Annex A

Kāinga Ora
Homes and Communities

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Minister of Housing
Associate Minister of Housing (Public Housing)
cc: Vui Mark Gosche, Board Chair

Construction Materials Supply Chain – Risk and Management

Purpose

This paper provides information on the current situation concerning the supply chain of construction materials and products in New Zealand

Background

The COVID-19 pandemic has had a serious impact on global manufacturing, supply chains and logistics. The resulting trade imbalance is impacting imports to New Zealand for all goods and materials. The current boom in construction activity in New Zealand is adding an additional constraint to the market, as demand is far exceeding forecasts and available supply.

Impact of COVID-19 on global supply chains and logistics

Countries across the globe have experienced COVID-19 outbreaks at different times as the pandemic spread from its epicentre and, consequently, introduced lockdowns, and halted economic movements and production. The impacts of this have resulted in constraints in supply due to:

- reduced productivity
- the flow of imports and exports changing
- the impact on the flow of shipping movements.

Interruptions to production caused large numbers of shipping containers to be stranded at ports leading to carriers reducing the number of vessels out at sea. This situation continues, with international shipping volumes considerably reduced.

Global Container Shortage

There is currently a global shortage of shipping containers due primarily to a severe trade contraction in the first half of 2020 that led to the cancellation of sailings. Increased economic activity in China in the second half of 2020 resulted in a resurgence in trade demand as well as the peak period demand for goods in western markets due to Christmas and New Year holidays.

However, demand for American and European goods from Asian markets has been weak, meaning that most containers worldwide are stranded in European and American ports. The result of this has been a worldwide logistics backlog and empty containers not being where they are needed. The limited access to containers is, in turn, driving up the cost of new containers.

Auckland Port Congestion

The Ports of Auckland is currently operating only three of its eight ship-to-shore cranes during the day (two at night) due to a labour shortage. It is currently seeking to recruit five crane operators from overseas but it is unknown when the first candidates will arrive in New Zealand. Completion of the Ports of Auckland terminal automation project, due at the end of March 2021, has also been delayed due to freight processing taking priority.

As a result, container ships are waiting at sea for 10 to 14 days to unload at Auckland; shipping lines are reducing their calls to Auckland; some are imposing Auckland congestion charges on import containers; and shipments can be re-directed to other ports, with little or no notice, if the shipping lines do not want to wait to be unloaded.

Other factors

Other factors affecting supply chains include:

- industrial action at Australian ports
- shipping cost increases of between 150 – 400 per cent as shipping lines focus traffic on the most profitable
- increased air freight costs due to reduced inbound flights to New Zealand
- reduced or non-production due to COVID-19 distancing measures in manufacturing operations
- unprecedented and unexpected demand from the construction sector boom in New Zealand
- supplier decisions prior to COVID-19 – for example, James Hardie manufacturing moved from Penrose and now all in Australia.

Kāinga Ora – Homes and Communities response to Carter Holt Harvey structural timber supply changes

Timber is in short supply across New Zealand due to high demand. This has resulted in significant price increases to timber products and lead times extending.

Kāinga Ora is supporting its build partners to work with their suppliers in order to ensure continued supply of structural grade timber.

Kāinga Ora spoke to all its major suppliers Monday 29 March 2021 following the Carter Holt Harvey announcement to cut its supplies of structural grade timber to Mitre 10 and ITM.

In summary, while Carter Holt Harvey is a major supplier of timber products, suppliers have other options in terms of mills that also produce this timber.

It is too early to say what the impact of current shortages will be on our national build programme. We are recommending our build partners place orders well in advance in case of delays. We will continue to monitor this changing situation and will offer any assistance we can to our partners.

Suez Canal Supply Chain impact

Current advice from Kāinga Ora National Supply Agreement partners is that the Suez Canal blockage (where the EverGiven became wedged and was re-floated a week later on Monday 29 March 2021 NZT) is unlikely to have impact on the supply chain in near future.

The ship was on its way North; however, the knock-on effect of the canal being blocked for over a week is a significant traffic jam of ships awaiting passage in both directions.

The Kāinga Ora National Supply Agreement Partners have advised that ample stocks are on hand of materials sourced and products manufactured in the Northern Hemisphere. The situation is being closely monitored and alternate products will be sourced, if required.

Risks to Kāinga Ora construction programmes

Collective supply chain continuity risks and impacts are highly likely to result in increases in the cost of materials to Kāinga Ora and could result in project delays and costs escalations. The cost of imported products or products that require imported components are likely to rise.

Products sourced from off-shore, which have previously been viewed as a lower cost alternative, may become uncompetitive when compared to locally sourced products due to dramatic logistics costs increases. The main risks for new construction are currently product availability for exterior timber, timber floor joists, and electrical cable used for power and lighting; increased lead times for some cladding; and supply of raw materials for paint products.

Kāinga Ora contracts materials supply for maintenance activities using National Supply Agreements (NSAs) and these contracts and stock forecasts are actively managed. The Maintenance and Retrofit programmes make effective use of these contracts and forecasting of activities for suppliers reduces the risk of supply shortages. In the current environment, contracted NSA suppliers are holding additional stock. Although this adds considerable risk to their balance sheets, they are not approaching Kāinga Ora for any support at this point in time.

Mitigation

Kāinga Ora is working closely with suppliers, manufacturers, and distributors to reduce the risks as far as possible. This includes ongoing intelligence gathering, supplier liaison, and mitigation planning.

Our Procurement team is providing regular updates to our Maintenance and Build Partners, based on information received from shipping companies; product suppliers and their suppliers; and market intelligence. The information shared is supporting Kāinga Ora scenario planning for the possibility that the situation dramatically worsens, and discussions regarding possible responses to project delays and impacts, and opportunities to support suppliers, if required.

Next steps

If the current demand for construction products continues at the same or increased level, there will be a heightened need for increased levels of forward forecasting both from Kāinga Ora and our Build Partners to ensure supply will be available when needed.

Kāinga Ora will continue to monitor the supply market and work through possible solutions to both shorter and longer term supply constraints, such as alternative products, improving forecasts and communication, and increasing stock levels.

Andrea Morton
Director Procurement and Supplier Management

Caroline McDowall
General Manager Commercial