



HERA House
17-19 Gladding Place
P O Box 76 134, Manukau City
Auckland, New Zealand
Tel: +64-9-262 2885
Fax: +64-9-262 2856
Email: admin@metals.org.nz
Web site: www.metals.org.nz

Residential Construction Sector Market Study

MBIE Options Paper Submission- 18/12/2013



A United Industry Voice



LIGHT ALLOY MANUFACTURING
NEW ZEALAND



Metals New Zealand (Metals NZ) is an incorporated society serving the needs of New Zealand's metals related industry. Launched in 2011, it consists of Organization Members made up from metals related industry sub associations. Its Executive consists largely of leaders of New Zealand's major organizations operating in the metals based sectors.

The NZ metals-based industry is actively involved with and supports many other industries, such as food processing, energy generation, agriculture and building & construction. As such, industry-specific figures are difficult to pinpoint, but 2010 estimates are:

- Contributes over 7% to Annual NZ GDP
- Direct metals-based product manufacturing employs more than 26,000 people
- Over \$7.3 billion worth of metals-based product manufactured annually
- More than \$2.6 billion of product exported, representing 5.6% of total NZ exports

KEY INITIATIVES

Metals NZ is currently working on the following initiatives:

- Industry position on government policies such as :
 - Research & Development
 - Local industry participation
 - Government and public sector procurement
 - Government position on sector development
- Sustainability of metals based products
- Threats from imported fabricated metal products
- Industry involvement in projects of national significance e.g.
 - Christchurch Rebuild
 - Water view Project
 - Transmission Gully
 - Marine Energy Centre
 - Geothermal Industry Cluster

Further information can be gained by visiting the website <http://www.metals.org.nz>

Gary Hook;
EMAIL ceo@metals.org.nz
Office +6492624846
Mobile +6421571619

Questions for submitters

Alternative Solutions

1. Which of the four options (or combination of options) described above will be most effective at improving access to Alternative Solutions for demonstrating Code compliance? Why?

METALS NZ...

Metals NZ agrees that the provision of Alternative Solutions is probably the most significant driver for more cost effective building and construction solutions. Therefore facilitating the introduction of alternative solutions with a high level of confidence in their performance in the NZ specific built environment justifies government interaction.

Sector Education about Product Assurance

Understanding the product assurance system is a key requirement for alternative solution introduction and no doubt its complexity is a significant barrier. Therefore education is of great significance and has to rate high in importance. However for education to be effective the process of alternative solution provision and evidence gathering has to be made more transparent. In addition, pathways for simplification of the process have to be explored before thinking of putting the emphasis solely on education.

Whilst sector awareness is important, communication of the process and benefits of product assurance alone would not have the biggest impact on providing better access to credible alternative solutions and appears to fall short of a more comprehensive approach that could lead to even higher industry efficiency.

Greater Specificity of what is needed for Lower Level Product Assurance

Greater specificity of what is needed for product assurance is considered effective and if done well can become very important if it indeed reduces the cost of achieving compliance with the code requirements. However this greater specificity in our view should not be limited to only the lower level of the product assurance pyramid. Maybe it is worthwhile to look at the concept of execution classes similar to European Standard EN 1090 where depending on the consequences of failure/non-compliance different levels of quality assurance are prescribed.

By being more prescriptive in nature, the suggested template idea should greatly assist in easing the complexity burden for suppliers in application and BCA's in assessment. The assumption here is that MBIE will provide the system for trapping and reporting the detail required as part of any specific performance criteria based system. Industry bodies may assist in the provision of specifications such as New Zealand Metal Roofing Manufacturers on roofing & cladding.

Inconsistency of BCA's generally across the country is the result of the variability in human interpretation. This is a big issue and cost to doing business and will certainly remain a challenge for new innovations as we have personally experienced with our Light Steel Framing (LSF) solution implementation.

Encourage Greater Transparency from Product Certification Providers

Product certification schemes in our view provide the greatest assurance for products meeting specified requirements particularly if the compliance standards they are rated against are robustly tested and therefore proven.

