Submission

June 2022

Introduction

Fonterra welcomes the opportunity to comment on the development of a New Zealand Freight and Supply Chain Strategy.

Fonterra is a dairy cooperative owned by more than 9,000 New Zealand farming families with 27 manufacturing sites spread across the country, making us New Zealand's largest exporter and responsible for around 30 percent of the world's dairy exports. We ship product to over 200 destination ports across more than 130 countries. While 95 per cent of our products are exported, we also supply dairy products for the domestic market. Our dairy products are delivered with some of the lowest carbon emissions in the world, despite New Zealand's relative isolation, and overall emissions from our supply chain represent just 1% of our emissions profile.

The nature of New Zealand's agricultural sector means significant quantities of inputs, ingredients and finished products are transported around the country and exported from our ports and will continue to be in the coming decades. Fonterra's domestic and international end-to-end operations are long and complex, ranging from our shareholder's farms and the support services we provide for these, to our manufacturing sites and distribution centres, to our transportation network (which includes distribution within New Zealand, as well as ports and international shipping services).

Fonterra supports the development of a Freight and Supply Chain Strategy and the issues paper shows general alignment with our work to have an efficient, resilient, low emissions supply chain. Our submission highlights issues that we believe warrant further consideration ahead of the strategy being drafted. In particular, the strategy needs to reflect the unique characteristic of New Zealand's global position and therefore international competitiveness should be a key outcome.

We welcome engagement on our submission and are open to providing further information should that be of assistance.

Our responses to the consultation questions

Part 1: Understanding the freight and supply chain system in New Zealand	
1. Do you agree with the outlined description of the freight and supply chain system?	Yes. We agree with the description of the system, particularly that New Zealand's economy relies on the efficient running of the freight and supply chain system and the importance of having resilience built in.
2. Do you have any views on the outlined role of government in the freight and supply chain system?	We agree 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 agree 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 incentivised to collaborate and innovate, as inefficient supply chains incur unnecessary costs. Introducing new coordinating functions to these existing supply chains would add complexity, cost, and uncertainty for supply chain operators. However government has a role to ensure that markets for these assets and services are open, competitive and efficient. Further, that access to land and approvals to support development of the supply chain is readily available and timely. We have recently highlighted some concern about proposals to change the principles underlying the Road User Charges system and the impact these proposals could have on the maintenance of the road network. New Zealand roads remain a critical component to the efficient operations of the freight and supply chain system, particularly in regional parts of the country. We believe the Government has an important role in continuing to support the maintenance of these roads and other transport infrastructure. 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. In our view, the existing model leads to attempts by KiwiRail to exercise natural monopoly characteristics regarding pricing to maximise returns. We also see a need to enhance KiwiRail's role in container and finished goods flow, and to improve its responsiveness to demand signals – particularly in the North Island and specifically in the Auckland-Hamilton-Tauranga triangle.
Part 2: The strategic context for change	
3. Do you agree with the outlined strategic context and key opportunities and challenges?	Yes, Fonterra acknowledges the changing operating environment and particularly the opportunities presented by technology, digitisation and lowering our emissions. We are continuously working to ensure our supply chains are resilient to emerging challenges. We're also exploring opportunities to generate further efficiencies and adopt new technologies.
4. Are there any trends missing that we should consider?	
5. Which of the opportunities and challenges do you believe will be most important in shaping the future of the freight and supply chain system in New Zealand and why?	Given Fonterra's position as New Zealand's largest exporter, shifting international developments will be particularly important in the coming years and we agree that developing a hub and spoke model for shipping could present a valuable opportunity. With the global trend towards larger vessels for both cost and sustainability reasons, we believe that New Zealand needs a port strategy and efficient feeder network that allows us to access this future generation of vessels. To achieve this, infrastructure planning, land access, approvals and enabling legislation need to allow for the evolution of an efficient hub and spoke model, with consolidation of the current network towards fewer deep ocean ports. We note however that government must consider competition dynamics with any consolidation of ports and ensure that effective competition is retained. For an effective hub and spoke model, we believe the strategy should 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. Overall, we believe the strategy should seek to minimise the total economic cost to the country in terms of both investments required and the ongoing cost to operate. In this regard, new port investments need to be in areas with natural import and export volumes. Government support will be key in driving both pure domestic coastal shipping initiatives and new initiatives critical to both importers and exporters.
Part 3: Current vulnerabilities of the freight and supply chain system	
6. Do you agree with the outlined vulnerabilities of the current system?	Yes. The COVID-19 pandemic has highlighted a number of vulnerabilities in the current system, particularly the challenges associated with New Zealand's geographic location and relatively low priority in international supply chains. Fewer port calls during the COVID-19 pandemic has created difficulties for many exporting businesses and pushed costs up significantly. New Zealand's vulnerable position in international supply chains illustrates the importance of prioritising international competitiveness as one of the strategy's outcomes, which we outline in more detail in our response to Question 9. We also agree with the consultation document that the labour shortage is another vulnerability across supply chains and we agree that a resilient labour supply is important to keep the system operating.
7. Is there any key information missing in understanding the vulnerabilities of the current system?	
Part 4: Our proposal for developing a freight and supply chain strategy	
8. Do you agree with the proposed following outcomes? If not, please explain why.	We agree that the proposed outcomes are important, but we believe international competitiveness is another vital outcome that needs to be prioritised as part of the strategy. Further discussion of this is included in our response to question 9.
8a. Low Emissions - New Zealand's freight and supply chain system is underpinned by a low emissions freight transport system	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. This could be achieved in part by a strategy that optimises freight transport for efficiency and sustainability across road, rail and coastal shipping and enjoys broad support from users of New Zealand's freight transport network today. We supported the Climate Change Commission's recommendation that some emissions from freight can be reduced by switching some freight movements from road to rail in the short to medium term, and through greater use of coastal shipping. This includes the creation of efficient freight corridors into and out of key logistics centres, by forming transport hubs that better connect road, rail and coastal shipping. Greater coordination and alignment between significant freight movers, such as primary producers and KiwiRail, is needed. As noted above, this

