

A fair price for groceries and building supplies

- **Labour commits to initiating two new market studies:**
 - **Supermarkets**
 - **Building suppliers**

Affordability in New Zealand

Over the last 10 years the costs of goods and services have gone up and there is a growing belief that New Zealand is becoming less and less affordable. The food price index shows food prices have risen by 18 percent and analysis by the Productivity Commission in 2012 shows the cost of building materials were significantly cheaper in Australia compared to New Zealand. We need to get an understanding of whether New Zealand's market conditions are driving this and ensure New Zealanders are paying a fair price for their groceries and building supplies.

Why a market study

A market study is an in-depth and independent study into the factors affecting competition for particular goods or services, to find out how well competition is working and whether it could be improved. Unlike our competition enforcement and merger investigations, market studies look at the structure, conditions and performance of the market itself.

A market study provides a mechanism that supports consumers, small businesses and business growth. The information collected from a market study will allow us to put in place regulatory and policy solutions that ensure consumers are paying a fair price for products, that innovation in the market is not stifled, and that access and competition to the market is fair. This means consumers, small businesses and new entrants to a market are appropriately protected.

By gathering and analysing information on a market, the Commerce Commission will identify whether there are features preventing it from working well. The Commission will then look at the effects of features identified and consider how they can best be addressed.

In government, we initiated the first ever market study for fuel markets because we had serious concern around the high cost of fuel. We wanted to give New Zealanders peace of mind that the price they were paying at the pump was fair. The Commerce Commission confirmed our concern and identified in their report back that consumers were paying higher prices for petrol and diesel than could be expected in a competitive market.

The information gathered through the market study process enabled us to swiftly take action to address competition and pricing in the fuel market by:

- Making the pricing regime more transparent
- Introducing an enforceable code of conduct
- Putting in place measures to facilitate greater co-operation.
- Developing the Fuel Industry Bill with the purpose of promoting greater competition in the fuel market at the wholesale level, which is intended to result in lower prices for consumers.

Without the initiation of a market study we would not have been in a position to undertake this work because we needed the information and analysis a market study provided. The study gave us a deeper understanding of the sector than has previously been possible through its ability to require information from sector participants.

We believe there are other sectors with similar attributes to the fuel sector that we should ask the Commerce Commission to investigate. Labour considers New Zealanders may be paying too much for groceries and that the price of building supplies may also be too high. As such, we are committing to initiating two new market studies:

- Supermarkets
- Building suppliers

An appropriate terms of reference for each market study will be developed by the Minister for Commerce and Consumer Affairs if we are re-elected to government.

Initiating a market study

Under the Commerce Act, market studies can be initiated by the Minister of Commerce and Consumer Affairs or self-initiated by the Commerce Commission. In either case, the initiator must be satisfied that carrying out the study is in the public interest.

A study is considered to be in the public interest if it promotes the purpose of the Commerce Act – to promote competition in markets for the long-term benefit of consumers within New Zealand, and the following criteria may be relevant:

- There are existing indications of competition problems in the market (such as high prices or low levels of innovation).
- The market is of strategic importance to the New Zealand economy or consumers.
- It is likely there will be viable solutions to any issues that are found.
- A formal Commerce Commission study would add value above work that could be done by other government agencies.

Following initiation, the Commission will commence an information-gathering phase. Once complete then they will publish a report on the findings of the market study. Any recommendations in a final report will be non-binding on government, but may include recommended measures to improve the performance of markets, such as changes to regulation, policy or the conduct of market participants.

Why supermarkets

Ensuring that New Zealanders pay a fair price for their groceries is important to their wellbeing. It is estimated that on average 20 percent of New Zealand household weekly expenses are on food and alcohol. Statistics New Zealand estimates that \$20.7 billion was spent in supermarkets and grocery stores in the 12 months to 30 June 2019.

This is a core household expense and we believe it is in the public interest to be assured that New Zealanders are paying a fair price for their groceries.

New Zealand has one of the most concentrated grocery retail sectors in the world and there has been some evidence to suggest competition problems do exist:

- Research by the Productivity Hub (2019) showed that supermarkets and grocery stores have indicators of relatively high margins over variable costs and competition that has weakened over time.
- The 2019 Household Expenditure Survey showed average weekly household expenditure on food increased by \$19.70 (9.2 percent in three years to 30 June 2019).
- There is unequal buying power which may cause supermarkets to push prices up. This was highlighted via the MBIE's Price Watch mechanism that received over 3,700 complaints between 31 March 2020 and 2 July 2020.
- There has been concern around strategic land acquisitions to block competitors from the market.

Given the importance of the market, and the right for New Zealanders to get a fair price for groceries, Labour believes it is important that we initiate a market study for supermarkets to ensure the market is fair. We would initiate a market study for supermarkets before the end of 2020.

Why building supplies

Housing plays a vital role in the wellbeing of New Zealanders. Good housing underpins a range of social, economic and health outcomes and we need to ensure that Kiwis have access to affordable and fairly priced housing and building supplies.

The housing market is also vital to New Zealand's economic development and we have seen increasing prices and decreasing homeownership rates in recent years. Gaining a more detailed understanding of the market barriers associated with residential building supplies could play a key role in supporting New Zealanders in to home ownership and ensuring building supply prices are appropriate.

Building materials are a core cost of building across the country. In Auckland they contribute between 16 and 19 percent of the cost of a new Auckland residential dwelling, making them a key factor in the overall cost of a build. We think that a market study into building material would be in the public interest to ensure the cost of materials for housing is fair and reasonable for consumers.

There is some evidence of existing competition barriers:

- **Supply of some building materials is highly concentrated** – two companies control 85 percent of the supply of concrete, three companies control 85 percent of the supply of glass wool insulation, one company controls 94 percent of the supply of plasterboard, and there are only five major building materials retailers.
- **There is a high level of integration in the supply chain** – one company owns manufacturing businesses as well as being a building product retailer. Another company is a key participant in the sawmilling industry and also owns a building product retailer.
- **Rebates and loyalty schemes shaping the market** – a Residential Construction Market Study conducted by MBIE in 2014 highlighted the potential negative effects of rebates and loyalty schemes on the relationship between suppliers and merchants and merchants and builders.
- **Difficulty to enter the market** – we have heard that new entrants to the market can find it difficult to get new building products or materials certified in New Zealand.

By undertaking a market study we can gain a deeper understanding of the building supplies sector than has previously been possible and obtain an assurance for New Zealanders that the cost of building supplies is appropriate.

We would expect to initiate a market study for building supplies in late 2021.