

**BEFORE THE OTAGO REGIONAL
COUNCIL**

IN THE MATTER of the Resource Management Act
1991

AND

IN THE MATTER of an application for resource
consents for Project Next
Generation

BY **PORT OTAGO LIMITED**
Applicant

**STATEMENT OF EVIDENCE OF NIGEL JONES
ON BEHALF OF FONTERRA COOPERATIVE GROUP LTD**

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INTRODUCTION, QUALIFICATIONS & EXPERIENCE

1. I am Nigel Jones, General Manager Strategy, Fonterra Trade and Operations. My role involves facilitating the development and communication of the business strategy for Fonterra Trade and Operations. The scope of this role within Fonterra extends from Milk Collection at farm through to our sales channels and key commodity account relationships; this includes the logistics involved in exporting finished goods from New Zealand to the world.
2. Prior to my current role I held a range of Logistics and Supply Chain, Management and General Management roles within Fonterra, having joined the Dairy Board in 1999. Before joining the Dairy Industry I held a range of management functions within the P&O Group of companies, these roles including Trade Management, Operations Management, Port Management and Marketing. I also served at sea as a Navigating Officer with the P&O Group and its associated companies.
3. I hold a Masters in Supply Chain and Logistics from Canfield University in the United Kingdom and Bachelor degrees in Accountancy and Business Finance. I hold qualifications in Nautical Science and have a foreign going deck officer certificate of competence from the British Department of Trade, I am also a Fellow of the Chartered Institute of Logistics and Transport.
4. In addition to my role at Fonterra I've sat on the Advisory Board for the Centre of Logistics and Supply Chain at Victoria University Melbourne, Australia and have presented at leading Universities in Australia and New Zealand on the topic of Logistics and Supply Chain Management.
5. Fonterra Cooperative Group Ltd is the world's largest exporter of dairy products and New Zealand's largest company. The group is owned by approximately 10,500 shareholders, processes over 14 billion litres of milk per annum, earns \$16 billion dollars of revenue, represents 25% of the country's exports and ships approx 130,000 TEU (Twenty Foot Equivalent Units) from New Zealand to around 280 destination ports in 120 countries annually.

SCOPE OF EVIDENCE

6. This evidence has been prepared to summarise some of the challenges facing New Zealand's export sector.
7. For reasons outlined in this evidence, I am of the opinion that the grant of consent to the ports proposal would be in the interests of New Zealand's export sector.

SUMMARY OF SUPPLY CHAIN RELATED CHALLENGES FACING NEW ZEALAND'S EXPORTERS

8. New Zealand has a small economy, for economic growth to be maintained and substantially developed the country requires much greater levels of productivity from its export sector.
9. If New Zealand's exporter sector is to grow it needs higher levels of productivity from its logistics providers. It is not adequate for New Zealand's export companies, growers, farmers and manufacturers to lift their productivity alone, for the country to remain competitive it is important that productivity is lifted across all parts of the supply chain.
10. When internationally buyers compare product prices they do so on a landed cost basis. Any additional costs incurred in the supply chain en-route to market when compared with alternative sources is a dollar lost from New Zealand's economy.
11. During the last few years, New Zealand importers and exporters have witnessed major swings in the costs associated with the constituent parts of their supply chains. Such changes have highlighted more than ever the fragile nature of the country's link with its international trading partners (and therefore the competitive market position) i.e.:
 - a. Major swings in fuel prices with surcharges again peaking in the region of US\$800-900 per TEU (Twenty Foot Equivalent Unit)
 - b. Significant reductions in capacity e.g. between a 20% and 30% reduction in the physical container capacity serving New Zealand