	includes the desire that short term or narrowly-focussed pricing decisions by KiwiRail do not lead to freight being moved off railway lines and back onto roads prior to the widespread commercial adoption of low emission trucking options. The strategy could help achieve this, for instance, by considering an alternative governance structure for KiwiRail that takes into account its potential decarbonisation contribution and sets a clear purpose for KiwiRail to deliver a cost-competitive service to citizens and industry and focuses management on delivering against this objective. The strategy would also be an appropriate place to consider the role alternative fuels could play in making New Zealand's road freight transport more efficient and lower emissions. More generally, the strategy could consider how to manage other significant transport issues associated with climate change and New Zealand's transition 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. • The role and impacts that autonomous vehicles are likely to have.
8b. Resilience - New Zealand's freight and supply chain system is resilient, reliable, and prepared for potential disruptions	We agree that resilience is an important outcome and welcome work to better understand critical infrastructure and freight services, prioritising the maintenance of regulatory flexibility and building an adaptable workforce.
8c. Productivity and Innovation - New Zealand's freight and supply chain system is highly productive and innovative, and performs well when measured against global standards	Fonterra supports opportunities to take advantage of innovation and technological change to boost productivity. We are continuously working to make our own supply chains more efficient through innovation and adopting new technologies. For example, the creation of Fonterra's largest standalone distribution centre, Crawford Street, 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've driven efficiencies through responding to COVID as well, 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 also road-testing prototype designs for new trailer tanker combinations, focused on improving safety and manoeuvrability 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.
8d. Equity and safety - We transition to a low emission, resilient, productive and innovative freight and supply chain system in a way that is equitable and safe for all	Fonterra is supportive of this outcome. We welcome work to ensure long-term plans maintain or increase connectivity with regional communities and support regional economic development, and efforts to enhance safety on roads and in workplaces.
9. Are there more outcomes the strategy should focus on? If so, please explain what they are.	Yes. We believe the strategy should prioritise an outcome to be 'Internationally competitive'. 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. Creating an internationally competitive supply chain environment increases the resilience, productivity and innovation within the sector, allowing New Zealand to accelerate emissions reduction. We believe the Government has an important role to play in this outcome by: • Negotiating high quality, commercially meaningful FTAs that eliminate tariffs, reduce non-tariff barriers, and facilitate trade. • Ensuring recognition that New Zealand's pasture-based farming systems deliver equivalent or improved environmental outcomes in relation to other types of farming systems. • Promoting constructive engagement with like-minded partners around the world. • Increasing oversight to ensure short term pricing decisions by KiwiRail do not lead to freight being moved onto roads. • Investing in the maintenance of critical roads and transport infrastructure. • Maintaining a legislative environment that does not add additional cost and complexity to supply chains, and having transparent decision making processes. • Prioritising infrastructure planning and enabling legislation to allow for the evolution of an efficient hub and spoke model that will attract the new generation of ocean freight vessels. 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. Prioritising international competitiveness to ensure reliability and cost effectiveness within our supply chains will benefit New Zealand consumers as well as exporting businesses.

10. Do you agree with the potential areas of focus for the strategy?	Yes, and we would suggest the development of further areas of focus that drive an outcome prioritising internationally competitiveness.
11. Which of these areas of focus would be most important to prioritise?	
12. What would successful stakeholder engagement on the development of the strategy look like from your perspective?	We would welcome having the opportunity to provide feedback on a draft strategy prior to finalisation later in the year.
13. How could we best engage with Māori on the strategy?	