Northelia Final Submission

November 2021

Commerce Commission Market Study of grocery Competition in New Zealand

Introduction

We urge the Commission to review all the evidence presented and researched and proceed with structural separation of the NZ supermarket geographic monopolies. The Commission's conference and subsequent investigations have identified competition problems much worse than originally assumed. These require urgent structural divestment action to save NZ consumer and supplier interests.

Intervention into the NZ supermarket industry is not radical. It is not extreme. It would be a series of tried and tested regulatory fixes to solve an unprecedented New Zealand problem - an OECD country with a harmful food and grocery distribution duopoly carved into an elegant series of geographic monopolies.

Northelia acknowledges a third-party process needs to be initiated to oversee contestable and fair structural separation of the existing monopolies.

Northelia acknowledges it may not be the preferred or winning bidder in a structural separation process. However Northelia contends that someone has to canvas a solution. Without sensible, experienced and viable propositions to solve this substantial clear and present competition problem there will be no solutions, only complaints and pyrrhic outcomes .

We urge the Commission to call into its offices unconflicted NZ & AU investment banking professionals with decades of mergers , acquisitions and divestment experience to workshop an equitable process for divestment and reset of the industry. We present evidence to the commission that the process for store divestment should use suburban radius HHI ratios, and the non-monopoly valuation should be used.

In figuring out how to reset the industry for competition, the Commission should consider calling time to the co-operative structure of the major player, Foodstuffs, and force it to list as a mechanism for an equitable break up as its "members" have value both in their store and in "Strategic Interchange", i.e. the parent company.

We vigorously contest the conference proposition that the Foodstuffs model is a Co-op where members compete amongst each other. As Monopoly Watch has debated, Foodstuffs looks and behaves like a suburban monopoly club which is so perfect in its structure it will be mentioned in business school and economics class case studies for decades to come.

Northelia thanks the Commission for the diversity and inclusiveness of the recent market study conference, in particular for contributions from community representatives such as Tric Malcolm from the Zero Hunger Collective and the sharing of Māori concerns about health food delivery.

Northelia ver 1.4 thanks the commission for respecting confidentiality and conflicts of interest.

What is Northelia trying to achieve in this Final Submission

1) Share the highlights of the Market Study which in Northelia' s view best communicates the problem and solutions

2) Critique and test the most interesting part of the incumbents' submissions

3) Frame up what the challenges are ahead on building a like for like competitor

4) Refer to some 3rd party academic research which supports a break up

5) Catalogue the extreme, radical nature of the current market structure and its impacts on consumers and New Zealand economy

Northelia is a greenfield institutional start-up embryo which is interested in participating and investing in a large scale food and grocery distribution business as a mechanism to solve the market structure problem which has been so deftly unearthed by the Commission's Market Study .

Northelia is a coalition of business people, investors, experienced FMCG operators, supermarket operators, Māori groups, software experts, carbon footprint activists, and community nutrition warriors . Understandably Northelia will operate in Stealth , as a divestment process , may not be recommended . Should a divestment process commence that meets a workable business case for a 3rd operator on a like for like pathway, the Northelia coalition will deliver more detail of who its proposed shareholders and investors are.

Northelia was formed in conjunction with Monopoly Watch, as Monopoly Watch was formed with the Kiwi ethos of "put up , or shut up".

Northelia' s favourite question during the Market Study has been "what the industry will look like if there is no like for like competition entry into the market (answered by Northelia on Page 18 of this submission)

Northelia' s favourite academic research piece is Professor Allan Fels of the Australian and New Zealand School of Government's paper, "The Supermarket Revolution in Food: Good, Bad or Ugly for the World's Farmers, Consumers and Retailers?"

Northelia' s favourite Smoking Gun case study: The conference discussion of the so-called head to head competition between Foodstuffs and Countdown, explaining that although there is some concentration and pockets of Foodstuffs in one location and Countdown in the other, the unfilled holes of competition are being filled in - Only to have disclosed on video that the head office of Woolworths Countdown Ponsonby office has line of site to 4 other Countdowns, in an ecosystem of 8 ! contiguous Countdowns (and 1 New World) and the tower crane in the far back of the Conference Zoom picture behind their lawyer is in fact – a new countdown being built ,
(* Pt Chev, St Lukes, Richmond Rd , Ponsonby , Williamson Ave, Quay Street, New Market & now Herne bay) v Vic Park market NW

Northelia; s favourite Media strap lines "Supermarket owners banking super profits, NBR Rich List h 15 Aug 2018" **NBR RICH LIST:** How grocery barons rise to the top

Northelia' s respects the evidence presented and contested at the Conference and in the arena of expert economists. It's the Commission's job to judge the evidence presented and collected. Media conjecture should be removed from the debate other than to entertain.

For ease of handling and to prevent repetition, Northelia has prepared a matrix of the evidence

- **Background – who is Northelia**

Northelia is a done it before (DIB) group of industry professionals who have operational experience , financial track records and execution capability to deliver a $1bn of capital in a NZ Māori Partnered greenfield institutional start up.

Northelia is NOT the Public Policy Monopoly Watch and does have some positions which are different from MWNZ.

Northelia believes and encourages a process to be run, in which a NZ company can secure participation in the supermarket grocery distribution and retailing business. Northelia would deliver solutions for the South Island as well as the North Island within New Zealand .

Northelia refutes the suggestion that it is overtly opportunistic. Simply put it's a business structure to participate in the unwinding of a bizarre 3:2 merger amplified by anticompetitive behaviour and the breaching of ESG and CSR ratings by the incumbents. The Northelia board reflects on their substantial investment to date in business planning, financial modelling and game theory analysis informed by the business ethos of don't criticize unless you're offering a solution.

Why has Northelia ver 1.4 Submitted

The inaugural board meeting of Northelia dealt with one line in the Commerce Commission's terms of Reference questions for the Grocery Market Study:"*what will it take to secure a competitor which will expand its operations in NZ "*. This contrasts dramatically with ' *what are the barriers to entry",* which are often mentioned in competition dispatches from regulators.

Competition break ups are a legitimate business investment pursuit even amongst more libertarian thinkers in our community who understand principles of monopoly control in commercial structures.

It's not Northelia' s concern what the ESG rating is of Countdown's or Foodstuff's organisations, but it is a legitimate investment concern the long list of bizarre market behaviours from organisations which reportedly pride themselves on "doing the right thing "

Northelia board won't comment on the incumbents efforts to improve the availability of alcohol for alcohol-stressed first nations communities in Australia. As respectfully the board apologised to shareholders for this substantial error of corporate judgement. However, when provoked to the comment that Northelia' s proposal to solve a major NZ community problems of monopoly and monopsony will create a downgrade to the Investment ratings of NZ , it's forced to clarify its position as follows

1) It is the ESG , CSR and GSR rating of Countdown's parent Woolworths which will inevitably be downgraded, in particular the GRI Rating Page 2 206-1 l . The Australian organisation has operated in NZ perpetuating many behaviours banned by the Australian Regulators and in Northelia' s view has mislead its ESG ratings agencies who award its ESG Rating and participated in Green Washing its debt structures .

