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Commerce Commission
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Wellington 6140

Residential building supplies market study

The Wood Processors & Manufacturers Association (WPMA) wish to provide the following responses to questions and various assumptions raised within the preliminary issues paper for a market study of residential building supplies in New Zealand.

WPMA represents the perspectives and interests of its members, being those individuals and companies invested in adding value to New Zealand's annual forest harvest, as well as providing employment opportunities across the regions. WPMA's members make a critical contribution to the production and supply of timber and wood products used in residential buildings in New Zealand.

WPMA's comments on the preliminary issues paper follow.

Terms of reference

The terms of reference for the market study are narrow and do not fully reflect the abnormal economic circumstances and market impact on building supplies in New Zealand and abroad resulting from the Covid-19 pandemic.

The study needs to consider how governments across the world have responded in the wake of the Covid-19 pandemic in stimulating building activities within their economies. In March 2021, WPMA commissioned consultancy firm Martin Jenkins to undertake research on major interventions being implemented overseas to support manufacturing in response to Covid-19.¹ This research showed that over 200 countries had introduced some form of Covid-related economic support measures totalling an estimated cost of between US\$12-17 trillion.

The fiscal stimulus initiatives established by other countries in response to Covid-19 has included considerable investment in infrastructure projects, such as a mix of shovel ready projects and new housing initiatives. Australia has allocated A\$1 billion for shovel ready projects, while Canada has invested CAD\$2.2 billion into infrastructure projects, plus a further CAD\$1 billion in new housing. These types of programmes will likely place further pressure on building supplies sourced domestically and from export markets.

We note the terms of reference are limited to the less than 20% of building cost attributed to some construction materials (paragraph 39). The obvious implication is that assuming the study identifies some opportunity for materials cost reductions, the overall impact on the cost of construction in New Zealand will be small. The express exclusion of other elements in the cost of buildings, including those associated with monopoly regulatory consenting costs, leads WPMA to conclude that the logical outcome of the study will be a delay in making meaningful progress in lowering the overall cost of construction in New Zealand.

¹ [International manufacturing policy and programme responses to Covid-19](#) report by Martin Jenkins.

The terms of reference extends to an examination of climate-related impacts on New Zealand construction and the availability of 'green' building materials. The extent to which such matters have an impact on the cost of wood-based construction materials is not discussed in detail in the paper, which we have endeavoured to cover in more detail in our response under Question 21.

The terms of reference do not provide for meaningful examination of the costs of international trade settings, and specifically the effect of non-tariff distortions impacting on the cost structure of the New Zealand domestic log market and other building materials. In November 2019, the Ministry of Foreign Affairs and Trade commissioned an independent study by Sense Partners² that looked at the impact of global trade distortions and the effects of interventions on the country's domestic log price. The findings have highlighted the impediment to wood processing investment in New Zealand for domestic and international markets arising from such actions.

Increased domestic and international demand for residential and industrial building materials will most likely continue, placing further pressure on the cost of building supplies in New Zealand. To ensure the study better reflects the true nature of the market dynamics occurring and its impact on building supplies, WPMA strongly recommends that the terms of reference be expanded to include a wider macro-economic analysis of pricing pressure points for building supplies created by external factors, such as the impact of international fiscal stimulus initiatives provided by other countries in response to Covid-19, as well as global trade distortions.

Q1. What impact is the current level of competition in the building supplies industry having on New Zealand businesses and the general public?

Domestic wood processors and manufacturers have recently been paying higher than normal prices for logs domestically, as judged by reference to global log prices. Investigation suggests Chinese interest in processing New Zealand-sourced logs for that country's domestic and export processed wood products industry has contributed to this increased cost. New Zealand's forest harvest log volumes reached 32,909,000 tonnes for the year ending December 2020, with 20,083,000 tonnes³ (61%) logs being exported. China accounted for 85% of all logs exported from New Zealand.⁴

The increased cost in acquiring logs by New Zealand wood processors and manufacturers more often than not flows directly through to higher prices for timber and wood-based products destined for residential building supply in the shorter term. Over the long term, uncertain and unpredictable international 'intervention' acts to impede domestic investment in expanded and additional domestic processing, with implications for both solid wood and reconstituted wood-based building products such as MDF and particle board.

