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NEWSLETTER 2012/3

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2012 BUDGET

Boosting Biosecurity

$379.9 million has been allocated over seven years for the construction of a state-of-the-art post-entry quarantine facility in Melbourne. “This facility will mean Australia will have the newest and most advanced technology available to manage the import of high-risk plant and animal material,” Minister Joe Ludwig said. $124.5 million has been provided for core frontline biosecurity operations and external review and verification processes. “On top of the wider biosecurity investment, a separate $95.9 million over seven years, allocated from the Caring for our Country program, will fund eradication programs for nationally significant pests and diseases.” Minister Ludwig said supporting all of these activities will be a $19.8 million investment over three years in biosecurity ICT infrastructure and systems.

Move On Duty-Free Tobacco

At present, in-bound travellers are able to bring in 250 cigarettes or 250 grams of cigars or tobacco products tax free. From 1 September 2012, this will be reduced to 50 cigarettes or 50 grams of cigars or tobacco products.

Cross-Border Transactions

The government will amend the 2010/11 Budget measure implementing the recommendations of the Board of Taxation from its Review of the application of GST to cross-border transactions. The package, originally announced to take effect from 1 July 2012, will now have a date of effect from the first quarterly tax period following assent of the enabling legislation. In addition, following consultation on the design and implementation of the announced measure, the government will make a number of other changes including to those proposed for the supply of goods by non-residents and not proceeding with changes relating to the non-resident agency provisions. *(Continued on Page 2)*

PATRICK INKS DEAL TO DOUBLE PORT BOTANY CAPACITY

Stevedoring company Patrick has signed an agreement with Sydney Ports Corporation (SPC) to develop its Port Botany facility and extend its lease by 31 years. Capacity at Patrick’s container terminal will more than double. Under the new agreement, Patrick will increase its footprint at Port Botany by 39% through the development of an integrated container terminal which comprises both its existing box facility and the adjoining 17.6ha site called Knuckle, its parent company, Asciano, said. Patrick’s capacity will rise to 2.5m teu a year and include an expansion of its quay line to 1400 metres with four berths capable of accommodating the new panamax ships. Once the necessary development obligations have been met, SPC will grant Patrick a lease for the two sites, expiring in June 2043, Asciano Managing Director, John Mullen, said. “The agreement will allow us to lift productivity through investment in new equipment and work practices,” he said. SPC Chief Executive, Grant Gilfillan, described the agreement as the “next step” in Port Botany’s container port facilities expansion.

INSIDE

(Continued from Page 1) To ensure the integrity of the originally announced measures, the government will also clarify and narrow the definition of permanent establishment for GST purposes.

Increased Use Of Smartgate Capability

The Government will provide capital funding of $7.9 million over two years to purchase additional passport control self processing kiosks (SmartGates) for use at Australia's major international airports. The Government will achieve net savings of $11.9 million over four years from the increased use of the SmartGate capability and by streamlining security arrangements at Sydney Airport.

Redirection Of Capital Spending

The Government will redirect savings of $19.5 million over four years within the Australian Customs and Border Protection Service. These savings will be redirected towards other border protection initiatives.

US BOX IMPORTS JUMP 7.3%

A surge in furniture and auto parts shipments helped US containerised imports to bounce back in March, over the same month in 2011, with a 7.3% increase to 1.4m teu. Trade intelligence company, Piers, reports that the March rise followed a 5.9% decline in February 2012. On a month-to-month basis, overall imports climbed 15.2% in March, following a contraction of 19% in the previous month of 2012. For the first quarter, overall imports advanced 2% year on year to just over 4m teu, compared to the 1.5% forecast. “Latest teu data supports my view of very modest imports growth through the second half of the year,” said Journal of Commerce/Piers economist, Mario Moreno. “Although the US economy is showing signs of deceleration, it will likely be momentary as the FED has made it clear it is prepared to do more if conditions worsen. "Import growth should regain speed in the second half of the year. Imports from Asia for the first quarter edged up just 0.5% versus a forecast of 1%. On a country level, shipments from China showed the most gains, up 13% to 579,000 teu. This sharp jump in shipments from China is mostly owed to an easier year-over-year comparison with March 2011 base as the 2012 lunar New Year came early,” Mr Moreno said.

AUTO INDUSTRY WELCOMES WEBB DOCK DECISION

Australia’s automotive industry has welcomed the decision announced by the Victorian Government to redevelop Webb Dock West. The decision will consolidate the automotive import and export trade by relocating it within the Port of Melbourne to the newly redeveloped Webb Dock West. FCAI Chief Executive, Ian Chalmers, said the welcome decision demonstrated the Victorian Government’s willingness to find a solution to the relocation of the automotive trade which best met the needs of car importers while providing benefits to the Victorian community.

