Submission to Te Komihana Tauhokohoko Commerce Commission New Zealand, in response to the draft market study into the retail grocery sector

Introduction

This submission is on behalf of Kore Hiakai Zero Hunger Collective, in response to Te Komihana Tauhokohoko Commerce Commission New Zealand's recently released 'Market study into the retail grocery sector' draft report.

Kore Hiakai Zero Hunger Collective founding partners are The Salvation Army, Christchurch City Mission, The Wellington City Mission, VisionWest, Auckland City Mission and the New Zealand Council of Christian Social Services.

Our vision is a food secure Aotearoa New Zealand created by supporting a network of over 350 Foodbanks and community food organisations across Aotearoa, while undertaking the slower, deeper work of addressing the root and systemic causes of poverty-related hunger.

Food insecurity in Aotearoa New Zealand

1. To tell the story of food insecurity in Aotearoa is to digest the challenging costs of living, accessing fresh, healthy affordable food for our people, as well as the woven in community-led collaborative solutions that are working towards food security.

2. Food insecurity in Aotearoa is about inequalities and not because of a food deficit. Food insecurity is experienced by individuals but driven by systems. It is complex and interconnected with other health and social issues. In a broad sense, the underpinning key drivers of food insecurity are inadequate incomes, meeting the costs of food and other essential needs (including housing), and factors associated with our food system – of which the retail grocery sector is an integral thread in the story.

3. Right now, it is estimated about 15-20% of our population are impacted by food insecurity. Rates of food insecurity are much higher amongst Māori and Pasifika peoples, and those with disabilities or living in low-income households. Around 40% of

low-income households with children report they run out of food "often or sometimes" due to unaffordability[1].

High food prices are a key contributing factor in food insecurity

4. The Commerce Commission's draft report highlights the high cost of food and other groceries in Aotearoa New Zealand: we rank sixth highest in the OECD in terms of grocery prices, and fourth highest with regard to grocery expenditure.

5. We would note such aggregate figures mask the differences in food expenditure that occur across different income groups. Aotearoa research (Smith et al, 2013) has estimated food expenditure to be more than 30% of net income for low income households (less than $35k). We also note, that although Te Komihana Tauhokohoko reviewed analysis of regional price variations, it did not undertake any analysis of grocery price differences across different locations by socio-economic deprivation (e.g. by using the New Zealand Deprivation Index).

6. Kore Hiakai agree with the Commerce Commission's overall preliminary finding that competition is not working well for consumers in the retail grocery sector. The consistently high prices charged to consumers by the major supermarkets add to the increasing strains on vulnerable communities and people who are already marginalised across a range of social and health capacities. A food insecurity study released October 2020 found nearly 80% of respondents (from a sample of people who used Foodbanks) said their food insecurity was due to costs of living exceeding their income[2].

[1] The 2021 Child Poverty Related Indicators Report identifies that in 2019/20, 20% of all children aged 0-15 lived in households where food ran out often or sometimes, 40% of children from lower socio-economic households (Child Poverty Related Indicators Report, May 2021 childyouthwellbeing.govt.nz). Longitudinal research (Carter et al, 2010), on a representative of New Zealand households, found that 15% of the population were food insecure (What are the determinants of food insecurity in New Zealand and does this differ for males and females? wiley.com).

[2] Auckland City Mission, Whakarongo ki te Kōrero whānau katoa o te rangatiratanga

7. It is clear from the Commerce Commission's report that Aotearoa has both a duopsony[3] and a duopoly in our retail food system, resulting in both lower prices paid to producers and higher prices for consumers, and an economic condition in which there are only two large players for a specific service. The lack of competition and consistently high profits earned by the two major supermarket companies come at a direct cost to New Zealanders (higher food prices) but also carry significant indirect costs including:
   - the increased demand for Ministry of Social Development Special Needs Grants for food;
   - the physical and mental health impacts of poor nutrition and food insecurity;
   - the flow on effects on our wider food system (encompassing growers, producers, manufacturers, packaging, storage, distribution, and food waste management).

Solutions: Government responses should go beyond a focus on strengthening competition

8. Consistent with the Commerce Commission's remit, solutions cited in the draft report are almost exclusively concentrated on competitive remedies focused on additional supermarkets. We agree that if competition was more effective, grocery retailers would face stronger pressure to reduce prices and give consumers a fairer deal. However, more robust competition is not a game-changer alone. Alongside measures to increase competition, there is a need for wider action by government to address other failures within the wholesale and retail grocery markets.

9. Kore Hiakai Collective's view is that multi-faceted solutions are required in order to achieve improvements in our food systems, and in particular to improve food access and affordability so that food insecurity is reduced.