2) As Countdown's submission referred to this downgrade position list the long list of substantial anti-competitive behaviours it has perpetuated in NZ, many of which the ACCC has banned, we urge the ESG ratings agencies to review these and upgrade the GRI rating of 206-1.

   Monopoly Watch in conjunction with Northelia has engaged local economics consultancy Bagrie Economics to comment on the possibility of investment an investment downgrade because of possible intervention into these markets. (see Attached to our Submission) – Bagrie comments

Could NZ's rating be cut on supermarket separation / forced sales of stores?

"I consider this highly unlikely and surprised the idea has even been presented.": *Cameron Bagrie NZ Economist*

First, as detailed earlier, ratings agencies canvass a wide variety of variables in making such decisions. Their frameworks are extensive, and decisions are not taken lightly. It is difficult to see how promoting competition across supermarkets will impact the sovereign New Zealand government's ability and willingness to service its financial obligations.

Second, if markets sensed a sovereign rating cut were a possible outcome, the NZ dollar would have moved in an adverse fashion. It has not.

Third, World Bank Governance Indicators – one set of variables that could impact the sovereign rating – have tended to remain stable, despite what can seem as lots of change within industries. However, industry changes do not change the aggregate governance picture. Changing the competitive environment for supermarkets does not alter the broad institutional framework for New Zealand.

Fourth, the Commerce Commission is responsible for enforcing laws relating to competition, fair trading and consumer credit contracts, along with regulating various industries. Its overarching goal is to make New Zealanders better off. Driving competition and fair business practices is a critical component of that. I consider a failure of the Commerce Commission to fulfil these objectives and standing idly by as being more likely to influence the rating than pursuing its responsibilities.

Fifth, divestment of assets or separation are not unusual outcomes when it comes to enforcing competition or approving takeovers. The goal is greater competition, which should be rating positive not negative. As a common-sense test, consider the reciprocal, and policies that drive less competition and the extraction of duopoly rents. Would New Zealand be likely to receive a credit rating upgrade? No.

Northelia board has an appetite to participate in NZ supermarket competition if there is a sensible catalyst and process. This would involve

1) Prudent reset of industry structure involving:
   a. Industry commissioner
   b. Code of conduct
   c. Some of NZ's weakest competition law problems resolved
   d. Structural separation of distribution centres for at least 5 years
   e. Declaration of SMP at 25% Mkt share
   f. A process which respects the chaotic and unbalanced structure of the property industry in NZ around supermarkets and restrictive covenants
   g. A process which has a vision of how the industry will evolve with competition and store size
   h. A process which respects the capital base and structures of the smaller Foodstuffs and Countdown franchisees which haven't been exposed to significant 3rd party professional advice as to the risks of regulatory alignment with the rest of the OECD

What will it take to create competition in NZ Grocery

Organisation component	Comment	Impact Market Study Report will have
Fix Monopoly of Distribution centres by 3rd party ownership and equivalence of outputs regime	Without a reset of control of distribution, no new like for like competition is coming to NZ	Initially the Northelia position was a wholesale agreement for 3 yrs was required on equivalence of inputs . But new evidence of Supplier/ wholesaler abuse and the defeatist liturgy moved the Northelia position to structural separation
Unbundling of Retail outlets	Supermarket business is a matured and consolidated business, with little to no volume growth, The 1970s have finished and Keith Hoyloke is no longer PM, There are no more efficiency benefits coming from consolidation. There are efficiency benefits coming but they are coming from the introduction of New technologies and AI, and robotic systems	Without a divestment of a decent chunk of supermarkets to a challenger operator (* who is required to build out a Distribution ecosystem) , Nothing is happening in the NZ supermarket industry other than noise and fringe noise Essentially there is no choice. Business owners of Foodstuffs and CountDown – are rational sensible people who understand how to build moats around their business models (retail footprint) Without scalable regulatory intervention – Nothing is happening or will happen
Commencement of a Supermarkets Commissioner	This started off a big deal in the Market Study - a Code and the possibility of a Commissioner to oversee a reset of the industry	Given that this is a $22bn industry and subject to an industry reset, Northelia believes its essential to have a Commissioner for the first 5 years of the industry reset
Market Power regime	SMP needs to be set at 25% market share and there needs to be asymmetric behaviour regime	Section 36 is not strong enough specifically for what's ahead, particularly with pocket pricing, bundling and predicted abuse of market power

Transferability and portability of loyalty card information	This must be transferable, with the data able to be collected and transferred on the apps	Regulatory intervention on data loyalty cards is needed to break the power of incumbency. This will accord consumers control of their own data and the right to determine who is able to share in it through portability.
Definition of Suburban and Peri-urban and Rural supermarkets	As in any entry to a mature market , there are 3 specific segments to locations	A challenger consortium would be expected to evolve from x% of country coverage to y% of coverage over time.
Series of processes around what a qualified operator looks like	As Attachment F makes clear , not all buyers are acceptable to the Commission , or in the interests of NZ.	The Commission should engage the services of a specialist investment bank to discuss divestment, buyers criterion .

What Process Should be run to find a challenger in the supermarket industry

1) Definition of what an approved supermarket operator is
2) Description of what is required to be achieved by an Approved NZ supermarket operator
3) Definition of what adequate capital is “
4) Definition of selection process to become an “approved NZ Supermarket network operator
5) Definition of how wholesale distribution systems will work

What is the risk of Pyrrhic pretend competition in NZ as a solution to the Market Study?

Northelia board see the clear and present risk that the Commission fails to grasp the seriousness of the stranglehold by incumbents of the industry and choose some “fringe competitor outcome “to fix a deep-seated structural problem, which has had 20 years of ringfencing and reinforcing.

