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ACCC IDENTIFIES RISKS TO CONTAINER PORTS MEETING DEMAND

The Australian Competition and Consumer Commission's annual report on stevedoring operations at Australia's largest container ports warns of risks of capacity running short at the Port of Melbourne by around 2015. The ACCC report finds that new terminals are well underway in Sydney and Brisbane. A new entrant, Hutchison Port Holdings, is expected to commence operations at those ports in 2013. This will be an important and positive development for the ports of Sydney and Brisbane and the economies that rely on them. The ACCC has expressed concern over a number of years that persistently high profitability and a lack of competition on prices suggested that Patrick and DP World faced only limited competition. If container numbers continue to increase at current rates, there is a risk that capacity problems, similar to those observed at Port Botany, could emerge in Melbourne as early as 2015. The Victorian Government is currently deciding how it will provide for future container capacity and increased competition at Melbourne. "Opportunities for new entry into Australian stevedoring are rare. This makes them all the more important when they do arise. We would welcome the Victorian government taking advantage of the need for new investment by introducing a third competitor into the port of Melbourne," ACCC Chairman Rod Sims said. "More cranes and terminals are needed, and existing terminals need to work harder and faster. Expanding ports bring opportunities for greater competition. "Competition should drive the stevedores to invest in a better service. This should see more containers being moved on and off ships more quickly." The ACCC report also found that efficient truck and rail connections to container terminals are important for meeting the challenges of Australia's growing freight task. Initiatives at Sydney, Melbourne and Fremantle to improve container flows in and around port precincts are positive. Further options to manage scarce capacity, such as encouraging access to terminals during off-peak times, may need to be considered as container numbers grow.

ASIA CARRIERS TO LEAD GLOBAL AVIATION INDUSTRY

With the European crisis building and a weak US economy, trade volumes have fallen sharply and fuel prices are up 40 percent on last year. Strong domestic spending is ensuring that key Asian economies remain resilient, but there is growing concern about the possible impact of further financial instability in Europe and the US moving into 2012. Traffic results for September show sustained growth in international passenger traffic, but a slowdown in European and US demand for Asian exports has seen international air freight traffic continue to decline. *(Continued on Page 2)*

SYDNEY AIRPORT EARNINGS SLIDE

Sydney Airport majority owner MAp says total earnings before interest, tax, depreciation and amortisation for the first nine months of this year were A$587.5 million, down from A$593.8 million in the prior corresponding period.

INSIDE

(Continued from Page 1) Asia Pacific airlines flew a total of 16 million international passengers in September, a 5.4 percent increase over the same month in 2010. However, the demand for international air freight measured in freight tonne kilometres decreased by 6.5 percent compared to last September. "Asia Pacific airlines are entering an exciting new phase of development, with AAPA destined to play a key role in confronting challenges that need to be addressed if the region's industry is to reach its full potential," said Andrew Herdman, AAPA director general. Commenting on the outlook, Herdman said Asian airlines continued to take an optimistic view on future growth prospects, reflected in ambitious fleet expansion plans, as well as the establishment of a number of new carriers of varying business models. "The traditional distinctions between full service network carriers, and low cost carriers focusing solely on short haul point to point routes, have become increasingly blurred over time. The recent development of a number of new joint-ventures between traditional carriers and new entrants, seeking to combine their respective strengths and tap new markets is testimony to this trend." Herdman said Asia-Pacific aviation represented a quarter of global passenger traffic and over two-fifths of global air cargo traffic.

AUSTRALIA RECORDS LARGEST QUARTERLY TRADE SURPLUS

Australia has recorded its largest-ever quarterly trade surplus. In the three months to September 2011, the surplus was $7.3 billion, up 16 per cent on the three months to June. The quarterly record came after a trade surplus of $2.6 billion in September, the seventh consecutive monthly surplus since floods and other weather-related disruptions led to a small deficit in February. It was also the fifth-largest monthly surplus on record. Robust Asian demand drove strong export growth over the quarter. Trade Minister Craig Emerson said Australia's exporters had recovered well from the weather-related disruption to trade early this year, and proved resilient against global economic turmoil and the strong Australian dollar. This had allowed them to benefit from continuing healthy demand from China and other Asian powerhouses throughout the year. Exports to East Asia have surged more than 24 per cent in the past 12 months, with shipments to China up 32 per cent, Korea up 26 per cent and Japan up 19 per cent. "Australian exporters have responded magnificently to extraordinary growth in Asian economies in the Asian Century," Dr Emerson said. A month-on-month fall in exports for September was driven mainly by a 24 per cent drop in non-monetary gold exports, a volatile commodity. Volumes of iron ore shipments in September were down around 3 per cent over the month, but this was partly offset by stronger prices. Rural exports went against the broader trend for the month, rising 2 per cent to $3 billion. Manufactured exports also rose, by nearly 1 per cent, in September. Services exports fell by 1 per cent, to $4 billion. Over the 12 months to September 2011, the value of resources exports rose 24 per cent.

