

31 August 2021

Commerce Commission
PO Box 2351
Wellington 6140

Dear Sir/Madam

Submission on the Market Study into the Grocery Sector: Draft Report

Cooperative Business NZ is the representative body for New Zealand's member owned businesses that sit across multiple sectors (see attached membership list).

I am writing to you on behalf of New Zealand's member owned businesses (cooperatives & mutuals) in response to the Market Study into the Grocery Sector produced by the Commerce Commission.

New Zealand has one of the most highly advanced co-operative sectors internationally. As recently confirmed by PwC in their report 'The NZ Co-operative Economy', 2021. New Zealand's use of the company structure sees 13% of our GDP by revenue, generated by the Top 30 co-operative businesses (two of these businesses being Foodstuffs NI and Foodstuffs SI). In its entirety, it is likely closer to 18% (solely for the distributing co-operatives). However, their importance to the wider economy is greater again when considering their 1.5M members, with many being SME's in their own right.

Cooperative Business NZ is pleased to have the opportunity to provide a submission to the Commerce Commission (ComCom) on its draft report titled 'Market Study into the Grocery Sector', published on 29 July 2021.

1. Introduction

The purpose of the study is to consider whether competition is working well for grocery consumers. Its purpose is to identify and assess factors that may affect competition for the supply or acquisition of groceries by retailers in New Zealand, and to make any recommendations that the ComCom considers may improve competition. The purpose of this submission is to provide some comments that the ComCom may like to consider before the final report is presented to the Government.

Cooperative Business NZ is not able to comment on the technical aspects of the study. However, as the representative body of New Zealand's member owned businesses whose members include both the organisations under investigation, suppliers to these businesses, and a number of other businesses sitting in industries that are likely to have similar investigations undertaken, Cooperative Business NZ would like to provide some input for consideration.

It is assumed that many of these organisations will independently provide their own perspective with regards to the report.

We are also aware of the submission made by BusinessNZ and are fully in support of their findings. We agree that it is crucial for the ComCom to ensure this study is given adequate resource, so any changes are to the long term benefit of the New Zealand consumer, along with limiting unintended consequences for the broader co-operative sector.

2. United Nations Guidelines & co-operative business construct

Co-operatives are businesses based on seven internationally agreed principles (Rochdale Principles) that guide co-operatives, mutuals and societies. These emphasise democracy and shared equity, while providing economic and social returns to members and their communities:

1. Voluntary and open membership
2. Democratic control
3. Member economic participation
4. Autonomy and independence
5. Education, training and information
6. Cooperation among co-operatives
7. Concern for community.

These guiding principles are managed by the International Co-operative Alliance (ICA) in agreement with the United Nations (UN).

Cooperatives are often created to enable competition through individuals / business owners coming together to create scale. This results in improved bargaining power, reduced cost, enabling access to products or services otherwise unavailable, expanding on new and existing market opportunities, improving product ranges and / or services. Globally they generate USD 3Trillion in annual revenues, equivalent to the 5th largest economy in the world. They are recognised as being a major employer providing 280M jobs (10% of the worlds population).

Recognising the importance of co-operatives to the international economy, the UN in conjunction with the International Labour Organisation (ILO), established guidelines (193) for international governments to ensure a supportive regulatory environment for these businesses. Any recommendations made off the back of this study should take these guidelines into consideration.

https://www.ilo.org/empent/Publications/WCMS_345448/lang--en/index.htm

Recommendation: That any recommendations consider the UN Guidelines.

3. Enabling competition

Co-operatives are known to act as a leveller when international players enter a market, i.e. Woolworths. These businesses (usually corporates) tend to use co-operatives in any industry as their price point. A live example in New Zealand is Synlait and Open Country Dairy having entered the market and actively competing with Fonterra for milk supply.

The current co-operatives utilising the business model in the grocery retail sector are B2B in their construct. There is also the potential for other business constructs using the co-operative model to provide greater competition into the sector, i.e. establishing a B2C, consumer driven retail co-operative along a similar construct as used in Australia by the Barossa Co-operative, or an employee owned co-operative along the lines of John Lewis, UK.

Recommendation: That the report / findings consider the role co-operatives play in enabling healthy competition in an economy.

4. Business sustainability, employment and profits

Grocery retail businesses have been identified as essential services. Foodstuffs NI and SI are some of New Zealand's longest standing businesses. They are some of our founding co-operatives indicating the long-term sustainability of the business model. Often these businesses are handed down over multiple generations providing employment within local communities and ensuring profits are recirculated back into the New Zealand economy. Here in New Zealand outside of Foodstuffs NI and SI, the key competitor is an Australian owned operator which leads to minimal profits being retained and reinvested back into New Zealand.

