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NEWSLETTER 2014/3 **JUNE 2014**

BUDGET 2014

Budget measures impacting on international trade and transport stakeholders include:

- The Government will provide $480.5 million over four years ($711.9 million over six years, including $438.7 million in capital funding) to strengthen Australia's border protection services.
  From 1 July 2015, the Australian Customs and Border Protection Service will be consolidated into the Department of Immigration and Border Protection to create a single agency.
  Enhancements to Australia's border protection services will commence in 2014-15 within the existing Australian Customs and Border Protection Service including through:
  - improved trade and passenger facilitation by implementing more efficient processes;
  - better targeting and interception of illegal trade and travellers through enhanced Information Communication Technology systems, intelligence and enforcement capability; and
  - strengthened integrity and capability of the border workforce.
  The cost of this measure will be met from within the existing resources of the Immigration and Border Protection portfolio and improved revenue collection of $208.2 million over four years ($346.6 million over six years) through the use of analytics and detailed data modelling, new processes for revenue collection and targeted campaigns to improve compliance.

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KOREA-AUSTRALIA FREE TRADE AGREEMENT

On 8 April 2014, Australia's Minister for Trade and Investment Andrew Robb and his South Korean counterpart, the Minister for Trade, Industry and Energy, Yoon Sang-jick, formally signed the Korea-Australia Free Trade Agreement (KAFTA) in Seoul. The Office of Best Practice Regulation (OBPR) assessed the agreement as likely to have a measurable impact on substantial sectors within the economy. Over the past decade Korea's economic importance to Australia has expanded significantly to become Australia's third-largest export market, fourth-largest trading partner and a growing investment partner. Korea is a particularly significant market for Australia's agricultural exports, including raw sugar, beef, grains, dairy, wine, seafood and horticulture. Korea is also a significant export destination for Australia's resources. However, Australian exporters currently face various tariff and non-tariff barriers and restrictions to trade with Korea, which reduces Australia's competitiveness with other countries who do not face these barriers. In the absence of measures to address these barriers, Australia's competitive position would be expected to decline over time. KAFTA is expected to deliver significant market access improvement and significant tariff liberalisation for Australia's exports to Korea. KAFTA will see Korea's tariffs set at zero on 84 per cent of its imports (by value) from Australia immediately upon entry into force with most other tariffs phased out quickly. Tariffs will remain in place

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for a small number of Korea's most sensitive products however these account for only a very small amount of Australia's exports to Korea. Korea will also benefit from tariff reduction or elimination on the goods it exports to Australia. The removal of these tariffs will benefit consumers through lower costs, but the impacts on domestic manufacturing will be mixed. Those industries that use parts produced in Korea will benefit from lower input costs, but those industries that compete with products produced in Korea will face additional pressure. The latter category of industries may include the automotive industry and steel producers. Other manufacturing sectors, such as the plastics, chemicals, textiles, clothing and footwear industries may also face increased competition. To mitigate these impacts, tariffs on some of Australia's most sensitive products will be phased out over periods of up to eight years. In aggregate, KAFTA will result in an estimated saving of around $96,000 in average annual compliance costs for some Australian exporters. Overall, it is estimated that Australian exports to Korea will be 25 per cent higher after 15 years of KAFTA's entry into force than if Australia did not enter an FTA with Korea. The removal of tariffs on Korean imports into Australia will reduce tariff revenue; however these effects are expected to be offset over time by the increased economic activity. Tariff reductions in the automotive and consumer products industries are expected to result in lower costs for Australian consumers.

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- The Government will move to full cost recovery of its biosecurity services for imports and live animal exports. Fees for import clearance, seaports, post entry animal quarantine and live animal exports will be set to recover expected operating costs for 2014-15 in line with the provision of services on a user pays basis. For import clearance and seaports, revenue shortfalls in 2013-14 will also be recovered in 2014-15.
  This policy will be implemented in accordance with the Australian Government's cost recovery policy. The additional revenue is not for publication due to ongoing consultation with the relevant industries.
  The new fees will come into effect on 1 July 2014.
  The Government will also redesign and simplify the biosecurity cost recovery framework to support a more efficient and effective biosecurity system, with implementation expected to occur from 1 July 2015.
- **$11.6 billion** to establish an lnfrastructure Growth Package that will fast-track investment in critical infrastructure across the country that includes:
  - **$5.0 billion** over five years towards the Asset Recycling Initiative which provides incentive payments to encourage the states and territories to sell assets and recycle the sale proceeds into new productivity-enhancing infrastructure.
  - **$3.7 billion** for targeted infrastructure investments to deliver priority infrastructure projects and upgrades including:
  - accelerating work on major projects such as Melbourne's East West Link - Western Section, Adelaide's North South Corridor, the Perth Freight Link, Toowoomba Second Range Crossing, as well as projects on the National Land Transport Network in the Northern Territory
- investment of **$2.9 billion** in Western Sydney to support the new Western Sydney airport; and to upgrade and improve the safety and reliability of the network.

