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The Commissioners
Commerce Commission New Zealand
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Residential building supplies market study: Response to the Preliminary Issues Paper.

This summary outlines Fletcher Building's high-level observations on the issues raised in the Commission's Preliminary Issues Paper. Our responses to the specific questions are in the Annexure.

As Fletcher Building, we can trace our roots back to 1909, when Sir James Fletcher built his first house with Albert Morris in Dunedin, while parts of our business, such as the Winstone businesses we acquired in 1988, can trace their roots back into the 1800s. Today, we employ over 9,000 people in almost every region of New Zealand and make a significant contribution to both the national economy and many regional economies, including through the operation of around 110 manufacturing facilities nationwide (including more than 80 sites outside of the three main centres).

Our vision is to be the leader in New Zealand and Australian building products and solutions, with the purpose of improving the world around us through smart thinking, simply delivered. To achieve that, our strategic goals are focused on:

- our customers, through market leading customer solutions and services, and leadership in innovation and sustainability;
- our shareholders, through ensuring lowest delivered cost relative to the solutions and services we provide, industry top quartile economic performance of each of our businesses, and growth via disruption; and
- our people, through our commitment to ensuring zero injuries every day.

Unsurprisingly, we agree that residential construction is a fundamental part of the economy and is important for the wellbeing of New Zealanders. And, given the importance of housing to New Zealanders and the policy concerns with the price of housing, we acknowledge the desire to assess whether competition in building supplies markets is working as well as it can for consumers and, if not, what improvements could be made that would benefit New Zealand overall.

We believe that building supplies markets are competitive and that competition is generally working well for consumers.

From our perspective, there are many factors that drive outcomes in the relevant markets, including New Zealanders' preference for bespoke houses, the fragmented nature of the building and renovating sector in New Zealand, New Zealand's small scale and geographic isolation from major markets, and a regulatory regime that results in Building Consent Authorities (**BCAs**) holding significant residual liability risk in the event of building or product failure, leading to an understandably risk averse approach to consenting and hence which products to approve.

We encourage the Commission to look at the impact of all these factors to ensure New Zealanders achieve the outcome they want when they build or renovate their home. In particular, the Commission should carefully examine whether the regulatory environment is as efficient and effective as it could be for a country of New Zealand's size and demography. We believe reform in this area could produce beneficial outcomes across the entire building materials supply chain.

We also agree with the Commission that it is important to assess whether New Zealand's regulatory settings are fostering innovation and sustainability in building supplies.

Climate change and the need to reduce carbon emissions is one of the most important challenges facing New Zealand, and one of the most significant disruptive forces the building supplies industry has faced. We were the first New Zealand company in our sector to set a science-based target for carbon reductions and are committed to reducing our carbon emissions by 30% by 2030 (from FY18)[1], and we are investing significant time and money to continuously improve the way we design, make, and supply our products and services.

Meeting the climate change challenge and incentivising investment to promote competitively supplied "green" building materials require a regulatory environment which ensures that all products supplied in New Zealand – whether manufactured domestically or internationally – face the same incentives to reduce carbon usage so that the most efficient products are used in New Zealand. We encourage the Commission to closely examine whether current regulatory settings will achieve this.

We turn now to some specific themes.

The scope of the study is too narrow to make a meaningful difference to the cost of housing

By our estimate, the proposed focus products would account for less than 8% of the cost of building a new house. In our view, this is too narrow to deliver a meaningful difference to the cost of housing for New Zealanders or to confirm that building supplies competition is working in the best interests of consumers. There are three reasons for this.

First, as Deloitte estimated in its 2018 Study[2] (and as the Commission acknowledges in the Preliminary Issues Paper), building materials in total comprise only approximately 19% of the residential development cost of a typical double story house in Auckland, which is one of the most common build types in that region.[3] Land, labour, the cost of obtaining consent and taxes are all material contributors. In our view, these factors – land and taxes in particular – are much greater drivers of housing affordability than building supplies.

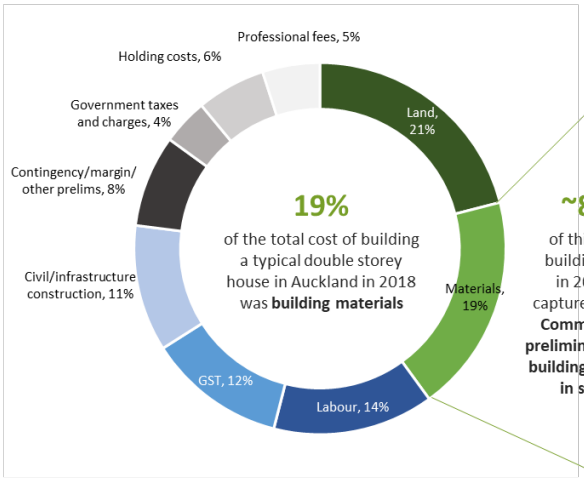
Second, while 19% is already a relatively small proportion of the overall cost of building a house, the preliminary list of in-scope "key building supplies" (shaded light green in the table below in Figure 1) comprise less than 8% of the total cost of a house, i.e. less than half of the value of building materials used in a house build.

[1] All references to FY are to 30 June.

[2] Deloitte Access Economics "Cost of residential housing development: A focus on building materials" (December 2018). All references in this Response to the relative contribution of the cost of building materials to the overall cost of a new build are to this Study.

[3] Statistics New Zealand.

Figure 1: Cost contributors to a double storey house in Auckland in 2018



Percentage of total material cost or house

	Building Materials	% of total materials cost	% of total building cost
1	Framing timber	12.4%	2.4%
2	Kitchen fittings	8.5%	1.6%
3	Plumbing	7.4%	1.4%
4	Concrete	7.4%	1.4%
5	Windows	7.2%	1.4%
6	Electrical materials	5.1%	1.0%
7	Built-in joinery fittings	4.7%	0.9%
8	Tiles	4.7%	0.9%
9	Paint	4.4%	0.8%
10	Weatherboard	4.2%	0.8%
	Total Top 10 building materials	**66%**	**13%**
11	Other wood and timber	3.8%	0.7%
12	Carpet	3.5%	0.7%
13	Reinforcing	3.1%	0.6%
14	Steel eaves gutter & downpipes	2.6%	0.5%
15	Steel roofing	2.6%	0.5%
16	Particle board	2.5%	0.5%
17	Plasterboard	2.5%	0.5%
18	Hardware for doors	2.3%	0.4%
19	Garage door	2.3%	0.4%
20	Insulation	2.2%	0.4%
	Others	6.9%	1.3%
	Total	**100%**	**19%**
	The Commission's preliminary list of in-scope supplies	**41%**	**8%**

Source: Deloitte Access Economics,
Cost of Residential Housing Development: A focus on building materials, 2018

If the underlying policy concern is the cost of building a house, it is difficult to understand why only four of the top 10 and only eight of the top 20 building supplies Figure 1are considered potentially in-scope.

Four products supplied by Fletcher Building (all currently on the Commission's preliminary list of building supplies in scope) are ranked 15 (steel roofing), 16 (particleboard), 17 (plasterboard) and 20 (insulation) in terms of value of building products used, but other higher value products such as plumbing, electrical materials, paint and carpet are excluded. These excluded products contribute significantly more to the materials cost of a residential building. For instance:

- paint (excluded) accounts for nearly twice the relative cost of plasterboard (included) – plasterboard is only around 0.5% of the cost of a house and only 2.5% of the total materials cost;
- electrical materials (excluded) are 2.3 times the cost of insulation (included); and
- carpet (excluded) is a larger contributor to the cost of a house than each of plasterboard and insulation (both included).

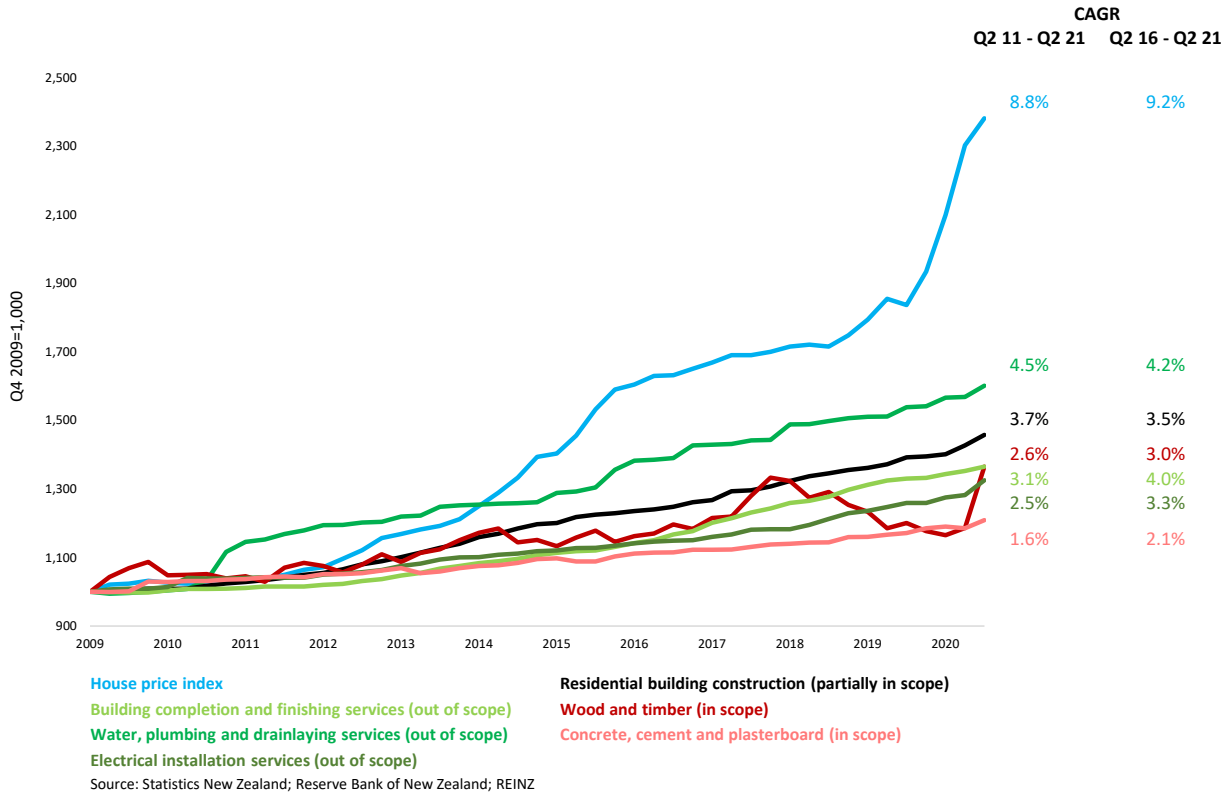
The Preliminary Issues Paper sets out the Commission's view that the inclusion of plumbing and electrical supplies would add significantly to the scope of the study and that, in the Commission's view, they were not intended to be included. We disagree on both counts. The Commission is already proposing to regulate the scope of its work to focus on only some products (a point we return to below) and could simply deprioritise other lesser value products to control scope as the study progresses. Furthermore, the Terms of Reference appear to encompass these building supplies so, conversely, their exclusion will undermine the ability for the competition study to result in meaningful change for consumers or confirm there are no issues in relation to those products.

Figure 2 below shows price indices for house prices and certain building products and services since 2009, measured by Statistics New Zealand and Reserve Bank of New Zealand. This chart illustrates:

- house price movements have exceeded the residential building construction index;
- price movements for 'wood and timber' and 'concrete, cement and plasterboard' (in-scope products) have tracked at or below the residential building construction index for most of this period; and

- over the last five years, CAGR of the price indices for 'water, plumbing and drainlaying services' and 'electrical installation services' (which are proposed to be excluded from scope) have tracked above that of the in-scope products shown in Figure 2 below. [4]

Figure 2: Movement of select price indices – Q4 2009 – Q2 2021



Source: Statistics New Zealand; Reserve Bank of New Zealand; REINZ

Finally, it appears that the Commission proposes to focus on only *some* in-scope products, meaning the actual proportion of the cost of a house that would practically be in scope would be even less than ~8%, and likely considerably so.

Turning to the in-scope products which the Commission intends to focus on, we are concerned by the suggestion that the fact a product is supplied by either Fletcher Building or Carter Holt Harvey (being the so-called two major vertically integrated suppliers) could be a relevant consideration. In our view, there is no sound policy justification for having regard to the *identity* of a supplier when determining which products to focus on.

Nor should the fact that Fletcher Building and Carter Holt Harvey are vertically integrated (in the sense they operate at different levels of the supply chain)[5] be a relevant consideration. While the Cabinet Paper initiating this competition study states "there is a high level of vertical integration in the supply chain" as "an indicator" that there are impediments to competition,[6] this is based on two misunderstandings.

[4] Statistics New Zealand. Data for building products and individual product time series data is not available from Statistics NZ. "Electrical installation services" is a proxy for electrical supplies; "water, plumbing and drain laying services" is a proxy for plumbing; and "building completion and finishing services" is a proxy for other finishing services in a residential build.

[5] Unless otherwise noted, in this Response we use the term "vertical integration" in the way the Commission has defined in its Preliminary Issues Paper, i.e. "the combination in one firm of two or more levels of the supply chain. For example, one firm acting as both a Manufacturer or Merchant.", i.e. notwithstanding the individual businesses at different levels of the firm may operate entirely independently. This contrasts with it being used to describe a firm which has tightly integrated its operations across the functional levels.

[6] Cabinet paper "Initiating the Third Commerce Commission Market Study" (22 November 2021) at 17.1.