The situation that exists in NZ today is extreme, radical and requires urgent and substantial surgery

1) NZ is extreme in the following benchmarks

    - Only country in OECD to have a 2-player market
    - Level of consumer pricing
    - Low level of innovation
    - Low level of Carbon footprint competition
    - Low level of nutrition competition
    - High level of profitability

    To attract the required investment to fix the problem we urge the following

    1) Forced divestment of 150 + stores (approx. 30% share of current revenue)
    2) Forced ownership separation of the distribution centres (for at least 10 years)
    3) Market Power Regime designation of SMP with relevant power restriction
    4) Introduction of a supermarket commissioner to oversee industry reset

Relevant parts of the ComCom Attachment F in Merger Remedies

It makes sense to use an existing ComCom regulatory structure to facilitate a regulatory divestment, incumbent supermarket operators have constructive notice, and capital finance providers and investors to the supermarket

Such is the specialist nature of a divestment strategy Northelia believes it would be best handled by a 3rd party game Theory Economist, working on a store-by-store basis using HHI calculations in 3km and 6km, radius. The economist should be supported by a consultant investment banking team whose job it would be to build a fair divestment model. Noting that Woolworths and Foodstuffs shareholders and their respective financiers and investors have already published that there is a risk that regulatory environments may chance and their investment settings and capital market configuration may change

We think the divestment process has 6 distinct stages

1) Engagement of game theory economists and investment bankers to consult on process and candidates for divestment
    a. What qualified buyers criterion they must meet
    b. What valuation techniques to be used to value existing leases and stores
    c. Expansion KPI's to meet targets of MBIE and ComCom
2) Announcement and voluntary undertakings stage for incumbents to work towards
3) Bid closing and bidder selection
4) Transition stage of movement from 2 player market to Competitive market (circa 6-9mths)
5) New environment exists
6) 3rd years time – transition to new DC ecosystem

Answering the Commerce Commission's Conference questions

During the last week of October, the Commerce Commission ran a conference to discuss questions about the Market Study process in an open public forum. The Commission published a list of questions on its website for discussion. Given the constraint of speaking time Northelia has chosen to publish written responses to these questions

Session 7: Options to improve conditions for entry and expansion

Topic 1: ***Are there particular characteristics required of a retailer for it to be an effective competitor with the major retailers***?

Northelia Answer there is a major item here which the entire Market Study is built around, Pyrrhic pretend competition, or real and realistic pathway for" **like for like competition"**.

Its Northelia's position that it's outrageous that the incumbents can suggest Supie, Farro, Night and Day and SPQR-style restaurants are competitors to the supermarkets. They are fringe at best. There is no one in NZ with sales over $150 m when the incumbents do $18bn of revenue .

Like for Like competition must have:

- Pathway to big block of capital (regulatory environment, comprehension of size and scope of Project) this capital will flow as a consequence of prescriptive regulation
- Starting revenues of circa 15-30 % market share
- Approx. 150-175 retail stores in main city centres
- Structural separation of distribution centres with like for like wholesale access
- Market power regime which brands incumbents with SMP and makes some competitive responses asymmetric

An effective competitor, must start with revenues of minimum circa $3.5 bn, in multiple locations and with a plan to reach to peri-urban and rural areas

- **Is there a minimum scale required?**

Yes it's approx. 15% - 30% market share of the $22bn categories in the main 9 cities. This is because it's a low margin, capital intensive business, which requires substantial leverage to make it work.

- **How important is vertical integration?**

Hugely because without like for like infrastructure a competitor challenger operator will always be held to ransom on parts of the value chain it doesn't own. A pathway to it prevents permanent regulation as eventually when competition is working less regulation in the sector is required.

Retail is 'married' to distribution because that is where the ability to generate consumer welfare comes from. Scale is everyone's friend, margins , consumers , capital expenditure, low prices, low cost of serve .

Northelia' s notes the comments of Alan Fel, Professor of Australian and New Zealand School of Government, in his 2011 Paper

Topic 2: ***To what extent is access to supply chain infrastructure limiting effective competition or entry and what are some options for improving this? (Note, we will discuss access to wholesale supply in the following session, this topic will focus on other infrastructure requirements)***

The conference uncovered abuse of supply chain infrastructure to the minute sub $150m Night and Day chain. This discovery of molestation of small businesses by the incumbents forced Northelia to change its position on distribution centre unbundling, The original request was 3 years of wholesale access on equivalence of input regime , but the behaviours uncovered show how much incumbents can't be trusted and the long list of defeatist "we can't do it" approach in section 25 of the Woolworths' submission looks like it's been written by a preschool art group.

The abject failure to have any even genuine fringe competition within the New Zealand market illustrates how desperate the situation is.

With due respect to Night and Day, Farro, and Tai Ping, they are sub $150m business groups where the incumbents are circa $18bn.

Given what the fabulous profitability of supermarkets signals to the Commission and that no contenders have surfaced since the Warehouse's 2005 attempt has tried to commence a serious business – such are the supply chain problems .

Topic 3: To what extent are there difficulties in obtaining capital to support entry/expansion, and

what are some options for improving access to capital?

There is a tidal wave of capital available for the low risk, easy to understand supermarket retailing business, the reason why it can't be mobilised for competition, is that there is intergenerational focus on monopoly market structure and no one has a vision, enough capital and sensible competition rules to " break the monopoly "

Options for improving capital must be to fix the egregious history of challenger operators in NZ (Saturn Networks, Boral, Knauf , Elephant Board, 3rd mobile operators , Warehouse Supermarkets Etc) NZ has no SMP declaration regime and NZ took 20 years to get section 36 amendments to select committee. NZ has no lobbyist legislation. NZ has MP's bursting into tears pretending the New Zealand marketplace has only room for 2 operators of everything (because the politicians have been swayed by lobbyists). More vision and more benchmarking is needed.

Northelia options for improving access to capital

The challenge is how to mobilise and organise a block of NZ capital of circa $500m to ensure kiwis invest in Aotearoa and build kiwi business skills .

1) Force divestment of a decent chunk of stores
2) Force divestment of supply Chain distribution centres for 10 years
3) Declare a SMP regime at 25-30% for incumbents and have a reset competition regime with Supermarket Commissioner for 5 years

Its noted that it's a fundamental problem, that such a profitable business has not attracted new competition and it makes no sense to enter – Why Weak competition law – and barriers to entry (retail footprint all signed up) – ***This case study should become case study lecture notes for all Business , Economics and Commercial Law students for the next 2 decades***

• Are there any differences for domestic and overseas capital?

Yes, there is a tidal wave of international money wanting to get into NZ. It's embarrassing being a Kiwi Expat in many neighbourhoods as everyone wants to invest in New Zealand .

Every resident and neighbour of the Upper East Side Area Zip Code 10065 want to spend $10m to buy a NZ passport and invest in NZ - who wouldn't? That's not the investment challenge .

To date, inside NZ no Kiwi investors want to invest in challenging bigger organisations, as there is a cost of capital difference which reflects the ease at which an incumbent can hold onto its position.

Because a reset of the supermarket industry is taking place it's an opportunity to use local capital and get the queue of candidates to buy and lease local stores and invest in a challenger, assuming some of the more obscene competitive responses were banned or limited like other OECD countries.

