31 July 2021

Dear Commerce Commission,

RE: Market Study Into The Retail Grocer Sector

The Commission's recommendations regarding directly stimulate retail competition are:

- *One option is the facilitation or sponsorship of retail entry following a competitive tender process. This could be short or longer term support, investment as a joint venture partner and/or with a view to exit when competition is established.*
- *The second option is requiring the major grocery retailers to sell some of their stores to create a third viable major grocery retailer.*

The commission is not fulling it's role as set out https://comcom.govt.nz/about-us/our-role by providing these limited recommendations.

There is no mention in the Commission's report of the Herfindahl–Hirschman Index (https://en.wikipedia.org/wiki/Herfindahl%E2%80%93Hirschman_Index) except for one footnote.

The HHI for the current duopoly in NZ is circa 0.5 (0.5^2+0.5^2), ignoring small players and assuming roughly equal market share between the 2 main competitors. This an oligopoly as defined by the HHI = 0.2 to 0.6.

The grocery sector is fully a private sector activity with zero justification for any form of monopoly or oligopoly which might acceptable in other sectors.

To have perfect competition requires at least 5 competitors with equal market shares (5*0.2^2 = 0.2, where 0.2 is on the border between oligopoly and perfect competition.

The Commission's own analysis shows the oligopolistic returns at 3.5x to 5.2x the weighted average cost of capital.

I note *"Other countries don't tolerate such uncompetitive markets. Similar-sized Denmark, for instance, has six major supermarket chains, four of them holding over 10 per cent of the market each."*

(https://www.stuff.co.nz/business/opinion-analysis/125902195/supermarket-prices-politicians-have-dropped-the-ball)

The Commission's final recommendations can only be that the existing two main market players are required to sell off almost all their stores and brands so that there are at least 5-6 main players in market.