IDLE CONTAINER SHIP CAPACITY FALLS BY A THIRD

Container lines have started reactivating their idle container fleets for the northern summer peak shipping season, which has resulted in a decline of almost a third in idle container ship capacity, according to Alphaliner. The decline in the idle fleet in the last month has added vessel capacity equivalent of 293,000 20-foot equivalent units to global trade lanes, which could slow or erode the increases in freight rates to and from China. Rates on lanes connecting to China have increased by an average of 38 percent on the China Containerized Freight Index since January, Alphaliner said. The capacity of the idle container fleet, which stood at 913,000 TEUs in mid-March, fell 32 percent to 620,000 TEUs at the end of April. New services scheduled for launch in the next three months are expected to bring the idle fleet below 350,000 TEUs by July. Alphaliner said the current downturn is unprecedented in both duration and intensity. According to historical container ship idling data compiled by the French analyst, the container ship fleet enjoyed close to full employment prior to 2009. The impact of previous container shipping downturns has been much milder than the current dip. Their effect was usually felt for less than 12 months, with modest unemployment levels. The downturn in 2002 lasted for about 10 months, and vessel unemployment peaked at only 3.2 percent of the fleet.

INTERNATIONAL TRADE REMEDIES FORUM MEETS

Minister for Home Affairs, Jason Clare, has met with the International Trade Remedies Forum – which brings together industry, unions and government to reform Australia’s anti-dumping system. The forum was attended by senior representatives of industry groups including the Australian Industry Group, the Australian Steel Association, the Australian Food and Grocery Council and Dried Fruits Australia. Major Australian companies One Steel, Capral and Kimberley Clark also attended, as did the Australian Council of Trade Unions, the Australian Workers Union, the Australian Manufacturing Workers Union and the Construction, Forestry, Mining and Energy Union. "We are currently implementing the most significant overhaul of Australia’s anti-dumping regime in more than a decade," Mr Clare said. “We passed the first tranche of reforms through the Parliament last year. The second tranche is now in the Senate. The third tranche is in the House of Representatives and the fourth tranche will be introduced in the next session of Parliament." The meeting focused on the development of the fourth tranche of legislation. This will establish an anti-circumvention framework, strengthen non-cooperation provisions and make further reforms to subsidies provisions in the Customs Act.

SHARP FALL IN MANUFACTURING ACTIVITY IN APRIL

Manufacturing fell sharply in April according to the latest Australian Industry Group – PwC Australian Performance of Manufacturing Index (Australian PMI®) with the seasonally adjusted index dropping 5.6 points to 43.9 in the month (readings below 50 indicate a contraction in activity with the distance from 50 indicative of the strength of the decrease). The basic metals, textiles and wood products and furniture sub-sectors recorded the largest falls while construction materials and paper, printing & publishing expanded in April. Employment (46.1) and production levels (43.9) across manufacturing moved into negative territory in April while new orders (42.0) fell further. Australian Industry Group Chief Executive, Innes Willox, said: "While it is a reading of only one month, the steep fall in manufacturing activity in April rings true and is of serious concern. The fall in the Australian PMI® is consistent with what we are hearing from Ai Group members and a range of other data. Manufacturers continue to be adversely affected by the strong dollar, comparatively high unit labour costs and rising energy prices. Production, employment and new orders all fell sharply in April pointing again to the importance of lower interest rates both in reducing borrowing costs and in easing pressures on the currency," Mr Willox said. PwC Partner - Economics and Policy, Jeremy Thorpe, said: "As predicted in February, after a flood of announced job cuts in the manufacturing industry, the result has been a dramatically reduced Australian PMI®. April figures show ten of the 12 manufacturing sub-sectors recording a decrease in activity. With job cuts continuing to be announced in the manufacturing sector, it is probable the Australian PMI® will continue to decline, irrespective of the likely Reserve Bank interest rate cut in May," Mr Thorpe said.

IMPORTS SURGE AGAIN AT PORT BOTANY

Australia's appetite for furniture and clothing helped boost the overall volume of containers through Port Botany by 3% in March to 159,560 teu. Containerised imports in March rose 9% from the previous corresponding period to 81,788 teu thanks to miscellaneous manufactured articles including apparel, sanitary items and light fixtures. Chemical imports including plastic materials, essential oils and pharmaceutical products also rose along with machinery and transport equipment. Almost 44% of all containerised imports through Port Botany were sourced from east Asia and 16% came from Europe. Meanwhile, containerised exports fell 5% from March 2011 to 37,845 teu with cereals, machinery, transport equipment and chemicals making up almost a third of exports. Sydney Ports' $750m Botany expansion is expected to help manage the rise in container trade Chief Executive, Grant Gilfillan, said, adding that he welcomed the plan by Victoria's government to build a third container terminal at Webb Dock. "This major investment recognises the need to meet the future growth of trade and will provide genuine competition on the east coast of Australia," he said.

