RESEARCH NOTE

BREAKING UP IS HARD TO DO… AND A BAD IDEA

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Authorship and attribution

The indicative modelling work in this Note was produced by Claude Fable 5.1, refined in iterative rounds with GPT-6 Astra, and peer-reviewed by Perplexity. It should only be taken as indicative.

The note itself is coauthored between Dr Eric Crampton and Claude Fable 5.1, with successive peer-review iterations including GPT-6 Astra and Perplexity. Appendix A, consisting of the indicative modelling work, was substantially written by Fable 5.1.

Dr Eric Crampton is responsible for the Note, and for any errors, omissions, or oversights.

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About the New Zealand Initiative

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Summary

National proposes to legislate a power to split Foodstuffs into a nationwide PAK'nSAVE co-operative and a nationwide New World and Four Square co-operative.

It argues that a cost-benefit analysis by Sense Partners for MBIE "proves this proposal is worth pursuing." National would give the Commerce Commission six months and $5 million to develop and assess an implementation proposal. The Commission will not be asked to repeat the CBA but can test important assumptions in it.[1]

Sense Partners have done good work under what appears to have been significant time pressure. But there are three substantial problems.

First, suppose the numbers were right. Compelling the dissolution of a voluntary co-operative and the duplication of the assets its members built, without any finding of relevant wrongdoing, tells every large business that its property rights are also at risk. At highest risk are businesses in sectors the Commission has already studied: fuel, building supplies and banking. The electricity gentailers could plausibly be next. But the risk is broader.

Again, the CBA puts at 1.1 percent of industry revenue over twenty years, and which turns negative if cost increases are at the higher end of the modelled range, is an insufficient basis for this kind of intervention. If it is deemed a sufficient basis for breaking up a private business in this case, the risk will extend to every other business where a regulator and politicians see potential gains.

Second, the numbers are conditional on things that have not been tested.

The modelled benefit comes from a critical assumption: that Foodstuffs' head office sets New World's prices with an eye to protecting PAK'nSAVE's sales, and vice versa.

The machinery for central price guidance exists through recommended retail prices (RRP). But that each banner's prices are set to avoid cannibalising sales from other members of the group is only an assumption.

The report does not test the assumption. It cites overseas evidence that chains price uniformly across their own stores, and it checks whether prices are set island-wide or by zone. It notes higher variability in prices across stores in the North Island.

But it does not test whether one banner's profits enter the other's pricing.

The modelled benefits of splitting the banners stem from sharper pricing, as banners no longer worry that lower prices at PAK'nSAVE reduce sales at New World, and vice versa. If each banner's prices are already set independently, those gains will not be obtained. And if cross-banner price coordination is limited, so too will the gains from a split. But the costs of the split will remain.

A second assumption matters considerably.

On a first-cut reconstruction, the modelled loss of profit is of the same order as the sector's entire operating profit. That the post-restructuring entities are commercially viable and continue operating is an assumption of the model – and one that Sense suggested may be strong. In this kind of work, strong does not mean good. It means that, if the assumption fails, the modelled benefits may not hold.

Finally, the more plausible ways common ownership softens competition are through store locations and how their offers are positioned, rather than through price. Sense's modelling held both fixed, but National suggested additional benefits if a PAK'nSAVE were to set up next to a New World.

But opening new outlets requires available zoned sites and, for a full-service offering, off-licence permits for beer and wine sales.

Liberalising entry should be the first step, regardless of which mechanism is at work. If the banners avoid each other's turf, zoning reform lets an entrant with no such compunctions do the poaching, at its own risk. The more one believes the incumbents are coordinating, the larger the prize for that entrant. The fast-track legislation easing some zoning issues only passed third reading in December 2025.

Liberalising entry belongs in the baseline against which any separation is assessed.

Hard cases make bad law, and election campaigns make bad policy.

The Sense Partners' work was undertaken under time pressure; they recommended important additional work that was not possible in the time they had. Peer reviews of the work were favourable but could not test important sensitivities.

Result sensitivity to different assumptions about price-setting should have been tested, along with the assumption of continued store viability. The likely increase in the cost of capital that may result when large businesses face a larger risk of compulsory restructuring should be weighed.

That work, whether undertaken by Sense Partners or by the Commerce Commission, should have proceeded before announcements of potential forced separation.

Important property rights are at stake, with implications well beyond the supermarket sector. Those rights should not be treated so lightly.

1. What is proposed, and what it rests on

National's document, *"More grocery competition"*, is four pages long. It says the "ideal outcome remains a new competitor entering New Zealand and growing to scale." But potential entrants' answers to a Request for Information suggested entry "could take a decade or more."[2]

MBIE therefore commissioned a cost-benefit analysis of restructuring. On that analysis, restructuring Foodstuffs alone would give "household benefits of around $200 to $1,320 a year by full rollout," prices "around 3.5 percent below the baseline in the first year after retail separation, increasing to around 5 percent," "$12.58 billion in net consumer benefits over 20 years" and "$2.92 billion in overall net economic benefits."[3]

National would amend the Grocery Industry Competition Act in its first hundred days and give the Commission six months and $5 million to "take account of the existing CBA," consult, "develop and assess a detailed implementation proposal" and "make its formal recommendation". National would then legislate to require separation if the Commission recommends it, and "will not proceed" if it does not.[4]

The statutory test would be "whether the restructure would enhance competition to the benefit of consumers once all of the practical implementation considerations are taken into account," having regard to nine listed factors.[5]

It also says the 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", and may use its information-gathering powers.

The document calls the CBA "an indicative business case" and "modelling, not a guarantee," and a few lines later says it "proves this proposal is worth pursuing."[6]

National has committed itself, weeks before an election, to legislating a mandate with a six-month clock. The Commerce Commission "will not be asked to repeat the CBA" and is told the work to date has "narrowed the structural options down to the one National believes has the strongest case."[7]

Nicola Willis has since said that the modelling is "sensitive to the assumptions you make around costs and benefits" and that it is "appropriate the Commerce Commission run the ruler over it."[8] While National has said the Commerce Commission will not be asked to redo the existing CBA, running the necessary sensitivity tests would require re-running it.

The decision to pursue restructuring rests on the Sense Partners report, whose authors carefully note its limitations. They remind that the analysis is "indicative rather than definitive," was completed "in a compressed timeframe," is silent on implementation hurdles that "might well be very high, or even insurmountable," and needs "further work... on the practical feasibility and cost implications."[9]

They also warn that continued store viability after separation was an assumption of the model rather than a conclusion.

Those caveats are to the authors' credit, and the proper response to them is to extend and test the model well before considering implementation.

The scope and time provided to the Commission need to be broad enough to do the work.

2. Suppose the numbers were right

Take the CBA at face value for the moment. Its central case, in present value over twenty years at an appropriate 8 percent discount rate, is a consumer gain of $13.1 billion, a loss of supermarket operating profit of $10.6 billion, a gain to suppliers of $0.9 billion and restructuring costs of $0.5 billion, for a net benefit of $2.9 billion, which the report puts at 1.1 percent of industry revenue over the period.[10]

Suppose all of that were right. What would still be wrong with the proposal?