- The first misunderstanding is that the presence of vertical integration is an indicator that there are impediments to competition. This is incorrect. In and of itself, vertical integration is neither "bad" for competition or consumers, nor does its existence provide any evidence of impediments to competition.
- The second is that the supply of building supplies exhibits a "high level" of vertical integration. This is incorrect as illustrated by the industry maps we provide in response to Question 37, which show the substantial number of successful independent players across the relevant supply chains. To illustrate, over 90% of Fletcher Building Group revenue reflects sales to external, third party customers. Similarly, while Fletcher Building owns PlaceMakers and manufactures some building supplies, we estimate that **[**REDACTED**]**% of PlaceMakers' sales comprise products manufactured by Fletcher Building. Furthermore, the existence of a large number of other merchants, including four general merchants and a long list of specialist merchants, provides ample routes to market for competing manufacturers and importers.

We are therefore concerned that the proposed in-scope and focus products reflect pre-conceptions as to which products are more likely to exhibit competition issues. In order to have a chance to make a meaningful difference to the cost of housing, or to give confidence that building supplies competition is working in the best interests of consumers, we encourage the Commission to broaden the scope and focus of the Study to encompass those building supplies which contribute the most to the cost of residential construction.

We encourage the Commission to look at the entire value chain

The Preliminary Issues Paper describes a supply chain with many different levels and many different participants. We encourage the Commission to focus on all levels of the value chain – including the construction level and how prices are set at that level for end-consumers – to ensure the Commission has a complete picture of all levels of the relevant markets which collectively determine the ultimate cost of a new house or renovation for consumers, and the building products that form part of it.

Current regulatory settings can be improved

Outcomes in building supplies markets are, to a large degree, a function of the regulatory settings, resource management, and consenting environment for building supplies and construction more generally. We encourage the Commission to carefully examine whether the regulatory environment is as efficient and effective as it could be for a country of New Zealand's size and demography. We believe reform in this area will produce beneficial outcomes across the entire building supplies supply chain for the benefit of New Zealanders.

For example, New Zealand has over 80 BCAs and a regime that results in those BCAs attracting a very large share of the practical risk of building and product failure. The upshot is a very conservative approach to consenting and approving the use of new products and solutions, which we believe has created an environment where specifiers and builders rationally default to the solutions that worked previously to ensure they can deliver what their customers want – being an on-time and on-budget build that has all necessary consents.

Clearly, New Zealand needs a robust product approval and consenting process, but optimising these settings is especially important for a market that is small internationally and faces a combination of environmental factors (such as earthquake risk, proximity to the sea, and UV) which – while not entirely unique globally – often make it difficult to simply import and deploy building solutions that are appropriate in many other countries.

Rebates

A lack of transparency of pricing for consumers due to the widespread use of rebates has been cited as an area of focus during this study. Fletcher Building's customers are not generally end-consumers. Our customers are merchants, retailers, installers and builders, among others. While the prices we charge our customers and any rebates they receive are transparent to them, we do not know how our customers set or describe their prices, including when they are supplying products or services to end-consumers. Fletcher Building is, therefore,

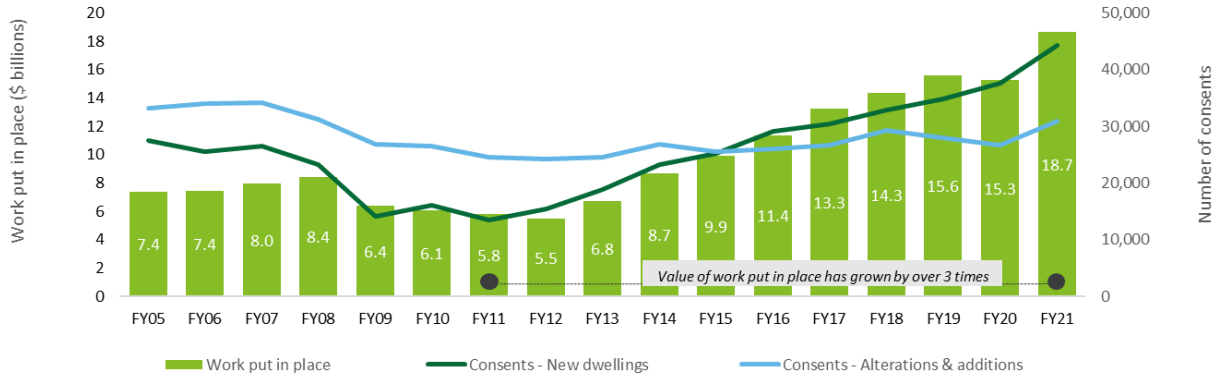
supportive of the Commission assessing whether end-consumer pricing for building products is sufficiently transparent to give confidence to end-consumers that they are paying a fair price.

Relevance of current supply constraints

While we believe the industry is competitive, we acknowledge the very real pressures on the sector right now. We believe these pressures have been driven by significant increases in demand for building supplies both in New Zealand and globally, combined with input cost inflation and significant increases in the price of, and decreases in the availability of, international shipping and domestic logistics, all of which have been exacerbated by Covid-19.

As shown below on Figure 3, the value of residential work put in place has grown by more than three times over the FY2011-21 period, and by more than 20% between FY2020-21 alone.

Figure 3: New Zealand residential work put in place and consents – FY2007-21



Source: Statistics New Zealand. Figures are in nominal dollars

Like other domestic manufacturers, we have scaled our offerings to efficiently meet demand in the New Zealand market over many years. However, given the persistent increase in demand over the past 10 years, coupled with the step change caused by policy and more recent consumer responses to Covid-19, it is not surprising that existing domestic capacity has struggled to increase to meet the ramp-up in demand (and indeed it would be highly inefficient to maintain that level of unused capacity).

In the ordinary course, imports would increase to meet any domestic capacity shortfall. However, shipping costs and availability, as well as high levels of construction activity in the countries which would normally export to New Zealand, have reduced the relative attractiveness of sending product to New Zealand compared to sending that product to other markets.

The result of this confluence of events has been price rises and supply constraints for some building supplies. Importantly though, the focus of this competition study is whether there are any underlying *competition* issues in the supply of building materials which mean that competition is not working in the long-term interests of consumers, rather than short-term market outcomes caused by the unique circumstances of the last two years.

Importance of domestic manufacturing for the resilience of construction in New Zealand

Finally, what the current supply and Covid-19 challenges have demonstrated is that there remains a very important role for domestic manufacturing in New Zealand.

New Zealand is a small market by global standards and therefore relies on a mix of domestic manufacturers and international competitors selling into New Zealand.

Domestic manufacturers provide domestic supply chain resilience from within New Zealand and employment for thousands of New Zealanders across urban and rural centres. International competitors can typically leverage

the production cost advantages of their larger home markets to produce and import into New Zealand more efficiently than additional New Zealand manufacturing capacity, which is challenged by our small population and limited export opportunities for domestic manufacturers.

Accordingly, a regulatory environment that encourages both domestic manufacturing and importing is important. Our more detailed response in the Annexure sets out some specific considerations in this regard.

Yours faithfully

Ross Taylor
Chief Executive Officer
FLETCHER BUILDING LIMITED

Annexure: Response to specific questions

Importance of building supplies to New Zealanders

1. **What impact is the current level of competition in the building supplies industry having on New Zealand businesses and the general public?**

1.1 Fletcher Building's view is that New Zealanders are well-served by the mix of domestic and imported building supplies available in New Zealand and that the markets in which Fletcher Building supplies products are competitive.

1.2 **[**REDACTED**]**.[7]

1.3 **[**REDACTED**]**.

*Figure 4: **[**REDACTED**]***

1.4 **[**REDACTED**]**.

1.5 **[**REDACTED**]**.

1.6 **[**REDACTED**]**.

1.7 More generally, New Zealand benefits from the mix of domestic manufacturers and international competitors that operate in New Zealand. Domestic manufacturers provide domestic supply chain resilience from within New Zealand and employment for thousands of New Zealanders across the country, while international competitors enable New Zealanders to access additional capacity and products that can be produced and imported into New Zealand more efficiently than additional New Zealand manufacturing capacity.

1.8 That is not to say that there are not challenges for all suppliers. For example, outcomes in building supplies markets are, to a large degree, a function of the regulatory, resource management, and consenting environment for building supplies and construction more generally. Fletcher Building questions whether the regulatory environment is as efficient and effective as it could be for a country of New Zealand's size.

1.9 Moreover, while saying that the building supplies industry is competitive, as outlined in the summary, Fletcher Building acknowledges the very real pressures on the sector right now, driven by significant increases in demand for building supplies both in New Zealand and globally, input cost inflation and significant increases in the price of, and decreases in availability of, international shipping and domestic logistics, all of which have been exacerbated by Covid-19.

1.10 The result of this confluence of events has been price rises and supply constraints for some building supplies. However, the focus of this competition study is and should be on whether there are any underlying *competition* issues in the supply of building materials which mean that competition is not working in the long-term interests of consumers, rather than a focus on short-term market outcomes caused by the unique circumstances of the last two years.

[7] **[**REDACTED**]**

2. **How important is it for us to consider building supplies for renovations separately from building supplies used for new builds?**

2.1 Fletcher Building does not believe there is a need to consider renovations and new builds separately. While there are some minor differences (e.g. there will be some DIY purchasers of building supplies for use in a renovation, and concrete will be a lower proportion of those renovations where the home footprint does not change), there are no systemic differences in the product mix or the design and consenting processes that justify a separate approach.

3. **Are there any aspects of the building supplies industry which have a particular impact on Māori?**

3.1 As one of Aotearoa New Zealand's largest businesses, Fletcher Building has the ability to support and empower our Māori communities, iwi, hapū, whanau and commercial partners to grow and enhance their social, cultural, economic and environment wellbeing.

3.2 We continually strive to do this by acknowledging tangata whenua as the Tiriti o Waitangi (Treaty of Waitangi) partners, and by continuing to build meaningful and enduring relationships. A key part of this is working with iwi, hapū and Māori businesses to reflect their views and aspirations in our work. In a practical sense, Fletcher Building, for example in Fletcher Residential, works closely with a number of iwi to develop land for residential use to benefit communities over the long-term. We are proud of the work we do with iwi and of the fact that a large number of our workforce are Māori.

3.3 Our Māori team members are employed across the organisation, and Fletcher Building has a Māori leadership programme, Whakatupu, to allow participants to explore and embrace their background and abilities and to bring a Māori perspective to leadership.

3.4 Recent MBIE analysis ("Māori in the Labour Market - June 2021 Quarter (unadjusted)") illustrates the importance of a strong manufacturing sector in terms of Māori employment, noting that "The industries employing the most Māori workers in June 2021 were Utilities & Construction, Manufacturing and Wholesale & Retail."[8] Indeed, a large number of our Māori team members are employed in manufacturing facilities across New Zealand, including in areas where Māori residents form a higher percentage of the population than the national average, (e.g. Golden Bay Cement (in the Whangārei district) and a number of manufacturing facilities in South Auckland), which makes those plants important employers in their respective regions.

3.5 As set out below, ensuring that suppliers of building materials are not disincentivised to invest in domestic manufacturing capability is important. The employment implications, in particular for Māori and for regional New Zealand, are further reasons for considering carefully those issues which could adversely impact the incentives to invest in domestic manufacturing capability.

Supply chain for residential building supplies in New Zealand

4. **How does our high-level summary of the supply chain fit with your understanding?**

- **Are there any other key steps in the supply chain we should consider? If so, please explain how these steps fit into the supply chain.**

- **Are there building supplies relevant to this study that have different supply chain structures? If so, please describe these building supplies and how the supply chain differs?**

4.1 At a general level, Figure 1 of the Preliminary Issues Paper adequately characterises the supply chain for some – but not all – residential building supplies.

[8] https://www.mbie.govt.nz/dmsdocument/16892-maori-in-the-labour-market-june-2021-quarter-unadjusted

4.2 There are differences between building supplies that the Commission will see as this study progresses, so this depiction is not a "one size fits all" model. For instance:

(a) some products exhibit a much greater degree of direct sales (i.e. the construction level bypassing the distribution level) than others – ready-mix concrete being an obvious example;

(b) suppliers of some building supplies (e.g. paint, electrical supplies) have an independent set of stores dedicated to supplying the trade or have a direct-to-customer model;

(c) there can be multiple distinct stages of manufacturing (within and across different organisations) which are not captured in Figure 1 of the Preliminary Issues Paper (e.g. there are a number of distinct manufacturing / fabrication processes involving multiple intermediaries within the "wholesale supply level" before long run metal roofing can be sold to roofing installers); and

(d) Figure 1 shows prefabrication flowing directly from the wholesale supply level to developers / end-users. In reality, prefabrication (including frame and truss) flows through the distribution level and/or the construction level before reaching end-users.

5. **How does our characterisation of the key participants and the other key stakeholders in the residential building materials supply chain fit with your understanding?**

- **Are there any other key participants or stakeholders that play a major role in the industry? If so, please explain the role of these participants or stakeholders.**

5.1 As a high-level, stylised representation, Figure 2 in the Preliminary Issues Paper identifies the key participants and stakeholders that play a major role in the residential building materials supply chain. However, Figure 2 is oversimplified. Two examples of this are that designers both draw up plans and specify materials, and the fact that Figure 2 does not include the multiple authority consents required, with the resulting need for numerous building inspections, compliance documentation, and handover pathways that take place during a build.

5.2 While accepting Figures 1 and 2 are high-level diagrams, the Commission should be cautious not to: overstate the amount and significance of vertical integration in the industry; understate the level of disintermediation that is and will continue to occur; or understate the importance of the entire supply chain.