Northelia' s message is keep it Kiwi: Māori groups have indicated they are willing to invest and look more seriously at this sector. An international tech group would also help them. If Northelia were to qualify as a bidder it would choreograph a NZ bid based on,

1) Introduction of OECD style competition laws to NZ in supermarket industry
2) A reset period of circa 5 years
3) A pathway to like for like competition and ROIC, without a trip to investor hell zone (J curve)

Topic 4: ***How could we increase site availability?***

Sites must be available via forced divestment. The suggestion that a new challenger on a like for like competition basis would build circa 150 city and regional centre supermarkets is absurd - that ship has sailed.

Without divestment of sites capital can't be raised and essentially the ComCom would financially reward incumbents of 20 years of anti-competitive restrictive covenants by increasing costs of entry, which would in fact perpetuate monopoly rents for the incumbents. Without 1) forcing site divestment, or a several billion dollar litigation claim against the incumbents, then it is unlikely that consumers in NZ would see competition in NZ supermarkets any time in the next 2 decades .

• How could we address restrictive covenants and exclusivity covenants in leases (together,

covenants)?

It's Monopoly Watch's position and Northelia' s position on this that the HORSE HAS BOLTED, that the barriers which have been built over the last 20 years – have worked – and created a barrier which can only be broken by forced sales of supermarkets .

Without forced sales you reward anti-competitive behaviour and the Commission in Northelia's view will struggle to respond to the Minister of Commerce's question of what it will take to get competition that will expand and deliver

For a new entrant like Northelia this is a several billion dollar barrier which needs bespoke one-on-

one discussion with industry experts as the inter-mingling of property monopolies with supermarkets is such a complex matter. The group could sponsor its own conference as its such a complex item .

FYI, there is no doubt that Business Schools globally will use this barrier to entry story as a case study for MBA and Economics classes for decades. Although this practise has taken place internationally, offshore regulators have moved to ban this much earlier in the industry development

• **Under what circumstances should these covenants be permitted?** They should be permitted asymmetrically to allow challengers to get started and to initially allow new centres to be built, but for a 5 year period only. When one looks at the many option choices it all draws back to no like for like competition unless property is unbundled and forced divestment at scale takes place.

• **How could we address site availability issues which may be caused by planning law?**

The strategic go forward issues on new site availability need to be addressed. There is a fundamental nonsense problem with planning law and competition on everything from supermarkets, petrol stations to cell towers. This needs to be addressed strategically once a challenger has agreed to enter the market.

Topic 5: Are there any other conditions of entry and expansion which should be considered?

We need to catalogue a long list of challengers into NZ to discuss concerns. It is essential that section 36 of the Commerce Act is beefed up and specific matters are dealt with

Weak competition Law

- SMP designation (significant Market Power) (circa 25%)
- Pocket pricing bundling
- Asymmetric behaviours for a induction period
- Own brands cherry picking
- Loss leaders
- Incorrect labelling
- Green washing
- ESG misstatements
- Wholesaling and distribution agreements

Session 8: Options to improve conditions for entry and expansion – wholesale

• **Topic 1: Is access to wholesale products necessary for entry or expansion?**

Yes and yes, this must be on an equivalence of input basis on a like for like basis.

• **Topic 2: Is competitive wholesale supply by vertically integrated majors feasible in New Zealand?**

Yes, this is possible by structural separation of the distribution centres of the 2 incumbents for a 10 year period with an equivalence of inputs regime . Northelia has changed its position on this matter from one of “forced wholesaling on an operational separation basis” to “forced divestment “ as a consequence of the disgraceful behaviours inflicted on Night and Day, which Northelia did not have previous knowledge of and the defeatist and misguided responses of Woolworths/ Countdown submission in section 25 of their draft report submission .

• Topic 3: Is some form of wholesale regulatory intervention required to facilitate wholesale access?

Yes, structural separation

• Topic 4: What would be required for effective Access regulation?

Detailed process to sell distribution units to independently owned run and governed 3rd parties for circa 10 years with it a equivalence of inputs regime on supplying to challengers and smaller scale operators

• Topic 5: What would be required for effective operational or structural separation?

1) Sales process
2) Regulatory review and conditions
3) Frequent updates to supermarket commissioner
4) 3rd party SCALABLE Operator

Change in consumer and supplier outcomes will not be delivered by a fabulous wholesale mechanism unless there is some 3rd party to generate *scalable retail competition simultaneously* . The Supermarket industry is a low margin, high stock turnover , highly leveraged business model . This instant scale attached to a 3rd operator needs to be contextualised in

1) Scale required to build 3rd operator wholesale infrastructure at Wholesale level
2) Scale at the Retailed level required to secure competition on price, range, quality, service, carbon outcomes and health outcomes .
3) Scale and capital provision - relationships

Session 9: Divestment and sponsorship of entry

A. Operational and structural separation

Topic 1: Is Operational and Structural Separation appropriate?

Yes

• When should more significant interventions like operational or structural separation be considered?

1) After completely ridiculous anti-competitive steps and a breach of ESG, CSR and GRI reporting standards,
    a. 3:2 merger which was contested
    b. Blatant blocking of a 3rd operator
    c. Abusing power with suppliers to block a 3rd
    d. Being a $20bn duopoly and abusing a minor sub $130m player *(Night and Day)
    e. Substantial consumer pain
    f. Substantial supplier pain
    g. Substantial environmental pain
    h. Greenwashing with no focus on carbon footprint

It's appropriate to consider a structural separation because of the asset class and the barriers of entry, multiplied by the barriers to entry erected.

Foodstuffs has a unique ownership model. This makes wholesale services, equilance of input and competitive reactions, much different to that of Woolworths' business, which has tried to respect their ESG and GRI (ethics) rating.

• Would operational separation be technically possible?

Yes, but it's too much work for the incumbents. They should be forced to structurally separate.

• What would the costs of separation be?

One of the costs is diluting focus of attention on competition, environmental, and infrastructure matters. Today it's DONE FOR FREE by Countdown's parent in Sydney and inside parts of the Foodstuffs' business. Its 2021 not 1921. The likes of SAP software, scanning and chip palletisation means this type of business process creates better business.
Such is the negative reaction from the incumbents on this proposal, it's the Northelia position that these negative responses and the cultural difficulty in dealing with a owner operator co–op means ownership separation is required .

• If structural separation occurred, could the business be run on an arms-length basis, without requiring divestment. For example, it could have the same shareholders but separate boards and management incentives aligned with the narrow interests of the separated entities.

No

Northelia thinks divestment is required because of the risk of prejudicing a competitor, the history of appalling behaviour and the sheer quality of the barriers to entry erected .