COMMUNITY EYES HELP CUSTOMS WATCH

Minister for Home Affairs Brendan O'Connor has launched Customs Watch, a dedicated hotline for both industry and members of the public to report suspicious activities to Customs and Border Protection. Mr O'Connor said Customs Watch was a valuable next step in Customs and Border Protection's capabilities in protecting Australia's border. "The Customs Watch number - 1800 06 1800 - is answered by experienced Customs and Border Protection officers 24 hours a day, seven days a week," Mr O'Connor said. "No matter what time it is, your information could be the key to the seizure of drugs, weapons or other prohibited imports. "You do not have to leave your name, as Customs and Border Protection can take information anonymously." Customs Watch is an amalgamation of two existing community participation programs - Frontline and Hotline. The integration of these two programs will better support Customs and Border Protection's intelligence-led, risk-based intervention approach to detect and prevent threats at the border. "Customs and Border Protection officers do a fantastic job at our ports, airports, mail centres and patrolling Australia's vast coastline, but they can't be everywhere," Mr O'Connor said. "Industry and community members have an important role to play in preventing criminal activity at the border. "By building strong partnerships with industry and the community, Customs and Border Protection is better equipped to deter criminal behaviour, identify vulnerabilities at the border and prevent them from hurting Australia's national interests."

GLOBAL RATE INDEX DOWN 35 PERCENT THIS YEAR

Global container freight rates fell for the fourth straight month in September and are down 35 percent in the last 12 months, according to London-based Drewry Maritime Research. Drewry's Global Freight Rate Index, which excludes intra-Asia services, fell 12 percent amid continuing weakness on east-west lanes, particularly Asia-Europe, and the cascading of tonnage onto faster-growing markets in developing countries. Recent capacity withdrawals are helping stabilize trans-Pacific rates, but Asia-Europe trade lanes have excess capacity from the delivery of large container ships that can't operate in any other trade lane. "The characteristics of the trans-Pacific and Asia-Europe trades are diverging," said Martin Dixon, editor of Drewry's Container Freight Rate Insight. "The removal of capacity from the former is proving sufficient to put a brake on further rate erosion. However, the absence of any such action on the Asia-Europe trade means that rates have further to fall." Drewry said rates have stabilized in the South Asia, South America, Oceania and intra-Asia trade lanes, and that sub-Saharan African trades have bucked the overall trend with a strong rebound in pricing. But trans-Atlantic rates are down more than 25 percent from their mid-year peak. "Container shipping remains very much a buyer's market with rich pickings for shippers coming into the annual contracting season," Dixon said. "Given faltering global demand, the level of overcapacity and carriers' continued penchant for chasing market share, Drewry does not expect rates to recover notably in the near term."

APPROVAL OF NATIONAL REGULATORS WILL TRANSFORM AUSTRALIAN TRANSPORT

Australia's transport ministers approved national laws to underpin the new National Heavy Vehicle Regulator and National Rail Safety Regulator at the inaugural Standing Council on Infrastructure and Transport (SCOTI) meeting in Canberra recently. Ministers also agreed that the National Ports Strategy and COAG Road Reform Plan (CRRP) Feasibility Study be provided to COAG for its consideration and endorsement. "The approval of the laws reflects the commitment of our political leaders to these reforms which will transform heavy vehicle and rail regulation," said NTC Chief Executive, Nick Dimopoulos. "The laws will establish a new era in which productivity and safety are no longer hindered by state or territory borders. "As an independent statutory body, the NTC has played an important role in championing the initiation and development of national heavy vehicle and rail safety laws, road pricing reform and the ports strategy." The NTC estimates that establishment of the National Heavy Vehicle Regulator laws will deliver around $12.4 billion worth of savings over 20 years, while the establishment of the National Rail Safety Laws will deliver up to $72.7 million in savings over the same period. "The new laws will allow road and rail operators to spend less time on dealing with red tape and more time focusing on growing their business safely," said Mr Dimopoulos. The NTC is continuing to work with stakeholders on resolving some of the remaining policy issues before the new regulators come into effect in 2013.

