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CUSTOMS BUDGET HIGHLIGHTS

Total estimated revenue requirement to run Customs for 2008–09 is \$1,302.156m, an increase of \$11.391m from 2007–08. Customs will administer the collection of an estimated \$6.297b in customs duty in 2008–09. This represents an increase of \$310.000m over the 2007–08 estimated actual which is due to a combination of factors. The principal factors are the expected continuation of the strong import growth for both passenger motor vehicles and excise equivalent goods, offset by a moderating growth in textiles, clothing and footwear and general imports. Customs will also administer the collection of an estimated \$695.978m in other revenue. The bulk of this revenue (\$551.329m) is represented by the Passenger Movement Charge (PMC). The PMC has been estimated to increase by \$131.607m in 2008–09 over 2007–08 of which \$106.300m is due to an anticipated increase in the unit charge. The increase is intended to partially cost recover National Security Aviation initiatives. In addition, \$380.000m will be made available in 2008–09 for Customs to pay for customs duty refunds and drawbacks. Customs currently has one purchaser–provider arrangement in place. The purchaser–provider arrangement is with the Australian Taxation Office (ATO). Customs and the ATO have a memorandum of understanding whereby the ATO will pay Customs \$52.649m in 2008–09 to fund resourcing relating to the operation of the new tax system, in particular the collection of GST-related activities and the payment of refunds under the Tourist Refund Scheme.

The Government will provide \$16.0 million over four years to the Australian Customs Service to increase its capacity to inspect and examine containers at regional ports in Launceston, Darwin, Townsville and Newcastle

for illicit and potentially dangerous goods and other border risks. CONTINUED PAGE 2

IATA TELLS MEMBER CARRIERS TO PUBLISH OWN RATES

In a precautionary move, the International Air Transport Association (IATA) has expressed concern that the Australian Competition and Consumer Commission (ACCC) will not extend its immunity from US antitrust and competition rules. Important regulatory changes impacting the Association's immunity from antitrust laws are scheduled to come into effect in the coming months.

IATA says that specifically for the regions to/from Australia and the US to/from ECAA, current grants of immunity will be removed, potentially resulting in the loss of IATA industry rates and certain rules. The most imminent change will be the removal of IATA industry rates and rules for the area to/from Australia. The immunity status - as it stands today - expires 30 June. IATA says despite ongoing talks during the recent World Cargo Symposium in Rome and the possibility of an extension, it is not one hundred per cent certain that the ACCC will decide favourably on the Association's request to postpone the immunity expiry date.

"Until we obtain clarity from the ACCC, we are proceeding under the assumption that there will be no change to the current expiry date. In order to remain consistent with applicable competition rules and avoid legal charges against rate fixing, member carriers have been advised to publish their own selling rates," said IATA.

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The Budget Papers indicate a range of compliance KPI's for Customs for 2008-09:

- imports—percentage of audits where revenue was adjusted by \$1,000 or more – Target: 55%
- exports—percentage of audits where free on board value was adjusted by \$5,000 or more - Target: 75%
- imports—company audit activity - Target: 400
- exports—company audit activity - Target: 50
- Sea cargo
 - number of twenty-foot equivalent units inspected - Target: 134,000
 - number of twenty-foot equivalent units examined Target: 14,300
- Air cargo
 - number of consignments inspected - Target: 6.2 million

FULLSPEED AHEAD FOR MARINE EXPORTS

More than 30 international buyers attended the 20th Sanctuary Cove International Boat Show on the Gold Coast in May, providing real export opportunities for 400-plus exhibitors, according to Balustrade's Marine Industry Network. Astride, the Australian International Marine Export Group (AIMEX), the Queensland Government and the Gold Coast City Council, joined forces to help deliver Australia's world-class marine capability to buyers from around the world. The Australian marine industry's turnover is over \$5.5 billion annually and the sector's 2700 companies employ over 29,000 people. On the Gold Coast, the local industry is worth around \$500 million and supports about 40 per cent of Queensland's marine industry workforce. More importantly, the marine industry generates exports worth over \$750 million each year – and much of this business is sourced at international boat shows such as Sanctuary Cove.

AUSTRALIA'S COMPOSITION OF TRADE 2007

Australia's total value of trade in goods and services increased 5 per cent in calendar year 2007 to \$454 billion, according to a Department of Foreign Affairs and Trade publication Composition of Trade Australia 2007. In volume terms, total trade rose 7 per cent.

2007 Highlights include:

- Exports increased by 4 percent in value terms to \$218

billion and 3 percent in volume terms.