Additionally product certification schemes can be offered with independent third party accreditation adding transparency and credibility. Although the CodeMark initiative is welcomed, this is only a voluntary scheme and there is only one NZ-based product certification body that has been accredited by JAS-ANZ (Building Element Assessment Laboratory Limited); however, the following statement given on the MBIE web-site undermines the CodeMark initiative and is inconsistent with international best practice for construction products *'Lower levels of product assurance may be enough for other building products or systems, especially if they are already well used and accepted in the New Zealand building industry'*. From metals industry experience particularly related to imports it is of utmost importance that independent third party accreditation of the product certification body is provided. Here the role of government as the regulator and the body policing the regulation in the building product sector is significant and not different of what is expected e.g. in the food product sector. Given that New Zealand is part of the Australasian Procurement and Construction Council (APCC), coupled with the fact that most product standards that conform to the Building Code are produced according to joint AS/NZS standards, it is recommended that the government adopt the Australian Technical Infrastructure Committee (ATIC) schemes for product conformity assessment, which sets out the requirements and qualifications for construction product conformance assessment bodies. It is understood that in the new government rules for sourcing materials and products should meet the building code or possess a BRANZ Appraisal; however, although BRANZ is accredited by IANZ to ISO/IEC 17025, the scope of their accreditation is limited to thermal and fire resistance tests together with water penetration tests of windows, doors, walls, floors and ceilings. Given the broad scope of the building code, it is questionable whether BRANZ

possesses all the necessary skills to assess the conformance of a wider range of construction products through their Appraisal system.

However, it has to be noted that this assurance comes generally with an added cost justified if the consequence of failure is high as demonstrated e.g. in the post Canterbury earthquakes or leaky home damages assessment. Encouraging product certification schemes which are reliable, transparent and potentially internationally recognized such as e.g. via CE marking is a worth-while effort which will also help NZ products if considered for export.

As an example for a sector led initiative to achieve and demonstrated product conformance, the steel construction sector under the guidance of HERA and SCNZ is currently developing a steel fabricator accreditation scheme which will allow certification of welded steel fabrication to international standard ISO 3834 "Quality requirements for fusion welding of metallic materials". HERA is in the process of gaining international accreditation for the certification of companies to ISO 3834 from the International Institute of Welding (IIW); making their certification systems subject to the same requirements European countries such as Germany are complying with.

Achieving product conformance to ISO 3834 means a considerable industry sector investment in quality control systems and most importantly better trained people, justified by increased client confidence in the products supplied by this sector. Several NZ steel fabrication companies have already signed up to achieve compliance with the ISO 3834 standards and with the international audit of HERA as certification body expected to be completed in March next year, the first NZ steel constructors should soon after this be able to deliver their products as complying with ISO 3834. It is expected that within 2-3 years all major suppliers to the sector will comply with the scheme.

Reform of BRANZ Governance

The NZ metals engineering industry is a significant player in the building and construction sector particularly with heavy and light steel framing in buildings, metals based roofing and infrastructure work such as in bridges. Metals NZ has within its organization members the light steel framing industry association NASH, the heavier steel based SCNZ and in metals based roofing the NZMRM, but also its own industry research association HERA with a significant research portfolio in metals based building and construction. The discussion of this item therefore is influenced by HERA's own experience not only in respect to BRANZ but also other government funded research efforts and we would like to cover the topic of "Reform of BRANZ Governance" more comprehensively including the wider building and construction research funding framework.

It is important to note that apart from metal roofing, metals-based solutions in this market are relatively new to New Zealand. E.g. in multi-storey steel construction heavy structural steel market share in the 1980's was basically zero percent whereas today it is around 50%. This steel construction growth was largely due to industry funded efforts via its industry research association HERA combined with an industry sector willing to invest in innovation.

Light steel framing is even newer and has gained a market share of around 8% of the residential housing market. This happened in competition with the well-established timber and concrete based solutions backed by the development of alternative solutions via its industry association NASH and a strong industry involvement along the entire product chain from a local steel manufacturer over internationally acclaimed roll forming technology and integrated design and built solutions. In both cases it was overseas experience which demonstrated the competitive nature of the "new" steel based systems over the traditional timber and concrete systems and led to the successful local implementation and hence increased competition.

And in both cases there was basically zero support from the existing (BRANZ) building research levy. Yet, in stark contrast, it is our understanding that the funding for the NZS 3604 consisted of \$2M for the update plus \$1M for the BRANZ report.

However, in the case of heavy steel construction, government support has to be acknowledged in the form of assisting the industry in collecting its own research funds via the heavy engineering research levy act and also in providing the opportunity to apply and win from time to time co-funding via the contestable government research funding pools. Self-driven pathways open of course to any industry sector and now also pursued by the wood processing sector with its newly established industry levy.

Concluding from this, it could be argued that natural commercial competition between building systems was the main drivers for innovation and healthy competition between building systems will continue. Furthering this competition should be the focus of government intervention if any and interference into the free play of market forces should be avoided.

R&D in building and construction is a key driver for the competitiveness of different building systems. Tax payer funding support for research investments comes via the different MBIE channels – but also, in the case of timber research, through separate MAF funds.