Overstating the amount and significance of vertical integration

5.3 While Fletcher Building and Carter Holt Harvey are vertically integrated to some extent (albeit generally in relation to different products), the extent of that vertical integration and the role of those companies in the building supplies industry should not be overstated.

5.4 As set out in our responses on Vertical Integration below, the extent of vertical integration in the various building product verticals is not as widespread as many may assume. To illustrate, over 90% of overall Fletcher Building Group revenue reflects sales to external, third party customers. Similarly, while Fletcher Building owns PlaceMakers and manufactures some building supplies, we estimate that **[**REDACTED**]**% of PlaceMakers' sales comprise products manufactured by Fletcher Building. Similarly, the existence of a large number of specialist and general merchants provides ample routes to market for all competing manufacturers and importers.

5.5 The industry maps we provide in response to Question36 37 illustrate the substantial number of independent players in the various product verticals, a substantial number of which are large, successful long-term players.

Understating the level of disintermediation

5.6 As explained further in response to Question 65.7, disintermediation continues in the building products sector, meaning that the supply chain does not reflect the linear nature of the Commission's Figure 1. The supply chain is now characterised by many specialist retailers and direct-to-customer suppliers that compete effectively with the five general merchants, a trend which Fletcher Building expects to continue.

Understating the importance of the entire supply chain

5.7 Finally, we encourage the Commission to focus on the entire supply chain – from the input level through to the construction level and how prices are set at each level – to ensure the Commission has a complete picture of all levels of the relevant markets which collectively determine the ultimate construction cost of a new house or renovation.

6. **Is the structure of the supply chain changing or evolving? If so, please explain how and over what time horizon this is likely to occur?**

6.1 The supply chain is changing and evolving. Over time, we believe the functional levels of the supply chain will become increasingly blurred, as processes and other initiatives are developed in response to new technologies, sustainability expectations (both regulatory and customer-driven) and other opportunities.

6.2 For example, while suppliers will continue to supply constituent products to merchants and builders to assemble on site, we anticipate an increase in offsite manufacturing (**OSM**) of offerings such as complete / semi-complete construction elements (e.g. an insulated and pre-lined wall) or near-complete pods (e.g. a laundry pod) and other forms of prefabrication. We expect some players will choose to more deeply integrate from the wholesale supply of products through to the finished large elements of a house. We also expect disruption from an increased prevalence of 3D printing, which would see suppliers vertically integrating from raw materials through to the finished product.

6.3 These products may be built and supplied by current suppliers, new entrants or by construction companies and builders who may look to integrate up the traditional supply chain.

6.4 We also anticipate a continued willingness from construction companies and builders to look to bypass merchants and other suppliers if they are perceived as not adding value. Digital transformation along with an increased use of digital marketplaces will facilitate this process by making ordering and logistics more efficient (e.g. apps to allow tradespeople to measure, price and order products from their phone), resulting in an increase in direct-to-customer and online-only retailers. General and specialist merchants, and designers, will have to continue to innovate and evolve their offering to meet these changes in customer and supplier behaviour in order to avoid disintermediation.

*Figure 5: **[**REDACTED**]**[9]*

6.5 We further note that the level of global investment now going into innovative technologies in our sector has increased dramatically in recent years. As demonstrated by Figure 5 above, there has been a marked increase in the flow of capital (via private equity and venture capital investment) to innovative companies in real estate technology and construction technology, especially over the last five years.

6.6 As is typically the case with disruptive technology and processes, it is difficult to predict with certainty over what timeframe these developments will occur (along with precisely how and by whom). That said, we expect the adoption of OSM to continue to increase over the next few years, and – provided appropriate consenting policies are enacted – accelerate as the reduced waste, increased speed and

[9] **[**REDACTED**]**.

accuracy of build, improved safety and lower emissions profile of OSM become increasingly relevant to consumers and as part of responding to climate change policy more generally.

Scope of "key building supplies" to be considered in the study

7. **Do you agree or disagree with our preliminary view on the "key building supplies" in scope for this study, as described in paragraphs 49-52 and Table 1? Please explain your reasoning.**

7.1 See our response to Question 9.

8. **If we focus on a narrower selection of building supplies to assess certain issues, are the factors set out in paragraph 55.1-55.5 appropriate to guide our focus? Are there any other factors we should also consider?**

8.1 See our response to Question 9.

9. **Which key building supplies do you think should be assessed in greater detail, or otherwise prioritised? Please explain your reasoning.**

9.1 Fletcher Building understands that the underlying basis for this competition study is a policy concern about the cost of building houses in New Zealand. While we accept that the Commission's competition study is confined by the Terms of Reference set for the Commission (and thus can only consider less than ~20% of the cost of a house based on the Deloitte study), we consider that the preliminary view on the in-scope (and focus) "key building supplies" set out in the Preliminary Issues Paper is too narrow to make a meaningful difference to the cost of building or renovating a house in New Zealand. In Fletcher Building's view, any meaningful analysis needs to consider the full range of building supplies (rather than a subset) and the entire value chain (from the input level, where inputs are supplied to upstream manufacturers, through to the construction level, and how prices are set at each level).

9.2 More generally in relation to Question 9, we refer to our comments in the summary. We also make two further observations.

9.3 As regards the factors outlined in paragraph 55.3-55.5, we believe the Commission should avoid making *a priori* assessments on substitutability and the potential for innovation in relation to specific building supplies. Both those factors can only properly be made after a full assessment of the markets in question. This further reinforces our view that if criteria are to be applied, objective measures such as the relative contribution of the products to the cost of residential construction should be the overriding criterion.

9.4 We accept the Commission should listen carefully to the view of industry participants and other stakeholders. However, given the scope of the study largely prescribes the field of potential recommendations, not to mention imposes a substantial financial burden on suppliers of those products, the Commission should ensure those concerns are grounded in fact rather than conjecture that there may be an issue in relation to a particular building material.

10. **How will key building supplies evolve in the future? Will different materials become more important?**

10.1 It is hard to predict how building supplies themselves will evolve and whether (and if so what) different materials will become more important.

10.2 We are confident that climate change, CO_2 emissions and sustainability more generally will become increasingly important to the selection of building supplies and methods of construction. This should lead to a wider adoption of offsite methods of construction such as OSM and panelisation. However, beyond that, predicting precisely how sustainability concerns translate into actual product mix is difficult, given competing priorities might result in both tailwinds and headwinds for some products. For instance:

(a) all things being equal, lighter products (with less mass for the required insulation or structural support from the same material) will be preferred from a CO_2 perspective, but that will need to be balanced with wider regulatory considerations in relation to building integrity;

(b) a move to higher density housing might increase the requirement for steel, but this might be balanced by a desire to use more timber to mitigate climate change; and

(c) a drive for greater sustainability might drive an increase in demand for timber, insulation, and glass (for triple glazing) but that may well increase build costs.

10.3 Complicating the ability to make such predictions about the impact of climate change, CO_2 emissions and sustainability is the fact that steel and cement manufacturers (among others) are working hard to reduce emissions, meaning that the emissions profiles of various building supplies will change over time as they respond to market demand.

10.4 Other changes are easier to predict. For instance, it is possible that on-site 3D printing will become more prevalent, and the increased densification of housing will mean noise reduction products and systems will become increasingly important.

The unique characteristics of building in New Zealand

11. **Are the characteristics set out above an accurate reflection of residential building in New Zealand? Please explain your reasoning.**

11.1 See our response to Question 12.

12. **Are there any other characteristics of residential building in New Zealand which are important for us to understand?**

12.1 Fletcher Building believes the most important characteristics for the Commission to understand are the bespoke nature of residential construction in New Zealand, the disaggregated nature of the builder market, the regulatory regime, and the fact that BCAs effectively hold residual liability for building defects.

(a) There is currently a prevalence and preference for **bespoke housing** in New Zealand, which is driven in part by the presence of small builders who specialise in the construction of bespoke homes. However, even group home builders' plans and designs within their own design portfolios frequently differ, owing to input from customers and designers, resulting in different requirements for: frame and truss; size and placement of windows and doors; electrical; and choice of other building supplies. This dynamic has been cited previously by the Productivity Commission as a feature that prevents greater economies of scale and reduced costs through greater uptake of standardised designs and building techniques.[10]

(b) As the Productivity Commission described in its 2012 report on Housing Affordability, the building industry is "essentially a **fragmented** 'cottage industry' **dominated by very small independent builders** constructing bespoke homes".

(c) Each jurisdiction's **regulatory regime** is different and there are three features of New Zealand's regime that are relevant.

(i) Firstly, the need to design for the New Zealand environment, where the need to provide for earthquakes (which need to permit a building to flex) conflicts with fire, moisture ingress and acoustic requirements, our proximity to oceans and corrosive impact of this on buildings, higher UV implications negating some overseas manufactured products etc. That

[10] New Zealand Productivity Commission "Housing Affordability Inquiry" (March 2012) at 170.

is not to say New Zealand is unique in facing these challenges, but it does limit the pool of countries that manufacture building supplies for their domestic markets which can be directly imported as a solution for New Zealand.

(ii) Secondly, the NZ Building Code is a performance-based code which is complex, detailed, cumbersome and incomplete, and provides for standards, acceptable solutions and alternative solutions. It is also frequently misunderstood or open to different interpretations, thus constraining the willingness to seek approval to use new and innovative products.

(iii) Thirdly, the interpretive challenges posed by the NZ Building Code can be exacerbated by the fact that there are more than 80 BCAs in New Zealand, which each make individual decisions on a product's ability to meet the Code in a build. Steps to strengthen the CodeMark framework have the potential to assist in this respect.

(d) The fact that BCAs are **jointly and severally liable for building defects** means that they can be responsible for the full loss suffered by a homeowner as a result of a building defect, regardless of the extent to which they contribute to the loss suffered by an owner. The fact that BCAs hold this significant liability can influence the way in which they approach their consenting role, as this is the only effective method they have of managing their (and their ratepayers') risk exposure. As a result, BCAs may be taking a more conservative approach to the consenting process than would otherwise be optimal for New Zealand.

12.2 There are also other more specific factors such as a structural timber treatment specification which effectively precludes economic importing of structural timber from other obvious source countries, demand for a higher strength cement than is mandated by the NZ Building Code, and many other factors – the relevance of which will depend on the Commission's focus.

12.3 Finally, there are the general features of the New Zealand market that are relevant to the Commission's assessment (some of which are discussed elsewhere in this Response), namely:

(a) the small size and scale of the New Zealand market;

(b) New Zealand's distance to international markets;

(c) New Zealand's low population density and challenging topography which drives up transportation costs; and

(d) resource management regulations and processes that make it difficult to expand capacity quickly in New Zealand.

Demand and supply chain pressures on residential construction

13. **Does our summary of the external pressures facing the residential construction industry accurately reflect the current situation? Please explain why/why not.**

13.1 From Fletcher Building's perspective, the key challenges facing the industry currently are:

(a) **Major global supply chain disruptions.** The impact of the various waves of Covid-19 and associated lockdown restrictions in New Zealand and abroad have caused major disruptions to global supply chains and manufacturing, placing significant pressure on the price and availability of imported residential building supplies and imported content required for domestic manufacture. For instance, the global freight rate has increased from US$1,279 in September 2019 to US$9,293 in

December 2021.[11] Reliability of global shipping routes has also suffered, with global schedule reliability dropping to 33.6% in August 2021, an all-time low in the 10 years since Sea-Intelligence has tracked global schedule reliability.[12]

(b) **Significantly increased demand for product.** The Covid-19 induced response by central banks and governments to loosen monetary policy and provide fiscal stimulus, both in New Zealand and globally, as well as the substitution of spending on travel to consumer goods and construction (including home renovation) has significantly increased demand for building products, both globally and locally, across all construction activities. This has resulted in intense competition for building materials to meet heightened demand.

(c) **Labour cost and access to labour.** A key determinant of the cost of supplying residential building supplies is the cost of labour. The Covid-19 related border closures have also exacerbated existing difficulties in accessing skilled labour, in the environment of high demand described above – this has resulted in significant escalation in the cost of labour.

(d) **Input cost inflation.** Costs have been increasing across the broader economy and suppliers of residential building materials have not been immune to this input cost inflation. In particular, increases in the price of energy (especially electricity and gas) and raw materials are important for the Commission to understand and have regard to.

(e) **Domestic transport costs**. Another factor impacting the supply of residential building supplies is transport logistics. New Zealand has a relatively small and dispersed population, spread over two mountainous islands. Many residential building supplies have to be transported over large distances to a relatively low population base, driving up unit transportation costs. These can be particularly important for businesses like cement suppliers where distribution costs comprise around **[**REDACTED**]**% of the total cost of sales. Adding to the costs of transportation are regulations in New Zealand that only allow high axle loads on fixed routes due to bridge strength limitations. This means that trucks carry lower volumes compared to other countries, leading to higher costs per load.

(f) External factors not mentioned in response to this question but alluded to later include the regulatory framework.

