



Aide-memoire

Letter to Hon Kris Faafoi – Proposal for market study into building materials by the Commerce Commission

Date:	29 August 2019	Security level:	In Confidence
Priority:	High	Report number:	AMI19/20080175

Information for Minister(s)

Hon Dr Megan Woods Minister of Housing	For your information
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Contact for discussion

Name	Position	Telephone	1 st contact
Mel Rae	Manager, Market and System Settings	s 9(2)(a)	✓
Craig Fredrickson	Senior Policy Advisor	09 953 6418	

Other agencies consulted

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Minister's office to complete

<input type="checkbox"/> Noted <input type="checkbox"/> Seen <input type="checkbox"/> See Minister's notes <input type="checkbox"/> Needs change <input type="checkbox"/> Overtaken by events <input type="checkbox"/> Declined <input type="checkbox"/> Referred to (specify) <hr/>

<p>Comments</p>
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Date returned to MHUD:

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Letter to Hon Kris Faafoi – Proposal for market study into building materials by the Commerce Commission

For: Hon Dr Megan Woods, Minister of Housing

Date: 29 August 2019

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Purpose

1. To provide you with a letter to forward to the Hon Kris Faafoi, Minister of Commerce and Consumer Affairs, proposing, as a priority, a competition study under the *Commerce Act 1986* for the building materials market.

Background

2. Your Cabinet paper on the Government Building Programme outlines how housing has become increasingly unaffordable, affecting New Zealanders' wellbeing. The paper notes that a number of factors have contributed to higher housing prices, including the cost of building materials. As we strive to develop denser cities and by using land more efficiently the gains from reducing construction costs can become material to the total cost of housing construction.
3. As a response to this, you have proposed that a market study into building materials be prioritised by the Commerce Commission.
4. A letter to the Minister of Commerce and Consumer Affairs proposing this market study is attached as Annex A.

Annexes

5. Annex A: Letter to Hon Kris Faafoi – Proposal for market study into building materials by the Commerce Commission.



MP for Wigram

Minister of Energy and Resources

Minister for Greater Christchurch Regeneration

Minister of Housing

Minister of Research, Science and Innovation

Hon Kris Fafoi
Minister of Commerce and Consumer Affairs
Parliament Buildings
Wellington

Dear Minister

COMMERCE COMMISSION: PROPOSAL FOR COMPETITION STUDY INTO THE MARKET FOR BUILDING MATERIALS

I am writing to propose, as a priority, a competition study under the *Commerce Act 1986* for the building materials market. Housing plays a vital role in the well-being of New Zealanders. Good housing underpins a range of social, economic and health outcomes. We are committed to ensuring that everyone in New Zealand has a safe, warm, dry home.

The housing market in New Zealand has seen increasing prices and decreasing homeownership rates in recent years. While land can make up a significant proportion of the cost of many homes, other costs, such as those related to building materials, can also be significant.

The residential construction sector faces a number of challenges related to cost. Currently, building materials account for around half of all residential construction costs (with the remainder consisting of labour and other costs, such as consenting fees) and can have a significant impact on total construction costs. The national average of the value of building works per new dwelling rose by 33 per cent between June 2010 and June 2019. Further, building materials in New Zealand are 20 to 30 per cent more expensive in New Zealand than Australia, and up to four times as much as other countries.

We are concerned about allegations of anti-competitive behaviour in the building materials market. There is some evidence of competition and regulatory barriers to expansion and innovation around building materials. Reports by the Productivity Commission (2012) and the Ministry of Business, Innovation and Employment (2015) identified a range of barriers that, cumulatively, have a significant negative impact on competition and productivity. I consider that:

- there are existing indications of competition problems in the building materials market, including high prices, and
- the market is of strategic importance and building materials account for around half of all residential construction costs and, along with land costs, are two drivers of unaffordable housing.

Gaining a more detailed understanding of the market barriers associated with residential building materials could play a key role in many of the priorities for the Housing portfolio, including the delivery of the soon to be reset Government Build Programme.

The Commerce Commission, through its competition studies mechanism, can gain a deeper understanding of the sector than has previously been possible through its ability to require information from sector participants.

I look forward to hearing from you.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'M. Woods', written in a cursive style.

Hon Dr Megan Woods

Minister of Housing