

**Market Study into the grocery sector – draft report
Consultation comments to the Commerce Commission**

Submission from

**Te Ope Whakaora – The Salvation Army New Zealand, Fiji, Tonga, and Samoa Territory
26th August 2021**

Summary

1. The Salvation Army welcomes the draft report of the Market Study into the grocery sector. It provides an evidence base from which robust sector regulatory reforms can be made. The report's findings align with the experience and analysis of the people and communities The Salvation Army works with.
2. Reforms to increase competition in the market will not, on their own, bring more competitive pricing or affordable access to basic food for those on low incomes. Further work is needed to identify specific ways the market regulator can ensure changes to market regulation will assist wider government wellbeing objectives to achieve greater food security and reduced hardship.
3. Reforms to make it easier for new market participants to enter the wholesale and retail markets need to include creating space for community-owned initiatives focused on supporting local economies to achieve food security at affordable prices.

Background

4. The mission of The Salvation Army Te Ope Whakaora is to care for people, transform lives and reform society through God's power. The Salvation Army is a Christian church and social services organisation that has worked in New Zealand for over one hundred and thirty years. It provides a wide range of practical social, community and faith-based services around the country.
5. The combined services of The Salvation Army provide support to around 120,000 people per year. In 2020, these services included providing around 92,400 food parcels to more than 43,000 people, providing some 2,400 people with short-or long-term housing, over 7,100 families and individuals supported with social work or counselling, around 18,000 addictions counselling sessions, almost 5,000 families and individuals helped with budgeting, other practical assistance to around 6,000 families and individuals, chaplains visited more than 2,300 prisoners, and 5,200 victims, defendants and families were supported at court.
6. The Salvation Army partners with the Countdown supermarket chain in the Foodbank Project, that channels donations from the community into direct food assistance to families supported by our Community Ministries.
7. The Salvation Army is a member of the Kore Hiakai Zero Hunger Collective that includes organisations working with people impacted by food insecurity. The collective has the goal of ending food insecurity by bringing about sustainable structural change in the way food is produced, accessed and distributed in our country.
8. These comments on the draft report of the Commerce Commission (CC) *Market Study into the retail grocery sector* have been prepared by the Social Policy and Parliamentary Unit (SPPU) of

The Salvation Army. The SPPU works towards the eradication of poverty by encouraging policies and practices that strengthen the social framework of New Zealand. These comments have been approved by Commissioner Mark Campbell, Territorial Commander of The Salvation Army's New Zealand Fiji Tonga, and Samoa Territory.

Grocery Sector and Food Security

9. The Christian faith teaches that God's love and justice applies to all people and to all the ways we relate to one another, including to the way we buy and sell to one another. Just and fair outcomes are those that make it possible for all people to enjoy life in all its fullness. The grocery market regulator and all those involved in the sector need to be contributing to the common good through ensuring fair pricing, access to affordable food for everyone and acting with fairness towards others.
10. The annual State of the Nation reports prepared by the SPPU¹ have been reporting on statistics and trends in food security for more than a decade. During 2020 the Covid-19 Social Impact Reports series² tracked the rapid increase in food hardship and the community responses between March – November 2020. The State of the Nation 2021 report released in February³ included data on the enormous increase in food parcels provided by our community ministries as they mobilised to respond to the hardships caused by the Covid-19 pandemic lockdown and economic downturn. The more than 113,000 food parcels provided in the year to December 2020 was nearly twice that of the previous year. In the year to June 2021 almost 89,000 food parcels were distributed compared to 92,400 to June 2020 but still 55% higher than pre-Covid-19 (57,300 to June 2019).
11. There is an unacceptably high level of food insecurity in this country. Increasing need for food assistance across all communities around the whole country has been a consistent theme of recent decades. Families and households struggle to be able to afford to provide good quality food that they can afford. Around one-in-five households with children report that food runs out sometimes or often⁴. The relatively high cost of food in this country is a contributor to household food insecurity.
12. Seen from the perspective of people on the lowest incomes who The Salvation Army works with, the current grocery market fails them in a number of ways. People face a crippling mix of high prices for basic foods, limited access to affordable outlets for groceries in low-income communities and restricted options in the range of culturally preferred foods available through our grocery system. Māori, Pasifika, and Asian consumers are poorly served by this lack of diversity in the dominant market players.
13. Food welfare assistance is the leading reason for people who seek out help from Salvation Army Community Ministries, with over 60% of clients seeking food. The Covid-19 pandemic has magnified the dysfunctional dynamics of the food market and during the 2020 peak of the crisis in April- June 2020 The Salvation Army saw around 10,000 new people and families seek out assistance – many of them seeking help for the first time.
14. The draft market study report finds that compared to other OECD countries New Zealand has comparatively high food prices (Figure D4, p.413) and food expenditure (excluding alcohol) relative to income (Figure D5, p.414). The per capita average comparisons do not capture the