Not that profits fall. The $10.6 billion is profit competed away, on the model's account, by sharper rivalry between banners that no longer share an owner, and part of it falls on Woolworths, which is not being split. We will return to an important caveat, as Sense warns that reduced producer surplus can indicate potential longer-term consumer losses. But for now, pretend it is solely lost profits.

Profit lost to competition is not a taking. Nobody has a property right in the absence of a rival, or in coordination: if the co-operatives were coordinating prices unlawfully, the Commerce Act's remedies would apply. The same profits could fall if a new chain entered under liberalised zoning.

The objection is different.

Foodstuffs North Island and Foodstuffs South Island are voluntary co-operatives of several hundred owner-operators that have, over decades, built shared wholesale, distribution, private-label and support businesses. Nobody alleges that co-operative joint ownership between New World and PAK'nSAVE owner-operators is unlawful.

National proposes that Parliament dissolve that association, reassign its members between two new entities, and compel the duplication of the assets they share, because an indicative simulation says consumers would gain.

The direct cost of that duplication, which the CBA puts at about $270 million for new distribution capacity and a further $300 million in duplicated overheads over twenty years, before the $190 million of efficiencies it assumes against them, is imposed by statute without relevant wrongdoing.[11] National's document does not say who would own the existing distribution centres, the Pams and Value private labels or the IT systems after a split, on what valuation, or who would decide.

The Regulatory Standards Act 2025, which the present government enacted, lists among its principles that legislation should not take or impair property without consent unless the taking is justified and fairly compensated. A National government would have to certify whether a bill compelling this restructuring is consistent with that principle and, if not, say why.[12] The Act creates no entitlement to compensation and the decision remains Parliament's. But if a compensation question arises, it arises over those imposed costs.

The potentially larger cost is noted but not estimated in the CBA: "potential negative impacts on foreign investment or borrowing costs (risk premia), if regulatory intervention was perceived as expropriation."[13]

New Zealand has separated businesses by statute before. But not like this.

The Electricity Industry Reform Act 1998 compelled lines businesses to be separated in ownership from generation and retail, and said in section 69 that no compensation was payable.[14] The reform had a defensible but debatable justification: keeping a regulated monopoly out of the contestable activities it could favour.

The Commerce Act also permits a court to order divestiture when an acquisition has substantially lessened competition. This order acts to remedy a breach of section 47 of the Act.[15]

A horizontal separation of two competing retail banners under a lawful common owner, justified by an indicative simulation, is different in kind.

National's document says it "is not proposing a general power for the Commerce Commission to break up businesses across the economy."[16] That is true of the likely statute and completely beside the point. The precedent is set by the demonstrated willingness to break up a lawful business on the basis of a favourable-sounding cost-benefit assessment and public appetite to intervene.

The template is portable to every sector where the Commission has already found competition working less well than it could: retail fuel (2019), groceries (2022), residential building supplies (2022), personal banking (2024), with structural separation of the electricity gentailers also in political play.[17] And it potentially extends as broadly as public displeasure about any industry's prices during a future election campaign. Might Mitre 10 Mega be split out from Mitre 10 more generally?

This is potentially the largest single cost in the exercise. It would show up as a higher cost of capital for every business exposed to the political threat, which is why the CBA lists it among the costs it could not count.

The cost cannot easily be quantified, but the direction is not in doubt. It falls on the entrant's capital as well as the incumbents', and on every other sector in proportion to its perceived political risk.

That is why the size of the claimed gain matters even for someone who accepts the CBA's findings.

An irreversible intervention should clear a higher hurdle than a reversible one. The error cannot be undone. One that sets a precedent should clear a higher hurdle still, because part of its cost falls on everyone else.

The CBA's central benefit estimate is 1.1 percent of revenue over twenty years. If the cost of running two wholesale systems instead of one rises slightly above 2 percent of the cost of goods sold, the modelled gains become negative.[18] A gain of that size and that fragility does not clear an ordinary hurdle.

3. What produces the estimated benefit

The Sense Partners report is a serious and candid piece of indicative modelling, in several places more conservative than the politicians citing it. It is also a precise estimate of a narrow thing.

Competition authorities model mergers by asking how prices would change if two rivals stopped competing and started setting prices as one owner. Sense Partners runs that model in reverse. It treats Foodstuffs today as a single firm that sets New World and PAK'nSAVE prices jointly in each island. When New World raises a price and loses a shopper to PAK'nSAVE, head office does not much mind, because the spending stays in the family. The model estimates that 45 cents of every dollar New World loses in the North Island goes to PAK'nSAVE.[19]

Split the banners and the New World price-setter treats that shopper as lost. Both banners then price more sharply, Woolworths follows, and prices come out 3.5 percent lower in the first year and about 5 percent lower by 2035. That mechanism provides the modelled benefit. Higher wholesale costs after the split dampen the cuts.

The report takes as given that the current structure pushes up prices, saying "it is outside scope to empirically test this hypothesis," and calls the particular form of that hypothesis on which the modelling rests, that "supermarket groups set prices by weighing the effects of price changes on the overall profitability of the group," "a judgement on the mechanics of price competition."[20]

Much turns on whether that judgement is right. The report does not say how far the co-operatives internalise one banner's profit when setting the other's prices, and National's document does not mention the question.

The report's case for the assumption is indirect.

It cites retrospective studies of overseas supermarket mergers, in which prices rose by 5 to 8 percent after rivals combined, and studies finding that chains price fairly uniformly across their own stores.[21] As there have been "no other markets that have had a similar structure and undergone regulatory-driven separation,"[22] lessons from international experience are more limited. There may be good reasons that other regulators have not attempted what National here proposes. Preventing two supermarkets from merging when there are only three supermarket operators is different to splitting one of two grocers into two parts.

The machinery for central price guidance exists: Foodstuffs North Island sets island-wide recommended retail prices and told the Commission in 2021 that it "primarily competes on price nationally through the setting of North Island RRPs".[23] The Commission's current case against Foodstuffs South Island alleges that the co-operative set promotional price levels below which its PAK'nSAVE stores could not discount without approval. The case is before the High Court.[24] And, the Commission in 2024 did not accept that owner-operators' pricing discretion was enough to prevent coordinated pricing.[25]

The stronger claim, that the guidance is used to hold one banner's prices up for the other's benefit, is another matter.

Foodstuffs' economic advisers told the Commission in 2024 that "the profit maximising incentive applies... at the local level for the Parties" and that "individual stores may set different prices".[26]

Foodstuffs North Island's 2021 submission on the draft market study paper said that stores "are able to, and do, adjust prices to below the RRP," that "price competition with other retailers occurs mainly at store level," and that individual members have "lowered prices in response" to local rivals.[27] Foodstuffs South Island told the Commission the same year that it "sets a South Island maximum selling price (MSP), although stores are able to, and do, adjust prices to below the MSP".[28]

Submissions by the co-operatives may have their interest in the merger proceedings and in the market studies process, as the potential entrants' answers to the Request for Information may have served theirs. But remember that deviations from national-level pricing can also be considered unfavourably by the Commission if it believes that stores use local pricing practices to deter entry.

Sense's report records Foodstuffs North Island "having a much higher degree of variation in prices between stores" than Foodstuffs South Island and Woolworths, which is what owner-operator discretion looks like in the North Island.[29] The South Island co-operative shows much less of it, and it is South Island PAK'nSAVEs that the Commission alleges were held to price floors. The two co-operatives may simply differ, which is a reason to test the assumption island by island rather than to assume it for both.

