

*Submission to*

# **Commerce Commission**

*on*

**RESIDENTIAL BUILDING SUPPLIES  
MARKET STUDY:  
PRELIMINARY ISSUES PAPER**

4 February 2022



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Building Supplies Market Study  
Commerce Commission  
44 The Terrace  
WELLINGTON

By email: [buildingsuppliesmarketstudy@comcom.govt.nz](mailto:buildingsuppliesmarketstudy@comcom.govt.nz)

Dear Sir/Madam

**RESIDENTIAL BUILDING SUPPLIES MARKET STUDY: PRELIMINARY ISSUES PAPER**

Concrete New Zealand (NZ) represents a membership of more than 500 corporates and individuals who make a significant contribution to the New Zealand construction sector.

Concrete NZ speaks with a unified voice on behalf of the cement and concrete industry.

In line with its mandate, Concrete NZ welcomes the opportunity to respond to the consultation document *Residential Building Supplies Market Study: Preliminary Issues Paper*.

Concrete NZ believe the Study needs to recognise the current abnormal market drivers and other factors affecting housing affordability. The Study should also consider product durability, embodied carbon (in terms of a full life cycle assessment) and environmental impacts.

Concrete NZ looks forward to further involvement with the Study.

Yours faithfully

Rob Gaimster  
CHIEF EXECUTIVE

## **RESIDENTIAL BUILDING SUPPLIES MARKET STUDY: PRELIMINARY ISSUES PAPER**

In this submission, Concrete NZ dispenses with an executive summary and comments directly on the key issues the *Preliminary Issues* paper raises for the New Zealand cement and concrete industry, with a view to informing the next steps of the Study.

Whilst Concrete NZ supports the market study of residential building supplies, we are concerned it will be skewed by the current abnormal market conditions, and that the terms of reference are too narrow.

Currently the industry is subject to abnormal national and international conditions resulting from the COVID 19 pandemic, which has disrupted supply chains, exacerbated skills shortages, and caused significant inflationary pressure on building products, coinciding with a period of unprecedented demand for housing and infrastructure.

Concrete NZ observes that there is a myriad of factors which play out in the residential building market and a market study into the costs of building products in isolation will not provide an insight into the systemic causes of housing affordability.

As part of its feedback, Concrete NZ will focus on issues to be considered by the Commerce Commission at an early stage, and leave its individual members to comment on the technical aspects of the Study.

Please note that the *Issues Paper* contains a few inaccuracies in terms of cement and concrete supply, and we will leave those members of Concrete NZ associated with these to comment specifically on the inaccuracies.

### **1. Scope of the Study**

In 2019, Deloitte reported the cost of building materials in New Zealand account for between 16-24 percent of the cost of residential housing development costs, depending on the type of building and location. This is unlikely to have changed. Indeed, Concrete NZ notes that paragraph 39 of the *Issues Paper* states that “building materials have been estimated to be around 20 percent of overall residential building costs.” Other costs, such as land and associated infrastructure costs, labour, GST, professional fees, and a range of other costs are also significant components of the overall cost of housing. So, 80 percent of the overall costs are excluded from the Study.

Furthermore, the Study proposes excluding key components such as electrical and plumbing materials and hence the scope is limited still further. Concrete NZ recommends that at the very least electrical and plumbing components should be within scope.

### **2. Consultation**

Concrete NZ urges the Commerce Commission to undertake early and thorough consultation to achieve robust policy outcomes. In particular, we recommend one-

on-one meetings with those key market players before any further papers are drafted.

Concrete NZ will leave it to its members to submit on the technical detail of the building supply market.

### **3. A General Observation on the Markets for Cement and Ready Mixed Concrete**

New Zealand has three cement suppliers. One is fully integrated (Golden Bay Cement, Fletcher Building), one supplies imported cement (Holcim New Zealand), and a third manufactures cement from imported clinker (HR Cement, based in Mt Maunganui). Concrete NZ recommends one-on-one meetings with these key market players before any further papers are drafted, particularly as two are referenced directly in the Study.

Concrete NZ notes that a fourth supplier, Drymix went into receivership in 2020.

As a note of clarification, Allied Concrete does not supply cement.

New Zealand has more than 50 ready mixed concrete suppliers, distributed across the country, supplying c. 4 million cubic meters of concrete per annum from c. 200 batching plants. This material must be supplied locally because it has a short plastic life before it starts to set and harden.

A characteristic of the sector is that each plant exists in a micro-market because of the inability of plastic (wet) concrete to travel beyond 90 minutes.

In addition, the ready mixed concrete sector has seen several new companies enter the market with an estimated 20 percent of the number of suppliers established in the last 10 years.