extent of the uneven distribution of incomes in this country and the proportion of their income that lower-income households spend on food. The lowest income households are those with incomes after housing costs less than 50% of the median income. The \$260 per week needed (based on 2018 prices) to provide basic food for a two adult and two child household⁵ represents more than 40% of that household's income after housing costs.

- 15.** The CC analysis of profits accumulating in the duopoly of our current grocery retail sector would suggest that excess profits are being made at the expense of ordinary consumers. Neither wage pressures nor underlying cost pressures seem to be clear drivers of food prices. Those most impacted are those on the lowest incomes – those without paid employment or in low-paid work.
- 16.** The grocery sector is also an employer for many people who are on low incomes. The food and accommodation and retail sectors are consistently the sectors with the lowest-average earnings and highest number of workers earning the minimum wage. In 2020 15,600 people working in the retail sector were on the minimum wage, 8.2% of all retail sector workers⁶. Some progress on bringing workers in the Countdown supermarket close to the Living Wage in 2020 highlights the low wages being paid in the sector overall⁷. These are workers who continue to be on the frontline of the Covid-19 pandemic as essential workers, who have to face the risks of continuing to work at higher Alert Levels. The level of excess profits in the grocery market identified by the draft report suggests there is plenty of scope to significantly lift wages in the sector as well as reduce prices through greater competition.
- 17.** Issues facing low income and vulnerable consumers mean that they need to be given special consideration in the CC market analysis. People with low incomes are often limited in their ability to 'shop around' by the lack of affordable and/or accessible transport. Confusing promotional and pricing strategies add to this and the pressure on alternative suppliers offering affordable alternatives means that the current market fails to offer a reasonable choice or pricing.
- 18.** Access to basic food needs to be seen as a human right and not simply a market commodity to be supplied based on theories of market behaviour⁸. The grocery sector needs to play a constructive part in supplying good quality, healthy and affordable basic food items to all people in this country. The CC recommendations should be strengthened to include specific strategies to meet the needs of those most vulnerable in our communities and their right to food.
- 19.** Large amounts of edible food are wasted every year. The work of food rescue and other organisations⁹ in cooperation with the supermarket chains and other retailers and suppliers means that some surplus food is distributed to avoid it going to landfill. The market regulator has a role to play to seek ways to reduce waste in the market and facilitate the work of organisations wishing to distribute surplus food. Regulatory approaches are needed that enable other types of suppliers to participate in the market to support resilient local supply chains as well as underpin stronger local economies. The more diverse and localised food supply is the more likely people are to be food secure.
- 20.** The draft report reports feedback from the sector (p.195) that competitors feel not having access to an alcohol license is an obstacle to them competing with the major supermarket chains. The impact of alcohol being sold from supermarkets our communities is huge. The Salvation Army is a major provider of addiction services and sees every day the impact of alcohol

on people, families and communities. The Ministry of Justice has reported that the low price of alcohol means some off-licenses such as dairies buy alcohol from the supermarkets because the prices are lower than from the producers¹⁰. The share of alcohol sales in supermarkets has increased significantly over the last 20 years. Alcohol in supermarkets has increased consumption which in turn leads to all the other alcohol-related issues¹¹.

21. The government directly intervenes in the alcohol market to influence prices through excise tax, to attempt to moderate consumption and fund public health measures to reduce harm from alcohol. In some areas (Invercargill and Waitakere) supermarkets are not allowed to be licensed to sell alcohol. The Commerce Commission should consider whether increasing competition by increasing the number of supermarkets and therefore access points for alcohol in our communities would raise the risk of greater harm to the public health and wellbeing that could outweigh any benefits from increased competition.
22. The consumer survey conducted by CC was an online survey that the draft report acknowledges is not likely to be truly representative of the total population. The demographic info in the draft report shows under-representation of Asian, Pasifika and Māori respondents (Figure 5, p.448). Given what is known about the digital divide in this country it is likely the survey is not representative of those most marginalised and disadvantaged consumers in the retail market. More work needs to be done to interview those on the margins and identify market solutions that offer the lowest hurdles to inclusion.