An owner-operator setting prices at its own store has little reason to weigh the profits at other stores, regardless of their banner.

The public evidence does not let us know the extent to which any banner's pricing incorporates effects on other banners within the group.

As an indicative check, I asked Fable and Astra to test the assumption – through iterative updates to each other's work, with some guidance from me. All results here should be treated only as indicative of the need for further work by economists specialised in this area. The work was done as a sense-check on my part, to satisfy myself that this assumption matters.

The work is included in Appendix A of this note. It is built on public data, while the report's data are confidential.

Sense's report publishes estimates of how shoppers switch between banners. In the demand system the report uses, those estimates fix how price-sensitive each banner is relative to the others. Anchoring the model on Woolworths' disclosed gross margin then gives the margins Foodstuffs' banners would have to earn for the assumed pricing behaviour to be an equilibrium.

If the banners set prices jointly, the implied margins are about ten points above the whole-of-business figures Foodstuffs' adviser reported to the market study, which put both co-operatives level with Woolworths. For PAK'nSAVE, which prices below Woolworths, they would require a cost of goods 15 to 20 percent lower than Woolworths' for the same products. If, instead, the banners set prices separately, the implied margins are close to the reported ones.

It is a consistency check using a stylised version of the report's model and public data, and it does not settle the question. Sense calibrated its mark-ups to brand-level margins it holds confidentially. But the check suggests that the assumption of joint price setting aimed at avoiding inter-banner cannibalisation is important and may differ considerably from actual practice.

If the assumption of cross-brand price setting aimed at maximising both brands' profits simultaneously is only partly true, price reductions will be smaller. Less initial cross-banner internalisation leaves less restraint for separation to remove, and in stylised versions of the report's model, the price effect falls substantially with the degree of internalisation assumed (Appendix A). The costs of the split do not fall with it.

A few other things about the numbers are worth noting for those who have not read the report.

The headline is gross of the loss it creates. National's "$12.58 billion in net consumer benefits" is the report's line for "net benefits, excluding change in profits": the consumer gains less restructuring costs.

The report's next line nets out a $10.6 billion loss for supermarkets, partly offset by a $0.9 billion gain for suppliers, resulting in a $2.9 billion net loss. Its authors include the producers' loss deliberately, "as a guard against unduly optimistic views on long run benefits to consumers."[30] This is the caveat on counting lost profits noted in section 2, above.

The static pricing model used in Sense Partners' work deliberately holds fixed the adjustments that would almost certainly occur on other margins, such as number of stores, range, service and investment, given the size of the modelled profit reduction. The "$200 to $1,320 a year" for households is the savings on the grocery bill. Adjustments on other margins would impose their own costs. So, the figure is not a complete account of what the same households gain and lose.

The residual is thin. The $2.9 billion is what remains after two large numbers nearly cancel. Assumptions necessary for running the model need to be tested to see their effects on those figures. Sense's CBA had time to test some of them, but not all.

The CBA treats the whole gross margin as room for price cuts. It uses a market-wide demand response taken from the MSc thesis on electricity tariffs by Sense Partners' John Stephenson, which estimated a household expenditure system along the way, in preference to the one published New Zealand estimate, which is two-fifths smaller, and then adjusted "as a tool to help the model find a solution".[31] And the assumed 1 percent increase in the cost of goods sold was taken from a German merger study that measured a fall in prices, not costs, and whose authors say their method "does not allow us to identify the magnitude of efficiency gains."[32]

The report's New Zealand estimates of that cost increase run from 0.3 to 2.5 percent, the top of the range resting on what it calls extreme assumptions about overheads passing through to prices, and its sensitivity analysis has the net benefit turning negative a little above 2 percent.[33] Whether that is extreme depends on whether a co-operative recovers its overheads through the wholesale prices its members pay, in which case they reach shelf prices through the same channel the model uses to generate its benefits.

The equilibrium presented in the work may hold only as long as the model's constraints hold. Stores that are assumed to remain viable at sharply reduced profitability may instead fail.

The report provides present values for changes in profit, not annual figures. Spread over the time horizon, the $10.6 billion loss is a fall in gross profit of roughly $1.5 to $1.9 billion per year with full effect in 2035, but the reconstruction depends on the timing assumed. That is $4 to $5 million a day, compared with the roughly $1 million a day of excess returns the Commission found in 2022.

The three majors' combined operating profit today is about $1.1 billion on the Commission's whole-of-business margins. The most recent annual report of the Grocery Commissioner puts the two

Foodstuffs co-operatives at the top end among their international comparators, with Woolworths near the bottom. The market study put the sector's excess returns at $365 to $430 million a year.[34]

The measures differ. But a fall in gross profit of the same order as the whole of operating profit is not a small thing to leave unreconciled. The model treats the result as an equilibrium in which no store closes, no range is cut and nobody exits.

Sense Partners flags the issue appropriately, describing the assumption that the restructured entities "remain sufficiently profitable to continue operating" as one that "may be a strong assumption."[35] Its peer reviewer, John Davies, told MBIE in October 2025 that "viability matters but should be assessed separately."[36]

No viability assessment appears in the final report. Sense Partners' 2022 assessment of a different restructuring intervention included a one-page, rule-of-thumb comparison of the modelled cost to supermarkets against the Commission's excess-profit estimate, and on that basis, Cabinet was told the supermarkets would "remain viable." Nothing of the kind accompanies the 2026 report, and on the 2026 figures, the same comparison could come out the other way (Appendix A).[37] Time pressures clearly restricted the work that Sense Partners here could undertake and should not be held against them.

Where the report does quantify a supply response, a cut in range, it finds it large. That cost is not included in the final tally, other than as a line where zero is set as a placeholder "as a reminder."[38] “Benefits from increased variety” could be positive if new store formats with different offerings open; they could be strongly negative if stores respond to increased costs by reducing the variety of products on offer.

None of this is a criticism of Sense Partners. They say what they have done, what they have not, and why.

The independent peer reviews were favourable. Davies endorsed the study as a sound basis for policy while recommending sensitivity checks on the demand system and margin data. Motu's code review found that the models were faithfully and consistently implemented in clean code with no structural issues affecting results.[39]

But neither tested the pricing assumption nor the viability of the result; Davis suggested that viability should be tested separately. That is work the Commission could do, if it were asked to. And it really should have preceded any threat to break up the business.

4. The problem was always zoning and entry regulation

My 2021 submission with Matt Burgess during the market study process commended the Commission's Chapter 6 for identifying the real barriers to large-format entry: zoning, consenting, restrictive covenants on land titles that can block entry when zoning is constrained, and the Overseas Investment Act.[40]

The Commission noted that "council zoning policies may significantly limit the number of sites available for the purposes of grocery retail development."[41]

It also saw covenants and wholesale supply as barriers. Covenants could not be a barrier if zoning did not tightly constrain sites where supermarkets are allowed and, in any case, were explicitly banned in 2022. Wholesale supply mandates can be a double-edged sword, where new entrants with their own supply chains may fear being compelled to supply domestic incumbents at regulated prices. But wholesale access was mandated in 2023.

