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## **WPMA's submission on the residential building supplies market study draft report**

The Wood Processors & Manufacturers Association of New Zealand (WPMA) would like to provide the following comments on the Commerce Commission's Residential Building Supplies Market Study Draft Report (the Report).

WPMA represents the perspectives and interests of its members, including sawmill operators, timber manufacturers, pulp and paper producers, and suppliers to the industry. Our members are companies that have made major investments in adding value to New Zealand's annual forest harvest, which contributes to a bio-circular economy and provides economic growth and employment opportunities across regional and metropolitan areas throughout New Zealand. WPMA's members make a critical contribution to the production and supply of timber and wood products used in residential buildings in New Zealand.

Domestically processed and manufactured wood products are a significant contributor to the New Zealand economy, with exports expected to increase by 12% to \$2.85 billion in the year to 30 June 2022.<sup>1</sup> The wider wood processing sector is a large employer of higher- paid workers across New Zealand, with 30,645 workers employed, mostly in the regions close to log supply.<sup>2</sup>

In this submission WPMA provides comments on the Terms of Reference, government-led environmental initiatives and Draft Recommendations 1, 4, 6, 7 and 8.

### The Terms of Reference do not recognise the extenuating economic circumstances

The market study was established by the Minister of Commerce and Consumer Affairs, David Clark, following concerns over the price of building materials. While WPMA accepts that any analysis of complex supply chains (such as those found in the building industry) is likely to be challenging, it is unfortunate that the narrow Terms of Reference set by the Minister do not fully reflect the impact of the extenuating economic circumstances caused by the COVID-19 pandemic.

We observe under section 1.16 that the Commerce Commission chose not to examine factors affecting the international supply chain or short-term impacts of the COVID-19 pandemic. This leaves a gap in the Report's preliminary analysis and recommendations on the impact of competing demands for building products, as well as the locally and internationally sourced supply inputs required to manufacture building materials.

The impacts of COVID-19 policy may be short term but are nevertheless impactful. Fuelled by artificially low interest rates there has been an increased domestic demand for residential building materials, as demonstrated in the record number of consents for new residential homes, with 50,583 being issued in the year ended April 2022 (up 33% from the previous year).

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<sup>1</sup> MPI's Situation and Outlook for Primary Industries June 2022 ([link](#)).

<sup>2</sup> Forestry and Wood Processing Workforce Action Plan 2020–2024 ([link](#)).

Other countries have also stimulated investment in building projects in response to the COVID-19 pandemic. In June 2020, the Australian Government announced it would give eligible homeowners A\$25,000 to build or substantially renovate their homes in an effort to boost demand in the construction sector and keep builders badly affected by the pandemic employed. At the time this package was expected to be worth A\$680 million.<sup>3</sup> Canada has invested C\$2.2 billion into infrastructure projects, plus a further C\$1 billion in new housing.<sup>4</sup> These types of programmes have placed further pressure on building supplies sourced domestically and from export markets. We also note that under the terms of the CER agreement, the Australian and New Zealand building products market can be assumed to be synonymous over the medium to longer term, i.e. discounting shorter-term fluctuations in sea freight cost.

#### Increased government environmental programmes increasing building costs

From the draft report's Executive Summary (p. 4) we note the Commerce Commission's study sits alongside several other government-led initiatives such as building system legislative reform, the Building for Climate Change programme, and the Government's Emissions Reduction Plan, among others.

The impact of government-led environmental initiatives is likely to affect most parts of the economy, including the price of building materials in future. To some extent this is already being felt within the wood processing and manufacturing sector, with higher energy prices and increased costs in the transport and distribution of wood products. There would also appear to be increased interest in low emission 'green' building materials from concerned consumers and specifiers, including the Government itself. Whether that has materially affected the price of wood products is unknown, but it is a matter of logic it must (whether now or in the future).

The Government is also currently reviewing the National Waste Strategy and contemplating reforms to the Waste Minimisation Act. Construction waste has been identified as significant, with 3 million tonnes ending up in municipal solid waste landfills, and a likely candidate for regulation aimed at 'internalising' the environmental cost to producers and ultimately consumers. In the short term, the cost of the Government's landfill levy has been gazetted to increase from \$10 a tonne to \$60 a tonne, a cost that will ultimately pass on to consumers, including those purchasing building materials.