As noted above, competition can take many forms, which can have a direct impact on the price of building supplies. This, along with the inflationary pressure faced by all businesses, has manifested itself in increased prices of manufactured building supplies for residential construction.

Q8. 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?

WPMA believes there is a risk in focusing on one particular key building supply and not other comparable building products, as has been suggested under paragraph 55.1. Limiting the scope of the study to potentially focus on a narrower selection of building supplies may not

² Report titled *Impact of global trade distortions – Effect on NZ export of logs, timber and fibre board*.

³ Forest Owners Association, *Facts & Figures 2020/21*.

⁴ *Situation and Outlook for Primary Industries (SOPI)*, December 2021 ([link](#)).

accurately reflect the design characteristics, functionality and approved standards of comparative building supplies.

The awareness that there could be up to 45,000 building product lines is an indirect acknowledgement of the costs of supplying the full range of materials needed to complete a construction project. Understanding the total building material costs of managing and maintaining such a broad range of products could be difficult for those undertaking the study, but these are nonetheless 'real' costs that should legitimately be factored into any meaningful study about them.

Therefore, to provide a transparent and objective analysis the study should consider and compare building supplies within the major components of residential buildings (e.g. timber vs fibre cement vs uPVC), accepting there will be some variability in manufacturing processes of comparative products and differing underlying cost structures.

Q10. How will key building supplies evolve in the future? Will different materials become more important?

Building supplies will continue to evolve and innovate as manufacturers develop their product ranges based on new technological advances and/or changing market dynamics, including the requirement to transition to zero carbon emissions by 2050. Structured timber and other wood-based products will play an important role in reducing the carbon footprint of residential buildings and infrastructure projects in the future.

Greater uptake of wood products in buildings can be better supported through the ongoing development of standards for building materials, expanded research into new and innovative wood-based products for buildings, and the education of practitioners (architects, quantity surveyors, builders, etc). The challenge is around the ability and speed it takes to test, validate and roll out new building materials to ensure they are fit-for-purpose and meet relevant building standards (explored further in our response to Question 54).

Of specific interest to the availability and price of wood products is the global interest in bio-fuels, natural forest retention, the prevention of the international trade in illegal wood products and enhanced biodiversity. Such matters are of legitimate international concern, as evidenced by related international agreements, in many cases ratified by New Zealand. The reality for domestic construction costs is that all such measures decrease the international availability of wood products and increase the domestic and international demand for 'sustainable' wood products from countries like New Zealand, to such an extent that we are now the largest exporter in the world of global log exports by volume. Such shifts in supply and demand have implications for timber and other wood-based product costs in New Zealand.

Q17 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.

In considering other external factors that have impacted on the New Zealand residential building industry, WPMA encourages the study to consider and analyse the impact on the industry within the Canterbury region following the Christchurch earthquakes in 2011. Key questions that the study could consider include:

1. Did the rebuild in Christchurch and surrounding areas create greater efficiencies in the supply of building materials and cost advantages (through increased scale) in the region? If not, why was this the case?; and
2. Based on hindsight, what could have been done differently to improve the speed and efficiency of the Canterbury rebuild (e.g. streamlining the efficiency of building consent and planning processes)?

Q19 Please describe any other major recent or ongoing regulatory changes that might affect demand for certain types of residential building supplies.

The Ministry for Business, Innovation and Employment (MBIE) recently changed Acceptable Solution H1/AS1 (providing a means of compliance with Building Code Clause H1 Energy Efficiency). MBIE flagged ongoing and radical improvement in thermal performance to align with the Government's Building for Climate Change programme. We expect these changes to drive demand for warm wall and warm roof insulation products, air and vapour control products and mechanical ventilation products, which are currently used on very few buildings in New Zealand. In order for suppliers to identify and import or manufacture these products, there needs to be certainty about the product standards and the timing of such changes.

Q21 What are the most important 'green' building supplies for us to focus on? Why are these important?

WPMA's members have an important role to play in achieving zero carbon emission targets and contributing toward a bio-circular economy, which is central to helping attain New Zealand's environmental aspirations and a number of its high-profile international commitments. While it is widely acknowledged by the Government how important wood is for 'green' building supplies, there are competing demands for logs and residuals (branches, bark, etc), and increasingly wood bio-mass to heat boilers within meat and dairy processing plants as they seek to transition from fossil fuels.