Collectively, Foodstuffs NI and SI directly employ 4,000 staff. In addition, their 1,000 members (owners of PAK'nSAVE, New World, Four Square and Gilmour's) each has a significant number of employees, both permanent and part-time staff. Employment figures within both urban and rural New Zealand are far reaching. They play an intrinsic role within their communities.

There is a recognition that consumers are wanting change and will ultimately decide. They are looking for businesses that operate as good corporate citizens. This is why B Corp certification¹ has seen a significant surge where businesses balance purpose and profit (considering their impact on their workers, customers, suppliers, community and environment). Co-operatives already have a business model that resonates with a multitude of B Corp criteria. Each of these individual business owners independently puts back into their local communities, outside of the work undertaken by the distributing co-operative. In addition, we have seen these businesses taking the lead in waste reduction, i.e. removal of packaging, and giving back to communities through their various initiatives.

These businesses take a proactive role in providing education and opportunities for individuals to upskill and extend career opportunities which aligns with their principles around community, education, autonomy and independence.

Recommendation: Findings recognise the importance of co-operative businesses to providing employment, education, sustainable business practices and profit being recirculated back into the New Zealand economy.

5. Other industries leveraging the co-operative model

Each recommendation put forward by the ComCom may impact future market studies into other sectors where a significant proportion of players operate under the co-operative model. Any recommendations require sound evidence, or run the risk of detrimentally impacting the sector in question, along with those who may be next in line for a market study.

Specific concerns highlighted regarding the study's findings / recommendations include:

- Land covenants – how wide is this regime going to be?
- Forced sale of businesses in regions:
 - these are independent business owners who formed a co-operative, a legitimate business model
 - created to enable scale to support consumer value / improved service

These will have far reaching consequences on the business owners, along with setting a mandate / creating restrictions across other industries.

Recommendation: Consider how any recommendations from this study may impact industries outside of food retail.

In summary

Overall, we urge the Commerce Commission to continue to engage to ensure that the issues we have raised in this submission are appropriately managed and do not have unintended consequences for the broader co-operative community.

¹ <https://bcorporation.net/>

We look forward to engaging with the Commerce Commission as this study unfolds.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Roz Henry', with a long horizontal flourish extending to the right.

Roz Henry
Chief Executive
Cooperative Business NZ

Cooperative Business New Zealand members as of 31st May, 2021

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| <p>Retail- Food: Foodstuffs North Island Foodstuffs South Island Foodfirst</p> | <p>Utilities: Ashburton Lyndhurst Irrigation Barrhill Chertsy Irrigation Electricity Ashburton Kerikeri Irrigation Ltd Irrigation New Zealand MHV Water Ltd</p> |
| <p>Retails – Trade: BuildLink Group Capricorn Society Ltd Combined Building Supplies Co-op Blackfern Co-operative Composite Retail Flooring Xtra ITM Mitre 10 NZ Plumbers Merchants Interflora Pacific Unit Ltd Origin A Group Ltd Independent Optometry Group Ltd. World Travellers</p> | <p>Agriculture: Alliance Group Ballance Agri Nutrients Dairy Goat Co-op Ltd Fonterra Farmlands LIC Primary Wool Coop Ltd Ravensdown Fertiliser Rural Co Rodney Coop Lime Co Silver Fern Farms Tatua Co-op Dairy Co</p> |
| <p>Horticulture: Boysenberries NZ Ltd Birchwood Packhouse Ltd Eastpack Fruitpackers Coop Ltd Market Gardners Ltd Marlborough Grape Producers NZ Hops Ltd Provelco Coop Ltd Seasonal Solutions The NZ Blackcurrant Coop Ltd. Walnuts NZ Co-op Ltd</p> | <p>Financial Services, Insurance and Banking: First Credit Union FMG NZCU Baywide Plus 4 Insurance Solutions Rabobank SBS Bank SHARE NZ Services Ltd Southern Cross Health Society The Answers Co-operative The Co-operative Bank Wealthpoint</p> |
| <p>Other: Loomio ProCare Rural Couriers Society Korou Digital Co-op</p> | <p>Start-ups: Apricot Co-op Arise Investments Coastal Energy Community Power EVA Co-op Ion Technologies Net NZ NZ Co-operative Housing Co. NZ Gamekeepers Co-op TDL Tyres Co-op Wa Studio</p> |