Building the Future:

More grocery competition

New Zealanders deserve a fair deal at the checkout and a grocery market where supermarkets have to compete hard for every customer.

Competition puts pressure on businesses to sharpen their prices, improve service, innovate and give consumers more choice. When competition is weak, consumers pay higher prices.

The Commerce Commission concluded in its 2022 grocery market study that competition was not working well for consumers and competition between the major retailers was muted.

National believes New Zealand needs at least three strong grocery businesses competing at scale.

National's proposal

National will pursue the structural separation of Foodstuffs into two genuinely competing nationwide grocery groups, subject to an independent Commerce Commission assessment that it can be implemented in a way that enhances competition for the benefit of New Zealand consumers.

The proposed structure would be:

- one nationwide PAK'nSAVE group
- one separate nationwide New World and Four Square group.

That would create three major nationwide grocery competitors: PAK'nSAVE, New World/Four Square and Woolworths.

National believes the work undertaken to date provides a strong case for pursuing this option. The Commerce Commission will be asked to take the proposal to the next stage, develop and assess a detailed implementation plan, and determine whether the restructure can be delivered in a way that leaves consumers better off.

To give the Commission that mandate, National will amend the **Grocery Industry Competition Act 2023** in our first 100 days and require it to make its recommendation within six months.

If the Commerce Commission recommends separation, National will act by legislating to require that separation to occur.

How we got here

National did not start with structural separation.

Our first objective was to get more competitors into the grocery market.

Following the Commerce Commission's market study, we went to the market with a Request for Information (RFI) and asked potential entrants and expanding retailers what was stopping them entering New Zealand or growing here.

Two things became clear.

First, there were regulatory and practical barriers to entry and expansion that Government could do something about.

The Government has spent the past three years working to remove and reduce those barriers. We have made it easier to consent and build new supermarkets, improved the pathway for overseas investment, strengthened competition settings and backed the Commerce Commission in its role as grocery regulator.

We will keep doing that work.

But the second message from the market was more fundamental.

Even with those barriers reduced, the scale and market power of the existing major retailers would continue to make it very difficult for a new competitor to enter and grow to national scale.

Foodstuffs and Woolworths still account for around 82 per cent of the grocery market. Smaller competitors have entered and expanded, but they have not yet reached the scale required to materially change competition nationwide.

The existing major retailers also have substantial advantages in sites, distribution networks, brand recognition, customer data and bargaining power with suppliers.

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The ideal outcome remains a new competitor entering New Zealand and growing to scale.

But the evidence suggests that could take a decade or more.

So, the question became: ***if a third major competitor is unlikely to get to scale quickly enough on its own, is there another way to create three strong competitors sooner?***

One option is to restructure the existing market.

Testing structural options

Structural reform has been considered before.

The previous Government examined a 'Pick'n Mix' option that would have forced Foodstuffs and Woolworths to divest selected stores to create a new third retailer.

That would have involved assembling a new supermarket business from a mix of existing stores, with significant implementation complexity. It could have required a new brand, and head office, and very significantly impinged on the property rights of individual store owners.

This National-led Government took a different approach. Rather than create a new supermarket business, we commissioned an independent cost-benefit analysis to test whether existing supermarket brands could be reorganised into stronger nationwide competitors.

We commissioned Sense Partners to conduct an independent cost-benefit analysis of two options:

- restructuring Foodstuffs into two nationwide grocery groups
- restructuring both Foodstuffs and Woolworths.

The stronger case was for restructuring Foodstuffs alone.

Under its central assumptions, the independent CBA estimates restructuring Foodstuffs could deliver:

- household benefits of around $200 to $1,320 a year by full rollout, depending on household type and income
- grocery prices around 3.5 per cent below the baseline in the first year after retail separation, increasing to around 5 per cent
- $12.58 billion in net consumer benefits over 20 years
- $2.92 billion in overall net economic benefits

The analysis found that restructuring Woolworths as well would involve significantly higher costs and deliver much lower overall net economic benefits.

We then had the CBA independently peer reviewed and further tested.

That work has given us what is, in effect, an indicative business case for structural separation.

It tells us there is enough of a case to move to the next stage. But it is modelling, not a guarantee.

Structural separation comes with costs. These include the cost of establishing additional logistics and distribution functions, changes to supply arrangements, and transition costs. The results are sensitive to those assumptions and that is why implementation matters.

The CBA proves this proposal is worth pursuing. The next step is to develop a detailed implementation plan and assess whether it leaves consumers better off.

Why split Foodstuffs?

The objective is not simply to create more supermarket names. It is to benefit shoppers and create more businesses with a genuine commercial incentive to compete.

At present, Foodstuffs is divided geographically.

Foodstuffs North Island operates New World, PAK'nSAVE and Four Square across the North Island. Foodstuffs South Island operates the same banners across the South Island.

Foodstuffs North Island and Foodstuffs South Island do not compete against each other for customers in the same local markets.

So the fundamental divide within Foodstuffs is currently North Island versus South Island, rather than New World and Four Square versus PAK'nSAVE.

In practice, that means each island is largely a contest between Woolworths and the Foodstuffs cooperative operating in that island.

National wants to change that competitive dynamic.

Under the proposal, PAK'nSAVE would become one nationwide grocery business, competing directly against a separate nationwide New World and Four Square business, as well as Woolworths.

This is not about taking stores away from local owners. The proposal is to reorganise the structure so that two Foodstuffs groups compete against each other across both islands.

Foodstuffs owner-operators are New Zealand business owners who employ local people, invest in their communities and, particularly through Four Square, provide an essential service in many smaller towns. National wants those businesses to succeed.

