



**Road Transport Forum NZ Submission to:
Commerce Commission New Zealand**

on:

Market study into the retail grocery sector:

comcom.govt.nz/groceries

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**Road Transport Forum (RTF) submission on:
Commerce Commission New Zealand, Market study into the retail
grocery sector (the Study)**

1. Representation

- 1.1 Road Transport Forum New Zealand (RTF) is made up of several RTF members including Road Transport Association NZ, National Road Carriers, and NZ Trucking Association. The affiliated representation of the RTF is some 3,000 individual road transport companies which in turn operate 16-18,000 trucks involved in commercial road freight transport, as well as companies that provide services allied to road freight transport.
- 1.2 The road freight transport industry is 3.0% of New Zealand's gross domestic product (GDP) and it carries 93% of the nation's freight. We employ around 32,868 people and vocational education is of growing importance in our industry due to a shortage of drivers and other workers.

2. Introduction

- 2.1 The RTF provides sector leadership and believes we all need to operate in an environment where the following must be managed and co-exist:
 - 2.1.1 The safety and wellbeing of our drivers and other road users. Our drivers are our most valuable asset.
 - 2.1.2 The impacts of transport on our environment.
 - 2.1.3 The transport of goods by road is economically feasible and viable and it contributes the best way it can to benefit our economy.
- 2.2 All groceries are transported by road to retailers therefore, the RTF has an interest in this study.
- 2.3 The RTF has a number of related policy positions and these are summarised as follows:
 - 2.3.1 Having a road freight industry that is reliable, cost-competitive and flexible is essential for New Zealanders – trucks deliver pretty much everything you need, every day.
 - 2.3.2 New Zealand's road freight operators are price-takers without any market power. Driving down prices can lead to corner-cutting on health and safety, and poor employment conditions. The RTF wants

to ensure pricing structures that enable all road freight operators to maintain lawful and successful businesses that meet employment and health and safety requirements.

- 2.3.3 The RTF promotes the road freight industry overall, and protects the rights of road freight transport companies to make commercial decisions and to compete freely for freight contracts.
- 2.4 The RTF acknowledges that the cost of freight was not considered in the Study however, we contend that the behaviours and values exhibited by the “major grocery retailers” and their treatment of their suppliers is highly likely to be extended to other parties in the supply chain, such as providers of transport deliveries to grocery stores.

3. Comments on the Study

- 3.1 We note the significant difference the Study found between the Return on Average Capital Employed and the Weighted Average Cost of Capital.
- 3.2 We agree with the Study’s comment that the level of profitability is consistently and materially above what we would expect in a workably competitive market.
- 3.3 We note the risk the Study has identified in the imbalance of bargaining power being used by the major grocery retailers to shift costs and risks onto suppliers and consequently reducing suppliers’ incentive to invest and innovate.
- 3.4 We agree with the intended recommendation to improve competition and we believe that potentially a Code of Conduct could help.
- 3.5 Fundamentally, we do not support the philosophy of collective bargaining.

4. Related risk and impacts on road transport of groceries

- 4.1 As far as we are aware the high profit earned by the “major grocery retailers” is not being shared with road transport operators. Operating profit margin typically earned by road transport operators is in the order of 3-5%¹. It would therefore appear to us that like grocery suppliers, our transport operators are suffering from the imbalance of power and commercial sharing of benefits.

¹ New Zealand Institute for Business Research, University of Waikato 2020

- 4.2 We are not suggesting in any way that “major grocery retailers” are driving down prices that in turn lead to corner-cutting on health and safety, and poor employment conditions in road transport. However, we are disappointed in the behaviour of “major grocery retailers” because if that large profit was shared in a more equitable way across the supply chain, then in essence, transport operators would receive higher freight rates and that would more than likely help with some of the challenges our sector faces, such as the driver shortage.

5. Transport sector wide comments

- 5.1 Over the past several years we have observed a growth in the establishment of new advocacy groups, being initiated by self-proclaimed “business leaders”, which sit at the end of a supply chain and in essence benefit from the work of multiple parties at earlier stages of the supply chain, such as goods suppliers and freight providers. Included in these groups is grocery retail.
- 5.1.1 These groups purport to represent the best interests of all parties in the supply chain and often begin with seed funding from business leaders. Typically, the portrayal of a good corporate social image and strong business connections result in success in gaining government funding.
- 5.1.2 However, our observation is that rather than genuinely look after those parties that are most exposed to harm, these groups are predominantly there to present a good corporate social image of the most powerful party in the supply chain. We feel that the findings of the Study in terms of the behaviours and values exhibited by the “major grocery retailers” in driving such high margins confirms our observation. As your Study suggests there is a risk that a power imbalance leads to the dominating party shifting costs and risks onto other parties in the supply. We contend that an example of this risk actually playing out is with grocery stores not being well designed for receipt of goods. Grocery store loading bays are typically constrained with trucks being required to complete challenging reverse manoeuvres and forklifts unloading in areas frequented by public vehicles and pedestrians.
- 5.1.3 We are facing similar issues with power imbalance and risk to the safety and wellbeing of transport operators in other sectors, particularly with livestock, and we are working hard with government agencies and departments to remedy this. In the meantime, we would urge government to be more careful with its support and funding of fledgling groups claiming to represent the industry. It is ironic that despite the rhetoric from some of these groups, the underlying power imbalance presents a perverse risk and the safety and wellbeing of frontline people, such as those

driving the vehicles and making the deliveries, is placed at more risk, rather than less risk.

- 5.1.4 Ultimately, we see your findings as yet another demonstration of the chain of responsibility transport legislation not delivering its intended purpose and this is an issue that we have been discussing with Waka Kotahi New Zealand Transport Agency for some time.

6. Summary

- 6.1 The findings of the Study are not a surprise to us and we believe transport operators are facing similar issues to grocery suppliers. Some grocery suppliers are vertical operations, in that they operate their own transport of goods, so are doubly hit by the power imbalance created by the "major grocery retailers".
- 6.2 We support the Commerce Commission's intent to increase competition.
- 6.3 We look forward to changes in this sector and hope there will be flow on effects that strategically benefit our people in the transport sector.