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**Q1**

Submitter details

|                                            |                                |
|--------------------------------------------|--------------------------------|
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| Organisation (if submitting on its behalf) | Fonterra Cooperative Group Ltd |
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**Q2**

Question 1:What supply chain disruptions and trends are you worried about? Drag issues you find most important to the top

|                                                                           |   |
|---------------------------------------------------------------------------|---|
| Shipping and transport infrastructure bottlenecks                         | 2 |
| Climate change induced events such as floods, bushfires, and major storms | 3 |
| Dramatic price increases in crucial inputs                                | 4 |
| Total loss of access to crucial inputs or markets                         | 5 |
| Geopolitics events resulting in loss of access to some markets            | 6 |
| Pandemic continuing to disrupt supply chains                              | 7 |
| Major players monopolising access to markets                              | 8 |
| Other (please specify)                                                    | 1 |

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**Q3**

Other (please specify).

Fonterra is monitoring a range of trends. We have opted not to select a prioritised list of trends and potential disruptions and have limited our feedback to the written response below.

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**Q4**

**Respondent skipped this question**

Please explain why you ranked the options in the order above (optional)

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## Q5

Anything else you would like to say on this question? (optional)

Fonterra welcomes the Commission's inquiry and focus on supply chain resilience, particularly given New Zealand's relative geographic isolation compared to major international markets. Below are some key issues we have recently identified and raised through various channels.

### International Competitiveness

Fonterra believes priority should be given to ensuring New Zealand continues to be internationally competitive, which will support economic resilience.

New Zealand is relatively small, geographically isolated and at the end of international shipping routes, giving global competitors advantages that local companies are constantly working to overcome. Higher ocean freight emissions, increased costs, and longer lead times create automatic barriers to entry for local firms to compete on the world stage.

Without a clear focus on creating an internationally competitive supply chain that is efficient, reliable and most importantly, cost-effective, there is a risk that New Zealand industry becomes increasingly infeasible.

Having an internationally competitive supply chain also provides benefits for New Zealand consumers. Many goods sold in New Zealand are imported and increasing costs in supply chains are often passed on the consumers, as has been experienced as a result of COVID-19 disruptions.

The Government has an opportunity to lead in this area by prioritising policies that support New Zealand's international competitiveness and maintaining a focus on this through supply chain strategies and relevant departments.

### Port of Tauranga Expansion

A particular project that will be critical to maintaining New Zealand's international competitiveness is the expansion of the Port of Tauranga.

Port constraints have contributed to the current supply chain disruptions, and the flow on impacts that occur.

We have seen in cases where port capacity has not kept up with shipping demand needs, it results in vessel slippage, delays and loss of shipping capacity and significant additional landside costs and rising ocean rates in the imbalanced supply / demand conditions that result.

In the future, if we run out of Upper North Island port capacity, the only difference is it will be a New Zealand specific disruption. Port capacity issues will create delays and significant additional costs for Kiwi exporters and will ultimately Kiwi businesses become less competitive in the world.

Unless capacity investment at New Zealand ports becomes a priority for New Zealand, we are likely to see an increasing number of constraints within supply chains, similar to those experienced in recent years. These constraints have a variety of negative impacts, particularly on New Zealand exporters' ability to remain internationally competitive.

Fonterra is New Zealand's largest exporter, sending 2.5 million tonnes of product overseas each year in roughly 200,000 containers across 500 voyages. Having appropriate and resilient shipping infrastructure at New Zealand ports is vital to our operations, particularly given New Zealand's relative distance to offshore markets.

We believe the Stella Passage project at the Port of Tauranga needs to proceed with urgency as it will provide much needed resilience and support future growth.

### Shipping model

We believe that developing a robust hub and spoke model for shipping is a valuable opportunity. For an effective hub and spoke model, we believe there should be a focus on a business's ability to access frequent and appropriately scaled vessels to complete container positioning and coastal tasks, rather than being restricted to the limited fleet of New Zealand flagged and crewed ships.

In developing a network strategy to put this in place, the trade-offs between connecting major ports using coastal shipping routes versus investment in linear road and rail infrastructure need to be understood.

### Road and Rail investments

Fonterra is a major user of land transport infrastructure; road and rail networks are vital for our operations. Continuing to invest in both road and rail infrastructure will be vital for ensuring New Zealand's economic resilience.

We acknowledge the Government's commitment to rail, including investments in additional infrastructure and rolling stock upgrades to support growth opportunities and regional initiatives. Fonterra is a large user of the rail system, representing about 30 per cent of KiwiRail's revenue. As we have advocated previously in our submission on the Government's Land Transport (Rail) Amendment Bill, we consider that KiwiRail should focus on the clear objective of growing product moved by outcompeting road, thus improving economic, social, and environmental outcomes for NZ Inc.

As a State Owned Enterprise with a commercial imperative, KiwiRail's current narrowly-defined profit related purpose can lead to outcomes misaligned with the Government's intent. Currently, KiwiRail's model calls for each laneway to be commercially viable, which puts pressure on KiwiRail to price above non-rail alternatives or cease service on unprofitable laneways, without full consideration of wider environmental, social and economic benefits to New Zealand. As a result, customers perceive rail prices and services as potentially unstable which discourages long-term commitments to using rail.

We also believe continued investment into regional roads will be vital to maintain economic resilience, particularly for isolated communities and primary industries such as dairy.