The Australian Logistics Council Managing Director, Michael Kilgariff, said "The projects outlined in the 2014-2015 Budget will go a long way to increasing capacity on existing freight routes and supporting the construction of new infrastructure, and are welcomed by Australia's freight logistics industry. Limited public funds need to be targeted at infrastructure projects which are in the national interest and have broad and lasting economic and social benefits. The projects being funded in this budget, including East West Link, West Connex, the Perth freight link, supporting works for an airport at Badgery's Creek and freight rail projects, are productivity-enhancing initiatives and are supported by ALC."

WINNING BIDDER ANNOUNCED FOR MELBOURNE'S THIRD CONTAINER TERMINAL

Victorian Minister for Ports David Hodgett has announced Victorian International Container Terminal Limited as the successful contract bidder to operate Melbourne's third international container terminal at Webb Dock. The consortium comprised of Philippines-based International Container Terminal Services and Australia's Anglo Ports will operate the terminal, meaning there will now be three operators in Melbourne and four in Australia, promoting increased competition in shipping. Mr Hodgett said the winning bidder had lodged an innovative bid which demonstrated the group's global experience in terminal operations, development and shipping. The new terminal will handle over one million standard containers each year and Victoria International Container Terminal Ltd will concentrate on promoting off peak truck movements to improve the efficiency of Victoria's transport logistics and feed expanding supply chains. Work on the new terminal is expected to start later this year and be completed in late 2016.

NSW PRIVATISES NEWCASTLE PORT FOR $1.75BN

NSW has agreed to lease the Port of Newcastle to a consortium of financial investors for 98 years in a $1.75bn deal. "Transactions such as this bring enduring benefits to communities and the economy and build on the NSW Government's success track record in recycling mature State-owned assets to deliver major infrastructure projects that will unlock opportunities for growth, jobs and economic development," said NSW Premier Mike Baird. The NSW Government reached an agreement with Port of Newcastle Investments for the lease following a competitive five-month bidding process. Five final bids were received. The consortium of Port of Newcastle Investments is comprised of two members – Hastings Funds Management and China Merchants. The NSW Government will continue to retain regulatory oversight of the Port of Newcastle as well, responsibility for a range of maritime safety and security functions, including emergency response, Harbour Master, Port Safety Operating Licence and pilotage functions.

THE AUSTRALIAN GOVERNMENT'S SYDNEY AVIATION STRATEGY

The Australian Government has announced that Badgery's Creek will be the site for a new airport for Western Sydney. The Government has established the Western Sydney Infrastructure Unit within the Department of Infrastructure and Regional Development to implement this decision. It will also be responsible for undertaking important consultation with local councils, the community and other stakeholders, including the aviation industry. Partnership with the NSW Government will be integral to this work, especially in ensuring a coordinated transport plan for Western Sydney. The owners of Sydney (Kingsford-Smith) Airport have a right of first refusal to develop and operate Sydney's second airport. The Government will fulfil its obligations with regards to the right of first refusal.

VALUE OF AUSTRALIAN IMPORTS FELL 5% IN FEBRUARY

Australia imported $20.51bn worth of international trade goods in February 2014, a fall of $1.1bn (5%) on the revised January 2014 merchandise imports of $21.61bn, according to recent data from the Australian Bureau of Statistics (ABS). Meanwhile, the majority of containerised cargo within Australia's top 20 goods imports declined in value following a peak in January. "In seasonally-adjusted terms, goods debits rose $321m (1%) between January and February 2014 to $22.98bn," said the ABS. Intermediate and other merchandise goods fell $531m (5%) and consumption goods fell $58m (1%). Capital goods rose $803m (16%). ABS current 'International Merchandise Imports, Australia' report states that February imports of office machines and automatic data processors fell 19% to $644m from $799m, while telecom equipment and parts also fell 17% to $667m from $809m. Furniture (including bedding), which happens to be one of Australia's important containerised finished goods imports, declined 27% to $234m from $323m in January. The import value of clothing also declined with apparel and accessories down 8.6% to $699m from $765m. Imports of footwear dropped 15% to $153, down from $180m in January. Imports of textiles and fabrics declined in value by 10.5% to $240m from January's result of $268m. The import value of pulp and waste paper imports has remained stable at $20m since January, while the value of medicinal and pharmaceutical products dropped 16% to $789m from $938m. Household electrical equipment dropped 17% to $818m, down from $983m in January.