ROBUST TRANSFER PRICING RULES FOR MULTINATIONALS

The Assistant Treasurer Bill Shorten has announced the Government will reform the transfer pricing rules in the income tax law and Australia's future tax treaties to bring them into line with international best practice, improving the integrity and efficiency of the tax system. These rules require multinational firms to price intra-group goods and services to properly reflect the economic contribution of their Australian operations. A recent court case has highlighted some difficulties for Australia to appropriately assess transfer pricing cases in a way that is consistent with our major trading partners. The Government is taking action to ensure multinationals pay the correct amount of tax in Australia on their income and to provide certainty on our transfer pricing laws. "Multinational groups operating in Australia will not have to deal with transfer pricing rules that haven't kept pace with international practice to inform how they allocate profits around their group," Mr Shorten said. "International thinking on transfer pricing has moved on since the current transfer pricing rules were inserted in the income tax law," Mr Shorten said. "The Government has asked the Treasury to review how the transfer pricing rules can be improved, including but not limited to how to be more in line with international best practice. I urge all interested parties to participate in this consultation process," he added.

SMALL BUSINESS STILL THE BACKBONE OF ECONOMY

A new report confirms Australia's two million small businesses are the backbone of the Australian economy. Minister for Small Business, Senator Nick Sherry, has launched Australian Small Business Key Statistics - an overview of Australia's small businesses, with emphasis on business counts, characteristics and performance. "The research reinforces how vital a role the small business sector plays in Australia's economic life," Senator Sherry said. The report has been compiled by the Department of Innovation, Industry, Science and Research, using data from the Australian Bureau of Statistics and other sources. "Small business accounted for nearly half of total industry employment and a third of industry value-added in 2009–10," Senator Sherry said. "Small businesses have a major presence in all industry sectors. "At June 2009, they accounted for nearly 98 per cent of all businesses in the agriculture sector, about 96 per cent in the services sector, about 91 per cent in the mining sector and just over 88 per cent in the manufacturing sector. "The Gillard Government is keen to ensure small businesses have all the support and advice they need to continue providing the essential economic activity for the nation." The Government has a number of programs that directly support small business, such as the Small Business Advisory Services program. Through this the Government has already committed $48.25 million to fund 37 Business Enterprise Centres around Australia.

BOOST FOR AUSTRALIAN INDUSTRY TO SUPPLY MAJOR RESOURCE PROJECTS

Australian manufacturers and suppliers will have a greater opportunity to supply the needs of major resources projects as a result of new initiatives announced recently. The Government will provide over $1.2 million to connect Australian companies with supply opportunities on four of our largest multi-billion dollar projects through the Industry Capability Network (ICN) program. The four projects ICN providers will now start working on are:

- Woodside's proposed Browse LNG project in Western Australia
- INPEX's proposed $25 billion Ichthys LNG project in the Northern Territory
- BHP Billiton's proposed Olympic Dam mine in South Australia
- LNG projects in the Gladstone area of Queensland with a combined value of $50 billion, that have reached final investment decision.

The Prime Minister said the Government's support for the ICN program was an innovative way to help Australian manufacturers win contracts on major resource projects. There are immense opportunities for Australian industry to benefit from one of the largest resources sector investment booms and the Government wants to make sure Australian businesses have the best chance at securing these contracts. In 2010-11, the ICN helped Australian companies secure more than 150 contracts valued at more than $750 million. Without this assistance these contracts could have gone to overseas companies. Capital expenditure in the resources sector is predicted to reach a record of over $82 billion this year, up from $47 billion last financial year.

IATA REPORTS SEPTEMBER CARGO DECLINE

September proved to be an even more difficult month than August in terms of global cargo volumes, International Air Transport Association executives revealed. Falling 2.7 percent, year-over year, September freight traffic was especially weak in the Asia-Pacific region, with demand declining 6.3 percent from September 2010. IATA officials attribute these numbers to the continued effects the March earthquake and tsunami in Japan are having on global supply chains. They're quick to point out however, that "robust economic growth" continues to characterize this region. Unfortunately, weak volumes out of North America and Europe have stalled demand for airfreight services. Not surprisingly, European carriers also saw reduced cargo volumes in September, experiencing a year-over-year decline of 2.4 percent; cargo demand for their North American counterparts remained flat. Either way, IATA Director General and CEO Tony Tyler acknowledged that September was a challenging month for cargo carriers worldwide. "Freight demand contracted for a fifth consecutive month, and this trend is in line with falling business and consumer confidence," he said in a statement. Cargo markets should soon see improvement. IATA officials expect the worldwide airfreight sector to grow 4.2 percent in 2012, although yield is expected to remain sluggish.

SEASONS GREETINGS

We take this opportunity to extend to you and your loved ones our warmest greetings for the festive season and best wishes for a happy and prosperous 2012.

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