

NZCFS Presentation to China Cooperative Forum

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From the Edge of the World: How NZ cooperative businesses are addressing international supply chain challenges and competing successfully in world markets (22 mins)

Ka tangi te tītī

Ka tangi te kākā

Ka tangi hoki ahau.

Tīhei mauriora!

Ka nui te mihi ki a koutou.

Gèwèi jiābīn, nǚshìmen, xiānshēngmen, péngyǒumen, dàjiā hǎo.

各位嘉宾，先生们，女士们，朋友们，大家好。

Greetings to you all.

As I said to you in my introduction earlier today, I want to talk to you about how New Zealand is playing its part in the internationalisation of cooperative entrepreneurship. I also want to talk about how we can take advantage of the momentum created by China's Belt and Road Initiative to build a global cooperative business ecology.

But first, I'm going to start by painting you a picture — a picture of New Zealand. A country on the edge of the world, a young country, a country full of bush and bird-song. A country just a little smaller than Japan, but with a tiny fraction of the population — only five million people. A country where 45 percent of our land area is used for food production, and where, through our exports, we are able to feed 40 million people worldwide. A country where efficient, sustainable production means our dairy products require only half the energy of their counterparts in the United Kingdom, and our lamb products only a quarter.

This is a country where cooperatives dominate the economic landscape.

In 2012 — the International Year of Cooperatives — the United Nations declared New Zealand to be the world's most cooperative economy.

- Thirty percent of all New Zealanders are members of at least one of our 331 cooperatives, mutuals, societies, and credit unions.
- Our top 30 cooperatives generate 13 percent — by one estimate as much as 19 percent — of the country's Gross Domestic product.
- Seven of our top ten cooperatives by revenue appeared in the World Cooperative Monitor's Top 300 Global Cooperative Biannual Report for 2018.
- Of these seven cooperatives, six of them are in food production.

This is not a recent phenomenon. Cooperative businesses have long been part of the New Zealand way of life. The first cooperative was established in New Zealand in 1864, and the first dairy cooperative was registered in 1871. By the 1940s, 85 percent of the dairy factories in New Zealand were cooperatives.

New Zealand was not slow in helping cooperative efforts overseas, either. Following his experiences during the War of Resistance against Japanese Aggression, Rewi Alley saw cooperative endeavour as essential for China's rural reconstruction. He also saw that this would require trained leaders, skilled in industrial and agricultural practice. At Rewi Alley's Shandan Bailie School, pride of place was given to the 800-hectare farm, stocked with Corriedale sheep donated by New Zealand farmers. Seeds donated by New Zealand aid and development agency CORSO meant that, on every available piece of land the school owned, some sort of crop was growing.

From 1951, New Zealand was supporting projects elsewhere in Asia through provision of education, training and technical expertise under a British Commonwealth initiative called the Colombo Plan. Former New Zealand High Commissioner to India Nick Bridge tells the story of how, under the Colombo Plan, New Zealand helped set up the Indian cooperative dairy system along our own cooperative New Zealand lines. During Nick's posting to New Delhi in the 1990s, he observed that rolling stock provided as part of the 1950s aid programme was still in use, taking milk by rail from Gujarat to Bombay and from there onto Calcutta.

For New Zealand food producers, getting their produce to market has always been a problem.

Early in the European colonisation of New Zealand, the country had been imagined as a farm for Britain. Rapid industrialisation in the United Kingdom had increased demand for food in the towns, while simultaneously depriving the countryside of labourers to produce it. Despite the rise in demand, the cost of shipping live animals from New Zealand was prohibitively expensive. The exporting of canned meat, although proving popular in the Pacific, was still in its infancy. Farmers and food producers in New Zealand were facing huge obstacles in getting their produce to markets half a world away.

In 1882, all this was about to change.

Robust refrigeration technology had only recently been developed, and had been trialled in the shipment of American chilled beef to the United Kingdom. In 1881, Mr William Davidson, Director of the New Zealand and Australian Land Company, persuaded the owners of the passenger sailing ship *Dunedin* to refit their ship with a coal-fired compression refrigeration machine. This innovation allowed the entire hold to be filled with frozen produce, destined for British sale and consumption.

On 15th February 1882 the *Dunedin* left Port Chalmers, New Zealand with 4,331 sheep, 598 lamb, and 22 pig carcasses; 250 kegs of butter, hare, pheasant, turkey, and chicken; and 2,226 sheep tongues. Ninety-eight days later, the carcasses were thawed and sold at London's Smithfield market. Out of the entire cargo, only one carcass was condemned as unfit for sale.