TRUSS ANNOUNCES OVERHAUL OF COASTAL SHIPPING REGIME

Deputy Prime Minister Warren Truss has released an options paper detailing the announcement and overhaul of the Coastal Shipping regime. "Right now our domestic shipping industry is treading water, bound in red tape, and unable to be competitive both domestically and internationally," Mr Truss said at the 2014 International Association of Ports & Harbours Mid-Term Conference in Sydney.

An options paper released by the office of Mr Truss comments that various sections of the Coastal Trading Act have "caused uncertainty and confusion about who the Act is supposed to support."

The paper specifically points to certain parts of section 3 of the Act (dealing with broad economic matters) which has been interpreted by shippers as meaning that they will be given support whereas carriers point to other parts of the same section (dealing with cabotage licence provisions) where they will be given favourable consideration. The options paper sets out three broad policy options:

1. Do away with all regulation of all access to coastal trading in all Acts of Parliament – which would affect laws relating to customs, quarantine, immigration, revenues, and restricted goods among others
2. Repeal the Coastal Trading Act and enact other laws to deal with other issues such as the customs tariff issues on the import of ships
3. Continue to regulate the coastal trade but change aspects of the existing regime e.g. remove or relax the five voyage minimum requirement to get a

temporary licence.
The options paper also explores issues related to the shipping register, the application of the Fair Work Act to coastal trading and cruise shipping and the tourism industry.

CARGO HANDLED BY AUSTRALIAN PORTS INCREASES BY OVER 9%

Deputy Prime Minister Warren Truss told attendees at the 2014 IAPH conference in Sydney recently that the total international cargo handled by Australian ports increased last financial year by over 9% in value. "Importantly, our container ports have also seen improvements in multi-factor productivity, about 20% over the past decade – well above the economy-wide productivity performance, which has actually declined slightly over the same period," Mr Truss said. "Berth productivity at all our container ports is now equal to or better than comparable international ports. Technology has contributed early to this. But many believe there is still room for improvement. Our ports handled more than 320,000 cargo ship visits last financial year and that has been increasing by more than 5% a year for the past five years." Australia's bulk commodity exports and metropolitan container imports are both expected to double in size every ten years. "With that growth comes an equally strong need to harness smart stevedoring technology and improve the intermodal connections of landside transport modes to boost the efficiency of the supply chain", he said. "Automated stacking cranes and other systems are significantly increasing container handling capacity and are providing a smooth and efficient flow through the terminal, which of course means better service for shipping lines, importers and exporters," Mr Truss said. "Now, better service means increased productivity. And the coalition government recognises that the time has come to ensure that our freight infrastructure – including road, rail, intermodal terminals and ports – is geared to meet this growth."

PORT OF MELBOURNE TO CLOSE BERTHS FROM JULY

Port of Melbourne Corporation (PoMC) will likely close some of its berths from July to make way for construction that will create additional container capacity. Berths 3, 4 and 5 at Webb Dock East will be closed from July 1 for the construction of the new automotive wharf and waterside infrastructure costing around $400m. PoMC has appointed maritime works contractor McDonnell Dowell for the task. It will work on upgrading and modifying the wharves to accommodate the needs of ships docking at the port's new international container terminal. Dredging work to deepen the shipping berths and the removal of around 2.3m cu metres of material under environmental management controls are also part of the plan. If McDonnell Dowell decides it necessary to use berths 3, 4 and 5 for delivery of project materials, it will be required to seek exemptions and approval from the harbour master, along with any other applicable statutory approvals. PoMC notes that the exact details of date and time in relation to the formal closure of the berths at Webb Dock East will be announced by the harbour master in the near future. Shipping lines and agents are advised by the PoMC to liaise directly with the terminal operator in the lead-up to the formal closure of the berths. The project's completion will commence the commissioning of Melbourne's third international container terminal which is expected to begin operations by late 2016.

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