Site liberalisation is far more recent and is only partial.

Suppose for the moment that zoning and other regulatory barriers did not hinder new entrants. International supermarkets and potential new domestic alternatives seek profits. If margins and profitability in grocery retail are very high, those profits will attract entry. If margins and profitability are low because incumbents are inefficient relative to international norms, an entrant could still do well.

But if potential profits for a new entrant are low, they will not enter.

Allowing entry, in turn, helps determine whether the sector is either inordinately profitable or terribly inefficient, relative to international norms and given local circumstances. Potential competitors whose own funds are on the line will run a sharp pencil over the figures.

When entry is blocked by these kinds of barriers, the absence of entry sends a mixed signal. An entrant's potential profits would have to be very high to make it worth the effort of hurdling those barriers. That no one has hurdled them sets an upper bound but does not tell us where things sit otherwise. Whether entry would be viable in the absence of those barriers can only be discovered by removing them.

The barriers are real.

Council plans typically allow one supermarket in a centre, or none, and cap its size. Planners think in hierarchies of centres and treat a store that might draw customers from a mall down the road as a harm to be managed rather than competition to be welcomed. Homebase in Christchurch was initially prohibited from having a supermarket until 2031, lest it compete with a Woolworths at The Palms; on appeal, it was allowed one, no larger than 4,300 square metres. That is an example rather than a census, but an entrant proposing a national chain would need to run that process differently in every council, for every site, and then clear the Overseas Investment Office.

Earlier this year, the Initiative produced a comprehensive mapping of zoning in the country's main centres, demonstrating the substantial issues facing any potential entrant.[42]

The government's response is real but incomplete.

Grocery developments that improve competition can now use the fast-track approvals process; new supermarkets anywhere in the country can take their building consents to Christchurch City Council; and Land Information New Zealand has published guidance for overseas grocers.[43]

But the fast-track is a bespoke pathway rather than a change to the rules. The sites it approves sit atop of district plans that remain as restrictive as before, so each is a one-off, and the plans' presumption against head-to-head competition remains.

The resource management system that is still to come will plausibly be more liberal than the current fast-track supermarkets pathway.

Alcohol licensing has not been touched: each new supermarket selling alcohol needs its own off-licence from the local district licensing committee, with objection rights and hearings. And product labelling liberalisation has not yet gone beyond a one-year trial of digital labels on selected imported foods, open to at most four retailers with two sites each.[44]

Potential entrants may be waiting for more favourable regulatory conditions.

The Commerce Commission's Market Study encouraged allowing sufficient time for interventions to take hold before considering options like divestment that bring practical challenges, lost economies of scale and increased costs of supply, and reduced bargaining power with multinational suppliers.[45] The supermarket fast-track, which moves toward the Commission’s recommendation of liberalising entry, has been available to grocers for less than a year. The Commission's June 2026 grocery report finds the two majors still at 82 percent, margins flat and prices rising; the Grocery Commissioner's summary was that "reforms need more time to bed in."[46]

Now think back on the mechanism by which splitting the Foodstuffs banners is meant to generate gains to consumers in Sense Partners’ work.

The underpinning model has the Foodstuffs banners avoiding head-to-head competition with each other so that the group's overall profits can be higher. The model assumes this occurs through coordinated cross-banner pricing, but it can equivalently happen through site location.

National's policy document quotes the Commission's 2022 finding that Foodstuffs "has positioned its banners to both minimise direct competition between them and enable them to compete more effectively with Woolworths NZ banners." National says the average distance from a PAK'nSAVE to the nearest Woolworths is under 2.5 kilometres, and to the nearest New World more than six.[47]

A separated PAK'nSAVE co-operative could have an incentive to move onto New World's ground, by opening next to New Worlds and by repositioning its offer, and vice versa; National anticipates their "competing for sites and opening stores in places where rivals already operate" and "trying new store formats."[48]

That mechanism requires sites for new stores.

Before the fast-track process became operational, it would have been nearly impossible to source zoned sites for large-scale entry. The new grocery fast-track pathway, set by the December 2025 Government Policy Statement on Grocery Competition, is available to regulated grocery retailers, which currently include Foodstuffs and Woolworths, if their proposals “demonstrably do not reinforce existing market dominance.”[49]

Assuming that PAK'nSAVE and New World would have access to that pathway after any split, either could more easily open next door to each other if either decides it would be worthwhile.

The pathway had been intended to encourage new entrants and could still be used by a new entrant. Liberalising entry helps test whether the model's assumptions are right.

If Foodstuffs' banners have been avoiding each other's turf, whether on price, on location or both, then a catchment with one Foodstuffs banner and comfortable margins is exactly what an entrant looks for. The more one believes the incumbents are coordinating, the larger the return to a firm with no such loyalties and a sharp offer.

The CBA models the effects of Costco's expansion and of entry by a hard discounter like Aldi. The modelled net benefits of splitting Foodstuffs fall by 30 percent on a discounter's entry, with the costs of the split unchanged.[50]

Whether a split would help or hinder any potential new entrant is not analysed. Lower margins across three incumbents and regime risk cut against entry; a more accessible wholesale market might help. National asserts the favourable direction. But the CBA's reviewer noted that the study "does not consider causation in the opposite direction: whether demerger would make the market less attractive for entrants."[51]

An entrant may bring a new format, which, in the Walmart study, the CBA cites was worth about five times the price effect.[52] It bears its own capital risk. And it requires the state to take nothing from anyone.

Consumer gains in the model come from greater head-to-head competition between banners that were assumed not to compete much with each other. If that is correct, there will be greater potential profits for a new entrant as entry reforms bed in.

But if the pricing assumption is weaker than the model assumes, or if the supply side responds as Section 3 suggests, prices will not fall by that much. Splitting will then have created two co-operatives with duplicated cost bases, a Woolworths under margin pressure, a statutory precedent, and an unmet promise to voters.

That is the position in which margin or price regulation becomes the next thing on offer, and National's document says it opposes "politicians setting grocery prices or taxpayers owning supermarkets."[53] A government that has broken up a business to deliver lower prices and not got them will find that position hard to hold. It is the kind of risk against which an irreversible intervention should be assessed. If this intervention fails, what new intervention will a populist government reach for during the 2029 election campaign?

5. What should happen instead

The first-best is what it was in 2021: make it legal to build supermarkets at scale under rules that do not require bespoke approval for each site. Then find out whether entrants believe there are profits to be had in grocery retail.

Resource management reform now underway aims to embed competitive urban land markets in plans and planning. Alcohol licensing needs to be reformed so that a new chain is not run through a separate contestable process for every store. Entrants whose product lines include food labelled for comparable English-language markets should not have to relabel their offerings to local standards. The Overseas Investment Act treatment of grocery entry should be given a firmer footing than guidance. And Kāinga Ora sites could be available to potential entrants, with mixed-use zoning for supermarket podiums beneath apartment towers.

Liberalise entry and see what happens. It may be enough on its own.

At the same time, withdraw the threat imposed directly on one supermarket, and implicitly imposed on every other large concern.

If Parliament nonetheless wants the structural option kept alive, it still should first thoroughly liberalise entry so that the separated brands can more easily open new sites.

National is right to want Commerce Commission review before proceeding. Setting the threat to businesses ahead of that work is risky.