The metals-based industry, in the same way as the concrete, timber or other material-based industries, contributes to the tax-based income of the Government. However it also contributes to the BRANZ-administered building research levy in proportion to their building value market share and overall economic contribution.

The building research levy is a significant contributor to the sector's research with annual contributions typically exceeding \$10 million. Although the building research levy is attributed to the building and construction industry itself, it is clearly collected from the developers at the time of applying for a building consent and there is an expectation that the end-user, i.e. the building user/owners, should benefit from the levy spent.

The government legislated Building Research Levy Act 1969 authorizes the levying of building contractors *"to provide money for research into improved techniques and materials for use in the building industry"*. The building research levy is collected across the different materials groups and this is in contrast to the material-based heavy engineering or other commodities based research levies which are collected directly from the respective industries to fund their specific R&D needs. Therefore it is argued the building research levy application has to ensure that when assisting product and services based industry innovation, it is applied in an equitable manner across building research levy paying industry sectors and it is the role of BRANZ Levy Allocation Guidance Committee (LAGC) that this is indeed happening. However as the building research levy is constituted in an Act of Parliament is government's role to ensure compliance with the Act.

While BRANZ argues that they are using the levy in accordance with the levy act and assessing research needs across the industry sector as they arise, the simple fact that the new emerging steel based structural and light gauge steel sector solutions received next to no support from the building research levy is evidence that this is not the case.

Also, previous and current analyses of the BRANZ research strategy and its actual research contributions showed BRANZ activities funded from the building levy appear to favour research and best practice advice for timber-based construction. This includes the joint venture the Structural Timber Innovation Company which is researching the performance of structural timber for multi-storey and long span construction where timber currently has a very low market share.

HERA since 2002 and now the metals industry overarching body Metals NZ have consistently conveyed this message to BRANZ, however while communication and some small projects were performed no real change in respect to transparency of research money allocation in respect to cross sector coverage was achieved. We particularly believe the new market share scenarios – for example, steel construction in multi-storey construction has grown from virtually 0% in the '80s to close to 50% market share today should support a change in BRANZ research funding allocation when it comes to research in techniques and new materials.

Also, MAF-administered initiatives such as the Forest Industry Development Agenda (FIDA) are one-sided – they benefit one material system and are not accessible in a contestable manner by either steel or concrete. Equally it appears that the existence of the largely government funded CRI SCION benefits exclusively the wood based sector while competing materials have obtained minimal research support from the previous CRI IRL now transformed into Callaghan Innovation despite quality applications from the metals industry sector.

Overall Metals NZ would argue that the mix in spending of building research levy but also government funding is not covering sufficiently the materials performance and building technique space driving cross sector competition and which would benefit productivity and hence housing affordability. The current mix favours research for the fundamental understanding of the building environment which does not have the same effect on solving the #1 NZ housing challenge – housing affordability.

In this context it should also be noted that with the Canterbury earthquake experiences there is a unique opportunity to consider whole-life performance of buildings including their resilience. Again Metals NZ would argue there is a severe imbalance in the natural hazards research spending with bias towards understanding natural hazards earthquakes, planning for them and predicting them. While predicting an earthquake is desirable, having a resilient building and infrastructure with structures withstanding natural hazards better will really save lives and minimize post disaster misery.

In respect to the building research levy, Metals NZ believes there is a role for BRANZ to play in the building research landscape but it has to play this role as the true cross sector peak body. Government's role has to be to ensure that this is

happening and Metals NZ does support Government playing a more active role to safeguard this and shift the balance to spending more building research levy in areas which have positive effects on housing affordability. This should also include consideration of the most cost effective model for delivering research with the right mix of BRANZ internal and external research. However, if having one or two government appointed board members would safeguard this shift in focus is not necessarily assured.

Alternatively if BRANZ does not manage to become this true cross sector peak body a free market position could be that BRANZ is limiting its activities to general cross sector research which are free of any specific material interest. This could either lead to a reduction in building research levy or, if maintained, its distribution for innovation specific research could be channelled differently e.g. via the contestable high value manufacturing MBIE research funding pool or the discussed potential 11th National Science Challenge “Housing Needs”.

As to the importance of BRANZ Ltd in the product appraisal process and potentially also as a product conformity certification body it is acknowledged that this is done on a commercial basis. In our view it is acceptable that this role is performed by BRANZ Ltd and it can leverage from the capabilities which reside in BRANZ as a research provider. However we agree with the mooted view that as this link may provide a competitive advantage it is important that capture of this service by BRANZ is prevented, competition is encouraged and the availability of those services is available to all product suppliers on equal terms.