- c. While competing economies have benefited from record low freight rates, New Zealand's containerised rates have remained relatively stable, some increasing.
12. While New Zealand has been grappling with these issue, the link between the efficiency of a country's supply chains and its competitive position in the world, is being increasingly well acknowledged, this evidenced in the following e.g:
- a. "Improving the movement of freight across its end to end journey and understanding where pinch points exist is essential to maintaining and improving the UK's competitive position". Source – UK department of Transport 2008.
 - b. "High logistics costs and more particularly low levels of service are a barrier to trade and foreign direct investment and thus economic growth. Source – World economic forum 2008.
 - c. In order for businesses to remain competitive, it is crucial that the route from 'paddock to plate' is both cost effective and reliable, driving efficiency within supply chains". Source – Australian, National Transport Commission
13. As more and more countries not only acknowledge this philosophy but adopt policies of forward planning over their extended international supply chains, New Zealand is at risk of slipping further behind competing economies. This is evidenced by the Ports of Melbourne and Fremantle having recently completed or nearing completion major dredging projects to ensure they are in line with Australia's other key ports and capable of handling 14M deep Post Panamax container vessels
14. Prior to the developments described previously New Zealand exporters were already disadvantaged when it comes to the performance and characteristics of our physical links with markets as compared with competing nations:
- a. We lack scales of economy enjoyed by other nations e.g. New Zealand exports less than a 1 million containers per year
 - b. We have imbalances of equipment and a unique profile (high percentage of refrigerated)

- c. We have relatively limited and poor landside infrastructure
 - d. Our exports represent the primary haul leg on services hence must carry the cost of the service. Australian, European and North American exports into Asia are on the return haul and historically have at times been marginally priced (as carriers endeavour to reposition equipment).
 - e. The vessels servicing New Zealand are small compared with those linking the likes of Europe and North America with Asia, now the constraints at Melbourne are being removed; Australian exports are also likely to benefit from new levels of productivity associated with bigger vessels.
15. Currently New Zealand is unable to accommodate vessels exceeding 5000 (TEU), the Mearsk Detroit called at both Auckland and Dunedin in December 2009 being the largest container vessel to call at a New Zealand port, it would have been unable however to leave Port of Otago full. For New Zealand to efficiently handle the growth predictions identified by the National Freight Study, the country will need to accommodate larger vessel, vessels in the region of at least 7000 TEU. It is believed such vessels servicing New Zealand would do so at approximately a cost 25-30% lower per slot than the current average sized vessel. Such vessels would also mitigate New Zealand's exposure to fluctuations in oil prices (such vessels burn in the region of 30% less fuel per slot (container space, than the average size vessel currently calling New Zealand)
16. In addition to the financial efficiencies created the use of larger vessels will deliver significant environmental benefits to the New Zealand economy. For many exporters ocean freight represents the largest GHC component of their logistics operation and given New Zealand's distance from market represents a potential threat to our international competitiveness. Vessels of the 7000 TEU size burn up to 30% less fuel per slot (container space) than the average size vessel currently serving New Zealand hence should New Zealand's port infrastructure be enhanced to cater for these, major progress can be made in reducing the country's export associated carbon footprint.
17. In addition to the environmental benefits associated with reduced fuel consumption and its associated emissions, there will also be a direct

financial benefit to New Zealand. It is still unclear how the cost of carbon will be reflected in shipping costs internationally (this being work in progress at IMO the International Maritime Organisation), it is inevitable some charging mechanism will be adopted and we can be certain vessel operators will pass it straight through to shippers. If New Zealand is not able to accommodate bigger more fuel efficient vessels then the country's international competitiveness will be further eroded in both environmental and economic terms.

18. The New Zealand Shippers Council have last year in its report "The Question of Bigger Ships" identified the ports of Auckland, Tauranga, Lyttleton and Otago as all being required to be big ship capable in the longer term.
19. Otago and Southland are key export regions with the increasing importance of as sectors such as dairy. Future proofing Port Otago's infrastructure is vital if the region is to remain internationally competitive.
20. In enabling New Zealand to start preparing to accommodate larger container vessels, the granting of the consents being sought by Port Otago is a key step on a journey that is required to protect New Zealand's international competitiveness. As a country we can ill afford to sit back and wait for overseas shipping companies to develop solutions for us. Provided they make an adequate return on the assets deployed, international operators will be quite happy operating sub optimally, knowing that any additional costs e.g. environmental or inefficiency can be passed straight back to New Zealand's exporters (and therefore our economy).

Nigel Jones