The commission needs to base its decisions around contestable distribution markets. The Commission need advanced 3rd party game theory economists, who are possibly CFA charter holders to develop an independent model to solve the matrix quadratic equation of how to get a 3rd distribution channel built and financed

The Northelia submission suggests the following

1) Forced divestment of incumbent distribution systems to 3rd party owners, and boards with a specific regulatory framework over the top which enables 3rd party challenger operators to get access for a specific period (say 10 yrs) ,

2) Financial incentives to get a workable 3rd distribution centre financed and up and running come from the "entry mandate costs " of the new operator i.e. any 3rd supermarket operator who buys 150 – 175 supermarkets must build this new footprint of distribution, which will be financed by a swap over of capacity in the 3rd or 4th year of the industry reset

3) Internet-only operators would be able to use this footprint for a period of 15 years .

• Would an independent wholesaler or wholesalers have market power that might require further regulatory intervention?

Yes, if it had SMP (say over 30%) market share

B. Divestment

Topic 2: What general principles should be applied when considering divestments

- Something that is fair to the consumers that have been disadvantaged for the past 20 years (i.e. no monopoly rents in the valuations making capital costs higher and rewarding bad behaviour)
- Something that is fair to the small franchisees and small business owners who have been caught in the crossfire of incumbent monopoly structures who aren't *"qualified institutional investors "*
- *The Tobin's Q of the value of the assets*
- *Valuations which reflect the replacement cost of the assets or the alternative use of the assets (i.e. the supermarket next to the Bunnings store sells for $20m while the supermarket sells for $45m) the divestment principle should be what the Bunnings store sells for*
- *Are there Any Māori Property Principles attached to the divestments?*
- *What was the "monopoly premium or the duopoly principle – attached to the purchase or sale*
- *What is the game theory value without monopoly rents?*
- *What is the impact of new planning laws which will force councils to consider like for like food and grocery distribution competition within their plans*

• In what circumstances might it be appropriate for the Commission to recommend a divestment remedy in the context of a market study?

1) In no growth or low growth low margin industries with a 20-year history of investing in barriers to entry

2) Where the industries are highly leveraged, low margin and capital expensive (in this respect difficult to finance sub scale propositions

3) Where it can see the situation getting worse

Why is a CFA Charter Holder's Mosaic theory important here in the review of Supermarket break up

*The **mosaic theory** is a legal doctrine in American courts for considering issues of information collection, government transparency, and search and seizure, especially in cases involving invasive or large-scale data collection by government entities. The theory takes its name from mosaic tile art: while an entire picture can be seen from a mosaic's tiles at a distance, no clear picture emerges from viewing a single tile in isolation. The mosaic theory calls for a cumulative understanding of data collection by law enforcement and analyzes searches "as a collective sequence of steps rather than individual steps."[1]*

Although the doctrine was first used in cases about national security, five justices of the US Supreme Court authored concurring opinions supporting a new Fourth Amendment framework for judging whether or not an individual has been subjected to an unlawful search, in United States v. Jones. Under this framework, the US government's actions should be considered collectively rather than independently for determining whether or not the acts constitute a search under the Fourth Amendment. It requires that police action is considered "over time as a collective 'mosaic' of surveillance,"[1] and allows that cumulative mosaic to qualify as a protected Fourth Amendment search, even if the individual steps that contribute to the full picture do not reach that constitutional threshold in isolation.[2][3][

The mosaic theory is an **approach to financial security analysis** that involves the analysis of a variety of resources, including public and non-public material and non-material information, to determine the underlying value of a company and its true profitability The CFA Institute recognizes mosaic theory as a valid method of security analysis.

Northelia' s relevance of this theory is if we apply if to analysis of monopolistic conduct , its not one signal act which is a smoking gun alone , but in fact the entire collection of small data notes which collectively deliver a picture of Monopolistic conduct with anti-competitive behaviour that has caused harm within the New Zealand market over the past two decades .

What, if any, preconditions, or criteria? should be satisfied before the Commission recommends a divestment remedy?

1) Has there been a voluntary undertaking opportunity to enable the incumbents to reorganise their businesses that fairly and honestly meets the Commission's competition requirements?
2) Can the goals of the Market Study be met any other way?
3) Should government money be used to tidy up a private sector monopoly
4) Are there any new like for like competitors offering to build infrastructure to go to 25% market share within the next 7 years
5) Is New Tech coming to fix the problem and fracture dominance ?

• What criteria or framework should the Commission use in framing a recommended divestment remedy in the context of a market study? For example, is the framework for divestments set out in the Commission's Merger Guidelines (Attachment F) suitable in this context?

The Attachment F should be used as a framework with the following provisos

1) HHI ratios of suburban 5 and 8 km radius need to be reviewed, with co-joined supermarkets in that circumference needs to be pulled out for divestment (by lottery i.ee if there are 2 supermarkets together with one having to be sold then the decision on which one goes is a coin toss) This prevents gaming, grooming and trashing of stores to be divested .

2) The purposes of what is trying to be achieved
   a. Breaking the indignity of the market power
   b. Facilitating entry at scale and reach which enables a business case where a scale needs to be achieved
   c. Meeting the requirement of providing like for like competition within a sensible period
   d. Finding 100 sites on which new facilities can be built

• What are the potential negative consequences of government intervention of this type?

- Generous food gifts to the homeless by supermarkets may be curtailed, which is a genuine concern to Zero Hunger and related charitable foundations

- Some suburban sports sponsorships by supermarkets may be shrunk therefore also worrying youth groups and local communities

- Stock Market Valuations of NZ public company monopolies may be altered downwards, particularly in electricity, building materials, fibre network operators, airports, and other network utility business operators

- There will be more investment interest in how the market structure got so bad, as in most OECD countries a 3 :2 merger in Supermarkets would not get past again. Additionally questions may be asked by rating agencies – what was it that allowed the Warehouse behaviours (blocking equity stake and blocking suppliers) to happen?

- The 3rd party research that MWNZ has produced showed that if would be negative if the Government did not intervene.

- Crowd control outside supermarkets may become an issue as consumers flock to budget offerings from challenger operators

- Ferrari Sales in NZ are estimated to be reduced, possibly causing redundancies in the repair, sales, and servicing units of Ferrari NZ. Ditto Maserati, Aston Martin, Porshe.

- Azimut Yachts Grey Lynn, office facilities in Great North Road may become redundant as luxury yacht purchases shrink in Number

What can be done to minimise any adverse impact on investment incentives or reputational risk for New Zealand?

1) Explain clearly to the NZ business community that the defeatist days of popularist comments like NZ is too small and too far away for OECD style competition is finished

2) Set up a sensible group of OECD Benchmark countries to look at international best practise amongst similar sized OCED countries like Ireland, Denmark, Finland, Norway, Sweden, etc and choreograph more benchmarking in other industries. Continue to drive inclusiveness and diversity in everything the ComCom does .