The successful shipment of refrigerated produce from New Zealand to the United Kingdom was a game-changer. Within five years, 172 shipments of frozen meat were sent from New Zealand to the United Kingdom. Despite New Zealand's remote location and distance from major markets, the advent of refrigerated shipping would allow the country to become a major provider of agricultural exports to the world.

More recent advances in cold chain logistics — essential for the shipment of fruit and seafood, as well as other perishable items — have changed the game once again. Today, a New Zealand seafood producer can harvest live green-lipped mussels from the sea and deliver them to the front door of a Shanghai consumer's apartment in 36 hours.

However, the refrigerated container (or reefer) supply chain is highly vulnerable to disruption. During the Covid pandemic, fewer port calls created difficulties for many exporting businesses and pushed up costs significantly. Port congestion in New Zealand and overseas can also create supply chain delays.

Lack of resilience in the supply chain is only part of the problem.

- Empty container handling between ports creates inefficiencies.
- The need to lower ocean freight emissions, accommodate larger vessels, meet increased costs, and deal with longer lead times all create competitive barriers.

These problems are exacerbated by New Zealand's geographic isolation and its position at the end of international supply chains.

Producers can build scale and improve efficiencies by forging alliances.

Faced with these difficult problems, two of New Zealand's largest cooperatives — Fonterra and Silver Fern Farms — saw an opportunity to collaborate in order to provide scale and improve the efficiency and utilisation of the supply chain.

Fonterra is New Zealand's largest cooperative by revenue. Owned by over 9,000 farming families and with 27 manufacturing sites across the country, Fonterra is New Zealand's largest exporter and responsible for around 30 percent of the world's dairy exports. Fonterra ships products to over 200 ports across more than 130 countries. Its dairy products are delivered with some of the lowest carbon emissions in the world, despite New Zealand's relative isolation.

Formerly a wholly-owned cooperative, Silver Fern Farms now operates under a hybrid model as a result of a joint venture established with Shanghai Maling in 2016. Silver Fern Farms produces 30 percent of all New Zealand lamb, beef and venison, in partnership with 16,000 sheep, beef and deer farmers. In the peak season it employs 7,000 staff across 14 plants, and sells its products to over 60 countries.

In 2011, Fonterra and Silver Fern Farms established a joint venture logistics company called Kotahi.

Kotahi is a Māori word that means ‘standing together as one’. It represents the idea of coming together to achieve a common goal — in this case, improvements in global supply chain management. Kotahi brings together New Zealand exporters and importers in order to match supply and demand more efficiently. Kotahi uses around 12 different carriers into and out of New Zealand, with Fonterra contributing approximately 65% of cargo by volume.

Kotahi now has over 50 customers and exports one-third of New Zealand’s container traffic. It has helped Fonterra and other exporters move products and empty containers around the world and avoid unnecessary storage-related costs.

By pooling container cargo, Kotahi balances supply and demand for ocean freight and land-side transport, creating value for its customers and partners. Seafood, timber, wood pulp, meat, hides, wool, dairy products, seeds and pharmaceutical products are all moved around the world as efficiently as possible, bringing producers closer to their global consumers.

In 2014, Kotahi and New Zealand’s Port of Tauranga entered into a strategic ten-year freight alliance. The Port of Tauranga is New Zealand’s largest export port, handling a third of all New Zealand cargo, nearly 40% of New Zealand exports, and nearly half of all shipping containers.

At the time, New Zealand didn’t have a port capable of berthing the new big ships. Following a separate long-term agreement with Maersk Line, the world’s largest container shipping company, Kotahi has worked together with other key players to develop the local capability necessary to receive these large vessels. This work ensures that New Zealand will not become a spoke to a larger hub in Australia or elsewhere, thus avoiding an additional 7–10 days in export transit time.

Belt and Road projects can also change the game.

Let me begin by briefly reviewing New Zealand’s connection with the Belt and Road Initiative (or BRI). The initiative, announced by President Xi Jinping in 2013, was designed to promote closer ties between countries through development-led trade growth. New Zealand and China signed a Memorandum of Arrangement to work together on the BRI in March 2017. The agreement was renewed for a further five-year period in March 2022.

Soon after the signing of the MoA, the New Zealand China Council floated the idea that New Zealand might be a natural link between China and Latin America. In June 2019, New Zealand China Council, Latin America New Zealand Business Council, Consejo Argentino Para Las Relaciones Internacionales, Fudan University, and Fundacion Chilena del Pacifico co-hosted a 'Building the Southern Link' conference in Auckland, bringing together 150 businesspeople, government officials and thought leaders from New Zealand, China, Argentina, and Chile.