Existing owner-operators would:

- retain ownership of their businesses
- continue operating under their existing banners,
- while remaining part of a larger group with the scale and infrastructure needed to support and supply its members.

Our view, based on the CBA, is that a restructure will give businesses and banners within Foodstuffs the strongest possible incentives to compete, invest, and grow.

How separation would strengthen competition

A separated structure increases the commercial incentives New World, Four Square, and PAK'nSAVE owners would have to compete against each other.

A customer won by PAK'nSAVE would be a customer lost by New World and Four Square, and vice versa. A supermarket site secured by one would be a site its direct competitor could not use.

Each group would have stronger reasons to compete for the same customers on price, location, format, range and service.

There is evidence that this competition is not happening as directly today as it might between genuinely independent competitors.

The Commerce Commission's 2022 market study found evidence suggesting Foodstuffs positioned New World and PAK'nSAVE to minimise direct competition between the banners while competing more effectively with Woolworths.

The location of stores illustrates that pattern.

The average distance from a PAK'nSAVE to the nearest Woolworths is under 2.5 kilometres. The average distance from a PAK'nSAVE to the nearest New World is more than six kilometres.

There are also examples around the country. In Wānaka and Mosgiel, shoppers have New World and Woolworths stores but no PAK'nSAVE within 10 kilometres. In Taupō and Gisborne, shoppers have PAK'nSAVE and Woolworths but no New World within 10 kilometres.

The profitability data points in the same direction. In 2025, Foodstuffs North Island's net profit after tax margin was around 4 per cent, while Foodstuffs South Island's was around 3 per cent. By comparison, major Australian supermarkets have net profit margins of around 2 to 2.5 per cent.

Recent Commerce Commission action

There is also public evidence raising questions about how freely individual stores are able to compete within the existing structure.

- The Commerce Commission has commenced civil proceedings against Foodstuffs South Island alleging restrictions prevented independently owned PAK'nSAVE stores from discounting some products below centrally set promotional prices.
- It has separately brought cartel proceedings against Foodstuffs North Island and Gilmours alleging market-allocation conduct involving a national grocery supplier and a hospitality customer.

Those allegations remain before the Courts.

A restructure of this sort could also make New Zealand a more attractive market for future entrants. The market power of the existing incumbents can itself deter further entry. A more competitive domestic market could make it easier for another retailer to see an opportunity to enter and compete.

National has always been aiming for three strong competitors. If a third entrant cannot reach scale organically in the near term, restructuring Foodstuffs could be a faster way to create that competitive tension.

Any separation would also need to work for the local businesses and communities that rely on Foodstuffs. That is why the Commerce Commission will be required to test commercial viability, continuity of supply, distribution costs, rural and regional access, and impacts on owner-operators and suppliers before recommending that separation proceed.

The Commerce Commission assessment

The Commerce Commission will not be asked to repeat the CBA.

The work to date has narrowed the structural options down to the one National believes has the strongest case.

The Commission's job will be to take that option, develop an implementation plan and make an independent assessment of whether it should proceed.

The statutory test will be: ***whether the restructure would enhance competition to the benefit of consumers once all of the practical implementation considerations are taken into account?***

In making that assessment, the Commission will be required to have regard to factors including:

- the likely improvement in competitive behaviour
- the reduction in market power
- the ability of new competitors to enter and expand
- likely changes in the behaviour of PAK'nSAVE, New World and Four Square
- efficiency and duplication costs
- supply-chain resilience
- rural and regional access
- impacts on suppliers and owner-operators
- implementation costs and practical feasibility.

That is ultimately a competition assessment.

The Commerce Commission is better placed to make that judgment independently than politicians are to design a supermarket restructure around the Cabinet table.

The Commission does not currently have a specific statutory mandate to recommend this form of structural separation.

National will therefore amend the **Grocery Industry Competition Act 2023** in our first 100 days to provide that mandate.

National will also provide the Commerce Commission with $5 million to carry out this work, ensuring it has the resources needed to undertake the detailed analysis, consultation and implementation work required.

The Commission will have six months to:

- take account of the existing CBA and analysis
- obtain the additional information it needs using its investigative and information-gathering powers
- formally consult affected businesses, owner-operators, suppliers, competitors and consumers
- develop and assess a detailed implementation proposal
- make its formal recommendation.

National will then legislate to require the separation and give the Commerce Commission the powers needed to oversee and enforce its implementation.

This process will be specific to the supermarket sector via the **Grocery Industry Competition Act**. National is not proposing a general power for the Commerce Commission to break up businesses across the economy.

If the Commission concludes that a practical separation would not enhance competition for the benefit of consumers, National will not proceed.

The ultimate test is the net benefit to the Kiwi shopper.

What this means for shoppers

Our bottom line is the Kiwi shopper.

The purpose of this policy is not to break up a business for the sake of it. It is to create stronger competition while preserving viable local grocery businesses, so supermarkets have to fight harder for New Zealanders' business.

That means competing harder on price, service, range and convenience. It means competing for sites and opening stores in places where rivals already operate. And it means trying new store formats and finding new ways to win customers.

The best long-term protection for shoppers is not politicians setting grocery prices or taxpayers owning supermarkets. It is strong businesses competing hard against each other.

National has worked to make it easier for new competitors to enter and expand, and we will keep doing that.

But we also have to be realistic about the market we have today and how long it could take a new national competitor to emerge.

The work undertaken to date tells us structural separation of Foodstuffs is the option worth pursuing.

National will pursue that separation, subject to an independent Commerce Commission assessment that it can be implemented in a way that enhances competition for the benefit of New Zealand consumers.

If the Commerce Commission recommends separation, **National will act** by legislating to require a separation.