2. What unintended consequences for the construction sector or the economy as a whole might each of the four options entail?

METALS NZ...

EDUCATION.....this will not be a low cost project so adding additional cost for little benefit would be the risk. The information about what suppliers need to do is available so some caution should be given to the amount of effort applied to ramp up such a campaign/concerted effort.

GREATER SPECIFICITY.....there could well be a greater number of products that fail to make the grade and become alternative solutions as a result of detailing performance against specific requirements. Products withdrawn as a result of not meeting more specific performance criteria might then have the unintended consequence of reducing competition. Not such an unfortunate thing to happen though if the standards are clear and they are not able to be met.

GREATER TRANSPARENCY....can't foresee any unintended consequences with this option unless there is a non competitive assurance system; let's say if any new entrant goes onto the market unchallenged.

When greater transparency of product certification providers actually means requiring accreditation of certification providers to internationally accepted standards than this might have an implication on cost of those schemes. However this is, in our view, is justified in the context of credibility of schemes for ensuring compliance in particular of imported products from potentially unreliable sources.

REFORM BRANZ GOVERNANCE..... Reforming BRANZ with the many sector interests may be a quite challenging assignment and be politically sensitive and any lessons learned from the review/restructure of Standards NZ and potentially also Callaghan Innovation might well be useful.

Specification by Brand

3. Which of the two options described above will best promote competition in building products? Why?

METALS NZ...

SPECIFICATION BY PERFORMANCE will promote the most in-market competition by definition. Specific product brands are stipulated in design detail because this often more completely describes the set of product attributes the designer or owner requires for that project based on stated performance or actual experience. This by brand approach is more qualitative than specific performance but implicit in the brand in the eyes of the customer/specifier. A SPECIFICATION BY PERFORMANCE objective is an essential item for efficient/fitness for purpose quality decision making relative to intended application and performance. If cost efficiency is the ultimate objective, more objective performance information is

required. Performance criteria would be more detailed and with this approach then comes the challenge to evaluate and certify product offers. In the end only credible candidates that meet the prescribed performance criteria will provide the desired competition but this must be on a level playing field. To have products in market that don't meet the performance criteria would in effect be unfair competition so one needs to fall back on the effectiveness of the assurance system to screen and best match offers to market requirements.

In keeping with the desire for customers to have free choice in their buying decisions, we should support the ability for the absolute requirements demanded by the project owner, architect or engineer to be specified ...and if that includes being BRAND SPECIFIC then we believe this is the decision of the owner/customer.

4. Which of the two options described above will carry the least compliance costs for industry participants? Why?

METALS NZ...

The PREVENT NO SUBSTITUTES option will deliver on the least compliance cost objective but not necessary the lowest product cost or most fit for purpose desired customer outcome.

It would be costly to absolutely prescribe customer/building code product performance criteria and evaluate an often multiple set of decision criteria and weightings and then compare these rationally with each available product. Many companies who are offering products not supported by performance data would have to either derive it or they wouldn't be considered an option. This could possibly drive the costs up for products that aren't fully scoped in performance which could have the impact of lessening price pressure given a potentially more balanced playing field.

Preventing specification of "no substitutes" from a performance requirement perspective is justified. However, when considering branded products stating "no substitutes of branded products by another conforming brand unless approved by the client" could be an acceptable statement.

5. What unintended consequences for the construction sector or the economy as a whole might result from each of the two options?

METALS NZ...

NO SUBSTITUTES.... May well take the focus off specified product performance by procurers and put it on substituting products to gain some market position or margin. This could lead to an increase in sub-quality product options being selected.

BY PERFORMANCE... higher costs of assurance. Simply adding the list of performance criteria that intimately become the decision criteria, there is still the issue when comparing alternatives as to the individual assessments of each of the performance criteria. The assurance schemes would need to be operating well to ensure product standards are not compromised.

Need to be aware that ensuring conformance to a particular standard as compared to expected performance of an established brand is an additional requirement which adds cost to the alternative product and justifiably so as the client has to be ensured that the product will meet performance expectation. It is our industry's experience that if appropriate quality assurance is in place comparable local and imported fabricated metal products move much closer in cost.

Risk Aversion

6. Will the recognition of manufacturer warranties in liability and consenting (as described above) mitigate against BCAs being overly conservative? Why?

METALS NZ...

as long as the liabilities and consequences are made absolutely clear for all in the consenting process, with the warranty and conformance responsibility falling back on the manufacturer or supplier, it could be expected that a less conservative approach by BCA's could well be achieved. This as the end result would demand a huge effort on the manufacturers and suppliers to ensure their product performance statements are true and accurate and to risk assess these appropriately.

