



Pernod Ricard Winemakers

25 August 2021

PERNOD RICARD WINEMAKERS NZ LIMITED'S RESPONSE TO THE MARKET STUDY INTO THE GROCERY SECTOR

As one of the largest producers of wine in New Zealand, with iconic brands including Brancott Estate, Montana, Stoneleigh and Church Road, and an importer of premium wine, spirits and Champagne, Pernod Ricard Winemakers NZ Ltd ('**Pernod Ricard**') is a significant supplier to the grocery sector.

Pernod Ricard has always had strong relationships with retailers in New Zealand and we have robust, fair and respectful negotiations in relation to the sale of our products to retailers, who in turn sell to New Zealand consumers. We look forward to continuing those relationships and building new relationships with any retailers that enter into the NZ market.

We acknowledge the options identified by the Commerce Commission to improve the conditions of entry by new grocery retailers and expansion by existing retailers, including structural separation of wholesale and retail businesses. Our view is that new entrants to the market would favour vertical integration as is the case with many businesses, to keep costs down and control supply chains. As the Commerce Commission's report states, vertically integrated firms are incentivised to supply their retail arms efficiently. This keeps costs down for consumers. Therefore it is our view that requiring the separation of wholesale from retail would further deter competition and add cost and other pressures to the supply chain. It is also likely to create cashflow issues for suppliers.

A code of conduct has been identified as a measure which would address the imbalance of power between grocery retailers and suppliers. As a supplier to the grocery sector in other markets, we do not consider this would be materially beneficial in New Zealand. Markets that have similar codes are not necessarily more functional in our experience. The mutual trust which we have built up with our grocery customers is more conducive to a positive relationship. As our recent Advantage survey shows, over half of suppliers believe retailers build trust, and in our organisation three-quarters of respondents believe retailers build trust.

We realise that this study does not enquire into wider policy issues which impact pricing but we believe they are significant. In our opinion in the New Zealand market, the cost of freight has a larger impact than other markets due to the physical nature of the country, as small and geographically spread out, and the infrastructure that covers it. Fuel and labour costs also contribute to this.

If you would like to discuss any of the above with us, I am happy to be contacted at kevin.mapson@pernod-ricard.com

KEVIN MAPSON
Commercial Managing Director, Pacific