like a classic, 40%, 40% (20x1%) game , this means a duopoly with a fringe and high cost producers setting real prices and the 2 x 40% taking a rent .

We urge the commission to visualise a vibrant well capitalised scalable 3rd challenger (possibly by consolidation and new tech well capitalised challenger) , this would be financed by long term scalable contracts

Comments to support Māori

MWNZ is actively involved in supporting Māori ,in projects , ideas and research , MWNZ is not Māori , and is concerned that its support is tone correct to the urgency and stress of Māori issues . We apologise in advance if we make a Māori protocol issue in sharing our best ideas to advance Māori housing and direct and real participation in the economics of provision and business of houses . We applaud the Māori only session 3 , and the Supermarket Māori Hui

MWNZ best ideas list are

- 1) Māori contractors need to benefit from a specific empirical target with regard to government procurement (ie 15-20% of Kainga Ora houses need to be built by Māori Contractors. Owned by Māori

- 2) Māori need access to Govt Procurement processes and pricing and scale
- 3) BRANZ Revenue of approx. (15%) \$4m should be directed to a renamed Māori Building Council , to be renamed, this organisation should deliver scale benefits, skills ,Ownership and compliance to Māori

Where is everyone? why we were concerned at the lack of participation

MWNZ was concerned that there were not enough submitters to the process and a lack of substantial engagement by other organisations interested in affordable housing. And there was no international benchmarking and travel to reference sites.

We believe that the final report should publish some recommendation on how to attract more parties into this debate

- Consumer NZ ,
- Housing foundation
Kainga Ora
- Community Housing Providers
- Large IWI groups
- Salvation army
- Knauf
- CSR
- China National Building Materials
- JG Gardner
- Golden Homes
- Other group builders
- Hugh Green group

These are all creditable well-respected organisations who needed to be in the framework of suggesting recommendations. Not every group has a public policy department to submit from, for this reason we believe on site interview capability needs to be built by the Commission to meet with a diverse range of industry and Consumer facing groups

The following issues aren't considered and need to be studied and included in the Final report.

Item	Impact
International price point difference	In the EU plasterboard is 10x cheaper
Installation time differences	In international markets easier installation systems mean suppliers compete on installation systems.
The impact of the "over serviced "distribution system	Over service is a technique to protect of a monopoly. It's not illegal , however it does damage consumer utility , because in this case the productivity costs are not being factored in.
Should challenger operators be able to provide rebates	Should there be asymmetric rules around rebates, Market power definition needs to be crafted simultaneously to reviewing rebates.

We believe that the capital intensity of the Fletchers budget of \$400m for the New Tauranga plant is misleading	We think the ComCom should make its own enquires as to how much a plasterboard plant costs and what the transport costs are for imported board .
Further detail be provided about the cost and profitability of installation systems	Its essential that the final report include international benchmarking in productivity differential for more competitive plasterboard markets (and other products if possible)
Plasterboard is a gateway product, its ordering and sales provides superior market intelligence of where the big scalable projects and orders are .	The vertical integration problem should be re-examined considering the benefits of dominance in gateway products. The plasterboard market is replicated in other downstream less visible products. The KBS impact is huge strategically
Market Power review	Too much emphasis in the draft report was on the regulations and specification, not enough on the impact that network effects and market power had , along with marketing lubrication from rebates , parties , and training courses
Hawkins plan to import BPB (British Plaster Board) , in 2008 ,	The final report should have a case study catalogued as to why this group weren't able to make a success of this project. The CEO of this project is available for discussion and statements
Kanuf Withdrawal from the NZ market	The final report should have a case study as to why this group pulled out . The CEO of this project is available for discussion and statements.
Elephant Board	<i>The Final report should have a case study as why NZ's longest serving competition here, hasn't been able to break through 3% market share in plasterboard</i>

- 1) Kainga ora board carries a tremendous burden, with its responsibilities to its tenants , communities and its stake holder , MWNZ assert that its reasonable to ask should it also be tasked and transformation of the construction markets ,? And if so what is its formula for fixing this. By its sheer scale, this is the impact its having. The ComCom Final report , must publish a problem definition as well as a road map for continued work on construction affordability . We note the fabulous work vested interest groups like the Building Accord and the Building Industry Federation have done , - But no Discussion of how to reduce Costs !

We urge the Commission to take a leadership position on industry reform to deliver lower construction costs , via more competition , more innovation and a better market structure.