ACTIVE BOX SHIP FLEET HITS RECORD 15 MILLION TEUS

The active container ship fleet has soared to a record 15 million 20-foot equivalent units, driven by deliveries of new vessels and a sharp reduction in the number of laid-up ships, according to Alphaliner. The growth in the active fleet after eight consecutive months of declining capacity "is likely to lead to renewed price competition as the capacity reduction was one of the key factors behind the carriers' recent success in raising freight rates," the container market analyst said. Sixty-two new container ships with a total capacity of 455,000 TEUs have been delivered since the beginning of the year, 23 of which exceeded 10,000 TEUs each. Increased scrapping — 55 vessels totaling 93,500 TEUs have gone to scrap yards this year — is helping to keep the surge in capacity partially in check. But although total scrapped capacity this year could reach 200,000 TEUs, it will be a fraction of the 1.4 million TEUs of new capacity expected to come on line. That additional capacity, coupled with weakening demand, jeopardizes the recent rate increases carriers have made stick, and others they have in the pipeline, Alphaliner said. Growth in demand at main container ports slowed to 5 percent in the first quarter, it noted. Carriers are expected to report another quarter of weak results, with higher fuel prices likely to offset increasing spot freight rates. Also hurting are the signing of contract rates at much lower levels than spot pricing.

ASIAN AIRLINE CARGO TRAFFIC DROPS 4.5 PERCENT

International air cargo traffic carried by Asian airlines fell 4.5 percent year-over-year in March as key consumer markets remained weak. The Association of Asia Pacific Airlines said the result was "a reflection of lackluster export-import markets." Offered freight capacity by Asian airlines contracted by 4.1 percent in March compared to a year earlier, resulting in a 0.2 percentage point fall to 69.3 percent in the average international air cargo load factor of carriers. AAPA Director General, Andrew Herdman, said international air cargo traffic for the first quarter had contracted 4.1 percent compared to a year ago, "reflecting a soft market and lingering concerns over weakening consumer demand, particularly in Europe. The global macro-economic outlook is still overshadowed by the potentially dampening effects of stubbornly high oil prices, and poor growth prospects in Europe, but Asian economies are still delivering robust growth," he added. "Nevertheless, airline margins remain under pressure from high fuel costs, focusing attention on further efforts to tightly control costs and carefully match capacity to market demand."

CHAMBER WELCOMES PORT OF MELBOURNE UPGRADE

Business lobby group the Victorian Employers' Chamber of Commerce and Industry has welcomed the announcement of a Webb Dock redevelopment and an upgrade to Swanson Dock. VECCI Chief Executive, Mark Stone, said development of the port will bring infrastructure to support international trade opportunities. "We have previously highlighted the importance of increased container capacity at Webb Dock to meet forecast demand in container freight that accompanies our international trade opportunities. The plans announced will provide the infrastructure required to meet this growing demand and improve efficiency of the Port, while further confirming Melbourne's advantage as Australia's premier container port. The development will bring economic benefits to the entire state," Mr Stone said. The entire $1.2bn project is to be funded with $500m from the Port of Melbourne Corporation and $700m from the private stevedores. Bidders to operate the Webb Dock terminal must also submit plans explaining how they will avoid creating traffic congestion on nearby roads.

GOVERNMENT APPROVES $1.6BN MOOREBANK LOGISTICS TERMINAL

Australia's federal government will seek tenders from the private sector to design, build and operate the $1.6bn Moorebank freight terminal in south-west Sydney. Private sector operators for the project will be chosen through an open and competitive tender process managed by a government business enterprise which is yet to be established Federal Transport Minister, Anthony Albanese, said. Moorebank Intermodal Terminal will have a rail link from Port Botany to a new freight terminal and warehousing facilities. On completion, this project is expected to reduce road congestion by taking more than 3000 trucks off Sydney's roads every day, Mr Albanese said. Citing an independent report by advisory firms KPMG and Greenhill Caliburn, Moorebank is said to be an ideal location because of its close proximity to major connecting routes such as the M5 and the Southern Sydney Freight Line, Mr Albanese added. Subject to planning and environmental approvals, the open access terminal will be operational in 2017.

GOVERNMENT TO REIMBURSE EXPORT PROMOTION EXPENSES

Parliamentary Secretary for Trade, Mrs Justine Elliot, has announced the likely payments for claims made through the Export Market Development Grants Scheme in 2011–12. Businesses with approved grants of up to $50,000 will receive the full value of their EMDG approved claims. Those with grants in excess of $50,000 are likely to be paid 100 cents in the dollar this year on the balance of their approved claims above $50,000. "I am pleased to announce we expect the second payment for the balance of grants over $50,000 to reimburse exporters their full entitlement under the scheme. The maximum grant payable is $150,000." Mrs Elliot said. "The Government is determined to support exporters in their key role generating jobs and prosperity for Australia," Mrs Elliot said. Austrade will finalise the second tranche of 2010-2011 payments under the EMDG scheme in June. The Government announced last July it would set the ceiling for initial grant payments at $50,000, raised from the previous year when it was $27,500.

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