3) Liaise with the NZ treasury, NZTE, and the NZX to share guidance on benchmark standards for some industry structures. Reach out to rating agencies (such as S & P, Moodys and Fitch) as well as institutional investors, and brief extensively on how market studies work and what generally accepted OECD style competition structures are in the NZ context .

4) Offer retraining for Ferrari Mechanics into Robotic AI auto pickers and warehouse engineering and internet grocery delivery .

5) Offer retraining for Azimuth & Riviera staff into robotic warehouse and software engineering

6) Send clear signals to supermarket litigants what the framework for prosecutions into anti-competitive behaviour may be

7) a sensible condition of food donations to homeless and zero hunger groups needs to be a condition of any qualifying challenger in the grocery industry so these honourable gifts from existing supermarket owners are respected and continued where possible .

Topic 3: In what circumstances might a retail divestment be effective?

• What is the minimum efficient scale required or minimum number of stores which would need to be divested to create a viable and effective competitor to the major grocery retailers?

Northelia modelling illustrates approximately 150 – 175 stores (depending on the $ sales of each store) Essentially the model covering a fixed and variable overhead doesn't work at anything less than 15% revenue national market share over the main cities. This is because it's a low margin, high volume and capital intensive industry with high leverage.

• What should be the process or criteria for selection of stores to be divested?

HHI Ratio analysis in 3, 5 & 8 km radius. This means candidates for divestment occur by their being same brand stores in the same suburban circumferences, additionally to make the process pure Countdown should be able to buy New World and Pak'nSave stores.

• What other assets would need to be divested or other arrangements put in place (possibly on a transitional basis) to ensure the acquiring entity would be viable and would operate as an effective competitive constraint on the major grocery retailers?

Northelia would like to discuss this in confidence with the Commission, notwithstanding, much depends on the powers and ability to resolve matters previously noted.

• How should a divestment process be conducted?

1) Voluntary undertakings with "Qualified institutional Supermarket Operators " (QISO)
2) Forced sale at replacement cost, with no chattels or improvements, non-monopoly land alternative use values and replacement cost of empty sheds

• Would a contestable sale process ensure a fair return to the divesting party or parties for the assets divested? Or might some additional minimum price requirement or compensation mechanism be required to ensure the divesting party or parties are appropriately compensated for the divested assets?

Tobin's Q principles need to apply at the non-monopoly price basis

• What are the likely potential challenges which would need to be overcome in implementing a retail divestment?

1) Choosing the stores
2) Agreement on valuation and chance over date
3) Agreeing (or not agreeing) on chattels
4) Massive software implementation and financial control change over
5) Date for swap over to new brand and directorate
6) Front end consumer-facing rules of data transfer, customer messaging and potential abuse of market power
7) Interface with distribution centre
8) Management of employees and any possible swap over, redundancy and or recruitment

• What are the potential risks or unintended consequences associated with such a

divestment?

1) Store and location degradation of a store to be divested
2) Damage franchise value of industry and challengers or incumbents
3) Customer confusion
4) Weak mischievous behaviours
5) Ill will to challenger or incumbents

Topic 4: What would be required for the effective divestment of a wholesale business?

1) Specification of what the service is required in detail service level KPIs, and SLRs
2) Discussion of the what the required investors would look like (industry players logistics specialists etc)
3) Ring fencing of where the business started and stopped
4) Mission statement for the business , ROI targets and impact on downstream
5) Yes – it could be that Govt owns it for a 5 – 10 year period of the supermarket reset period

• If it were thought that adequate competition in the sector could be generated by establishing a stand-alone wholesaler, what assets would need to be divested to enable the establishment of a viable standalone wholesaler?

Market power sits in retail as well as distribution, so half fixing the problem will only create pretend market fix .

Of course a distribution fix would mean a regulated ROIC in the distribution centres and a high ROIC in supermarkets. , More fringe players would start, but consumers and suppliers would not get the substantial benefit of proper retail competition unless the problem is fully deal with.

• What would the risks or potential unintended consequences be of a divestment designed to establish a stand-alone wholesaler?

1) Retail market power extended
2) More complexity
3) Only half job done
4) The regulatory job here is to initiate a separate 3rd distribution system which is scalable and a new investment. The entire industry needs to be considered; not just where the industry has come from but to where it's going.

Topic 5: Would a divestment of an integrated wholesale and retail business or the assets necessary to establish an integrated wholesale and retail business be more effective than simply a retail divestment?

100% yes, this is a complex issue to get right. The Northelia regulatory diagnosis is advocating a pathway to "like for like competition" whereby there is temporary access to wholesale and a retail footprint divestment .

There is no business case for 1/3 more large format stores in NZ. The industry has matured and is at full capacity on Sqm. Of course there will be some new stores and smaller format stores, but to suggest to a business analyst that there is a businesss case for a foot print of 200 new stores is fantasy on a game theory basis .

• Would the divestment of an integrated wholesale and retail business or the assets necessary to establish an integrated wholesale and retail business give a greater likelihood of successfully establishing a viable and effective competitor than simply the divestment of a selection of retail assets?

YES absolutely the Commission should recommend this as that's in the interests of the consumers, suppliers, the environment and Kiwis' healthy eating outcomes

Yes, in particular it's noteworthy to comment on the defeatist almost juvenile prescription in the conference and last submission round regarding why this can't happen – (even though it's a service already provided in Aussie etc). This is further evidence as to why it needs to be separated.

• What assets would need to be divested to establish a new integrated wholesale and retail business?

1) Distribution centres, some software, some distribution assets, at least 150 stores which represent 15% of the current revenue of the existing business and all restrictive building and business covenants (some of which maybe the carparks of existing operations)

• What other arrangements would need to be put in place (possibly on a transitional basis) to ensure the acquiring entity would be viable and would operate effectively as a competitive constraint on the major grocery retailers?

1) % NZ ownership
2) Sufficient capital to ensure an greenfield institutional start up can manage a deep J curve of losses
3) Technology and management partners to bring international best practise to NZ

• What are the likely potential challenges which would need to be overcome in implementing an integrated wholesale and retail divestment?

1) Agreement on SLAs (service level agreements) and incumbent vs challenger interfaces as per the submissions of Countdown (Woolworths)
2) Choosing of the stores and the valuation of them to be moved
3) Delivering the message to the executive of Foodstuffs and Countdown that the ComCom is serious about competition
4) The time frame for the new distribution centre to be built

• What are the potential risks or unintended consequences associated with such a divestment?