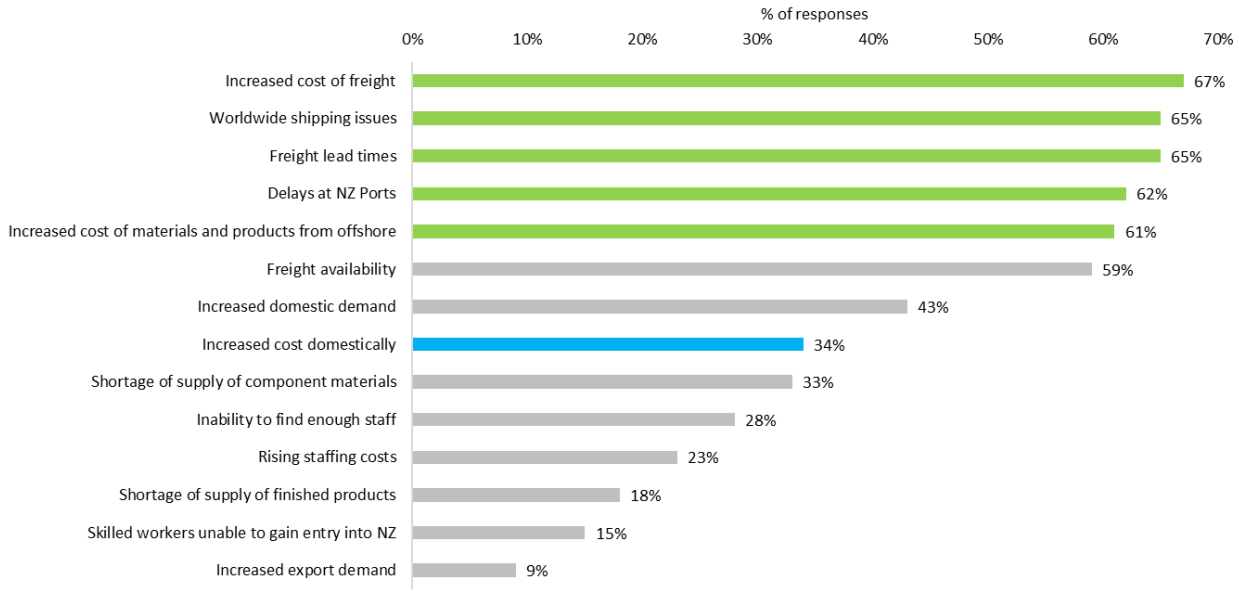
13.2 Finally, the Preliminary Issues Paper refers to a survey conducted by the Construction Accord to emphasise the increase in the price of materials and supplies is the top issue facing the wider construction sector. It is not clear from this survey what is driving those stated concerns; however, the EBOSS 2021 survey[13] provides some more granular information on the causes. This survey shows the top issues facing the sector were increased cost of freight, shipping costs, freight lead times, port delays and increased cost of materials from offshore. Increased domestic costs is ranked lower. This survey is consistent with what Fletcher Building is observing in the market.

[11] Global container freight rate index, Statista. Figures quoted are in United States dollars.

[12] Sea-Intelligence "Schedule reliability drops to all-time low 33.6% in August 2021" (27 September 2021).

[13] EBOSS Construction Supply Chain Report 2021

Figure 6: Key issues faced by the wider construction sector – 2021 (EBOSS Survey)



Source: EBOSS Construction Supply Chain Report 2021;
n=240 in Q3 2021 and n=219 in Q4 2021 (all national suppliers)

14. **To what extent are these external factors temporary or likely to continue in the long term?**

14.1 Given New Zealand's distance from key supply markets, the availability of freight services depends on the willingness and ability of shipping firms to service New Zealand, compared with the opportunity cost of deploying shipping assets on other routes. Presently, the opportunity cost is very high. However, as a trading nation, we expect shipping costs and reliability measures to reset to a new post-Covid equilibrium once the present issues dissipate.

14.2 A general view among independent forecasters such as MBIE and Infometrics is that the demand for new housing will likely continue to be strong for some time, given the housing supply shortage, the elevated number of building consents, economic conditions and updated policy settings that are supportive of greater urban intensification. The view is also that non-residential construction activity is expected to remain strong, especially driven by government-led infrastructure projects. Strong residential and non-residential activity will continue to put pressure on the price and availability of residential building supplies.

14.3 The difficulty in sourcing skilled labour is likely to persist under current policy settings for the duration of the pandemic and border closures. There will also be competition for the same pool of labour resources on a global basis once all borders open. Limited access to skilled labour, along with continued elevated demand for building materials, will put further pressure on labour cost.

15. **Would an increased use of technology, such as prefabricated housing, help to address some of the longer term pressures facing the industry? Please explain why/why not.**

15.1 Fletcher Building agrees with the Commission that increased use of technologies such as prefabricated housing and panelisation may provide pathways to easing some of the longer term pressures facing the industry (e.g. around housing supply shortages), if the impediments outlined below can be addressed and the incentives to do so are appropriate. A key example in New Zealand is Clever Core, Fletcher Building's offsite manufacturing business.[14]

[14] See more details at https://clevercore.nz/

15.2 Prefabrication potentially provides several benefits.

(a) **Scale drives faster delivery and labour efficiency:** Prefabricated housing has the potential to make the residential construction process more timely and efficient. Prefabrication is faster relative to traditional construction methods, allowing greater throughput, and saving on labour costs, which comprise ~14% of the total cost of constructing a typical double storey house in Auckland (see Figure 1 above). Prefabricated housing has been shown to be 35-55% faster than traditional building methods, due to the ability to construct onsite and offsite simultaneously.[15]

(b) **Environmental benefits:** The standardised and quality-controlled processes inherent with prefabrication results in reduced human error, physical protection from the weather and optimised material usage, with less waste. It has been estimated that prefabrication can reduce waste by 40% compared to traditional building processes, with any waste easier to capture and recycle. Prefabricated housing has also been estimated to reduce carbon emissions by 35% when compared to traditional building systems.[16]

15.3 Despite the benefits of prefabrication, there are impediments to increased uptake and adoption.

(a) **Consumer preference for bespoke housing.** There is currently a prevalence of and preference for bespoke housing in New Zealand. In the past, prefabrication has had the negative perception of being cheap, low quality and monotonous, which stemmed from the cheap prefabrication used for classrooms in New Zealand.[17] This has led to a lack of public acceptance of this technology and hence a preference for traditional building methods. For these impediments to be lifted, stakeholders need to have their perception changed so that they see that prefabrication offers modern and efficient homes.

(b) **Lack of certainty of demand for prefabricated houses.** Investment in the capital and skill required for prefabricated housing also requires certainty of demand for such an offering. There is currently a lack of public and private sector partnerships that provide certainty that there will be enough demand for prefabricated housing into the future (e.g. certainty from relevant government agencies that a certain portion of future housing stock will use prefabrication techniques). This lack of certainty inhibits investment in prefabrication.

(c) **Current regulations cater for housing built using traditional building techniques** and there is a lack of well-established rules and standards, which mean prefabricated homes must follow the same processes as non-prefabricated homes.[18] There is potential to change the building and resource consent process to better accommodate a prefabricated housing scenario to make the process more efficient, e.g. in relation to sign-off processes.

(d) **Other impediments** identified in the overseas context **include skill and experience shortages and issues with financing**. The hesitation of financing companies to issue loans is amplified by the high upfront investment required to produce prefabricated housing and their view of this being a higher

[15] Milad Moradibistouni and Morten Gjerde. "Potential for prefabrication to enhance the New Zealand construction industry" (2017) Proceedings of the Back to the Future: The Next 50 Years,(51st International Conference of the Architectural Science Association (ANZAScA)) 427- 435 at 430.

[16] Milad Moradibistouni and Morten Gjerde. "Potential for prefabrication to enhance the New Zealand construction industry" (2017) Proceedings of the Back to the Future: The Next 50 Years,(51st International Conference of the Architectural Science Association (ANZAScA)) 427- 435 at 431.

[17] Milad Moradibistouni and Morten Gjerde. "Potential for prefabrication to enhance the New Zealand construction industry" (2017) Proceedings of the Back to the Future: The Next 50 Years,(51st International Conference of the Architectural Science Association (ANZAScA)).

[18] For example, BRANZ found that planning barriers for prefabricated homes existed for 16% of the 25 district plans it reviewed – see BRANZ "Planning barriers for prefabricated housing" (28 February 2019) at 4.

risk investment than traditional building methods.[19,20] There is also some hesitation by builders, designers and policy makers to incorporate prefabrication as a building option where they lack the required skillset or training or are generally hesitant to adapt to new approaches.

16. **Please describe any other examples of innovative technologies or approaches that could increase efficiency in the sector over the longer term.**

16.1 There are several technologies or approaches that could increase efficiency in the sector over the longer term and more that will develop over time. Fletcher Building has introduced innovative technologies and approaches over time (or is in the process of doing so) that are aimed at improving consumer outcomes and efficiency in the sector.

(a) A relevant example of this is Fletcher Building's **[**REDACTED**]**. This example is discussed in more detail in response to Question 37.

(b) Other examples of the innovations Fletcher Building has introduced to the market are outlined in response to Question 25.

17. **Please describe any other major external factors that are currently impacting (or have recently impacted) the New Zealand residential building industry that we should consider in this study and the time horizon over which they will impact the industry.**

17.1 There are a number of strategic trends that are currently impacting the New Zealand residential building industry. Fletcher Building expects these trends to intensify over the longer term, driving product and industry change:

(a) **Reduced Environmental footprint:** There is a drive to reduce environmental footprint (particularly carbon) across the building materials value chain and over the product lifecycle. While buying decisions generally still lack consideration of the environmental footprint, we expect this to change over the longer term, ideally supported by appropriate regulatory measures.

(b) **Product innovation:** Global and domestic competitors are innovating to create more durable / effective products and materials. Current supply shortages are also forcing customers to consider alternative materials and incentivising manufacturers to be more innovative.

(c) **Multi-residential:** Increased urban density, supported by multi-unit residential construction (e.g. townhouses, apartments, etc.), has experienced fast growth over the past five years (relative to detached housing), which has changed the mix of building products required.

(d) **Omni-channel distribution:** Distribution is changing as demand for convenience favours omni-channel capabilities, with sophisticated digital offerings and excellent service and logistics, in addition to physical distribution presence.

(e) **Supply chain:** Automation, changing labour costs and advances in shipping are challenging the notion of the viability for New Zealand manufacturing versus import models. New Zealand domestic manufacturing needs to continually innovate to keep pace with larger scale, more modern and more efficient international manufacturing plants.

[19] Cambridge Centre for Housing & Planning Research "Deploying modular housing in the UK: exploring the benefits and risks for housebuilding industry" (July 2021)

[20] Office of Energy Efficiency & Renewable Energy "EERE Success Story – Making Precast Concrete Facades with 3D-Printed Molds" (March 13, 2019), available at https://www.energy.gov/eere/success-stories/articles/eere-success-story-making-precast-concrete-fa-ades-3d-printed-molds

(f) **Technology advancement:** Prefabrication is expected to incentivise vertically integrated supply chains, 3D printing would help New Zealand build more with less, and at least some parts of the value chain will likely move from being physical to virtual.

Evolving regulatory framework around residential construction

18. **How might the regulatory changes described in paragraphs 74 and 75 affect the demand for or supply of certain types of residential building supplies?**

18.1 It is difficult to predict how the regulatory changes described in paragraphs 74 and 75 will affect the demand for, and supply of, specific building supplies other than in very general terms.

18.2 As noted in our response to Question 10, competing priorities might result in both tailwinds and headwinds for some building supplies. For example, a move to higher density housing may increase the requirement for steel, but this might be balanced by a desire to use more timber first to mitigate climate change. As another example, a drive for greater sustainability may increase demand for insulation and/or triple glazing to improve the operating efficiency of a house, both of which would add significant cost to a house build.

18.3 As explained in various responses, Fletcher Building believes climate change will be one of the most disruptive influences on the building sector and demand and supply of building supplies. However, what that means for the demand and supply of specific types of residential building supplies is impossible to predict.

18.4 What matters is that the regulatory system does not impose any artificial barriers to companies that are identifying and commercialising the most efficient products for New Zealand.

19. **Please describe any other major recent or ongoing regulatory changes that might affect demand for certain types of residential building supplies.**

19.1 A wide variety of regulations apply to Fletcher Building's activities in New Zealand and they, to a greater or lesser extent, influence Fletcher Building's ability to supply building products into the market. The most significant challenges Fletcher Building currently faces include:

(a) access to sufficient skilled labour, particularly given New Zealand's aging workforce (especially for skilled trades and roles in manufacturing) and closed borders. This lack of skilled labour constrains Fletcher Building's ability to efficiently operate its business units;

(b) New Zealand manufacturers' ability to increase domestic supply quickly by expanding production facilities being constrained by the Resource Management Act process;

(c) the local body discharge and emissions requirements placing costs on domestic manufacturers that are not always borne by overseas manufacturers; and

(d) bearing the cost of compliance with the New Zealand Emissions Trading Scheme, and the future costs of compliance with carbon reduction and climate change reporting legislation (the Climate Change Response Act 2002 and the operational energy and embodied carbon assessments signalled by MBIE's Building for Climate Change framework) as a domestic manufacturer. Overseas manufacturers may be based in locations with less stringent regulatory compliance obligations or lower compliance costs.

19.2 Due to these factors, combined with New Zealand's small scale, overseas manufacturers may have both a unit cost advantage (e.g. no need for cost recovery related to complying with the New Zealand Emissions Trading Scheme, less stringent labour regulations, etc.), as well as advantaged return on capital (e.g. no requirement to invest in emission reduction activities) compared to New Zealand manufacturers. This

divergence may result in a shift to imported building supplies that have a negative environmental and social impact and are not consistent with the Government's climate change objectives nor in the interests of New Zealand overall.