An Alternative Solution often is a precursor step and it is generally acknowledged that there is still an element of “learning” and hence risk involved. By ensuring adequate emphasis on risk assessment of Alternative Solutions is provided, Alternative Solutions as innovation drivers may become more acceptable. Maybe the BCAs can play an increased role in the risk assessment side of Alternative Solutions and assist manufacturers in minimizing their exposure.

However there is no doubt that solid manufacturer warranties are the key to delivering credibility particularly if the alternative product comes from a well established supplier.

7. What unintended consequences might result for the construction sector or the economy as a whole from this option?

METALS NZ...

if there is some cutback in assurance work by the BCAs, unsupported by facts and data, then there is the chance by that eithernot all of the potential products are able to be considered in consentingor products that are of lesser than the required standards are able to be approved thereby potentially leading to earlier failures and a sub optimal outcome.

We would argue the risk of Alternative Solutions failing in an individual product case is generally higher than that of a long established Acceptable Solution. However as it is likely that Alternative Solutions have a lower market penetration cumulative damage is likely to be lower than when acceptable solutions fail such as was the case when accepting monolithic cladding on insufficiently treated timber as an Acceptable Solution.

Maybe the BCA's and BRANZ should keep an eye on the market penetration of Alternative Solutions. For example when a Alternative Solution becomes a significant player that BRANZ with levy funding generated by the solution looks at its performance and in particular considers if it is doing well converting it into a standard accepted solution.

Acceptable Solutions

8. Could greater government funding in relation to Acceptable Solutions promote competition from innovative systems? Please provide details.

METALS NZ...

Acceptable Solutions are generally standards based and in each building system be it masonry, concrete, timber, or heavy steel construction, standard-based Acceptable Solutions do exist. In general their development is supported by public sector but also the building system specific sector interests. However to develop consensus based standards is an involved, time consuming and expensive process. Therefore furthering the on-going development of those standards-based Acceptable Solutions or providing incentives for the creation of new and competing Acceptable Solutions will be a significant driver of competition.

Also once a new Acceptable Solution is being created there is also the issue of introduction and promotion of the new solution the effectiveness of which may be influenced via government funding and action. The faster innovative systems can be evaluated and accepted then the better off the industry would be in terms of confidence, efficiency, assurance/ risk management.

The Light Steel Framing (LSF) sector, represented by the National Association of Steel Framed Housing (NASH), is a good example. Until recently it has been relatively slow to obtain a building consent for a steel framed building from many BCAs due to a lack of familiarity as an Alternative Solution. NASH published industry standard NASH 'Residential and Low-Rise Steel Framing Part 1: Design Criteria' in October 2010 which is a Verification Method to demonstrate compliance with NZBC Clause B1 – Structure. NASH is now working on the Pt2 Standard as a non-specific design document equivalent to NZS3604 for timber-framed buildings and has also been encouraged to write a version of E2/AS1 for steel-framed buildings despite seeking inclusion in E2/AS1 when it was last reviewed.

By including emerging systems and disruptive technologies into Acceptable Solutions competition, product innovation and new entrants can be used to challenge dominant existing materials or systems. There is no doubt that building company's use the steel framing option as leverage when negotiating timber supply contracts as an example. The timber frame

product is covered by a Building Code Standard and the LSF solution is currently covered by an Industry Standard; the difference being that the industry has funded the LSF standards development to date and is relatively new in its product lifecycle. Greater government funding in the standards area could help to progress of the LSF system and therefore become more competitive with timber framing or other building systems increasing in this way competitiveness of all competing systems

9. Would this represent an efficient use of public money? Please provide reasons.

METALS NZ...

In our view once a decision is made for standards-based Alternative Solutions being the main stream building method, then in order to maintain cost effectiveness of the system, on-going alternative system development and maintenance is paramount and therefore an effective use of public money.

As e.g. the Royal Commission the Canterbury Earthquakes or the recent review of Standards NZ showed, our New Zealand standards system has not adequately resourced the on-going development of acceptable solutions. But in the context of this discussion probably more important is the fact that the introduction of new competing innovative solutions has been stifled due to lack of decisive commitment of government and industry alike.

To give an example on how the public money supported transition from an alternative to an acceptable solution could be justified. Approximately 1000 steel framed houses are built each year. With average costs of approx \$1000 per project for a structural engineer to approve each design, there is an opportunity to remove around \$1m per annum from the cost of building for customers choosing this option. To develop the acceptable solution likely will cost significantly less than the suggested annual savings.