The Commission should be able to reassess the pricing assumption on which the benefit rests. It should compare separation against an effective programme of entry liberalisation, counting the institutional costs and uncertainties of each. It should have the time to test Sense Partners' potentially strong assumption about continued store viability, as well as demand elasticities. A six-month clock to test the model and plan implementation seems hasty, given the stakes.

This kind of policy is too consequential to be election-campaign fodder.

The National Party came into government on a promise of resource management reform based on property rights.

It is going into this election promising that property rights will be based on little more than a narrowly-scoped cost-benefit assessment and public vibes about particular sectors.

Appendix A: Indicative first-cut checks on the Sense Partners analysis

Everything in this appendix is illustrative, with modelling work undertaken in successive iterations between Fable, the primary modeller and Astra as peer-reviewer.

The work was undertaken mainly for the author's benefit.

Put most simply, or at least at an intermediate-microeconomics level, the cost-benefit assessment's primary model assumes Bertrand-style competition. Under the status quo, the group's banners' profit functions jointly enter any group banner's optimisation with a coefficient on each banner equal to one. When the banners are separated, they do not consider each other's profits in their own optimisation. This is equivalent to a coefficient of zero on alternative-banner profits in an individual banner's optimisation.

If the true state of the world is that the coefficient is closer to 1, then separation that forces the coefficient to zero generates sharper competition. If the coefficient is closer to zero under the status quo, separation provides little competitive benefit.

I wanted a sense test and asked Fable and Astra to provide and explain it.

It uses only public inputs, in places where the report's own inputs are confidential, and stylised versions of the report's model, each of which is identified below. Nothing here replicates the report or shows that its calibration is wrong. The exercises show what the public inputs imply, where the result is sensitive, and what the Commission should be asked to test. The full working, with code and output, is in a separate technical review. But, again, it was primarily produced to satisfy the author that a proper version of the work is worth undertaking.

It should be viewed as suggestions of matters the Commission may wish to test.

The accounting. The report's central case (Table 2, present values, 8 percent, 2025–2045) is: consumer welfare gain $13.11 billion; change in supermarket operating profit −$10.58 billion; change in supplier profit +$0.92 billion; restructuring costs −$0.53 billion; net benefit $2.92 billion. The "$12.58 billion in net consumer benefits" that National quotes is the consumer gain less restructuring costs, before the change in producer profits; the net change in producer profits, −$9.66 billion, is what separates it from the $2.92 billion. The supermarket loss includes Woolworths, which is not being split.

What the net benefit consists of. The consumers' gain and the producers' loss are mostly the same dollars moving from one side of the till to the other. The net gain is the allocative gain from extra volume sold at prices above marginal cost: a small consumer triangle plus the margin earned on the additional units. Both are real gains, and both scale with two parameters most readers never see: how much of the shelf price is treated as room for cuts (the report uses the whole gross margin, about 22 percent) and how strongly total grocery demand responds to prices (the report imposes a figure at the elastic end of the New Zealand range and notes that the only other New Zealand estimate is about two-fifths smaller). I have no view on which figure is correct. Cutting the volume response by two-fifths would, on a back-of-envelope decomposition, take the $2.9 billion to something like $1.3 to $1.6 billion; that is a heuristic, and only a rerun of the model could confirm it.

How much of the benefit depends on the pricing assumption. Two stylised versions of the report's model were built from its own published estimates of how shoppers switch between banners. A simple three-brand version with linear demand, calibrated to the three chains' approximate gross margins, reproduces the report's price effect of about 5 percent when head office is assumed to count the other banner's lost profit in full, and gives about 2.5 percent when it counts half and nothing when stores price for themselves. A version in the report's own demand class, anchored on Woolworths' disclosed margin and applied to the full seven-brand North Island matrix with the report's ownership groups, gives about 9 percent, 3.5 percent and nothing.

The two differ in level because each is linked to a different chain in the public record. The linear version is fitted to gross margins near the public figures for all three chains, and under joint pricing that fit pushes Woolworths' margin about eight points below its disclosed level; the demand-class version holds Woolworths at its disclosed margin, so joint pricing pushes Foodstuffs' margins to 36 and 31 percent. The published switching estimates force Foodstuffs' margins to about 1.5 times Woolworths' under joint pricing either way, which is the point of the next paragraph.

Whether the report's own inputs fit the assumption. In the report's demand class, the published switching estimates fix how price-sensitive each brand is relative to the others, so the assumed pricing conduct and the observed margins cannot both be chosen freely. Anchoring on Woolworths' disclosed 22.5 percent gross margin, independent pricing of the banners implies gross margins of about 25 percent for New World and 20 percent for PAK'nSAVE, a blended 22 percent, level with Woolworths. Joint pricing implies about 36 and 31 percent, a blended 33 percent, ten points above. The public record at the time of the market study put the three chains level: Foodstuffs' adviser computed whole-of-business gross margins of 22.2 percent for Foodstuffs North Island and 22.4 percent for Foodstuffs South Island over 2015 to 2019, and the Commission's market study found each of the majors below the average of its overseas comparators on this measure.[54] The check passes when run on the seven-brand matrix, with the unpublished minor-brand shares set to match the report's published group totals.[55] Its limitations are real: margins from different years and definitions, a Woolworths anchor, and a calibration objective that is not Sense's. It cannot reject the report's confidential calibration, which rests on brand-level margins that are not public. What it does show is that, in this demand class, the published switching estimates, margins near the public record and joint pricing cannot all hold at once, which is why the sensitivity of the results to the margin inputs is worth testing. Sense itself notes that its margin measures "are imperfect with different companies using different definitions of, for example, costs of goods sold," that it had "limited visibility on the profitability of brands that are franchise operations because we only observe group/franchisee level financial statements," and that with more time it "would scrutinise store and brand margins more closely and also test the sensitivity of our results to variations in gross margins."[56] That is the test this appendix approximates from public data.

What the joint-pricing margin would mean for PAK'nSAVE's cost of goods. The implied margins can be put in terms of what each banner would have to pay for its goods. Take Woolworths' shelf price as 100, so that at a 22.5 percent gross margin, its cost of goods is 77.5. PAK'nSAVE is positioned to offer the lowest prices, and Consumer NZ's 2026 basket survey put it about 6 percent below the Woolworths and New World loyalty-member average; call its price 90 to 95.[57] A 31 percent margin on that price means a cost of goods of 62 to 66, which is 15 to 20 percent below what Woolworths pays for the same products. The 20 percent margin implied by independent pricing means a cost of goods of 72 to 76, about 2 to 7 percent below Woolworths'. The second is the kind of gap a low-service, high-volume format buying through a co-operative's wholesale arm might plausibly carry. The first is a great deal to ask of anyone buying from the same suppliers and, since the co-operatives' whole-of-business margins were level with Woolworths', it is not a gap the public accounts show.