### Responding to Climate Change

Fonterra is committed to transitioning our business to a low carbon future and we've made leadership in sustainability one of the three pillars in our long-term strategy.

As New Zealand transitions to a zero-carbon economy, it will be important to ensure future freight transport is both as carbon-efficient and as cost-effective as possible. We are already exploring decarbonisation options for our trucks, but we also believe that rail needs to continue to be a viable option and cost competitive, as discussed above.

There are several other considerations that will need to be managed within the transport system as New Zealand transitions to a zero-carbon economy. These include:

- An increase in forestry in some regions may increase the wear and tear on rural roads which have not been built to cater for heavy logging vehicles. In these regions, roads may need to be upgraded to deal with increased logging truck movements;
- Whether some parts of New Zealand's road and rail networks may be vulnerable to sea-level rise or high river flow and flooding events and what capital investment is needed to improve network resiliency;
- How New Zealand should fund roading infrastructure given the potential decrease in fuel tax revenue and road-user charges as electric vehicles, rail and coastal shipping play a larger role in New Zealand's freight supply chain in the coming years.
- The infrastructure necessary to accommodate new low emission fuels.

As Fonterra decarbonises our manufacturing operations, having reliable, low-cost renewable fuels will be vital.

Fonterra strongly believes in the importance of establishing a sustainable bioeconomy to help support a sufficient, sustainable.

competitive, and commercially viable biofuel system. We are actively engaged in a pilot with Genesis to explore the potential of a domestic biomass supply chain.

We are also considering electrification and have announced a partnership with MAN to explore steam heat-pumps at our manufacturing sites. Having stable, affordable wholesale electricity will be important for supporting the electrification of more operations.

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**Q6**

Question 2: What is your industry/community currently doing or planning to do to address supply chain concerns? Select all relevant answers

Other (please specify):

Fonterra as a range of activities underway to manage resilience in our supply chains. Some feedback has been provided below.

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**Q7**

Any further details you would like to provide regarding the above (optional)

**Respondent skipped this question**

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**Q8**

Anything else you would like to say on this question? (optional)

Fonterra is continuously working to improve resilience in our supply chains and make them more efficient. We achieve this through various channels, including innovation and adopting new technologies.

Fonterra was a founding partner in the supply chain collaboration Kotahi. Kotahi is New Zealand's largest supply chain collaboration, working with over 50 exporters and importers and responsible for moving almost 30% of New Zealand's total containerised export volumes.

This collaboration has been a vital component to navigating supply chain disruptions, particularly in the wake of the COVID-19 pandemic. Kotahi will continue to play an important role in New Zealand's economic resilience and supporting businesses like Fonterra during unforeseeable supply chain shocks.

Fonterra is taking various steps to build resilience and drive efficiencies in our supply chain. Some examples include:

- We have now completed Fonterra's largest standalone distribution centre, Crawford Street, which has reduced road traffic by 45,000 truck movements per year and shifted 500,000 tonnes of product from road to rail. We are currently upgrading the centre with fully automatic cranes and conveyors which will further increase efficiency and enable more product to take an optimal route to port.
- We're also driving efficiencies through lessons from the COVID pandemic, for example by packing product at our manufacturing site in Takanini which has allowed us to remove transport legs in our domestic supply chain.
- We're road-testing prototype designs for new trailer tanker combinations, focused on improving safety and maneuverability alongside aerodynamics, milk collection capacity, economy and efficiency. These trials aim to increase milk collection productivity by 8-10%, resulting in fewer tankers on the road.

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**Q9**

Question 3a: How can the government help to enhance the resilience of your industry/community to supply chain disruptions? Select the option closest to your view

Other (please specify):  
Comments limited to our response below.

**Q10**

Any further details you would like to provide regarding the above (optional)

Respondent skipped this question

**Q11**

Question 3b: What government actions (here or overseas) are you aware of that have helped improve supply chain resilience?

Respondent skipped this question

**Q12**

Question 3c: Some government actions have downsides or require trade-offs. Can you give examples of occasions where government action to build resilience has come at a high cost or led to unintended consequences or trade-offs?

Respondent skipped this question

**Q13**

Anything else you would like to say on these questions? (optional)

We acknowledge that the Government has an important role in supporting public infrastructure to support supply chains, and facilitating New Zealand's participation in global value chains, particularly through negotiating high quality, comprehensive trade agreements and ensuring a landscape that fosters competitive provision of supply chain infrastructure and services.

We also note the Government has an important role to play in responding to major catastrophic events and we acknowledge the work to maintain freight corridors and enable export activities to continue through the COVID-19 pandemic.

We believe the Government's role in collaboration and coordination should be limited to responding to these major catastrophic events and supporting resilient, cost-effective and low emissions supply chain infrastructure to combat climate change over the coming decades. In the case of infrastructure that has natural monopoly characteristics, government also has a role through ownership and appropriate regulatory settings.

We believe the operations of supply chains more generally should be managed by private enterprises. Private enterprises are already incentivized to collaborate and innovate, as inefficient supply chains incur unnecessary costs.

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**Q14**

Question 4: What should the Commission study to learn more about the economic resilience of industries and communities? Select all relevant answers

Respondent skipped this question

**Q15**

**Respondent skipped this question**

Anything else you would like to say on this question?  
(optional)

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