NZPork feedback on Market Study into the grocery sector Draft report

General

1. NZPork is the operating name for the New Zealand Pork Industry Board, a body established under the Pork Industry Board Act 1997. Its statutory role is to help in the attainment, in the interests of pig farmers, of the best possible net ongoing returns for New Zealand pigs, pork products and co-products, within the context of making the best possible net ongoing returns to the New Zealand economy.
2. NZPork is fully funded by New Zealand's pig farmers. A statutory levy is set yearly on each pig killed at a licensed premise and invested on farmers' behalf in activities that support a sustainable and thriving future for New Zealand's pig farmers.

Summary of key points.

- NZ Pork producers are competing with imports on an undifferentiated basis.
- We encourage the provision of fuller information and clarity on product attributes, not limited to price.
- We support more options and more transparency around how supermarkets do business with suppliers.
- We support the report's findings and support further investigation of the suggested measures for increasing competition in the retail grocery sector.

New Zealand Pork Supply chain

3. Costs of production in New Zealand continue to increase for our pig farmers due to higher animal welfare standards, food safety requirements, environmental compliance, increasing labour costs, labour shortages and rising freight prices.
4. Yet retail price for pork has not increased. For example, roasting pork, which cost $11.21 a kilo in 2010, came in at $10.50 in December 2020, significantly cheaper than the estimated $13.20 a kilo when the price is adjusted for inflation.
5. This is at least partly due to the need for any New Zealand produced pork to compete on supermarket shelves with imported products, many of which are packaged and presented to be indistinguishable from New Zealand origin pork, produced without the same standards and scrutiny, at scale, and for a wholesale price which would render New Zealand pork producers unprofitable were they to match it.
6. Consumers report a desire to buy New Zealand origin products however one of the report's key findings shows that shopper behaviour targeting low prices is the major driver of consumer decision making.
7. If the high profit margin of the 2 major retailer groups was addressed, plus clearer information provided, then more consumers would have the ability to use a more fulsome evaluation framework at the point of purchase.

Report Feedback

8. NZPork welcomes the report, and its findings appear to echo what we hear anecdotally but consistently from our pig farmers, processors and consumers, and other supply chain stakeholders. Specifically, we would welcome measures aimed at addressing the following points:

a) Supplier issues:

- Competition for the wholesale purchasing of groceries is not working well for many suppliers.
- Costs and risk are often transferred to suppliers for promotional discounts, merchandising, damaged lost or stolen stock in possession of the retailer, extended payment terms for retailers (some up to 60days)
- Terms of supply are not transparent. Examples- delisting products without providing reason, delayed response to supplier requests to increase prices, deducting amounts from invoices without consent.
- In many instances there is limited competition for the purchasing of suppliers' products at any scale.

b) Competitiveness:

- Competition is not working well for consumers in the retail grocery sector.
- Grocery retailer investors can expect returns at over 20% -a rate that you would think would attract competitors to enter that market. It hasn't happened.
- Major grocery retailers can operate without fear of losing too many consumers because other grocery retailers (e.g. butchers) are largely unable to compete on price whilst still offering the full product range.
- There is a lack of competitively priced wholesale supply for a full range of grocery products.
- Foodstuffs and Woolworths NZ choose strategies that limit competing directly with each other, particularly on retail price.

c) Consumers:

- Many consumers say that lower prices are the most important thing for them.
- Consumers report that labelling in Supermarkets can be confusing. While this is mainly in relation to price labelling there is also recorded commentary around country of origin. NZPork's and HortNZ's research highlights that consumers do have a strong declared preference for New Zealand grown products.

- As a contrast, Meal Kit providers compete on range, service, and convenience, but do not provide price competition for the major grocery retailers. Their combined share of the total grocery retail market remains small.

9. We agree in principle with all of the draft recommendations listed below, and the reasoning underpinning these recommendations.

- Measures to improve access to a wide range of wholesale groceries at competitive prices.
- Measures to facilitate or create entry by further major grocery retailers
- A mandatory code of conduct and changes to allow collective bargaining by suppliers.
- Some measures directed at improving the information provided to consumers to help them make more informed purchasing decisions and to enhance competition at the retail level of the market.
- Measures to make more sites available for grocery retailing at scale.

Further comment

10. New Zealand pig farmers will benefit from any measures directed at retailers that make it easier for New Zealand origin products to succeed in the retail market. We want to encourage competition *throughout* the supply chain and give the right signals to our pork producers that the effort they go to in creating quality, safe and nutritious food whilst adhering to high welfare, environmental, and labour standards products for New Zealanders is valued and suitably rewarded. No such assurances are required for imported pork.

11. Where retailers stock imported pork under private label from overseas rather than New Zealand produced pork, it is clearly detrimental to New Zealand farmers, where global pricing is lower than here, and there is no clarity provided to consumers that it is imported meat. Lack of differentiation means that the imported product sets the price benchmark. As noted above, we recognise that price is a key purchase criterion for many consumers, but addressing consumers' need for information will provide those consumers who want to choose based on different criteria, the opportunity to do so.

12. In addition to the recommendations made to improve the information provided to consumers such as consistent unit pricing, NZPork would like to see other attributes included in the scope of information that consumers should have easier access to. The relative standards of animal welfare, environmental impact, and social responsibility that the retailer considers for products it stocks would help drive innovation in these areas through consumers being more able to balance price with ethical values and make purchasing decisions. Such information could be sought directly from suppliers.

13. Whilst our major supermarkets play an appreciated and critical role to distribute quality New Zealand origin pork to consumers, we are strongly in support of the introduction of a mandatory Industry Code of Practice as a mechanism to ensure integrity and transparency across the supply chain.

14. Making it easier for local suppliers to contribute to private label products, on a wider range of criteria than price, and more critically to obtain and retain shelf space under their own labels/brands would improve returns for New Zealand farmers. NZPork accepts it may not bring lower prices for consumers but believes the other measures mentioned elsewhere in the report coupled with explicit recognition of unequal production standards on animal welfare, environment, and labour for imported product, would provide a platform to better provide for consumer choice.

Kind Regards
NZ Pork

2A/9 Sir Gil Simpson Drive, Burnside, Christchurch 8053
PO Box 20176 Bishopdale, Christchurch 8543
info@pork.co.nz
www.pork.co.nz | www.nzpork.co.nz