WPMA recommends the report consider a 'whole-of-government' approach be taken in identifying and addressing the broader range of interventions in streamlining costs in the manufacture and sale of building materials.

#### Draft Recommendation 1 – Introduce competition as an objective to be promoted in the building regulatory system

We agree the building regulatory system and standards encourage designers, builders and BCAs to favour 'tried and tested' building products over new or competing products. But this also reflects the risks and liability of these groups being found negligent in selecting alternative building products and methods that are defective.

Wood processors and manufacturers require standards for their products to meet domestic and international market requirements. WPMA has previously expressed concerns over the standard setting process not working as effectively as it potentially could. This is further highlighted in the report (C104), whereby Standards NZ require consensus-based approval of a setting standards process which can hold up the development of existing and new products used in the building industry.

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<sup>3</sup> ABC News 'Government to hand out \$25k grants for housing construction, renovations to bolster industry' ([link](#)).

<sup>4</sup> [International manufacturing policy and programme responses to Covid-19](#) report by Martin Jenkins.

WPMA recommends that the report expands Draft Recommendation 1 to encourage a review of the standard setting processes of Regulatory Bodies (Standards NZ, CodeMark, etc), with the objective of improving the processing time and lowering the cost for existing and new products and processes, to be approved on the basis that efficient and effective 'standards' processes are in the national interest.

#### Draft Recommendation 4 – Explore ways to remove impediments to product substitution and variations

While we understand the intent of the recommendation, the Commerce Commission does not adequately consider the impact of imported product substitutes that are subsidised by other countries within its preliminary findings or Draft Recommendation 4. In the case of the wood processing and manufacturing sector, trade distortions represent a very real challenge for our members and other New Zealand exporters of manufactured products, or alternatively competing at home against cheaper products fabricated in countries that provide greater support to their manufacturing base.

We observe that the Government has the ability to apply anti-dumping and countervailing duties under the Trade (Anti-dumping and Countervailing Duties) Amendment Act 2017 (the Act), where it is found to be material injury to an industry due to dumped or subsidised goods being imported into New Zealand. However, this is rarely applied in practice, presumably on the basis that resilient domestic supply chains and building products innovation and investment do not meet the threshold of the 'public interest' as defined in the Act.

WPMA recommends that Draft Recommendation 4 make reference to the sourcing imported product substitutes only from countries that define and meet their obligations under the WTO Agreement in the same way as New Zealand does.

#### Draft Recommendation 5 – Investigate whether barriers to certification and appraisal can be reduced

WPMA supports the recommendations to improve the CodeMark approval process as outlined under subsection 9.62.1 and 9.62.2. Based on comments from members the cost of achieving CodeMark certification within the wood processing sector would appear to be in the range of \$30,000 to \$40,000, with applications taking upwards of 12 months.

Feedback from a member involved in seeking CodeMark approval has advised that achieving compliance has been severely impacted by the stance of a New Zealand-based CodeMark accredited body they are dealing with. The challenge is that the CodeMark accreditation body in question won't certify the process, but rather they intend to certify the end use product, resulting in each of the applicant's customers having to obtain their own individual CodeMark certification to use the process. The member reports that the CodeMark accredited body requires their clients to submit a CodeMark application verifying product compliance and access to a quality manual to the client's customers. We assume this will be captured into the accredited body's audit systems at the cost to the member and their clients, as well as an installation audit of the product.

If this form of approach is widespread across CodeMark accredited bodies, it creates a barrier to the ongoing development of new manufacturing processes and innovative product development within the building industry. Furthermore, this could discourage investment of research and development by wood processors and supporting organisations (e.g. research bodies, chemical companies, etc) into developing new and more environmentally sustainable building products for use in New Zealand and offshore.