19.3 To be clear, Fletcher Building is not suggesting that protections for the environment and workers should be relaxed in New Zealand. However, the Covid-19 pandemic and supply chain disruptions have reinforced the importance of having domestic manufacturing capability to ensure security of supply (quite apart from the obvious employment benefits). Domestic manufacturing is already a challenging endeavour given New Zealand's small scale, and regulations which disadvantage domestic manufacturers compared to imported products would further undermine the economics of domestic manufacturing, creating a risk that domestic manufacturing is further hollowed out with resulting implications for employment and the resilience of New Zealand's supply chain.

19.4 Ensuring the best outcome for New Zealand requires addressing the risks to the New Zealand supply chain while upholding strong environment and social protections. As examples of what can be done:

(a) New Zealand's regulatory environment should ensure that all products supplied into New Zealand – whether manufactured domestically or internationally – face the same incentives to reduce carbon usage to avoid New Zealand favouring imports of more carbon-intensive products;

(b) the training of domestic workers should be encouraged and migration of skilled workers from other countries should be enabled, to ensure that there is sufficient skilled labour in New Zealand to support all levels of the construction related industries, including manufacturing sectors;

(c) the wider implications of decisions relating to the roading (and rail) network should be fully considered. For example, roading regulations in New Zealand result in the larger concrete trucks (6-8m^3) commonly found overseas not being able to be accommodated on New Zealand roads, resulting in a much less efficient ready-mix concrete supply chain in New Zealand (in terms of CO_2 emissions, truck movements and cost), because operators are limited to smaller (4-6m^3) trucks; and

(d) the amendments to the Resource Management Act must deliver a consenting process for large manufacturing investment and quarry development that is more efficient and reflects the important role that domestic manufacturing plays in the resilience of New Zealand's supply chain and in relation to employment.

20. **Does the regulatory environment pose challenges to the introduction of prefabricated products? If so, please explain where you see the issues and whether these will be addressed by the latest regulatory reforms.**

20.1 Prefabricated products must navigate many of the same regulatory and economic challenges as all other new types of products to successfully enter the market. There are also some additional challenges, as we outlined in our response to Question 15 above.

Impact of climate change for building supplies

21. **What are the most important 'green' building supplies for us to focus on? Why are these important?**

21.1 See our response to Question 22.

22. **Please describe any other ways in which building for climate change might drive change and innovation in the residential construction sector**

22.1 Sustainability and 'green' building supplies are clearly important and will become increasingly so. However, Fletcher Building cautions the Commission against seeking to focus on *specific* green building supplies, however green building supplies are defined.

22.2 The building and construction sector contributes an estimated 20% of New Zealand's greenhouse gas emissions[21], while building and operating a typical house in New Zealand that complies with the NZ Building Code is estimated to use 270 tonnes CO_2 equivalent over its life. By comparison, it is estimated that a house constructed to meet the goal of maintaining global warming to 1.5°C above pre-industrial levels requires reducing carbon use to 39 tonnes CO_2 equivalent over its life.[22]

22.3 The challenge facing the building and construction industry to respond to climate change is large. To meet the increasing demands of consumers and the regulatory requirements for greater sustainability and lower carbon emissions, change will be needed in all aspects of the building and construction sector, including: product design and use, house design and regulatory requirements to reduce operating costs of a home over its life, waste reduction, and manufacturing processes.

22.4 The scale of the task means there is no silver bullet in terms of new products or groups of products, design techniques, or changes to manufacturing processes. All parts of the process will be important. Significant research and innovation is being – and will continue to be – undertaken to meet these challenges globally and in New Zealand. The reality is, however, that it is impossible to predict now with any precision what changes will be the most meaningful and important.

22.5 For Fletcher Building, this means that there is an impetus not only to look for entirely new products, but also to focus on how it can 'green' existing products and processes. Opportunities include improving manufacturing processes, reducing carbon from fuel usage, improving transport logistics, reducing waste and increasing recycling of product, looking for lower carbon raw materials and improving end-of-life recyclability – in short, assessing the impact of the full life-cycle of the product. Fletcher Building has a team dedicated to helping each of its businesses with these investigations and will continue to invest in bringing best practice into the New Zealand market across its portfolio of building supplies and solutions. Fletcher Building also requires all products we make to have third party certified analysis of these life-cycle impacts by FY23, with **[**REDACTED**]**% of our manufactured products already holding third-party verified sustainability certification.

22.6 For these reasons, Fletcher Building's perspective is that the Commission should not look for specific 'green' products or seek to identify winners from what will be an evolving wave of innovation in the industry, both globally and in New Zealand. Nor does Fletcher Building consider that such a focus is within the scope of a competition study.

22.7 In Fletcher Building's view, competitors and potential competitors are best placed to identify the improvements and disruptive technologies that will deliver change. The Commission should seek to assist that process by ensuring that the regulatory processes are enabling and promoting the adoption of the most efficient new products and production processes that will improve sustainability and contribute to New Zealand's climate goals. That review should include the regulatory settings for importing and domestic manufacturing, having regards to the issues referred to elsewhere in this submission, including Question 19.

22.8 Specifically in relation to greening the product mix over time, New Zealand's regulatory framework should ensure that all products supplied into New Zealand – whether manufactured domestically or internationally – face the same incentives to reduce carbon usage so that the most efficient products are used in New Zealand. Under current policy settings, there is a risk that the cost of imported products into New Zealand does not reflect carbon costs that would apply to substitutable products manufactured in New Zealand. The result of this would be a distortion of price signals in the market, New Zealand

[21] MBIE Building for Climate Change: Transforming the Building and Construction Sector to Reduce Carbon Emissions and Improve Climate Resilience", (July 2020), page 2.

[22] BRANZ analysis. See for example Dr Dave Dowdell, "Design to cut carbon – the time is now", April/May 2020 — Build 177.

potentially using products with a greater carbon footprint than is efficient, and ultimately an impact on the integrity of New Zealand's Emissions Trading Scheme.

The Commission's high-level approach for its market study into residential building supplies

23. **Do you have any comments on our proposed high-level approach to the study as discussed in paragraphs 83 to 87 above?**

23.1 Fletcher Building notes the Commission's comment that it does not consider it is necessary to "find conclusively whether profits and/or prices are high in order to find that competition in a market is not working as effectively as it could".

23.2 From Fletcher Building's perspective, this approach could only be justified in circumstances where the Commission identifies a change that would apply equally across the industry and very obviously improve competition.

23.3 However, Fletcher Building would be concerned if the Commission sought to reach conclusions about the competitiveness of particular markets or suppliers without determining whether profits and/or prices are high (measured objectively). If firms are not earning "high" profits and/or charging "high" prices, then it is difficult to see why regulatory intervention would be justified.

24. **Would international comparisons of key building supplies prices provide insights into the level of competition in the industry? Why/Why not?**

24.1 As stated in our response to Question 23, Fletcher Building considers that examining competitive outcomes in a sector is an important step in assessing factors that may be affecting competition. Fletcher Building suggests the Commission continues to consider the wide range of outcomes it has signalled (i.e. price, service, margins, choice, quality and innovation) when making this assessment.

24.2 In a perfect world, domestic prices could be compared with prices in an equivalent offshore market which was demonstrably 'competitive'. However, in practice, caution needs to be taken when interpreting the underlying causes of any price differences found when comparing New Zealand against other international markets. There may be multiple reasons why the prices of specific building supplies in New Zealand differ to those in overseas countries, which are unrelated to the level of competition. These factors can include the following:[23]

(a) **The size and scale of New Zealand markets:** The overall market size of New Zealand is small relative to comparable international markets and New Zealand has a relatively small and dispersed population. This may lead to lower economies of scale, including higher logistics and transport costs (and potentially other input costs more generally), contributing to higher unit prices in New Zealand when compared to other countries. For example, Fletcher Building's largest competitor in glass wool insulation has recently commissioned a factory in Malaysia, which has a capacity of 75,000 tonnes p.a. (i.e. **[**REDACTED**]**). As another example, we estimate Holcim's free on board (FOB) cement cost out of Japan is approximately **[**REDACTED**]**% of Golden Bay Cement's ex-factory cement cost in New Zealand, which enables Holcim to compete effectively in New Zealand despite higher logistics costs.

(b) **Dispersed population and topography:** New Zealand's population is also spread out and New Zealand transport costs are likely higher than in more densely populated markets.

[23] The Productivity Commission has also previously noted similar factors (e.g., small and dispersed population, low economies of scale, a lack of transport infrastructure, mountainous terrain and the need to ship between two islands and quality differences) as potential reasons for differences in prices for building supplies in New Zealand and Australia – see New Zealand Productivity Commission "Housing Affordability Inquiry" (March 2012) at 176-177.

(c) **Distance to markets:** New Zealand is relatively distant from most major markets and trading routes. This increases the freight component of getting inputs and finished residential building supplies into New Zealand. The distance to international markets also means export opportunities from New Zealand are limited, further impacting the scale economies that can be achieved by manufacturing within New Zealand.

(d) **Transport constraints:** As noted earlier, transport regulations in New Zealand only allow high axle loads on fixed routes due to bridge strength limitations. This means that trucks carry lower volumes compared to other countries, leading to higher costs per load. In addition, other countries may have access to more efficient means of transportation, such as rail, meaning suppliers overseas may have lower transportation costs.

(e) **Standards and quality differences:** Standards, specifications and consenting processes (for example relating to earthquake, UV, fire and acoustic standards, but also extending to chemicals used in treatments) differ between New Zealand and other countries, and affect the ultimate price of building supplies.

(f) **Standardisation and consumer preferences:** New Zealanders' preference for largely bespoke housing may limit the standardisation of construction methods and prefabrication in New Zealand compared to other countries, and this may amplify the scale benefits in countries with larger populations and lower the unit cost of building supplies.

(g) **Tax:** Any differences in tax and tax rates throughout the supply chain complicate a comparison with other countries which have different tax rates and systems.

24.3 The Commission would need to address several practical difficulties to be able to make a like-for-like comparison of individual building supplies across countries.

(a) **Comparator selection:** Developing a framework to identify comparable countries across all building supplies will likely be complex and contestable.

(b) **Data reliability:** To Fletcher Building's knowledge, there are no official datasets that are prepared for cross-country comparisons of building supplies at a product category level. Analysis at a product SKU level is also difficult.[24]

(c) **Exchange rate assumptions:** Appropriate exchange rate assumptions will need to be applied (e.g. the use of market exchange rates, purchasing power parity (PPP) rates or a blend of such rates). The appropriate exchange rate will likely depend on the tradeable and non-tradeable components of in-scope building supplies.[25]

(d) **Product differences:** Like-for-like products would need to be identified for valid cross-country comparisons. Aside from standard and quality differences, differences in building codes, customer preferences and practices may limit the availability of direct comparisons. Like-for-like comparisons would also need to be done at a SKU level, meaning many valid comparisons would need to be identified to generate any meaningful results or a product mix assumption based on a standardised building typology would be needed.

(e) **Services:** Prices of like-for-like products in certain countries may include differences in service elements (e.g. delivery, installation and post-delivery inspection), which would need to be

[24] The Commission recently noted its preference to use official data sources – Commerce Commission "Market Study into the retail grocery sector: Draft report" at [3.78].

[25] For instance, the Commission has used blended PPP and market exchange rates when benchmarking prices for telecommunication services, in recognition that these services comprised approximately 50% of non-tradeable components and 50% tradeable capital goods inputs – Commerce Commission "Unbundled Bitstream Access Service Price Review: Decision [2013] NZCC 20" (5 November 2013), Attachment E.

identified, priced and specifically accounted for before the "product cost" is understood and any comparison attempted.

(f) **Warranties:** The nature of product warranties attached to building products will differ according to local practice and regulatory settings, so the inherent cost of those warranties will also need to be identified and specifically excluded before a comparison can be made.

(g) **Purchasing practices:** There will be differences in purchasing practices between countries (e.g. purchasing building supplies from a merchant distributor versus purchasing directly from a manufacturer or importer). Data on shelf-edge pricing, for example, may not account for such differences.

(h) **Price variability:** Prices for certain building supplies are reset infrequently, while others may vary more frequently due to changes in underlying cost differences such as whether the comparator country relies on imports (and the effect of freight costs) or domestic manufacturing (and the effect of plant scale or efficiency). Importantly, price variability may differ for similar products across countries. Any cross-country product comparisons would need to reliably account for such variability in price setting.

25. **How should we assess the levels of innovation in the industry? Is there a way to measure this or benchmark internationally?**

25.1 There is unlikely to be a single way to measure the levels of innovation. What Fletcher Building believes is important is for the Commission to take a broad and holistic view of innovation when making any assessment of the levels of innovation in the industry. Innovation can encompass a wide range of initiatives that improve consumer outcomes. These include:

(a) improving existing products, services or distribution models;

(b) introducing new products, services, or distribution models;

(c) improving existing production techniques or processes; and

(d) introducing new production techniques or processes.

25.2 Examples of these types of innovation for Fletcher Building are:

(a) **Winstone Wallboards' continued improvements to its product and service offering:**

(i) New or improved products include GIB Quietline® acoustic ceiling tiles and reverberation control systems (2012), GIB Barrierline® Intertenancy Systems for Terrace Homes (2016), GIB EzyBrace® Systems (2016), GIBFix® Framing systems (2016), GIB® Noise Control Systems (2017), GIB® Fire Rated Systems (2018), GIB Weatherline® Rigid Air Barrier Systems (2019), GIB X-Block® Radiation Shielding Systems (2021), and GIB Aqualine® Wet Area Systems (2021).