10. The food system is a cornerstone of the New Zealand economy. It provides jobs and livelihoods to large numbers of people, and is also central to our environmental and climate objectives. In responding to current issues in the supermarket sector, there is an opportunity for government to adopt strategic, innovative and collaborative

[3] Duopsony (Merriam-Webster Dictionary) – a market situation in which two rival buyers hold the controlling power of determining the demand for a product or service from a large number of sellers.

solutions that achieve a range of social, economic and environmental sustainability objectives[4]. Our suggestions for further action are outlined below.

Provide greater consumer choice by growing what Te Komihana Tauhokohoko refers to as the 'fringe' of other grocery retailers

11. We encourage the Commerce Commission to recommend to Ministers that further work be undertaken to explore barriers and opportunities to grow the 'fringe' food and grocery sector, and the associated supply chain.

12. In our view, government should explore policy directions that encourage entry into the food and grocery market by small-scale operators. This could be through commercial, social enterprise or partnership solutions (for example industry-government partnerships, support for iwi and community-led food retailers, and/or seed funding to support the development of distribution and technology solutions). Further work may also be needed to determine whether other barriers to entry exist alongside the dominance of the duopoly. These could include food safety regulations, access to capital, a lack of mechanisms to directly connect growers/producers to consumers or smaller retailers, and availability of retail sites (e.g. indoor markets) that can accommodate small-scale producers/enterprises.

Consider the introduction of industry-specific regulatory powers in relation to the supermarket sector

13. Kore Hiakai considers that the retail grocery sector has some particular features which suggest the need for industry-specific regulation by Te Komihana Tauhokohoko. These features are consistent with those in other sectors that are currently subject to industry-specific regulation (e.g. energy, telecommunications, fuel, aviation, dairy), and include:
    - It is an essential industry, in that it provides goods and services that are essential to everyday life and the economy. It is a particularly critical service at times of

[4] New Zealand's food and beverage industry had a combined revenue of $71.7 billion in 2018/19. Food and beverages account for 46% of all goods and services exported by Aotearoa (Investor's Guide to the New Zealand Food & Beverage Industry mbie.govt.nz). Food manufacturing accounts for 32% of New Zealand's total manufacturing GDP. The food industry, encompassing the wider food chain (food production, food manufacturing, food services, food wholesaling and food retailing) employs close to half a million people, or one in five workers (Regional Growth Outcomes report mbie.govt.nz).

greatest need, as demonstrated during the COVID-19 Level 4 lockdowns, where the duopoly nature of the grocery market is further reinforced;

- It cannot be assumed that existing large supermarket providers will act fairly and competitively when consumer choice is further constrained (and agree further considerations under the Fair Trading Act may also be required);
- It is integral to all New Zealand communities, meaning current issues in this market are widely felt by all New Zealanders, but are most acutely felt by lower-income, rural and vulnerable members of society;
- It is a sector in which consumers are currently disadvantaged by the lack of competition, suggesting the need for additional regulatory oversight of this sector.

14. Advice and decisions about what industry-specific powers are available and/or appropriate are best taken by Te Komihana Tauhokohoko, but possible areas could include:
    - Improved transparency (e.g. requiring greater information disclosure about average price margins on selected key grocery items; commissioning and publishing regular price determination studies to highlight factors that influence the price of food and groceries for New Zealanders).
    - A more proactive and zero-tolerance approach to monitoring supermarkets, including possible Infringement Notices or prosecution of supermarkets when the Commission considers consumers are being misled and/or consumer laws have been breached.

Conclusion

15. Kore Hiakai Zero Hunger Collective commends the thoroughness of the Commerce Commission's draft report. If we are to achieve a food-secure Aotearoa, tackling our over-inflated food prices is a critically important thread in the story, as is the adoption of a broad suite of solutions in response to the current competitive constraints and inequities in our retail food system.

16. In summary:
    - We support a range of measures to improve competition in the wholesale and retail grocery sectors;

- We support more detailed consideration of the full spectrum of options outlined in the Commerce Commission's draft report (measures to improve access by retailers to wholesale grocery items; direct stimulation of retail competition; changes to planning laws and limits on the use of restrictive covenants; mandatory unit pricing; clarifying and simplifying pricing and promotional practices; introducing a mandatory industry Code of Conduct; allowing collective bargaining on behalf of suppliers);
- We encourage consideration of a broader set of solutions focused on strengthening the 'fringe' retail food sector. In our view, government should explore policy directions that encourage small-scale food and grocery retailers in order to improve consumer choice and reduce sustained market dominance (with wider economic and social benefits). This could be through commercial, social enterprise or partnership solutions, and actions to identify and address barriers to entry. (Refer paragraphs 11-12);
- We strongly support closer regulatory oversight of practices in the retail grocery sector. This could encompass industry-specific regulation that ensures greater transparency of prices and profit margins, proactive monitoring of supermarkets, and a zero-tolerance approach to acting when regulations are breached. (Refer paragraphs 13-14).

Ngā mihi nui,

Tric Malcolm
Kore Hiakai Zero Hunger Collective

He kai kei āku ringa – I have food at the end of my hands.