More significant savings are undoubtedly available by facilitating competition from alternative materials and systems through the compliance documents

10. To what extent should Acceptable Solutions be used as a path to greater innovation, vis-à-vis Alternative Solutions?

METALS NZ

Any funding support targeted at encapsulating more product/solution options into the Alternative solutions space will add to competition and theoretically drive innovation.

Being prescriptive in detail, Acceptable Solutions could be seen to be a hindered in their ability to support innovation. However, they could encourage innovation as a means to compete by including competing materials and systems that hold second or third place market share. This happens in E2/AS1 where different types of cladding and roofing are covered. However, B1 includes Verification Methods for multiple materials including concrete, timber, steel and aluminium yet the Acceptable Solutions do not include a steel option.

Greater innovation will come via Alternative Solutions; however, these need to be more readily accepted by risk averse BCAs who are inconsistent in their interpretation and acceptance of Alternative Solutions. Metals NZ strongly agrees with a move to increase specificity by way of a MBIE produced template form. However, this would still leave individual BCAs to evaluate that the product or system has met the requirements laid out in the template. Therefore, MBIE needs to bring the process of accepting alternative solutions in-house to approve these products and systems against the template. With this approval in place, BCAs would then have to accept the product just as if it was an Acceptable Solution.

Inefficiencies in the Consenting Process

11. To what extent will greater use of risk-based consenting enable efficiency gains to be made within the residential construction sector? Please provide reasoning.

METALS NZ...

A greater use of risk based consenting would be expected to drive out benefits in redistributing the costs of servicing by BCA's away from the lower risk higher volume segments of the residential sector and speed up this process thereby lowering at least two cost drivers.

12. What negative effects might arise as a result of any increased use of risk-based consenting?

METALS NZ...

The risk assessments that are to be taken to some degree can be linked to jobs, tasks and therefore types of constructions. However, the variability of people working within these segments will mean decision making variation is inevitable and so the assessment criteria are important to ensure these risks driven by human factors can be covered off satisfactorily. The consumer protection mechanism need to be in place and solid to protect the consumer from the lesser regulatory environment.

Reducing information asymmetries

13. Which of the options to improve the transparency of strategic conduct, such as rebates, will be most effective? Why?

METALS NZ...

The only option that will shine the light on such benefits received is the option that would require disclosure of financial and/or other benefits as buying rewards. Both self regulation and targeted advocacy could potentially overcome some of the lost opportunity that consumers face but, if it is true as suggested that some of the practices currently causing asymmetries are within law, then these two options may only minimally reshape attitudes and behaviours. Giving the consumer more information on strategic conduct in the channel, and the benefits that are passed down, then allows end consumers to decide how they want to respond to any competing offers but we are not convinced on the overall effectiveness of such a requirement.

14. What specific arrangements are currently opaque to consumers or clients and so should be subject to the increased disclosure?

METALS NZ...

We are not aware of any other reward type arrangements other than those examples you refer to in the options paper.

Light Weight Steel Framing has a multichannel route to market and is sold in the main as a single product directly to builders. The more established traditional timber framing option is generally sold through building merchants often with their own timber frame and truss divisions and is more often sold as part of a broader bundled offer. The ability for the end user to compare unbundled pricing is therefore almost impossible making it more difficult for a single product offer such as steel framing to be seen to be competitive, even if there is price neutrality, against such a bundled offer. This is just a structural challenge in the steel framing supply chain that has to be overcome in some way in seeking a greater market share for steel framing. This begs the question as to whether bundled pricing needs to be more transparent if we are to see more new entrants and competitive tension in this space.

15. What are the costs of these options including any unintended consequences?

METALS NZ...

Unable to make comment

16. What else could be done to overcome information asymmetries and increase transparency in the residential construction sector?

METALS NZ...

Unable to make comment

Promoting best practice

17. How effective do you think government procurement could be in promoting best practice in construction contracts and tendering? How could the work around best practice procurement best be disseminated to the sector?

METALS NZ...

Government procurement standards and practices will drive the overall performance & quality of the construction contracts and tendering process due to sheer volume and skills employed. How these then might be applied effectively in the highly fragmented arrangement that are the supply and procurement channels in the residential supply chain is the question. The smaller the projects i.e. residential, the less risky the purchase decision, potentially the less skilled the practitioner and therefore potentially less benefits derived.

Common productivity initiatives e.g. Best Practice Procurement can be deployed via industry training bodies or industry associations. METALS NZ is considering the opportunity to hold government procurement workshops early in 2014 with the express objective of improving the alignment of the requirements of government contracts/tenders in terms of the new procurement rules. We are sure such sessions will have positive spin offs for both government and our member companies simply by having some access to each other and taking some time. There is a cost to this and so it could be proposed that industry associations or training providers are supported in some way and industry of course proving the majority of the support. The associations have the chance to incentivize their membership to attend perhaps better than if the best practice deployment was carried out via training organizations. METALS NZ fully supports such an opportunity.