(ii) New or improved services include MyGIB® Order and Track digital tool (2019), GIB® Delivery Track digital tool (2019), GIB® Systems selector (2021), expansion of GIB® Delivered to Site service across all large metro areas, and regional site waste recycling collection services (2021).

(b) **[**REDACTED**]**.

(c) **Low carbon concrete:** Fletcher Building is currently investigating multiple avenues to produce low carbon concrete through using alternative fuels and raw materials, as well as supplementary

cementitious materials. CO_2 reduction can be expected to range from **[**REDACTED**]**% to **[**REDACTED**]**%.

(d) **[**REDACTED**]:** With operation energy caps coming into play with MBIE's Building for Climate Change programme[26], the performance of the thermal envelope of a house is going to need to increase **[**REDACTED**]**.

(e) **Golden Bay Cement's use of tyre-derived fuel (TDF):** Golden Bay Cement upgraded the cement kiln at its Portland plant in March 2021 to allow shredded tyres to be used as a fuel source. TDF is globally proven as an ideal lower carbon alternative to coal for cement kilns. The initiative results in up to 3 million tyres being diverted away from landfills and reduces carbon emissions by approximately 13,000 tonnes per annum.[27]

(f) **PlaceMakers' Smart Delivery:** PlaceMakers has created a dependable, transparent and end-to-end delivery service for its customers, which allows customers to track their order from start to finish, including when en route. Confirmation texts and emails are sent to customers with estimated arrival time and location, and the software assists branch staff behind the scenes to more efficiently pack orders and accommodate customer changes.

25.3 In addition to looking at current and past innovation, we encourage the Commission to consider whether the regulatory environment in New Zealand provides the right incentives for firms within the industry to innovate.

26. **Would assessing the margins of the manufacturers and/or merchant sales of key building supplies provide insights into the level of competition? Why/Why not?**

26.1 EBIT margins may provide an insight into profitability (and therefore insights into the level of competition) if benchmarked against the level of EBIT margins achieved by comparable firms or industries. However, care needs to be taken when selecting companies or industries used as benchmarks to ensure they are comparable, having regard to factors including scale and comparability of operating markets, risk and diversity of operations, capital intensity and asset age, and accounting practices. Similarly, care also needs to be taken when comparing EBIT margins for firms supplying different residential building materials to ensure that the firms are indeed comparable.

26.2 EBIT or EBIT margins are standard financial metrics readily available from financial information. However, companies that operate in multiple building product categories typically do not publicly report EBIT at a business unit or product level, which will likely make comparisons difficult.

26.3 Broader trends in a firm's EBIT margin over time may provide insights into nature of the constraints faced by firms supplying residential building supplies. For example, EBIT margin erosion over time may indicate increasing competitive constraints and a tendency towards competitive outcomes that would be expected in workably competitive markets.

26.4 **[**REDACTED**]**[28]

[26] For more details, see MBIE, Building for climate change at: https://www.mbie.govt.nz/building-and-energy/building/building-for-climate-change/

[27] For more details, see https://fletcherbuilding.com/news/golden-bay-cement-sustainable-disposal-solution-for-waste-tyres-a-new-zealand-first/

[28] **[**REDACTED**]**.

*Figure 7: **[**REDACTED**]***

*Figure 8: **[**REDACTED**]***

*Figure 9: **[**REDACTED**]***

*Figure 10: **[**REDACTED**]***

27. **Are there other assessments that would provide better insights?**

27.1 Fletcher Building encourages the Commission to assess how consumers behave in the market, how consumers engage in the market, how consumers value the product and services, the level of confidence in the market, and an emphasis on the overall outcomes the market is delivering for consumers. This involves looking at factors such as the levels of satisfaction with the quality of the service, value for money and consumer preferences. Paragraph 56.5 of this Response provides further examples for the Commission to consider.

Concentration

28. **On what geographic basis (e.g., local, regional, national) should we assess the concentration of key building supplies. Please explain your view.**

28.1 For the purposes of this competition study, Fletcher Building considers the Commission can examine competition on a national basis.

(a) At the wholesale supply level, while there will be some building products which cannot be feasibly transported nationwide, e.g. ready-mix concrete (which can be stored for only a limited number of hours on the truck), that is not the case for most products proposed to be in scope. In any event, competitive conditions are likely to be sufficiently similar across New Zealand to mean a geographical approach is not needed.

(b) Similarly, at the distribution level, the competitive conditions are sufficiently consistent nationwide to assess them on that basis for a study such as this.

29. **Are there any key building supplies which stand out as having a limited choice of suppliers? If so, please explain which building supplies.**

29.1 Based purely on the number of existing suppliers, paint, fibre cement sheets, structural timber, plasterboard, cement, reinforcing steel, zinc aluminium coated steel coil, and electrical cables appear to have fewer wholesale suppliers (not to be confused with distributors) in New Zealand, at the current time, than many of the other products. However, while the number of competitors or market concentration more generally might mean, all things being equal, the product is a better candidate for inclusion in the focus product set, it does not mean there is, *in fact*, a competition issue.

30. **What are the barriers to importers of key building supplies competing effectively with domestic manufacturers?**

30.1 This question presupposes there are any such barriers. Fletcher Building does not believe that importers face barriers to competing effectively in New Zealand, as is evident by the number of importers doing so.

30.2 Like all building supplies used in New Zealand, imported products must obtain certification and meet standards. Similarly, as with all new products introduced in New Zealand, there is an investment required to persuade specifiers, builders, and BCAs that the product is a good one, and that the importer will stand behind that product over the long-term.

30.3 The small scale of the New Zealand market will be a consideration for importers, as it is for domestic suppliers. Balanced against that, New Zealand does not generally have a level of domestic manufacturing capacity that allows it to be 'self-sufficient' to meet 'normal' levels of demand for most categories of building products and relies on overseas imports to balance domestic supply.

30.4 The advantage that importers will often have over New Zealand manufacturers is their ability to leverage their (generally speaking) much larger manufacturing facilities to achieve a lower production cost base and thus offset the cost of transportation. This leads to importers holding a material share in relation to many products. Impediments to them doing so successfully can occur where:

(a) there is sufficient demand in New Zealand to allow a domestic manufacturer to achieve a production scale which allows it to achieve a cost base that is at or below the landed cost of product imported into New Zealand. In such cases, importers may struggle to achieve a material market share, if the local manufacturer prices competitively, innovates and provides a good quality service. But this is a beneficial outcome for New Zealand – consumers have the benefit of a competitively priced product and local supply (which may provide greater certainty of supply versus imported products) and New Zealand more broadly benefits from increased employment, government policies (like those addressing climate change) being advanced and enhanced supply chain resilience; and/or

(b) the relevant New Zealand standards or other regulatory requirements are specific to New Zealand, limiting the scope for the offshore manufacturer to leverage its scale advantage. Notable examples here include the NZ Building Code standards for structural timber which make it difficult to import structural timber produced for overseas markets, because it must meet the New Zealand timber treatment standard.

31. **Are there building supplies you are aware of that are not available in New Zealand, but you think would benefit New Zealanders? Please describe these supplies and benefits.**

31.1 As Fletcher Building apprehends is the case across most markets in the economy, there are types of building supplies (and production techniques) sold in overseas markets that are not available in New Zealand (and vice versa). There might be a variety of reasons why that is the case, and those reasons are likely to be different depending on the particular product in question.

31.2 Fletcher Building regularly conducts ecosystem scans of the international environment to identify any such products and techniques that it could successfully introduce into New Zealand. Key limiters to the introduction of such products and techniques is the size of the New Zealand market and the need to obtain sufficient scale to introduce a product (given the role played by BCAs, architects, specifiers and builders), and the resulting need to take a robust long-term view to succeed.

31.3 Where Fletcher Building identifies a product or solution it considers could be profitably sold in New Zealand, it has introduced that product or solution. Clever Core is the most recent example. However, even in introducing Clever Core, Fletcher Building needed to look beyond a **[**REDACTED**]** horizon to justify the investment. Other examples that Fletcher Building is currently investigating include **[**REDACTED**]** and 'green' cement and concrete products.

32. **How do economies of scale in the supply chain for key building supplies impact the number of suppliers?**

32.1 The small size of the New Zealand market will inevitably influence the number of suppliers (domestic and international) of building products in New Zealand.

32.2 For domestic manufacturers, a key consideration is whether they can maintain an economic manufacturing facility in New Zealand, which in turn is a function of:

(a) the size of the New Zealand market;

(b) the limited opportunities for domestic producers to export building products competitively from New Zealand to international markets, given logistics and size of facilities relative to overseas competitors;

(c) the ability for international competitors with larger-scale plants and lower unit costs to import competitively into New Zealand; and

(d) land cost and availability as well as the regulatory settings and consenting process to enable manufacturing close to inputs and markets.

32.3 Where the cost of investment in an economic plant for a particular building material is relatively low and the product is difficult to import, this calculus tends towards a greater number of domestic manufacturers. Ready-mix concrete is an example of this type of building supply, with over 40 active ready-mix concrete producers in New Zealand.

32.4 For other building supplies such as cement, plasterboard and insulation, the cost to establish and maintain a plant in New Zealand is higher. This, in combination with the other factors we have identified, such as the size of the domestic market, tends to result in a lower number of domestic manufacturers combined with capacity from imports: for example, one full manufacturing facility and one grinding facility in the case of cement, and one domestic manufacturer in the case of plasterboard.

33. **What are the main barriers to new providers of key building supplies establishing domestic manufacturing in New Zealand?**

33.1 This question presupposes there are any such barriers. New providers seeking to establish domestic manufacturing face similar conditions as incumbents, namely: generating sufficient long-term demand for the product to achieve adequate manufacturing volumes over time to justify the investment, BRANZ and other certification for the products themselves, as well as securing land, plant and equipment, consents and labour.

33.2 A key consideration is always the trade-off as to whether the pool of New Zealand customers is sufficient to achieve the necessary manufacturing scale to make local manufacturing more efficient than manufacturing at (generally much larger) offshore facilities at a lower unit cost and importing to New Zealand. There are limited export markets of any scale for domestic New Zealand manufacturers to supplement domestic demand to achieve scale. We expect that is precisely the calculus that led Holcim to close its South Island cement plant in 2016 and instead import from a very large Japanese facility rather than building a new cement plant in New Zealand.

34. **Are customers (for example, merchants when purchasing from wholesalers, or builders when purchasing from merchants) able to constrain their suppliers due to their own size or negotiating position? Please explain why/why not?**

34.1 Fletcher Building considers that the markets in which it operates are competitive and customers have, and use, the options available to them to constrain suppliers in these markets. While it is true that, as in many industries, customers that buy more products tend to get a better price, customers of all sizes have options.

34.2 For example, at the distribution level, customers of all sizes have, and use, multiple options for purchasing their requirements. PlaceMakers estimates that **[**REDACTED**]**% of its sales are made on a job quote basis, in circumstances where customers seek multiple quotes. The quote process simply reflects customers exercising constraint on merchants by exercising their outside options. Larger customers, such as **[**REDACTED**]**, formally tender their requirements on a regular basis, again using their outside options to drive competitive outcomes.

34.3 Right throughout the supply chain, large customers know their custom is valuable and will use this to drive competitive outcomes.

Vertical integration

35. **Does vertical integration act as a barrier to entry/expansion for independent rivals? Does this differ for different building supplies? Please explain your view.**

35.1 See our response to Question 37.

36. **Is being vertically integrated necessary to compete effectively in this sector? Please explain your view.**

36.1 See our response to Question 37.

37. **What are the benefits in this industry to being vertically integrated? Do consumers benefit from this?**

37.1 Fletcher Building considers that New Zealand consumers benefit from the range of business models – vertically integrated and non-vertically integrated – that exist in the New Zealand building supplies industry.

37.2 Vertical integration can and does lead to economies of scale, efficiencies, and lower costs for consumers. In our view, this is true for vertical integration in the sense it describes a firm which is deeply integrated across different functional levels, and also as the Commission uses the term (to describe a firm which is active at different levels of the supply chain, but which might otherwise operate independently).

37.3 A key benefit for consumers of Fletcher Building's vertical integration into residential and development is the enhanced opportunities for innovative technologies (e.g. the introduction of new products or improvements to existing products) to be identified and trialled and, if successful, deployed more widely across the market.

37.4 A relevant example of this is Fletcher Building's **[**REDACTED**]**. [29] Consumers will ultimately benefit from the improved product innovation and pace to market.

37.5 More generally, to the extent that vertical integration facilitates the introduction of new technologies and products, consumers will benefit. As noted in our response to Question 6, we expect that initiatives could be led by a variety of different organisations – be they entirely new entrants, builders integrating 'up', upstream suppliers integrating 'down', or organisations such as Fletcher Building which are already active in some markets at different levels of the supply chain.

37.6 Certainly, vertical integration (however defined) does not act as a barrier to entry / expansion in New Zealand's building supplies markets. The presence and ongoing success of independent players in markets of all in-scope building supplies in which Fletcher Building operates is evidence that vertical integration is not a prerequisite for success in these markets and there are no barriers. As already explained in response to Question 5:

(a) Fletcher Building's manufacturing and importing rivals have a range of routes to market, including a vibrant (non-aligned) merchant channel, specialist retailers and direct supply; and

(b) Fletcher Building does not supply exclusively to PlaceMakers. PlaceMakers is supplied on an arm's length basis as are other merchants and retailers. Therefore, other merchants and retailers can

[29] **[**REDACTED**]**.

and do resell Fletcher Building products in direct competition to PlaceMakers, and their success in doing so over time is testament to the ability to compete effectively.