What we would like to see in the final Report

Reference to Draft Report	Comment	Reference and resolution
What is international best practice in social house assembly	The Draft report is a commendable start, of a complex subject. Consumers want to know what a realistic aspirational target for construction costs is, and how much pricing could come down (MWNZ target by 35%)	10 benchmark countries can be used (Ire,Den, Swe, Fin, Nor, UK, US, Sol , Au) etc The best countries are the similar sized similar economies of the EU
Scale OSM Investment criterion	OSM is no silver bullet, but it's a successful step forward for lower costs, less waste and lower carbon foot print	Its essential that the final report sketches out some draft numbers, to catalogue what needs to happen to secure scalable , reduced cost basis OSM
Plasterboard capital costs	3 rd party verification of how much a plasterboard plant costs	MWNZ believes a plasterboard plant can be built for \$75,m the Fletcher number needs 3 rd party verification
38 OECD countries have similar BCA processes	International comparison matrix in BCA protocols and costs	This is such an important issue we need Commission Staffers to get on the plane and study first hand the best 5 and publish this in the final report
What is a sensible definition to use in segmentation of different housing systems	Segmentation documentation and leadership in drawing lines on Luxury, Premium , Economy & renovations . in Housing. The simple folk at MWNZ only understand 3 market segments, Economy ,Premium & Luxury . the problem is that in NZ we use premium house build systems to build economy houses, - that's why we pay 4 x too much for entry level "affordable houses "	NZ is the only country in the OECD without a scalable Social house assembly industry . NZ only started in 2017 building affordable houses at scale , Because No industry existed in NZ, Kainga Ora use luxury house building techniques to build its houses.
Market shares in Merchants	We would expect to see a break out of Market shares by Trade , DIY and Scale of accounts	Much more granular analysis of the components of the customers and trade v DIY scale need to be included in the final report
Margin on Margin Analysis (ComCom must look at CCC producer statement culture which increases Margin)	A diagram needs to be prepared showing the difference between NZ v OECD	There is a merchant intermediary problem in NZ for economy segment builders, in that everyone uses merchants and subcontractors

EPC rating introduction	Impact of EPC (Energy performance Certificates) ratings in amount of construction that needs to be done (EPC is a rating given to a building in order for it to be sold or rented) , while its illegal to rent a house with under a D EPC rating , the second hand house market delivers sensible market based signals which help introduces this change .	Its inevitable, that EPC ratings (or similar) will be introduced in NZ , they are common in Europe . Just like the ending of petrol and diesel cars, there is a long 15 year runway to make this change. Similar discussion needs to take place in the final report , as it hugely effects how OSM is introduced and what the Refit v replacement market looks like for houses to secure the inevitable EPCs
Rebates and incentives for inferior products	Impact that rebates and misinformation allow Acqualine to be used in shower boxes in NZ, where they are not high enough to be used internationally.	Its strategic that in wet lining areas (particularly in shower boxes), that Aqualine is used , its illegal in many other jurisdictions , its noteworthy Fletcher residential doesn't use it .What it does it reflect that these rebates are fracturing quality building systems
Replace the word Tried and Tested	Inert the word <i>“those incumbent materials which benefit from Network effects, market power and weak competition law</i>	We believe the Commissions language is bizarre, Kuanf's products are tried and tested , and most of the competing materials , this T & T , language is incumbent manipulation of the commission

What are the main numbers and numerical targets that need to be set

Reference to Draft Report	International benchmark	Where to source and Reference the numbers and benchmarks
OSM targeted cost reduction	OSM at Scale reduces costs by up to 40% and reduces waste by 80% , the average OSM plant needs \$200m in capital and an order pipeline of circa 10,000 units , = These operating metrics need to be researched validated and published	We feel that the final report should catalogue international best practice on social house OSM construction. Leadership in a highly regulated market comes from the government and big customers, in this case the Government is also the biggest customer.

Relationship between competition and Productivity	Impact of productivity in installation of more competitive plasterboard markets In more competitive markets Panelisation has advanced from pre cut (which is popular in NZ)	More competition in structural timber would lead to better environmental outcomes
Benchmarks in OECD	List of top 10 peer group countries costs of social house assembly on per sqm basis	The EU commission publish benchmarked data, , this needs to be included in the final report
International supply chain comparisons	\$ of social houses built internationally that do not have materials invoiced via merchants.	A new supply chain chart needs to be published, which shows SCALE , SCALE and SCALE , in NZ ,
Differences between 2017 , and 2023 the Government became the	We believe there needs to be more empirical analysis of the impact of Government procurement in the housing market building materials markets, both now and for the next decade	Additional paper on the scope of the study required the Commission to look at this and the impact

Sustainable and Green building Points in the Final report

We urge the commission to work with the Green Building Council, MWNZ and ABC and other consumer groups and agree a draft pathway to affordable EPC ratings in NZ houses within a 20 year time frame, We urge the setting of green targets , including recycling of NZ native timbers . The use of OSM, CLT and LVL should also have targets set , and a discussion on whether its time to take back control of the NZ forestry industry needs to be canvassed.