1) inconvenience to consumers and misunderstanding of what new brands and competition is trying to achieve
2) the concern that in efficiencies will be lost. THIS, respectfully, is a genuine concern. The Northelia position is that profitabilty is so high that there is a lot of margin to impact. Innovation and new investment will improve costs and create benefits 10x the risk.
3) incumbents pollute and depredate the stores to be divested
4) too much money is paid for the stores preventing there being pass through to the consumers and suppliers

C. Facilitation of entry and expansion

Topic 6: What general principles should be applied when considering recommending facilitation of entry or expansion?

The following principles should be considered

- The challenger should be investing in EQUIPMENT, NEW TECHNOLOGIES, productivity and produce improvements – NOT goodwill and monopoly rent payouts to previous owners
- The Commission wants expansion to a pathway to like for like. It's the expansion that creates competition, innovation and improvement in carbon footprint and health outcomes. The issue here is getting the 15% correct and then working out what the targets are after the initial start .
- The competitive response will be blunt force trauma. There should be no assumption of passive reaction to a challenger and inevitably competition law will need to be strengthened to facilitate expansion.

• In what circumstances might it be appropriate for the Commission to recommend to the Government that it considers the possibility of taking steps to facilitate entry or expansion in the grocery sector? Would this require the same pre-conditions or criterial to be met as for a divestment or might some lower threshold or different criteria be appropriate?

If no private sector group is available to participate in an industry reset of the NZ grocery industry, on terms that are acceptable to the Commerce Commission, then because it's such an important industry part of New Zealanders' wellbeing, it makes sense for the government to enter it , and then sell off shares like it has in Kiwibank

A slightly different criterion would evolve because it would have to ensure it could later be sold, but also behave like a government organisation in many aspects of its operation.

Northelia does not believe it will be the only organisation interested in a divestment process. Northelia has an open mind as to how a consortium would be constructed and financed. Northelia believes that the basic conditions of a qualified bidder for a NZ GIC (New Zealand Grocery Investment Consortium is:

1) reasonable level of NZ ownership
2) involvement of an international technology partner
3) pathway to Maori participation at operating company and holding company level
4) Able to demonstrate to the ComCom/ MBIE carbon footprint strategy which will trigger lower industry carbon footprint outcomes
5) Able to demonstrate to the ComCom/ MBIE that Maori Health Outcomes will be advanced
6) A vision of where the productivity dividend is for NZ consumers
7) A strategy which assists innovation for NZ food exporters and increased choices for consumers

• Topic 2: Is there any other strategic behaviour that may restrict new entry and access and how might it be redressed?

We applaud the Commission for asking what the nasty incumbent behaviours will be. It's these behaviours which have prevented competition from starting and it's these behaviours which caused the problems which caused the market study to be initiated. Without jumping on the problems it's a tautology. These problems have stalled participation in the study even. Why? Because NZ has a weak reputation in competition law and its stopped market participants from coming here. All the best lawyers*and economists work for incumbents (*other than Matthews Law)

Northelia has worked with Monopoly Watch to catalogue the main competitive reactions some of which come from the Countdown and Foodstuffs submissions

What are the competitive reactions which a challenger will inflict

Restrictive Strategic Behaviour	Comment	Remedy
Matrix Segmentation	Incumbent viciously protects all its high value low churn customers and leaves high churn , low value customers to new entrants	Data portability with incentives to consumers to own and uplift and transfer data to new supermarkets . IT consultancy would be engaged by MBIE or ComCom in swap over period
Pocket Pricing	Incumbent lowers pricing on a shop by shop basis while maintaining higher prices where the challenger is not selling	Needs to be banned for operators with SMP (over 30% share) – as it is on many other industries
Infrastructure cost increasing	Incumbents have sunk capital and paid for infrastructure , challengers need to build out , because incumbents are talking to suppliers of these infrastructure and building marginal facilities , they push up the price	Commissioner
Self-regulation	Industry groups are dangerous. They act as a club (a protectionist guild of sorts) to prevent	Avoid It – hire Supermarket commissioner

	new entrants who they tie up in knots and red tape	
Regulator Focus Dilution	Major League items of regulatory intervention get swapped out to “ great barrier” style issues, - which are important of course, but actually are focus distracting to major items of the other 99% of the	Commissioner
Victory Disease	This is where incumbents declare victory for incumbents far too early, trying to remove much needed regulatory oversight, and sending management teams into an award winning festive frenzy. This has the impact of costing the incumbent more capital and exposes it to own goals	Commissioner sets KPIs over 5 yrs
Bundling	This is where bundling of products exposes challengers to lost sales of marginal products	Commissioner
Increase competitors cost of capital	This is done by 1) Jawboning competitive reactions 2) Altering cost structures 3) Increasing cost of entry 4) Self-regulatory nonsense	Commissioner
credit arbitrage	This is where incumbents force challengers to pay cash for everything, instead of having supplier terms. This is particularly prevalent in Telecommunications and supermarkets where high degrees of leverage are available from suppliers . This has 2 impacts 1) Increases cost of capital **2)** Slows down challengers and ties them in up in knots	**Legislation , Commissioner instructed to watch out for it**
data asymmetry	**This where customer data is asymmetric to challengers**	**Commissioner**
Lobbyist crapshoot	This is where behind the scenes political lobbyists, 1) destroy your ability to secure govt contracts Remove your like for like persona, demonise your infrastructure and disconnect the regulator from important and urgent matters	**Commissioner**
Supplier Beat up	Removes credit access, dismantles budgets , estimates and conditions, makes environment more difficult	**Commissioner**
Māori Attack	Where a challenger operator would come under attack for its Maori persona due to racism.	**Commissioner**
Partner Demonisation		**Commissioner**
Pallet and Standard alienation	An important industry issue to maintain low costs for entire industry , not always obvious , as higher marginal costs for a challenger are a frequently used competitive response	**Commissioner**
Flanker Brand attack	Rebranding of challenger operators	**Commissioner**
Cherry Pick your team	Standard monopoly stuff	**Commissioners**
Poison your PR	Standard monopoly stuff	**Commissioner**
Remove Like for Like persona	Standard monopoly stuff	**Commissioner**

Customer alienation 8m	Standard monopoly stuff	**Commissioner**

Key commentary points from Northelia v 1.4

1.1 Commerce Commission Submission to the Climate Change Commission of 26 March 2021 has direct relevance to the Market Study. Carbon foot print will be a metric that a challenger operator would force behaviour changes from incumbents who today provide no “ unit of value “ carbon footprint metrics and instead revert to fancy assertions in glossy reports that “we have done lots”.

1.2 We Believe that Attachment F can be used to assist the Commission in devising a divestment process for sale of the distribution centres and individual supermarkets . HHI ratios in 3 and 6 km circumferences need to be used to orchestrate which supermarkets need to be divested .

1.3 Vigorous signals and measures must be taken to introduce competition, but disgraceful conduct perpetuated by NZ’s 2nd largest organisation on the community requires a higher level of proactive regulation and divestment by the Commission.