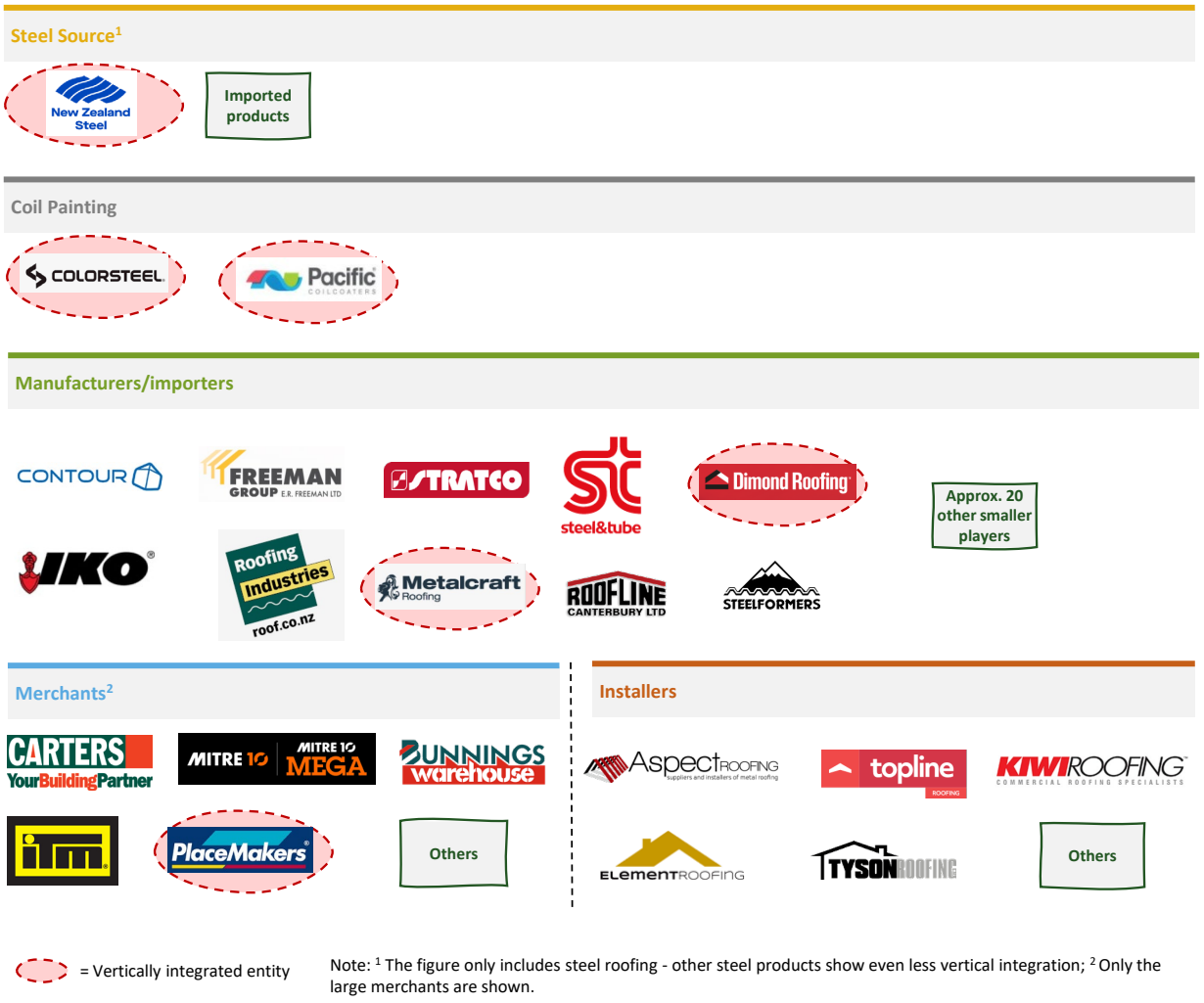
37.7 Figure 11 to Figure 15 below show the mixture of business models across various "key building supplies" supply chains. As noted previously, we expect the extent of 'vertical integration' is much lower than many people assume.

Figure 11: Structural timber industry map

Figure 12: Wall linings and plasterboard industry map

Note: [1] Only the large merchants are shown. Manufacturers that sell their products direct are not considered vertically integrated in this illustration.

Figure 13: Steel roofing industry map



Note: [1] The figure only includes steel roofing - other steel products show even less vertical integration; [2] Only the large merchants are shown.

Figure 14: Ready-mix concrete industry map

Note: [1] The figure only includes ready-mix concrete and excludes masonry, veneers and bagged concrete; vertical integration is only shown for residential building; [2] Only the large merchants are shown. Manufacturers that sell their products direct are not considered vertically integrated in this illustration

Figure 15: Insulation industry map

= Vertically integrated entity

Note: [1] Only the large merchants are shown. Manufacturers that sell their products direct are not considered vertically integrated in this illustration

38. **Are there any other factors we should be aware of in considering the vertical integration of key building supplies?**

38.1 See paragraphs 5.3 to 5.5 above.

Vertical arrangements

39. **What forms do supplier rebates and loyalty payments typically take in this industry? (e.g., monetary, non-monetary, lump sum etc.) Does this vary by type of building supply? If so, please explain how.**

39.1 Rebates are common across the building supplies industry as they are across many sectors more generally.[30]

39.2 At all levels, there are various types of rebates, including volume or sales rebates (that can be tiered or flat, based on percentage of sales or be fixed dollar value per unit), payment rebates (e.g. for on-time payment), marketing support rebates, and show home support rebates. The size and terms of these rebates (including when they are paid and to whom) are negotiated between the supplier and the relevant customer.

39.3 In addition to rebates, loyalty programmes for trade customers are a feature of the distribution level of the market. PlaceMakers' PlaceMakers Plus programme enables trade customers to earn points for every dollar spent, which they can redeem through an online catalogue of gift vouchers and products, independent travel, or to attend PlaceMakers Plus group travel experiences.

39.4 Loyalty programmes are not common at the wholesale supply level. Laminex is the only other Fletcher Building business unit that offers a loyalty programme (Choice Rewards) for trade customers which it supplies directly.

40. **Do rebates / loyalty payments usually relate to one product or category of product, or are they often applied across multiple products or product categories?**

40.1 Fletcher Building's rebates are agreed between a customer and the relevant business unit and generally apply to customer spend across all products supplied by the relevant business unit. For example:

(a) Winstone Wallboards has rebate arrangements that apply to a customer's purchases of Winstone Wallboard products, while Tasman Insulation and Laminex will have their own separate rebate arrangements with that customer for their respective sales; and

(b) PlaceMakers' rebate arrangements apply to a customer's spend at PlaceMakers.

41. **Do rebates / loyalty payments inform or restrict a merchant's or builder's decision about which product(s) to acquire? If so, how significant is this consideration?**

41.1 From Fletcher Building's perspective, rebates are simply an aspect of price and are part of competing to win custom.

41.2 As a buyer of product, Fletcher Building does not feel restricted by the rebates it receives. Nor does Fletcher Building perceive that the rebates agreed with its customers restrict those customers in any way (including their decision about which product(s) to acquire). Customers will consider the net price (of which a rebate forms part) as one factor in deciding which product to purchase and which supplier to purchase that product from (alongside the other key purchasing criteria discussed in response to Question 56 below).

[30] As recognised by the Commission in the Winstone Wallboards investigation at [20].

42. **Is tying of products or product "systems" a prevalent practice? What levels of the supply chain are characterised by tying arrangements?**

42.1 To Fletcher Building's knowledge, tying of products or product systems is not a prevalent feature of building supplies markets.

43. **Are exclusivity agreements prevalent? What levels of the supply chain are characterised by exclusivity agreements?**

43.1 To Fletcher Building's knowledge, while there are some exclusivity agreements, they are not common or widespread in the building products supply chain.

43.2 For Fletcher Building, **[**REDACTED**]**.

44. **Do the benefits of rebates and pricing pass through to end-consumers? Why/Why not?**

44.1 Fletcher Building only has visibility of the way it sets prices for its customers, most of whom are our merchants, retailers, and trade customers, rather than end-consumers. Only a few Fletcher Building business units (e.g. PlaceMakers and Firth) directly supply building products to end-consumers in respect of DIY / retail sales.

44.2 As a supplier of building products to customers, Fletcher Building sets pricing by accounting for the net costs of goods sold. As a result, the prices charged by a Fletcher Building business unit on any given product will reflect any rebate(s) it receives on the product or input materials it has purchased.

44.3 Fletcher Building has, quite properly, no visibility or influence on the way in which its customers set prices for their customers.

45. **Are there any other factors we should be aware of in considering the vertical arrangements of key building supplies?**

45.1 There is nothing additional that Fletcher Building wishes to raise at this point.

Accommodating behaviour

46. **Is accommodating behaviour likely to be an issue in this industry? Please explain why/why not.**

46.1 We do not believe that the potential for accommodating behaviour is an issue that the Commission needs to prioritise in this competition study because:

(a) the markets that Fletcher Building participates in are competitive, and Fletcher Building is not aware of any information that would suggest there is, or has been, accommodating behaviour in the building supplies markets it is involved in, at any level of the supply chain;

(b) it appears that in all but one of the Commission's building products merger decisions under the substantial lessening of competition test, the Commission has found that coordinated effects are unlikely; and

(c) while each product is different, at a general level, building products markets have features that would make any accommodating behaviour difficult to establish and sustain.

Distribution level

46.2 Fletcher Building understands that the Commission has considered the potential for accommodating behaviour in both the fuel and grocery competition studies. However, the fundamentals of building products distribution are very different to those sectors and there are several features of the building products distribution markets that would make coordination difficult if not impossible.

46.3 The distribution level of the residential building supplies supply chain is relatively unconcentrated. There are five major general merchants as well as significant volumes being sold through independents, online retailers, category specialists, and direct suppliers. PlaceMakers estimates that more than 50% of all "retail" building products sales in New Zealand are made by non-merchants, a trend which is only accelerating.

46.4 Each type of distributor has a differentiated offer and will have a different cost structure. For example, two of the five major general merchants are vertically integrated with some upstream domestic manufacturing (PlaceMakers and Carters, albeit with a very different product mix), one is a national chain (Bunnings), while two operate as franchise / cooperative models with local owner operators (ITM and Mitre 10).

46.5 Most residential building jobs – **[**REDACTED**]** – are quoted, with builders usually obtaining quotes from two or three retailers (including merchants, category specialists, and direct suppliers) before selecting their supplier. As a result, pricing is generally job specific and winning (or losing) bids are not transparent to other suppliers. This job specific pricing makes reaching an accommodation unlikely.

46.6 Finally, in respect of shelf-edge pricing, the thousands of SKUs stocked in each branch, many of which will differ in brand and/or other characteristics (often between stores in the same banner), would make it impossible for competitors to reach and enforce an accommodation about what prices should be for these products.

Wholesale supply level (i.e. manufacturing / importing)

46.7 Fletcher Building considers there are several general features of the wholesale supply of building products that would mean that the risk of accommodating behaviour is not high.

46.8 As is the case at the distribution level, ultimate pricing is not publicly transparent given the existence of rebates and the regularity with which merchants or other customers seek specific quotes for specific jobs. This was recognised most recently by the Commission in relation to roofing when clearing IKO Industries to acquire Ross Roof Group:

> … we understand that there is minimal price transparency. In particular, while suppliers may begin with base 'list prices' to installers, these list prices are frequently subject to additional discounts (including but not limited to volume discounts) which are negotiated individually with each installer.[31]

46.9 In many cases, this lack of price transparency is exacerbated by the different sizes and requirements of different jobs.[32]

46.10 As illustrated above, for nearly all products supplied by Fletcher Building, there is a mix of domestic manufacturers, importers, large suppliers, smaller suppliers, vertically integrated and independent

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[31] IKO Industries Limited and Ross Roof Group Limited [2021] NZCC 8, at [67]. See also Fletcher Building Holdings New Zealand Limited and Higgins Group Holdings Limited [2016] NZCC 14, at [164] in relation to aggregate, and Daiken New Zealand Limited and Dongwha New Zealand Limited [2018] NZCC 4, at [102.1] in relation to MDF, and Fletcher Concrete and Infrastructure Limited / W Stevenson and Sons Limited Decision 558, 15 September 2005 in relation to ready-mix concrete.

[32] Fletcher Concrete and Infrastructure Limited / W Stevenson and Sons Limited Decision 558, 15 September 2005, at [193] in relation to ready-mix concrete.

competitors. This range of suppliers and business models and the resulting differentiated service offerings make accommodating behaviour less likely. Moreover, in some products there are disparities in market shares. As the Commission has recognised[33], disparities in costs and market shares make competitors reaching an accommodation unlikely.

46.11 This diversity of suppliers, cost base and/or market share is evident in relation to the products the Cabinet Paper suggests are the most concentrated, namely cement, plasterboard, and insulation.

(a) In cement, Holcim's import cement model will have a materially different cost structure to Golden Bay Cement's New Zealand manufactured model and HR Cement's New Zealand clinker import and New Zealand grinding model.

(b) Winstone Wallboard's New Zealand manufacturing and distribution model (compared with other plasterboard suppliers), and the product differentiation (compared with other suppliers of wall linings) makes accommodating behaviour unlikely.

(c) Tasman Insulation's New Zealand manufacturing model for glass wool Pink® Batts® will be materially different to Knauf's import only model for glass wool.