The Southern Link put forward at that conference proposed the routing of passengers and multi-modal freight between China and Latin America via New Zealand, providing the shortest air route between the continents and facilitating a more seamless and convenient flow of goods and people compared to alternative hubs in the Northern hemisphere.

Most importantly, the Southern Link places New Zealand not at the end, but in the middle of an international supply chain, with flows of goods and people between China and Latin America in both directions.

Despite disruptions to international trade and tourism caused by the Covid pandemic, the idea of the Southern Link has been gathering momentum. A report commissioned by the NZ China Council in 2021 found that air routes between Asia and Latin America along the Southern Link can be quicker, less congested and price competitive relative to existing alternate routes via London, Paris, Madrid, or Dubai.

The availability of deep-water ports in New Zealand, and the development of big ship capability at the Port of Tauranga in particular, create bimodal options for freight. Efficiencies would be further improved through the development in New Zealand of hubbing and fulfillment centres, taking advantage of the co-location of air and sea freight at the same or adjacent sites.

Opportunities for shipping connections between China and Latin America have been further strengthened through Cosco's investment in the Port of Chancay, in Peru. Located 45 miles north of Lima, the country's capital, the port is designed to become the main terminal for trade between Latin America and Asia. Existing road and potential rail links to Brazil will allow trade to extend across the continent. The port is 60 per cent owned by Chinese-owned shipping company Cosco and 40 percent owned by Peruvian mining company

Volcan. Much of the infrastructure has already been built. The port is expected to begin operations in November of this year.

Extended air and sea connections to Pacific Island countries (PICs) are also possible. In May of last year, the Patron and Chair of the Pacific China Friendship Association, Her Royal Highness Princess Pilolevu Tuita of Tonga proposed a 'Maritime Pearl Road', linking PICs to ports in China. Along with the possibility of a New Zealand hub (or hubs) serving the South Pacific, hubbing facilities serving the North Pacific have also been proposed for Kiribati.

Cooperatives can leverage their shared values and objectives to compete successfully in world markets.

In his presentation to the June 2019 conference 'Building the Southern Link', Professor Huang Renwei of Fudan University in Shanghai spoke of how the Southern Link could be the basis of a 'Community of a Shared Future in the Southern Hemisphere'. In doing so, he was pointing to one of the strengths of the BRI in bringing countries, companies and people together in a shared endeavour.

Cooperatives know this concept well. Of the seven cooperative principles, number six is cooperation amongst cooperatives, and number seven is concern for community.

I've already mentioned the historical examples of New Zealand supporting cooperatives in China and India. Producer cooperatives like Fonterra and Silver Fern Farms are working together to increase their competitiveness and reduce supply chain inefficiencies.

More recently, leaders of New Zealand and Chinese air and sea ports, sector bodies, airlines and shipping lines have come together to discuss common challenges in addressing climate change. The first Green Ports Dialogue between New Zealand and China, held online in October last year, recognised that we are all connected in one huge global logistics and transportation network. We will all need to work with as many partners as we can, in order to understand and solve the problems we collectively face.

Although the Shanghai-Los Angeles ports agreement is the one that has captured the world's attention, other ports are stepping up to the challenge. Here in Hainan, the Port of Yangpu has recently announced a service to Latin America. In partnership with Cosco.

Major users of these networks will have a say in how they should be shaped and best utilised to deliver green outcomes. This is where producer and exporter cooperatives can have an influence on the outcomes.

Airline and shipping lines will increasingly require access to green fuels for refuelling and will need ports to bunker it. Electricity needs for green ports are likely to be massive. This is where power generation and distribution cooperatives can play a role.

Shared values and objectives can build not only community, but also profitability.

In New Zealand, we have a saying, Nā tō rourou, nā taku rourou, ka ora ai te iwi. With your foodbasket and my food basket, the people will thrive. A group of 17 Kiwi businesses have banded together to sell directly to consumers in China, sharing the cost, risk, and experience of getting their own products in from of 700 million Chinese buyers. Calling themselves New Zealand Food Basket Limited, the group includes cooperatives like Fonterra and Zespri, and iconic brands like Sealord and Rockit, as well as smaller producers.

By understanding how our cooperative efforts fit together, and by recognising and overcoming the challenges of isolation and protectionism, we give each other the chance to succeed.

I'm going to finish with a short video showing you what the New Zealand food basket looks like —cooperatively produced, sustainably grown, and efficiently delivered from New Zealand to consumers all over the world.

[run video 'Inside Stories Food & Beverage' 3 min 8 sec]

Kiaora ki a koutou. Ngā mihi nui mō to wā.

Xièxiè dàjiā.

谢谢大家。