Other public evidence on cross-banner pricing. Frontier Economics' 2021 work for the Commission's market study regressed store prices on the proximity of each other's banner, measured on a scale from zero beyond a five-minute drive to one at co-location. At co-location, New World prices are about 0.6 percent higher where the neighbour is a PAK'nSAVE, an estimate significant only at the 10 percent level, and Four Square prices are about 2.25 percent higher, significant at 1 percent. Proximity to a rival group's banner carries negative coefficients, but for New World, none is statistically significant; for Four Square, a nearby FreshChoice or SuperValue lowers prices by about 2.7 and 1.7 percent. The signs on the same-group terms are what internalisation predicts. Their size is small, and by construction, they apply only within a five-minute drive. [58] But a local proximity effect would not detect ,island-wide pricing, which is the mechanism the CBA assumes, and it says nothing about how the recommended retail prices themselves are set. The SKU-level and store-level price data that Sense Partners says it held, but did not have time to fully analyse might.[59]

Whether the result is an equilibrium that a real industry could sustain. Spread over the report's own timetable, the $10.58 billion present-value loss is a fall in gross profit of $1.5 to $1.9 billion per year, with full effect in 2035, depending on the ramp assumed. Combined operating profit of the three majors today is about $1.1 billion, taking the Commission's 2025 whole-of-business EBIT margins of roughly 6.5 percent for Foodstuffs North Island and 6.3 percent for Foodstuffs South Island and Woolworths' disclosed 1.9 percent, on system sales of roughly $11 billion, $4.5 billion and $8.5 billion; the Commission's excess-return estimate for 2015 to 2019 was $365 to $430 million a year. Gross profit and operating profit differ, the years differ, and the report's chain-level results are not published, so these are reasons to demand a reconciliation, not a demonstration of losses. The 2022 version of this exercise compared the modelled loss with the Commission's excess-profit estimate and concluded the supermarkets would remain viable; a comparison of the same kind on the 2026 figures, the $10.58 billion against the present value of the Commission's excess returns, comes out the other way by a factor of two or more, though only the report's own annual series could make it exact. On the method of Sense's own 2022 letter, which expressed both sides as shares of sales, the 2022 costs were 0.9 to 1.6 percent of sales against excess profits of 2.0 to 2.4 percent; the 2026 profit loss is about 4 percent of sales on the same present-value basis, and 5 to 7 percent at full effect. A hypothetical earnings calculation on Woolworths New Zealand's disclosed cost structure (gross margin 22.5 percent, cost of doing business 20.6 percent, operating margin 1.9 percent in the year to June 2026) has it at roughly break-even at a 2 percent price cut if its volume rises with the market, and losing 2.6 to 4.6 percent of pre-cut sales at a 5 percent cut, depending on whether its volume rises with the market or falls with the share loss the report models.[60]

How the cost assumption moves the answer. In the stylised linear model with exact welfare accounting, the report's 1 percent cost increase, treated as the report treats it (half a transfer to suppliers, half a resource cost), leaves a net gain of about 0.8 percent of baseline spending; a 2 percent increase, with the extra point treated as inefficiency as the report's own sensitivity does, leaves about 0.2 percent, so the toy's break-even sits a little above 2 percent. The report itself is in the same place; the coincidence is descriptive, since they are different models. Treating the variable costs of retailing as part of the cost of a sale rather than as margin, which is arguably right over a twenty-year horizon, cuts the net gain by about two-fifths on its own.

Discount rate. Treasury's guidance prescribes 2 percent for non-commercial proposals and 8 percent for commercial ones, with the alternative shown as a sensitivity; the report uses 8 percent and shows no sensitivity.[61] An 8 percent rate is defensible for a risky, non-intergenerational project. It is the rate I would choose, and we would have criticised the use of 2 percent because the restructuring project is commercially risky.

More important is what the rate is being asked to carry. The modelled flows carry no probability of delivery at all: the report does not model delay, partial completion or failure, including the case in which the split proceeds, costs are incurred and prices do not fall. Some of that risk is arguably what the 8 percent rate is for.

The 2022 comparison. Sense Partners modelled a related package for the previous government in 2022: a split of Foodstuffs mainly by banner, combined with a transfer of Countdown stores worth about 5 percent of national share to the New World group and local-market share criteria, against a baseline in which smaller retailers' share doubled to 10 percent. It found a central net benefit of $0.5 billion at a 5 percent discount rate, inside a range from −$3.1 billion to +$4.7 billion, with price changes of 0 to −2 percent in the larger urban markets, larger falls in a few small markets where a divestment occurred, and consumers worse off in the West Coast, Tasman, Taranaki, Marlborough and Gisborne.

The packages, baselines and models differ, so the gap cannot be attributed to modelling revisions alone. But it is worth being clear where the gap is not. The Woolworths element of the 2022 package was a five-point store transfer with modest costs, not the split-in-half that the 2026 report's own Option 2 shows destroying $2.5 billion of net benefit, so scope explains little. The difference is on the benefit side: a consumer gain of $3.2 billion at 5 percent in 2022 against $13.1 billion at 8 percent in 2026, which is the difference between price falls of 0 to 2 percent in the main markets from a local-market analysis and falls of 3.5 to 5 percent island-wide from a merger simulation in which the banners price jointly today.

A reconciliation on comparable assumptions, separating scope, baseline entry, pricing geography, the demand system, cost assumptions, price year, horizon and discount rate, would show how much of the increase comes from the pricing assumption this note questions.

Check	What the public inputs give	Status
CBA central case (PV, 8%, 20 years)	Consumers +$13.11b; supermarkets −$10.58b; suppliers +$0.92b; costs −$0.53b; net +$2.92b	CBA Table 2
National's "$12.58b"	Consumer gain less restructuring costs, before the −$9.66b net change in producer profits	Arithmetic from Table 2
Price effect if head office counts the other banner's profit fully / half / not at all	≈5% / ≈2.5% / 0 (linear toy); ≈9% / ≈3.5% / 0 (report's demand class)	Stylised illustrations
Foodstuffs gross margin implied by the CBA's switching estimates under joint / independent pricing (Woolworths at 22.5%)	≈33% / ≈22%	Indicative; public record 22.2–22.5% for all three

Check	What the public inputs give	Status
PAK'nSAVE cost of goods relative to Woolworths' implied by the joint-pricing margin (31%) / the independent-pricing margin (20%), at prices 5–10% below Woolworths'	15–20% lower / 2–7% lower	Arithmetic; Consumer NZ 2026 basket survey for the price gap
Annual fall in gross profit at full effect vs combined operating profit today	\$1.5–1.9b vs ≈\$1.1b	Reconstruction from PVs; different measures
Commission's excess-return estimate, 2015–19	\$365–430m a year	Market study para 3.54
Profit loss and excess profits as shares of sales, on Sense's 2022 method	2022: costs 0.9–1.6% vs excess profits 2.0–2.4%; 2026: ≈4% (5–7% at full effect) vs 2.0–2.4%	Sense letter of 25 November 2022; Table 2
Cost increase: CBA central / NZ direct estimate / "extreme" upper bound / high-cost scenario result / sensitivity break-even	1% / 0.3–0.7% / 1.9–2.5% / +\$0.92b at 2% / negative a little above 2%	CBA pp. 17, 26, 74, 78; Table 9
Net benefit at 8% / 5% / 2%, flows as modelled, no delivery risk	\$2.9b / ≈\$4.2b / ≈\$6.2b	Stylised timing
Net benefit with a hard-discount entrant in the baseline	\$2.0b, a 30% reduction, costs unchanged	CBA p. 44, Table 15
2022 CBA of a related package (banner split plus a 5 percent Woolworths store transfer): central / range.	+\$0.5b / −\$3.1b to +\$4.7b	Sense, Coriolis and Cognitus, 2022

Endnotes

[1] National Party, *Building the Future: More grocery competition*, four-page policy document, September 2026, pp. 2 and 4. Page references to National's document throughout are to the PDF; references to the Sense Partners report are to its printed page numbers.