Anti-dumping duties

18. Which of the two options for widening the test for imposing anti-dumping duties will most effectively allow for consideration of the wider interests of the New Zealand economy? Please provide reasons.

METALS NZ...

Increased competition based on subsidized cheap imports will destroy industry and jobs over time and anti-dumping duties are to be used as part of best practice WTO standards to be applied as a defence mechanism against such unfair trade practices. In recognition that government policies can change, on researching it would appear that a BOUNDED PUBLIC INTEREST TEST would be the preferred option of the two given the objective to include the wider public interest. In Europe it should be underlined that the type of analysis to be carried out in their Community interest test is solely of an economic nature. Political considerations and arguments relating to broader policy areas (e.g. foreign, labour or regional policies) are not within scope. It's also not a cost/benefit exercise but more a balancing of considerations. Therefore it could be without available detail difficult at this time to support the consideration of government policy statement as this could be used more as a prioritizing tool rather than a fair and equitable economic evaluation. It would seem such public interest tests are very rare and therefore the move to such a policy would warrant broader consideration.

In Europe they have a view that the Community interest test no longer adequately reflects the reality of the globalized world and are looking to consider options such as impacts on consumers rather than producers.

Further, perhaps the option of limiting of Anti Dumping duty continuation should be considered even though the Australian Govt has previously rejected this idea.

19. What adverse effects on the New Zealand economy or international position might occur as a result of any of the two options for widening the test for anti-dumping duties proposed above?

METALS NZ...

The fact that such considerations are rarely used in the world has the potential to set NZ apart from the rest of the world and its trading partners. However, what are the possible considerations given the political necessity of having anti dumping statutes and the danger of their misuse as protectionist instruments. The real question is to devise rules that provide the right balance between the interests of domestic producers affected by alleged dumping and those affected by anti dumping measures.

There is evidence that in a number of cases in Europe, the Community interest clause has been used to reinforce the case in favour of anti dumping measures and in the reported on 'Footwear' case, dumping would not have been found had the Community interest test included as an economic assessment of market power been taken into account during the determination of dumping. This, if applied by NZ in isolation, could then have the unintended consequence of increasing the number of determinations rather than perhaps the intended outcome as applied which is to use it as a final mitigating test.

20. Do you consider that there should be a limit on the continuation of a given anti-dumping duty, e.g. to one five year continuation after the initial five years? What would be the pros and cons of such an approach?

METALS NZ...

Our policy is to support the anti-dumping mechanisms and as such the argument for a time based approach is not supported. Unfair trade practices if determined should be dealt with as they are presented and time current.

Tariffs

21. Do you agree with the assessment that import tariffs are likely to have a minimal impact on construction costs, especially given that most materials are phasing to duty-free through Free Trade Agreements? Or would provision for applicable tariff duties to be suspended for the time being under the system of tariff concessions help lower costs in specific instances?

METALS NZ...

We have always voiced our support for the free trade policy of government which includes reciprocity of zero tariffs, no non-tariff barriers and dumping safeguards.

From a steel supply perspective, there are a wide range of products available from a number of free trade partners giving the NZ building and construction market a number of options and so it is our view that increased domestic market competitive price pressure increase would be very minimal if further adjustments to tariffs were to be made. Without greater competition to disturb existing supply lines, there is minimal chance that prices will be adjusted downwards. It is the situation that some of the most price aggressive suppliers of steel products today are operating under free trade arrangements with NZ e.g. China. It's probably fair to say they have already exerted downward price pressure on steel products in the NZ and other near markets and they would typically be the price benchmark.

If you want to consider the prospect of price reduction if all tariffs were adjusted across all building products, assuming that building products have the same tariff profile as all goods, with the trade weighted average tariff rate competitively low at 1.6% one could start to estimate the potential size of the opportunity.

Innovation

22. What, in your opinion, should be the government's role in promoting innovation in the residential construction sector?

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Government call pull on economic and policy levers to create the necessary environment and guide local housing sector players towards the more affordable housing objective. They must be the lead promoter of the initiative as the keeper of many of the tax, legal and fiscal drivers of the business environment. The first overlap is to develop a robust residential

construction market where multiple sellers pursue customers and customers are free to make buying decisions that meet price/performance/quality requirements. Government initiatives that encourage new entrants focused on innovative products have an additional pressure effect on existing market players...so the government can choose to create a climate of fear and /or openly facilitate new entrants to create the necessary tension that would trigger change. It's unfortunate but most likely the government are going to have to create some events of consequence to get the residential sector change programme underway.