Given the competing demand for wood, greater consideration is needed about increasing the availability of wood fibre. To highlight this point WPMA recommends that the study could include within its scope the following factors:

- Any regulatory requirement for 'green' building supplies and the likely demand for these types of products relative to current and future supply and price pressures.
- The regulatory provision for the 'market' in storing carbon in trees, which creates an additional and alternative demand for forests and then flows through into the cost of wood-based building materials.
- The differential status of wood products vs greenhouse gas intensive alternatives, including concrete and steel, which has environmental implications for the availability and relative cost of 'green' wood-based building product prices.
- Transport, which is an unavoidable cost of construction. Whether building is centralised, distributed or a combination of the two, the imposition of the regulated cost of transport emissions at all stages of the supply chain will have an impact on final product price.

Q23. Do you have any comments on our proposed high-level approach to the study as discussed in paragraphs 83 to 87 above?

As the paper notes, there has been a significant demand for building materials and supplies, including structural and non-structural wood products, which has arisen through increased building activity across New Zealand and other countries. The paper has grouped together factors that may affect competition to include, amongst others, 'impediments to entry or expansion of building supplies' [paragraph 84].

For capital-intensive industries, such as sawmills and pulp and paper mills, it is often difficult to increase the supply of wood products based on existing processing and manufacturing capacity. Some of these reasons are highlighted above, mainly the ability for sawmillers to access supply through medium- to long-term log supply contracts. To ramp up production, sawmillers and wood manufacturers are able to put on more shifts. However, like many other primary and manufacturing industries across regional New Zealand, members are faced with general labour shortages and, more particularly, skilled labour required at short notice to operate any additional shifts.

Challenges also exist in the ability to invest in and build new plant to expand the production of timber and wood products. In the current environment, there is a significant lag time before new plant can be secured and installed on-site, which is made worse by the difficulty of getting technicians to New Zealand to install the equipment. By some estimates it could take 1-2 years to have the new equipment operating on-site due to global supply chain disruptions.

Q54 Are there any other factors we should be aware of in considering the regulatory and standards systems for building supplies?

We note the study will be looking closely at the role that regulatory and standards systems may have on impeding the use of new and innovative building materials. Based on WPMA's experience, considerable time and expense is required to progress new and innovative timber building products through the testing and standard setting regime, particularly if the compliance path involves product certification or expert opinion.

The current review process of new and innovative wood products, through Standards New Zealand (and by extension joint Australian/New Zealand Standards) can be arduous, particularly with the user-pay model that requires New Zealand manufacturers and industry good bodies to contribute funding to the review/development of existing and new standards for wood-based products. In this situation we believe the lack of funding and involvement in standard development and associated research can lead to unintended consequences in the development of standards for building materials and processes being more suited to Australian species, timber properties and research priorities.

As a recent example, Standards Australia has triggered a revision of AS/NZS 1328: Glued laminated structural timber – Performance requirements and minimum production requirements. This is a critical standard for the manufacture of mass timber buildings and where glued laminated structural timber is used for beams and lintels in residential buildings. This revision is mainly concerned with providing clarity about which Australian hardwood species are suitable for gluing and the performance of adhesives in very hot humid Australian conditions, which are not issues for New Zealand wood manufacturers given the wide use of *Pinus radiata* as the base material in glued laminated structural timber. When the scope of the revision for this standard is approved, Standards New Zealand will advise New Zealand users who will have four weeks to contribute up to \$45,000 (tbc) to have their say, whereas Australian interests are funding through levy funding.

Consideration needs to be given to ensure a smoother process and provision of appropriate funding streams for the ongoing review of Australian/New Zealand Standards (along with other standards) that underpin manufactured building materials, which will help speed up the process of rolling out improved or new and innovative building supplies to New Zealand consumers. Given the importance of the standards framework within the building industry, WPMA believes the New Zealand standard setting process should be an area of focus for the study.

For further information

If the Commerce Commission wish to discuss WPMA's submission in more detail, or seek further information, please email me at stephen@wpma.org.nz or call 027 226 3331.

Yours sincerely



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