46.12 Finally, unlike the distribution level where there is a range of customer types and sizes, at the wholesale supply level there are typically large, sophisticated buyers (such as merchants or group homes builders) who purchase large volumes and face no significant barriers to switching volumes between competing suppliers.[34]

47. **How transparent is pricing for key building supplies?**

47.1 Transparency of pricing can be measured in (at least) two different ways.

(a) Transparency of pricing to the customer, i.e. how pricing is described (**customer price transparency**) and whether the customer knows the basis on which they are being charged.

(b) Transparency of pricing across the market, i.e. whether pricing can be identified and checked across the market (**market price transparency**). This is the price transparency referred to in Fletcher Building's response to Question 46.

47.2 Fletcher Building addresses both types of pricing transparency below.

Customer price transparency

47.3 From Fletcher Building's perspective, its business units' pricing is transparent to its customers. That is, Fletcher Building's customers know the price they are being charged and the terms and conditions of supply. This applies equally to pricing by Fletcher Building business units at the input, wholesale supply, and construction levels, as well as to PlaceMakers' pricing at the distribution level.

47.4 The Cabinet Paper refers to pricing not being transparent because of the "widespread use of rebates and loyalty schemes shaping the market" referring to a 2013/14 MBIE Residential Construction Market Study.[35] Fletcher Building does not agree with this statement.

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33 Fletcher Building Limited and Waikato Aggregates Limited [2019] NZCC 2 At [170].

34 See Daiken New Zealand Limited and Dongwha New Zealand Limited [2018] NZCC 4, at [102.2]

35 Cabinet Paper "Initiating the Third Commerce Commission Market Study", at 17.1.3.

47.5 As described, from Fletcher Building's perspective, its customers know and understand the prices (including any rebates the customer receives) that apply to their purchases and the terms of any loyalty programme. The price is transparent to Fletcher Building's customers.

47.6 Naturally, what is not transparent to our customers are the *costs* Fletcher Building incurs in supplying those products or services. Rebates (which go to the net price Fletcher Building pays its suppliers) inform that cost base. That lack of transparency is neither unique to building supplies or Fletcher Building nor a competition problem – in all markets (in the absence of open book pricing), a buyer will not know a supplier's cost. The same general point can be made in relation to the suppliers of inputs to our businesses.

47.7 Our customers are not generally end-consumers. Our customers are merchants, retailers, installers, and builders, among others. While the prices we charge our customers and any rebates they receive are transparent to them, we do not know how our customers set or describe their prices, including when they are supplying products or services to end-consumers. While noting the presence of existing laws and regulations that regulate that behaviour such as the Fair Trading Act, we are supportive of the Commission assessing whether end-consumer pricing for building products is sufficiently transparent to give confidence to end-consumers that they are paying a fair price.

Market price transparency

47.8 As described in response to Question 46, at a market price level, prices are much less transparent than in other markets (such as fuel or groceries). From Fletcher Building's perspective, this lack of market price transparency is beneficial to competition and reduces the risk of accommodating behaviour.

48. **Are there any other factors we should be aware of in considering accommodating behaviour in building supplies?**

48.1 There is nothing additional that Fletcher Building wishes to raise at this point.

Regulatory and standards systems

49. **Do the regulatory and standards systems (eg, product accreditation framework, building code and standards or consent process) make it easy or difficult for new and innovative building supplies to enter the New Zealand market and establish a presence? Please explain any difficulties posed and your view on whether it would be beneficial to make it easier for new suppliers to enter the New Zealand market.**

49.1 Fletcher Building agrees with the Commission that ensuring buildings are structurally sound and safe to live in is self-evidently important.[36]

49.2 However, there is an inherent policy tension between the rules and regulations designed to ensure building products are quality assured, and an objective of making it easy for participants to introduce new products. If quality assurance rules and regulations are relaxed to promote new entry, then that could create other policy problems downstream if low-quality products enter the market to the detriment of New Zealand's housing stock. Conversely, if the standards are set too high, efficient market entry may be deterred.

49.3 Fletcher Building notes that, while the policy question of how stringent the rules and regulations are set for quality assurance of building supplies is outside of the scope of this competition study, where the bar is set will influence the building supplies sold in New Zealand and consumers' confidence in them.

[36] Preliminary issues Paper at [123].

49.4 From Fletcher Building's perspective, the rules and regulations must produce consistent outcomes for consumers and so must apply equally to all manufacturers / importers (i.e. both new and incumbents) who wish to introduce a new product or establish a new plant.

49.5 In our view, the Commission should focus on assessing whether the systems and processes used to implement whichever rules are in place are working as efficiently and uniformly as they could be. For example:

(a) The NZ Building Code is complicated and open to different interpretations and can be difficult to apply. This creates an incentive for architects, builders and specifiers to use products they know will meet NZ Building Code requirements.

(b) We believe thought could be given to improving the BRANZ approval process.

(c) In many cases, New Zealand has standards that are different to those used in other countries. For example, the standard applying to the treatment of timber in New Zealand means that imported structural timber used in other countries must be treated before being used in New Zealand. While many of the differences in the standards in New Zealand and elsewhere may be justified, ensuring equivalence with overseas standards where possible would improve the economics of entry into New Zealand.

(d) BCAs are naturally risk averse given the significant liability they assume when granting consents which, when combined with the fact that BCA consenting processes are slow and costly for consumers, creates a strong impetus for builders, architects and specifiers to use products which councils have experience with and which they know BCAs will provide consents based upon.

(e) The consenting process in New Zealand is highly fragmented. There are more than 80 BCAs in New Zealand, which creates the potential for, and in some cases does result in, different BCAs interpreting whether products comply with NZ Building Code requirements differently.

50. **What impact does the current regulatory environment have in encouraging or discouraging a move to 'green' building supplies?**

50.1 The current regulatory environment does not positively encourage 'green' building supplies (however that is defined). Green building supplies must satisfy the same tests and meet the same practical challenges faced by all products (as set out in response to Question 49).

50.2 The Commission should also be aware that when a manufacturer changes its manufacturing process (including in a way that reduces carbon emissions), it needs to obtain re-appraisal to keep its BRANZ accreditation. While this need for reapproval is an important safeguard, it is an additional consideration for a manufacturer wishing to introduce a new manufacturing process. **[**REDACTED**]**.

51. **Does the current regulatory regime favour incumbent suppliers over new entrants? If so, please explain how.**

51.1 From Fletcher Building's perspective, the current regulatory regime does and should apply equally to all manufacturers / importers who wish to introduce a new product, regardless of whether they are an existing supplier or a wholly new entrant.

52. **Does the current regulatory regime encourage vertical integration (including, for example, in-house product compliance) or vertical arrangements in the sector? If so, please explain how.**

52.1 The current regulatory environment does not encourage vertical integration or vertical arrangements in the sector. As illustrated in the vertical integration discussion above, there is a range of successful business models present in the industry.

53. **Does the current regulatory regime encourage the offer of 'systems' of products? If so, please explain how.**

53.1 The way the current regulatory regime defines products and systems is unclear. Recent legislative change has assisted to provide more clarity, and in some cases encouraged certain systems, but further clarity is needed as to what building products and amalgams of products are considered systems.

54. **Are there any other factors we should be aware of in considering the regulatory and standards systems for building supplies?**

54.1 MBIE's Building for Climate Change programme, the relative increase in land costs and policy settings that make home ownership an otherwise unaffordable option for many New Zealanders will each drive the need for building suppliers to innovate in the near term.

Behavioural impediments

55. **Who are the key decision-makers for key building supplies?**

55.1 Fletcher Building agrees that there are several different key decision-makers in the selection of building supplies for any residential building project, including the architect or engineer, the quantity surveyor, other specifiers (together, referred to as **specifiers** in this section), and the builder.

55.2 We also agree that participants' experiences in using certain products and the building consent and NZ Building Code compliance certification processes will influence their views. For that reason, BCAs are also very important decision-makers in the process.

55.3 The ultimate client for whom the residential building is being constructed may also have views that influence the selection of specific building supplies (e.g. a homeowner who wants a large, open space may require a steel structural element instead of timber or other products).

55.4 However, clients are more likely to be focused on ensuring that the overall delivery of the build they have contracted is on time and on budget, as well as on any finishing products that determine the aesthetics of the build (e.g. external cladding, paint, cabinetry, tapware, fittings, lights etc.). They are less likely to be focused on the selection of individual building supplies, particularly where that product is not visible in a completed build.

56. **How do decision-makers choose the most appropriate building supplies to use?**

56.1 In the context of residential building, specifiers and builders are each providing a service to their client, the owner of the build. Ultimately, what that client is purchasing is a completed build (i.e. a new build or a renovation) to the standard required by the NZ Building Code, BCAs, and the client as quickly as possible for the lowest possible cost. For their part, the specifiers and builders involved are incentivised to provide the best possible outcome for their clients as part of competing to win more business in the future.

56.2 Therefore, the key product selection criteria for these service providers are a function of the need to provide this outcome for their customers. This can manifest in several ways.

56.3 First, as described above, the process of obtaining consent and the time it takes to do so can influence the incentive to specify new or unknown products, particularly where they do not contribute to the aesthetics of a build. BCAs may be unwilling or take longer to approve products they are not familiar with (whether imported or locally produced, and whether from a new entrant of an existing participant). Such delays impose real costs for consumers that would need to be weighed against potential savings or other perceived advantages of using another product.

56.4 Second, the fact that building products as a group, and individual products more specifically, are only a relatively small part of overall cost of construction build (as illustrated in Figure 1) can influence the choice of building supplies. While the price of a building product is a consideration, in the context of an overall build, whether the product supplier can be relied upon to deliver the product in full (without damage) and on time will likely be more important than the cost. A delay in the delivery of a building product or damage to product that is delivered is likely to have flow-on effects on the remainder of a build. These delays put a builder's ability to deliver the build to the consumer on time and on budget at risk. For this reason, a builder is likely to weigh up any benefit from obtaining a lower price on an individual product versus the risk and higher costs associated with delay or damage to that product, i.e. having regard to price, quality, service, etc. This may result in a builder continuing to rely on a supplier it knows is reliable to mitigate the risk to the delivery of the build for the client.

56.5 These service and delivery drivers are reflected in a piece of customer research undertaken by Fletcher Building during September and October 2021. Approximately 320 builders in New Zealand were asked to rank 11 key purchasing criteria in terms of importance when: (a) purchasing from **[**REDACTED**]**. The top five criteria for each category are shown in Table 1 below. The criteria relating to the delivery of products in full, on time and in an "excellent condition" were consistently ranked as the top five key purchasing criteria across all **[**REDACTED**]** we surveyed for.

Table 1: Top five key purchasing criteria for select categories among builders in New Zealand

Rank	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.	Products are delivered in full and on time	Products arrive on site in excellent condition	Products arrive on site in excellent condition	Products arrive on site in excellent condition	Products arrive on site in excellent condition
2.	Easy to do business with	Products are consistently high quality	Products are consistently high quality	Products are consistently high quality	Products are consistently high quality
3.	Products are competitively priced	Products are delivered in full and on time	Supplier resolves problems in an effective / timely manner	Products are delivered in full and on time	Supplier resolves problems in an effective / timely manner
4.	Problems resolved in an effective / timely manner	Supplier resolves problems in an effective / timely manner	Products are designed & tested for use in New Zealand conditions	Supplier resolves problems in an effective / timely manner	Products are delivered in full and on time
5.	Good range of products	Products are designed & tested for use in New Zealand conditions	Products are delivered in full and on time	Products are designed & tested for use in New Zealand conditions	Products are designed & tested for use in New Zealand conditions

56.6 It is notable that the pricing criterion – "products are competitively priced" – was ranked third most important for purchases from **[**REDACTED**]**, 7th most important for the **[**REDACTED**]**, and 8th most important for **[**REDACTED**]**. This is not to suggest that competitive pricing is not important, because it is. The point is simply that what matters more to builders is reliability in service and the quality of the products.

Access to technical information

56.7 Fletcher Building agrees that technical information about products is important but does not apprehend that obtaining access to technical information about products is a particular issue for decision-makers. As in all markets, each manufacturer / importer is responsible for demonstrating the benefits of their products. This is something Fletcher Building invests in with existing products and when it introduces new products.

Product warranties and guarantees

56.8 Fletcher Building believes that warranties and supplier reputation are important considerations for decision-makers and hence form part of the overall decision-making process. Building products have long operational lives. Moreover, the cost to fix an issue caused by a faulty product is likely to significantly exceed the original cost of a product. For example, if failure of a product results in damage to other parts of a house. Given New Zealand's highly fragmented residential building market and limited insurance cover for this type of product failure, many smaller-scale builders cannot economically bear the financial burden of potential product failure and so will want to understand the extent to which manufacturers / importers are willing to stand behind their products should something go wrong.

57. **Do the incentives of the decision-makers on key building supplies align with the interests of consumers?**

57.1 As described above, specifiers and builders are competing to supply services to consumers wishing to build or renovate their homes. In that context, having a reputation for delivering the outcome consumers seek, on time as well as on budget, is important. Providers who do not deliver an outcome that aligns with customer expectations will not succeed in competing to win additional business over time. Competition at the construction level of the market should ensure that the interests of consumers are promoted.

58. **Are there any other factors we should be aware of in considering decision-makers' behaviour in respect of building supplies?**

58.1 There is nothing additional that Fletcher Building wishes to raise at this point.

Other issues and prioritisation

59. **Are there any other issues not raised in this paper that could impact competition in the key building supplies?**

59.1 There is nothing additional that Fletcher Building wishes to raise at this point.

60. **Which potential issues do you think should be the priority issues to focus on? Please detail the reasons why.**

60.1 Please refer to the summary.