[2] National, *More grocery competition*, pp. 1–2.

[3] National, *More grocery competition*, p. 2.

[4] National, *More grocery competition*, p. 4.

[5] National, *More grocery competition*, p. 4. The nine factors are 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; and implementation costs and practical feasibility. None asks whether the modelled price effect survives a different assumption about how the banners price, though the Commission could decide to undertake that sensitivity test. The document separately says (p. 3) that the 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."

[6] National, *More grocery competition*, pp. 2 and 4.

[7] National, *More grocery competition*, p. 4.

[8] 1News, "Important questions: Foodstuffs on National's break-up plan," 17 September 2026, quoting Nicola Willis.

[9] Sense Partners, *Cost Benefit Analysis of options to restructure the New Zealand grocery sector*, report to MBIE, June 2026 (released September 2026 with the peer reviews), p. iv ("indicative rather than definitive"; "might well be very high, or even insurmountable"; "further work... on the practical feasibility and cost implications") and p. 3 ("in a compressed timeframe").

[10] Sense Partners CBA, Table 2 (Foodstuffs-only restructure, present values at 8 percent, 2025–2045).

[11] Sense Partners CBA, Table 2: "vertical integration, one-off costs" $270 million (new distribution centres, assumed at $100 million each, p. 16) and "cost of duplication" $300 million within the change in industry overheads, both present values over twenty years. The CBA nets $190 million of assumed efficiency improvements against the duplicated overheads, for a net change in industry overheads of $110 million.

[12] Regulatory Standards Act 2025 (Royal assent 18 November 2025; general commencement 1 January 2026; Part 2, the consistency accountability statements and the Regulatory Standards Board, in force from 1 July 2026): principles of responsible regulation, including that legislation should not take or impair property without the owner's consent unless justified and fairly compensated; consistency accountability statements for Government Bills; Minister's statement of reasons for any departure from the principles. The Act confers no right to compensation.

[13] Sense Partners CBA, p. 38.

[14] Electricity Industry Reform Act 1998, s 17 (ownership separation) and s 69 (no compensation).

[15] Commerce Act 1986, s 85 (divestiture orders) and s 47 (acquisitions substantially lessening competition).

[16] National, *More grocery competition*, p. 4.

[17] Commerce Commission market studies: *Retail fuel* (December 2019), *Retail grocery* (March 2022), *Residential building supplies* (December 2022) and *Personal banking services* (August 2024).

[18] Sense Partners CBA, p. 26 and notes 33–34 (net benefits negative for cost increases above 2 percent).

[19] Sense Partners CBA, Table 3 (diversion ratios).

[20] Sense Partners CBA, p. 3 ("outside scope") and p. 12 ("a judgement on the mechanics of price competition").

[21] Sense Partners CBA, p. 6 ("the evidence points to price increases of 5-8% when supermarkets merge in markets with similar numbers of competitors as we have in New Zealand (Hosken et al, 2018; Rickert et al, 2021)") and p. 12 (Allain et al. 2017; DellaVigna and Gentzkow 2019; Ellickson et al. 2020; Argentesi et al. 2021; Frontier Economics 2021, cited for prices being "somewhat uniform within brands").

[22] Sense Partners CBA, p. 4.

[23] Foodstuffs North Island, submission on the Commerce Commission's market study draft report, 10 September 2021, paras 258–260.

[24] Commerce Commission, "Commerce Commission to take Foodstuffs South Island to court alleging far-reaching anti-competitive conduct that deprived customers of cheaper prices," media release, 6 August 2026, comcom.govt.nz.

[25] Commerce Commission, *Foodstuffs North Island / Foodstuffs South Island merger clearance determination*, NZCC 22, 30 September 2024, para 593.

[26] Merger clearance determination, NZCC 22, paras 572–573 (submissions by Houston Kemp for the Parties, in the context of possible coordination with Woolworths) and para 593 (the Commission's response).

[27] Foodstuffs North Island, submission on the Commerce Commission's market study draft report, 10 September 2021, paras 258.2 and 261.2.

[28] Foodstuffs South Island, submission on the Commerce Commission's market study draft report, 10 September 2021, paras 227.2, 229 and 231.

[29] Sense Partners CBA, p. 12, n. 14.

[30] Sense Partners CBA, p. 2.

[31] Sense Partners CBA, p. 56, n. 51 (Stephenson, J. (2021), *All you can heat? Welfare implications of high fixed charge tariffs for electricity*, MSc thesis, University of Otago, Table 4.4, grocery elasticity −0.95; Thomas (2022), *New Zealand Economic Papers*, −0.566, which the report considers too aggregated) and p. 60 (the adjustment "as a tool to help the model find a solution").

[32] Rickert, Schain and Stiebale, "Local market structure and consumer prices: evidence from a retail merger," *Journal of Industrial Economics* 69 (2021), at p. 71 and footnote 27. The 1 percent is the average fall in relative prices in markets where only one of the merging firms operated, attributed to nationwide cost savings passed through to consumers, and significant at the 10 percent level. The authors say the specification "does not allow us to identify the magnitude of efficiency gains since we measure the pass-through of cost savings on consumer prices," and that the price changes "presumably stem from efficiency gains or increased bargaining power." The extent of pass-through matters. If pass-through was incomplete, as the authors' results suggest it is in more concentrated markets, the cost saving behind a 1 percent price fall was larger than 1 percent, and the cost increase from a demerger in a concentrated market would, on the same logic, be larger than 1 percent. Units matter too: the study's figure is a change in shelf prices, the report's a change in the cost of goods sold, which is about three-quarters of the shelf price, so even at full pass-through a 1 percent price fall implies a cost saving of about 1.3 percent.

[33] Sense Partners CBA, p. 26 (sensitivity), Table 9 (high-cost scenario, $920 million at 2 percent) and Appendix D, pp. 74 and 78 (New Zealand estimates of 0.3–0.7 percent and the "extreme" upper bound of 1.9–2.5 percent).

[34] Commerce Commission, *Market study into the retail grocery sector: final report*, 8 March 2022, para 3.54 (excess returns); Commerce Commission, *Annual Grocery Report 2025*, 2 June 2026, Figure 9 and accompanying text ("FSNI and FSSI continuing to sit at the top end of the EBIT and NPAT margin range against international comparators"). The operating-profit figure is Fable's reconstruction on those margins; see Appendix A. System sales are FSNI's reported member-store revenue of $10.8 billion in FY24, Woolworths New Zealand's FY26 sales of $8.49 billion, and an estimate for FSSI from its $3.7 billion FY25 co-operative revenue grossed up by the North Island ratio of store sales to co-operative revenue; the total of about $23.6 billion matches the $23 billion implied by the Commission's statement that $6 billion of rebates and payments equal 26 percent of combined sales. The figure is rough and intends only to provide an order of magnitude comparison against the modelled reduction in profits.