### **4. Role of an Industry Association (Concrete NZ)**

Concrete NZ operates certification schemes for ready mixed concrete and precast concrete.

Concrete NZ promotes the best use of concrete via knowledge transfer through its Learned Society (a Concrete NZ sub-group), as well as the annual Concrete NZ conference, and regular seminars.

Concrete NZ conducts advocacy for concrete, e.g., with the Ministry of Business, Innovation and Employment (MBIE) on its *Building for Climate Change* programme, to ensure a fair transition that does not increase the costs of construction unduly, and which takes a whole-of-life, or “cradle-to-cradle” approach to assessing the sustainability credentials of building materials. When this method is used, concrete competes favourably with other building materials, e.g., in terms of cost, performance and carbon footprint.

Concrete NZ is currently working on an industry Roadmap to achieve a net carbon zero transition for the sector by 2050. This is a very exciting area of work, and Concrete NZ is pleased to be able to make an appropriate contribution towards the Government's goals for nationwide climate change action.

## **5. NZ Government Policy Increasing Costs**

Concrete NZ notes the following Government-imposed barriers to the efficient and effective operation of the New Zealand cement and concrete industry.

- a. The repeated COVID-19 related lockdowns have constricted supply levels of some materials.
- b. Skills shortages, and other sectors acquiring concrete sector staff, have resulted in significantly increasing labour costs and thereby production costs because New Zealand's borders are closed to overseas skilled labour. Concrete NZ observes chronic skills shortages in the sector, particularly for drivers, engineers, and steel reinforcing fixers.
- c. Concrete NZ supports market-based carbon pricing to incentivise decarbonisation at lowest cost. It is noted that New Zealand is among the world leaders on carbon pricing, with the current NZU price exceeding the minimum threshold considered to achieve worldwide action towards meeting the Paris Agreement climate stabilisation goal. Over time this will lead to an increase in the cost of cement, and thereby concrete, increasing the costs of construction.
- d. Local Government policies – Concrete NZ notes that access to aggregate, a core ingredient of concrete, is becoming increasingly challenging. For example, aggregate has recently been trucked from Hawke's Bay into the Wellington region, and with every 30 kilometres travelled the cost of aggregate increases by \$20/Tonne (as well as the increased carbon burden).
- e. Proposed reforms to the *Resource Management Act* are a concern. While giving effect to te Tiriti o Waitangi is strongly supported in principle, it cannot be achieved without introducing elevated costs and timeframes to planning and consenting processes. A solution would be to ensure that all aspects of the cement and concrete sector are permitted activities.
- f. Recent *New Zealand Building Code* changes, such as increasing R-values to improve thermal performance, will add additional cost to housing construction.

## **6. Specific New Zealand Conditions**

Structural and/ or geotechnical engineers play a significant role in determining choices for residential foundation design as the geotechnical assessment of land often requires specific engineering design (SED) for all sites that do not meet the

“good ground” criteria stipulated in *NZS 3604 Timber-Framed Buildings*. This can lead to more conservative foundations with additional cost.

## **7. Climate Change (Q77)**

Concrete NZ has much to say about climate change. It is a serious global issue, and we support the Government’s pursuit of a just transition to a net zero carbon New Zealand. Matters of relevance that should be considered in the Study are:

- a. Concrete NZ has led the cement and concrete industry’s journey to decarbonise (15 percent reduction in CO<sub>2</sub> emissions since 2005), and we ask this be recognised.
- b. New innovative green concrete products are emerging, and Concrete NZ expects these will become increasingly prevalent in the market.
- c. Concrete NZ is developing a Roadmap to achieve net zero carbon for the cement and concrete industry by 2050.
- d. As New Zealand adapts to the impact of climate change, e.g., heightened fire risk, rising sea levels, increased risk of flooding from extreme weather events, the country will rely increasingly on resilient building materials such as concrete.

## **8. Behavioural Impediments**

Concrete NZ notes in particular, a conservative approach on the part of designers and specifiers. These professionals need to be specifying greener materials, including cements and concretes with lower ‘whole of life’ emissions. A prominent example is the roading sector. In places where there is pressure on roading from heavy traffic volumes, and/or heavy vehicles, concrete is a proven, cost-effective, long-lasting and lower-emissions solution compared with other roading construction methods.

The fact that New Zealand does not build heavily trafficked roads using continually reinforced concrete is at odds with the practice of many OECD countries.

## **9. Merchants**

It is Concrete NZ’s understanding that only bagged cement and concrete products are sold through merchants. Bulk cement tends to be purchased directly by ready mixed concrete companies, and large civil contractors for stabilizing the base aggregates used in roading construction, upgrades and maintenance.