We feel Green Buildings Recommendations should cover the following items

What is the pathway to an EPC style rating for all NZ homes.	The final report should proposal a draft date for discussion on when EPC ratings are introduced to NZ houses, New , and Rental and retrofit
What is the impact of OSM for new build and retrofit economics in the new EPC environment	The final report should deliver some empirical draft targets for OSM , which are benchmarked to OECD best practise , in particular Carbon and Energy use benchmarks . EPC ratings are synergistic with OSM and the recent new land zoning in our cities, the ComCom must try to unlock these synergises in their final report
How will market forces impact the prompt introduction of carbon neutral construction & High EPC ratings	A regulatory system will reward investors, its easy to understand why Electric cars trade a premium , they are socially desirable but also more economic. – They are rated, A rating system on Green building systems and EPC would enable the secondary market to reward investors , and therefore speed up the penetration of new materials and new applications (le High EPC rated houses would trade at formal premiums in second hand sales)

Comments on the recommendations

NZ taxpayer pays 4x the cost of construction that is the best international benchmark, and NZ is in the bottom quartile of Green Building delivery, there is much work to do to transform this. The final report should promote a transformation process which is not financed by vested interest incumbents and one which runs for the rest of the decade.

Thank you for Considering the position of Monopoly Watch NZ

Tex Edwards
MWNZ

Fletcher Footnote

MWNZ and its team have been the beneficiary of Fletcher hospitality (arguably the best in the industry,) MWNZ financial analysts have been to BBQ's nightclubs ,pubs , restaurants , sporting events, International workshops, offsites, meetings , conferences , training meetings , exclusive entertainment boxes , private luxury travel , boating trips ,chopper charter, fishing adventures, horse and car meets . If rebates are ended we are expecting more advanced entertainment , including Tennis at Wimbledon , Parties in St Tropez and Formula 1 Racing

Appendix 1 the defining presentation at the ComCom Conference was Elephant Board's list of influence washing by Fletchers organisation

Non-exhaustive list of GIB sponsorship of key Building Industry Associations.

- National Association of Steel Housing. (NASH) Key Sponsor
- The Acoustical Society of NZ. Gold Sponsor
- The Institution of Fire Engineers: Platinum Conference Sponsor
- NZ Institute of Building. National Partner
- The NZ Institute of Building Surveyors. Gold Sponsor
- The NZ Institute of Quantity Surveyors. Platinum Sponsor
- NZ Certified Builders (NZCB) . Strategic Partner
- Architectural Designers of NZ (ADNZ): Principal Partner
- NZ Institute of Architects (NZIA) Conference: Gold sponsor
- NZ Institute of Architects (NZIA) Silver Sponsor
- Master Builders House of the Year Awards: Sponsor Family
- The NZ Commercial Projects Awards: Key Category Sponsor
- The Tile Association of NZ: Premier Sponsor
- The Waterproof Membrane Association: Sponsor of the Code of Practice paper
- Fire Protection Association of NZ. Platinum Member
- The NZ Building Industry Awards. Key Sponsor
- 'Design Experience' (Part of CMS) Key Sponsor
- The Association of Wall & Ceiling Industries. Principal Sponsor
- The Building Skills Maintenance Organisation. Silver Sponsor
- Offsite NZ Key Partner
-
- Building Officials Institute of NZ (BOINZ): **Gold Partner** (exclusive club of two)
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What effect does BOINZ Sponsorship have?

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Excerpt from Membership Benefits

Access to professional information and publications

Branch Meetings are held regularly and involve technical presentations, training workshops, site visits and networking opportunities

Regular E-News Updates keep members up to date about the latest industry developments

Straight Up Magazine (quarterly) is designed with building control professionals in mind

BOINZ Website publishes news and media releases and is member's access to resources

Technical Discussion Forum - a place where members can connect with other members, ask questions and share ideas and knowledge. The 'Winstones Wallboards Technical Help' thread is monitored by GIB technical experts for advice at your finger tips

KEY POINTS

Market Study – Building Materials

- 1) Kainga ora is the countries' largest builder now, we need critique of its procurement numbers & protocols it's a success in construction, but needs tuning into improved cost and competition basis**
- 2) We need international benchmarking on costs per Sqm in Social housing, link Material competition to Productivity**
- 3) BRANZ needs to be abandoned and new organisations must receive the money**
- 4) The final report needs to discuss Game Theory of vertically integrated business**
- 5) The vertical integration analysis seems to be wrong it needs peer review**
- 6) The Govt is back in the house building industry, its notched up some considerable successes, but like any start up it needs a review to OECD best practice**
- 7) Targets and empirical review of OSM needs to be in the final report**
- 8) The plasterboard case study is a case study with what's wrong with the NZ industry**
- 9) The BCA recommendations make sense, please benchmark internationally**