[35] Sense Partners CBA, p. 3.

[36] John Davies, peer review of the draft CBA for MBIE, 9 October 2025, para 15: "Viability matters but should be assessed separately. It is perfectly possible for a model to show total welfare increasing, when modelling firms that are not viable."

[37] Sense Partners, "Comparison of costs of divestment with Commerce Commission estimates of supermarkets' excess profits," letter to MBIE of 25 November 2022, Appendix 2 to MBIE's Cabinet paper *Provisional supermarket divestment cost benefit analysis and proposed next steps*, 7 December 2022 (costs of 0.9 to 1.6 percent of sales against excess profits of 2.0 to 2.4 percent, "based on rules of thumb"); Cabinet paper, para 38. The 2022 summary report (Coriolis, Sense Partners and Cognitus, 4 October 2022) says "We do not explore viability in any detail in this CBA."

[38] Sense Partners CBA, pp. 11 and 19 (range effects "between 1.0 and 2.0 times" the price effect) and p. 25 (results table row "as a reminder").

[39] National, *More grocery competition*, p. 2 ("independently peer reviewed and further tested"); John Davies, peer review of the final CBA for MBIE, 1 July 2026; Stuart Donovan and Leon Stirk-Wang (Motu), *Economic analysis of supermarket de-mergers: a code review*, 23 October 2025, which found the code a faithful implementation of the models described and did not assess the assumptions, the data or the calibration.

[40] New Zealand Initiative, submission on the Commerce Commission's market study draft report (Crampton and Burgess), 26 August 2021; Commerce Commission, *Market study into the retail grocery sector: final report*, Chapter 6.

[41] Commerce Commission, *Market study into the retail grocery sector: final report*, para 6.65.1.

[42] New Zealand Initiative, *Legalising Groceries: an atlas of where New Zealand allows a supermarket*, first published 14 July 2026, supermarketzoning.nzinitiative.org.nz. The atlas classifies the commercial and industrial zones in ten district plans across the main urban areas by whether a new full-line supermarket is permitted, restricted or effectively prohibited, and identifies fourteen provisions that cap the number of supermarkets in a centre, often at one.

[43] Beehive, "Express lane for new supermarkets," media release, 27 August 2025; MBIE, *Supermarket competition* page (regulatory workstream), which records the fast-track amendment, the Christchurch City Council consenting service and the LINZ guidance as implemented.

[44] Ministry for Primary Industries, *Digital food labelling trial*, page last reviewed 25 June 2026 (expressions of interest closed 8 April 2026; preferred start between May and August 2026; "limited to a maximum of 4 food businesses, with a maximum of 2 sites from each business"); Hon Nicola Willis and Hon Andrew Hoggard, "Innovative digital labelling trial to progress," media release, 12 March 2026. MBIE's page lists the product labelling review as "in progress."

[45] Commerce Commission, *Market study into the retail grocery sector: final report,* paras 9.254-9.256.

[46] Commerce Commission, *Annual Grocery Report 2025*, 2 June 2026 (market shares, margins and prices); Grocery Commissioner Pierre van Heerden, Commerce Commission media release of the same date ("reforms need more time to bed in").

[47] Commerce Commission, *Market study into the retail grocery sector: final report*, paras 5.118–5.119 (under the heading "The major grocery retailers appear to strategically differentiate their retail grocery offers from each other"); National, *More grocery competition*, p. 3 (the finding as quoted, the average distances and the town examples).

[48] National, *More grocery competition*, p. 4.

[49] *Government Policy Statement on Grocery Competition – Fast-track Approvals Act 2024*. The Fast-track Approvals Amendment Bill enabling this pathway passed third reading on 10 December 2025. It is open to incumbents "only in limited circumstances where they demonstrably do not reinforce existing market dominance" and may need to be amended to explicitly allow its use by split Foodstuffs banners.

[50] Sense Partners CBA, p. 44 and Table 15; the hard-discount scenario is described at pp. 41–43 (first stores in 2029, "99 stores over 16 years" capturing "9.1% of the market"; "Our scenarios assume that competitive responses by incumbents are limited to price adjustment").

[51] National, *More grocery competition*, p. 3 ("a more competitive domestic market could make it easier for another retailer to see an opportunity to enter"); Davies, second review, 1 July 2026, para 51.

[52] Hausman, J. and Leibtag, E. (2007), "Consumer benefits from increased competition in shopping outlets: measuring the effect of Wal-Mart," *Journal of Applied Econometrics* 22, as cited in the Sense Partners CBA, pp. 8 and 43 (choice benefits "five times larger" than price benefits).

[53] National, *More grocery competition*, p. 4.

[54] Incenta Economic Consulting, *Review of grocery retailing: comment on the Commerce Commission's analysis of profitability*, report for Foodstuffs, September 2021, published as Appendix A (public version) to Foodstuffs North Island's submission on the market study draft report, 10 September 2021: Table 1 (p. 5) and Table 8 (p. 48) give whole-of-business gross profit margins of 22.2 percent for FSNI and 22.4 percent for FSSI over 2015 to 2019, against first-quartile, average and third-quartile figures of 22.5, 24.9 and 27.4 percent for the international comparators over the same years; para 139(b) describes both co-operatives' margins as "below the average of the group of international grocery retailers, and close to the lower end of the interquartile range." FSNI's submission summarises the point at para 68.1. Commerce Commission, *Market study into the retail grocery sector: final report*, para 3.81 ("Each of the major grocery retailers' GP margins are below the average of the overseas sample") and n. 114.

[55] Sense Partners CBA, Table 8.

[56] Sense Partners CBA, p. 47, n. 47 and accompanying text ("We calibrate our model of mark-ups using observed mark-ups at brand level").

[57] Consumer NZ, "Which NZ supermarket has the cheapest groceries in 2026?", 25 June 2026: a 16-item basket collected online from twelve supermarkets in Auckland, Wellington, Christchurch and Dunedin between 2 February and 20 April 2026 cost $84.38 on average at PAK'nSAVE, "about $5 a week cheaper than the average cost for New World and Woolworths loyalty members"; Woolworths non-members paid about 1 percent more than members. Commerce Commission, *Market study into the retail grocery sector: final report*, para 4.84 (PAK'nSAVE "positioned to offer New Zealand's lowest food prices"). The 5 to 10 percent band brackets the survey gap. The arithmetic is 0.69 × (90 to 95) against 0.775 × 100 for the joint-pricing margin, and 0.80 × (90 to 95) for the independent-pricing margin.

[58] Frontier Economics, *Econometric analysis of the New Zealand retail grocery sector*, report for the Commerce Commission, July 2021, Table 15 (coefficients on proximity to same-group and rival-group banners).

[59] Sense Partners CBA, p. 47, n. 46: "The main problem is a matter of time. We have price data by SKU but not sufficient time to make reliable comparisons of prices between the major supermarket groups. Thus, this could be reviewed in further work." Table 4 (p. 15) lists "some store level average product price data" among the inputs.

[60] Woolworths Group, FY26 results, 26 August 2026, and Woolworths New Zealand's FY26 results release (gross margin, cost of doing business and EBIT margin for the year to June 2026).

[61] Treasury Circular 2024/15, discount rates for cost-benefit analysis.

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