Northelia Answering Frequently Asked Questions on its proposal to develop like for Like competition in NZ

How do you intend to anchor in a new wholesaler into becoming sustainable?
This is because it will compete for business with the other 2 operators which will be independently owned. New entrants, restaurants, small convenience stores and large buyers will all be able to draw down from this DC facility. Initially its financing will be anchored on the 3rd operators business plus online-only operators

Would a challenger be forced to build stories, rather than buy existing stores and what is the role of the small convenience store in a new reset industry
New stores need to be built to build a competitive footprint. Its more likely these stores will be smaller format stores supporting internet delivery models plus supporting the break-up of current suburban monopolies.

Forcing franchisees to buy off different wholesalers will this work
This is a possible consideration into arranging a reset. The issue is many franchises have a parent company investment in the DC system of Foodstuffs.

Should Small format stores should be allowed to break away from larger franchisees
Yes, however, a divestment formula must be facilitated on a like for like basis with large urban and city stores being divested to create an embryo for a like for like ecosystem.

It’s a lot of work to figure out suburb by suburb
Working out HHI ratios suburb by suburb is a painstaking long protracted task ,however, it’s probably one of the most interesting assignments a firm of economists would ever get. They should do it for free because it’s so interesting and they will be able to sell the IP attached to this project to many other competition regulators globally.

What are the really complex issues that no one wants to discuss?

1) Value compression for wealthy supermarket barons
2) Detailed SMP legislation monitoring the supermarket business going forward
3) Impact of this stimulation of competition on other NZX companies

Who is qualified to discuss the complex issues and become the supermarkets commissioner?

- Some ex CEO of a large supermarket chain
- Lawyer
- Some ex CFO of a retail distribution business
- Existing ComCom financial analyst
- Ex Wall Street tzar who understands industry structure and wants to do something in the public interest
- Ex Mckinsey, Bain, BCG, PWC Oliver Wyman-type person

Why is this situation unique globally?

Respectfully only in NZ could anyone get a 3 to 2 merger complete!

Only in NZ could you buy 20% of a business it to block and stop it competing

It's still legal in NZ to attach restrictive covenants on land to create barriers to entry and stop the establishment of competing supermarkets

The Uniqueness of the situation means that the divestment requirement is rational and precedented and warranted in New Zealand.

What will attract institutions to the opportunity to help fix NZ inc

Many public policy teams from major supermarket chains around the world are looking at this policy challenge the Kiwis have. Northelia believes there is a growing appetite to invest. Northelia is in conversation with many potential investors including Maori groups, international private equity firms, international supermarket operators , international artificial intelligence and software experts in the supermarket industry .

What is the impact that supermarket competition will have in NZ ?

- Innovation in products
- Improved productivity for consumers
- Improved pricing on may major goods
- Improved outcomes for suppliers
- Better pricing , service quality and range for consumers
- Improved pride in being a Kiwi
- Improved confidence in the 531,424 small business in NZ that someone is fighting for fair open and competitive markets (other than the 2 dimensional duopoly with community monopolies) !

Why is there nothing wrong with the Foodstuffs business model

The entire business model makes sense and the owners should be proud of it, particularly the strategy people. The only thing that is wrong is no competition and its foundation is no competition – it's you earn the right to get an exclusive Pak N Save store with carved out exclusive territory – a wealth-generating fiefdom.

The Woolworths Company are good people

From their board room to their warehouses, and checkouts, they have good people , honourable people who want to do the right thing (page 1 of their 2021 annual report) . The issue is they need help to fix the naughty behaviours of previous management teams and evolve into the modern business environment where supermarkets and attached distribution centres are not bottleneck food and groery distribution infrastructures.

How did the conference evolve Northelia' s thinking important matters of govt participation and separate ownership of the Distribution centres (versus regulated wholesaling)

Initially Northelia felt that 3 year wholesaling access to a distribution centre would work. However, during the conference the exposure of the behaviours inflicted on Night and Day and the defeatist attitude of the incumbents towards wholesaling – even though they do it in Australia and to their Franchisees, altered the Northelia board's thinking.

Why are other international regulators looking at this and why did our investors take an interest
Competition policy in supermarkets has been a live issue for 25 years as consolidation has ended and dominance of a crucial bottleneck has been exposed. NZ is the international problem on steroids. In most EU markets there is 5+ players (sometimes over 10) while in NZ there are only 2.

Northelia has noted from its London base interest in the NZ public policy dilemma, similar to being the first country in the OECD to auction spectrum, NZ maybe the first country in the OECD to force supermarket divestment.

Conclusion of Paper for Australian and New Zealand School of Government

– Copyright 2011 – Allan Fels

Professor Allan Fels : paper the supermarket revolution in food , the good bad or ugly

"Supermarkets pose policy challenges that the worlds biggest emerging markets are only just starting to grapple with. Developed countries such as Australia have been dealing with these challenges for decades and many lessons can be learned from their experiences.

Australia has for the mast part managed the retail sector with soft regulatory hands. Market forces have shaped the size and structure of the retail sector over time creating an environment conducive to all the benefits of modern retail. Consumers and society more generally have indisputably benefited from practises as well as the lower prices and greater product choices that flow from economies of scale.

However Australia provides evidence that there comes a tipping point when these retailers reach a position of dominance, Anticompetitive behaviour has been aired in Australian court rooms and various policies have been implemented with limited success

A possible generalisation from these experiences is that retailing can be thought of as developing through 2 stages, In the first stage modern retailing is necessary to achieve major efficiencies in distribution. The Dilemma is that when this happens it inevitably moves to stage two, a situation where an oligopoly and quite possible a duopoly emerges. In turn this implies substantial seller and buyer power – which may operate against the public interest.

The Lesson for developing economies is that effective competition policy needs to be in place well before the second stage is reached, both to deter anticompetitive behaviour and to evaluate the extent to which retail power is being used to unfairly disadvantage smaller retailers and their customers. The sources of retail power need to be understood to ensure that abuses of power are curbed before they occur and weighed against the benefits brought by modern retailers which much not be unduly hindered "

Thank you, Professor Allan Fels ,

TERMINOLOGY FOR MONOPOLY WATCH TEAM

Bottleneck
Carbon footprint
Like for like competition
Household Productivity dividend
Pyrrhic pretend competition
Infrastructure equivalence
Scale
Game theory
Low Beta
Property Company
Asset Class
Done it Before
Nutrition outcome
Carbon footprint competition
Meal kit providers
Differential cost of capital for Challengers
Guts
Regulatory arbitrage
Greenwashing
ESG , CSR and GRI
Rating agencies debt
Rating for Equity investors
Advisors

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