The emphasis of accredited bodies to certify a specific product rather than certifying whether the product will comply with the Building Code if used and installed in the specified way

would represent a departure of the purpose of CodeMark within New Zealand's building regulatory framework (p.54), as well as being out of step of standard processes used by Standards NZ and other international standard setting agencies.

To reduce the barriers for the CodeMark approval process, the Commerce Commission recommendations need to strongly reference the intended use of CodeMark in providing a compliance pathway accepted by building consenting authorities. This will provide greater confidence and an accepted compliance pathway for building manufacturers and suppliers to bring new and innovative building products to the market, which meets the broader aims of the Report.

Draft Recommendation 7 – Promote compliance with the Commerce Act, including by discouraging the use of quantity-forcing supplier-to-merchant rebates that may harm competition

WPMA generally agrees with the Commerce Commission's preliminary views (section 7.55) that the use of quantity-forcing rebate structures can make it harder for alternative suppliers to be stocked through the merchant channel and harder for existing suppliers to expand.

Members report that rebates between suppliers and merchants are as commonplace in the building product market as they are in other parts of the economy. Customer loyalty schemes and 'bulk discounts' of all sorts are widespread in the marketplace from retail grocery, fuel service stations, transport and airline industries, and so on. For smaller-scale wood processors rebates can act as a barrier in deciding whether to enter into merchant-supplier agreements, and instead many will look for alternative business opportunities for their wood products. However, this does reduce the overall number of potential suppliers, lessening competition in the market in a similar way loyalty schemes act to favour larger national retailers over the smaller independent retailers.

Under Table 7.1, the report identifies the different types of rebates observed in merchant-supplier agreements. The report does not consider other potential costs that may be imposed on suppliers such as prompt payment terms discounts, new stock stocking fee, unsold stock rebate, quarterly total value rebates and/or stock specials rebates. Fully costed, this may also disincentive smaller-scale suppliers from entering into agreements.

It should be noted that depending on the size of supplier an imbalance of power can exist between the supplier and merchant/market. We agree with the Commerce Commission assessment that recommending legislative change to prohibit the use of rebate structures across the key building supplies industry in isolation of imposing similar sanctions across other aspects of the retail market is unlikely to be justified.

Draft Recommendation 8 – Further consider the economy-wide use of restrictive land covenants and exclusive leases

Under section 6.55, WPMA believes that Commerce Commission has not given sufficient weight to merchants' rational (and by extension other manufacturing enterprises) use of land covenants and exclusive leases. Often such covenants are needed to provide investors with the necessary confidence of making a return on the investment associated with developing a new store or site.

Whether covenants and exclusive leases are as influential on overall building costs in New Zealand when compared in other areas is a moot point. The scale of 'the spend' when considering a building a home makes location less material than with some other sectors, particularly when the initial building price comparison and competition can be determined online.

We also note that under government-initiated industry transformation plans<sup>5</sup> there is a focus on creating manufacturing clusters. We expect this will involve some form of land covenants and exclusive leases as a method to encourage businesses to coalesce on designated regional sites, particularly when investment of a new wood processing operation is estimated to cost around \$285 million<sup>6</sup> for a new sawmill. We also observe that the Resource Management Act can act to foster clusters where 'zones' of similarly impactful land uses/businesses are a dictate within local government planning and regulations.

How the Commerce Commission might view manufacturing clusters in the context of sections 27 and 28 of the Commerce Act will require further deliberation in view of Draft Recommendation 8. The Commerce Commission has made it clear that a merchant or supplier benefiting from restrictive covenants and exclusive leases that prevent competitors from accessing certain sites would not comply with the Commerce Act. This would, however, appear at odds with the Government's stated wider aspirations of establishing manufacturing clusters.

### **For more information**

Should you wish to discuss any aspect of this submission, please call me on 027 226 3331.

Yours sincerely,



Stephen Macaulay  
CEO – Wood Processors & Manufacturers Association

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<sup>5</sup> Advanced Manufacturing Draft Industry Transformation Plan ([link](#)), and the Draft Forestry and Wood Processing Industry Transformation Plans ([link](#)).

<sup>6</sup> Te Uru Rakau's NZ Wood Fibre Futures Project Stage Two report ([link](#)).