Options Proposed for Recommendations

23. **Improving competition is on its own a limited option for improving the affordability of basic food.** Adding one or two new market participants is unlikely to make a big enough difference to competition in the market. The experience of other countries seems to suggest that at least four or more operators in the market would be needed. Even then, a highly competitive market may improve the range and reduce costs for consumers, but this must be accompanied by other policies that ensure those most disadvantaged in the market can access the food they need at prices they can afford. As the competition regulator CC must ensure that regulatory policy takes account of the reality for all markets that they will fail those who have the least resources and market influence. Very clear and effective market regulation is required to help prevent hardship and ensure fair outcomes for all consumers.
24. **Exploring mechanisms for price controls for key staple foods should be considered among the options for improving the retail grocery sector.** The dominant narrative that such controls are not effective interventions and do not produce better outcomes needs to be put against the poor outcomes delivered by the current market in this country. Active government intervention to moderate the prices of key household essentials needs to be thoroughly explored.
25. **Government will need to proactively support breaking up the market dominance of the current supermarket duopoly.** The option to separate the wholesale grocery supply businesses from retail businesses makes intuitive sense and could help make it easier for other retail businesses to compete effectively in both products offered and pricing.
26. **Options to require the market dominant players to sell parts of their retail business should be further investigated.** TSA recommends that more work be done to investigate how to support

retailers to establish their businesses in locations and styles of operating that serve lower income communities better. The concept of ‘social supermarkets’ is one that our social services have suggested as a way to respond to the limited grocery service to lower income communities, but such options are at best marginally feasible under current market conditions. Market structures that make it easier for community-owned or not-for-profit models of local grocery provision to become established need to be part of any further investigation.

27. The Salvation Army’s experience with codes of conduct in other sectors, such as consumer finance and electricity supply, is that they provide very limited protection to vulnerable consumers and require considerable effort and investment in monitoring and enforcement. A code of conduct for suppliers needs to be compulsory and supported by strong investment in enforcement.

28. Action to improve and simplify pricing and promotional information is important but will also have limited impact in the current market that offers limited choice to consumers.

¹ Previous years’ State of the Nation reports are online at <https://www.salvationarmy.org.nz/research-policy/social-policy-parliamentary-unit/reports>

² Covid-19 Social Impact Dashboards March – November 2020

<https://www.salvationarmy.org.nz/article/sppu-covid-19-social-impact-dashboard-report-6>

³ *Disturbed Present. Better Future? Whakararu o ināianeī e pai ake kia anga whakamua*, State of the Nation 2021, February 2021 <https://www.salvationarmy.org.nz/article/disturbed-present-better-future>

⁴ *Child Poverty Related Indicators Report*, Department of Prime Minister and Cabinet, July 2020

<https://dpmc.govt.nz/publications/child-poverty-related-indicators-report-html#section-4>

⁵ *Household Incomes in New Zealand: trends in indicators of inequality and hardship 1982 to 2018*, November 2019, B. Perry, Ministry of Social Development, , p.298)

⁶ *Minimum Wage Review 2020*, Ministry of Business, Innovation & Employment, December 2020, p.72

⁷ Stuff.co.nz, 8 October 2020, <https://www.stuff.co.nz/business/123018750/supermarket-workers-get-2anhour-pay-rise>

⁸ Human Rights Commission, Human Rights and the Sustainable Development Goals,

<https://www.hrc.co.nz/our-work/global-goals/zero-hunger/>

⁹ NZ Food Network https://www.nzfoodnetwork.org.nz/s/?language=en_US, Aotearoa Food Rescue Alliance

<https://www.afra.org.nz/our-members> and Kore Hiakai Zero Hunger <https://www.zerohunger.org.nz/>

¹⁰ *The Effectiveness of Alcohol Pricing Policies*, Ministry of Justice, 2014, p.144

<https://www.justice.govt.nz/assets/Documents/Publications/effectiveness-of-alcohol-pricing-policies.pdf>

¹¹ <https://www.actionpoint.org.nz/the-alcohol-industry-in-new-zealand>