They must continue to communicate to alter the mindset of business leaders and stakeholders in this sector. Investors, owners or managers will be motivated to innovate through sufficient rewards to take calculated risks and engage in entrepreneurial behaviour...and the markets needs to be healthy and robust to support this. They need to encourage both organic and radical innovation. The government needs to design a mix of policies and incentives to grow local and attract foreign innovations and the government can drive more on rewarding innovative performance with funding lines. Linking funds or monetary reward to those that perform is a key role of design for the government. Specifically, it is going to have show leadership and preparedness to innovate to set the new direction including R&D policy and application of tax credits to help start-ups and existing companies. Individual government policies can be used to assure start-ups or technology players have the needed capital.

The granting of funds or levies for basic research are extremely important and the government ought to be monitoring just how much and how effective policy and tax support is being channelled to our researchers to ensure we have the people, the facilities and systems in place to support the innovation objective and then ensuring that outcomes of these research projects are implemented into the commercial environment and add to competitive tension. With any objective they must run a project based improvement model, lead the way by directly employing innovation that is commercially sensible and aligned with the broader economic objectives and ensure decision makers in the policy space and procurement space are in fact visionary leaders.

23. Which of the above options would be most helpful in terms of showcasing what can be done and helping the sector to adopt new technologies? Why?

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The CRITERIA FOR EXPENDITURE OF BRANZ LEVY FUNDS should in fact be in place now to channel research either back through funding lines equitably or on building ad construction sector or subgroup priority projects that are open to all materials groups be it Steel, Timber or Concrete. We have carried out a very quick look into our levy contribution which is more than \$1m dollars pa and we are not yet seeing a good correlation between our product levies and the applied research. We of course have industry funded/ commercial arrangements in place involving and wholly funded by our member companies but we are struggling to get engagement on specific levy or dual funded projects

We would support the establishment of an INNOVATION NETWORK. A key requirement would be to get full value chain participation so that alignment and coordination could be achieved. It's the role of government to support improvement projects with such instruments. We believe the HOUSING AS PROOF OF CONCEPT option is just the perfect vehicle for such a network to deliver through and to implement this option in its own right is, whilst likely valuable, the least preferred one. TARGETED EDUCATION PROGRAMME could be a product outcome of the INNOVATION NETWORK.

24. To what extent is there a risk of adverse consequences if any of the above options are implemented? Please provide reasoning.

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The option of a TARGETED EDUCATION PROGRAMME in its own right as a project could provide skewed bias towards certain products and systems at various stages of commercialization and so we would want to ensure that such an instrument is the outcome of some industry wide collaborative perspective and status as might be expected from the INNOVATION NETWORK.

Construction Management

25. Which of the above options will best promote more efficient construction management practices? Why?

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INDUSTRY EDUCATION is a must if we are to improve our building and construction performance. We believe the metal products supply chains have recognized this essential requirement and have responded. The industry associations in the metals sector have initiated Training options for practitioners in the roofing and framing space. Training has been targeted at new technologies and the Steel Framed Housing strategy is a good case in point where Technical Institutes have adapted courses for practitioners to learn how to craft with light weight steel. Training and therefore skills is the enabler and this is where the curriculum needs to ensure latest best practice methodology is taught.

Any education objective needs to be targeted

We would support the objective to train for more efficient construction management practices under the option of LICENSED BUILDING PRACTITIONER REQUIREMENTS. We believe over time this will lead to the sector demanding more products that align with quality and efficiency objectives and we believe that local metal based products can compare well here terms of quality, performance, full lifecycle costing analysis etc against international metal and local inter-material alternatives. We believe it would be worth investigating the scope and cost of such an option.

26. Which of the above options will carry the least compliance costs for the sector? Please provide reasoning.

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The difference between these options in terms of cost would look at first to favour the EDUCATION option in that there is no compulsion. Perhaps it's not a cost question but rather a value question that should be asked here as we think the answer would be different. By compelling practitioners to have ongoing professional development it would be a natural outcome that knowledge and skills would develop that would payback in efficiency/productivity. As part of this the education component to some degree would be covered but without compulsion, the EDUCATION option alone would probably not drive change fast enough.

27. To what extent is there a risk of adverse consequences if any of the above options are implemented? Please provide reasoning.

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There would be an adverse impact on costs initially if either of the options were to be implemented. This could be regained through efficiency and productivity gains. Those delivering improved results should be rewarded in an environment where improvements are to be valued.