- Imports increased by 7 percent in value terms to \$237 billion and 11 percent in volume terms.
- Australia's terms of trade increased by a further 5 percent in 2007, reflecting a 1 percent rise in export prices and a 4 percent fall in import prices.
- China became Australia's largest two-way trading partner in 2007, accounting for 13 percent (\$58 billion) of total trade.
- Japan was our second largest trading partner (\$55 billion), followed by the United States (\$48 billion).
- Japan remained Australia's largest export market (\$35 billion) with the United States the largest source of imports (\$32 billion).

GLOBAL TRAFFIC CONTINUES TO SLOW – IATA

International freight growth of 3.2 per cent is sluggish and well below the 4.3 per cent growth recorded in 2007, according to the latest International Air Transport Association (IATA) data for global cargo and passenger traffic for March. Compared to the same month in the previous year, passenger demand increased 5.8 per cent with load factors at 77.7 per cent. IATA says March passenger growth was positively skewed by the Easter holiday period which was in April of the previous year. Adjusting for this distortion, real traffic growth in March was 4 per cent. The slowdown in the demand growth continues the sharp downward trend which began in December 2007 as the impact of the US credit crunch began to be felt in the airline industry. International passenger load factors were equally skewed. When adjusted to take into account artificially high utilisation over the Easter period, the March load factor was 76.1 per cent. While still high, this is 1.7 percentage points lower than the 77.8 per cent recorded for the same month in 2007. This fall indicated that the slowing of demand occurred faster than airlines could cut capacity. "Traffic only tells a part of the story," says Giovanni Bisignani, IATA's director general and chief executive. "Astronomical oil prices are hitting hard. And the buffer of an expanding economy has disappeared. The fortunes of the industry have taken a major turn for the worse." Regional differences in passenger traffic growth are significant:

- As North American carriers shifted traffic from low-yielding domestic markets, their international traffic grew by 6.3 per cent in March. The impact of the high-valued Euro saw US carriers capitalise on the North Atlantic with a 10 per cent growth in traffic while European carriers' operations in the same area contracted by 2 per cent.
- The slowdown in Asia-Pacific carrier traffic to 4.3 per cent is significant in that the region's booming economies were expected to immunise them from the US slowdown.
- Middle East carriers saw a double-digit increase of

15.4 per cent reflecting the expanding economies in the region. But even this is a significant downward step from the 20.4 per cent recorded in 2007.

CLOSER COOPERATION ON TRANS TASMAN TRAVEL, TRADE AND SECURITY

Australia and New Zealand Customs have committed to a series of initiatives that will further streamline travel and trade between the two countries. The Australian Minister for Home Affairs, Bob Debus, and NZ Customs Minister Nanaia Mahuta met in Canberra, Australia, to discuss closer ties between the respective Customs Services. Mr Debus said Australian and NZ Customs would work jointly to make passengers' travel between New Zealand and Australia easier. "Arriving New Zealand passengers are already able to use the Australian Customs SmartGate solution at certain Australian airports," he said. Ms Mahuta said agreement had now also been reached between the two Customs agencies to install Australian SmartGate kiosks at Auckland International Airport, to pre-process travellers arrival in Australia before leaving New Zealand. "The kiosks will be for use by eligible New Zealand and Australian e-Passport holders travelling to Australian airports equipped with Smartgate. "We are continuing to work to find ways to streamline travel between both nations for airline passengers," Ms Mahuta said. Mr Debus said Australian and NZ Customs were also involved in a data sharing pilot that could ultimately allow Trans-Tasman traders to submit a single data entry to both Customs administrations simultaneously. This would allow for earlier and more accurate receipt of data by Customs and for reduced compliance costs and time-savings for industry.

BUSINESS CONDITIONS FALL TO 5 YEAR LOW

The March quarter Commonwealth Bank - ACCI Business Expectations Survey shows a significant fall in business confidence and reported business conditions. Business confidence, as measured by the Expected Economic Performance indicator, fell to the lowest level since the survey began in 1994 while general business conditions were at the lowest level for five years. Cost pressures continued to mount for business, with wage and non-wage labour costs at record highs. Growth indicators such as sales, profits, employment and investment all moved down over the quarter. Investment growth was also down over the quarter suggesting that the capacity of the economy has not been expanding as greatly as it was previously. On a positive note, the price data stabilised over the March quarter after rising significantly from March 2006. Mr Greg Evans, Director, Industry Policy and Economics, Australian Chamber of Commerce and Industry, commented: "The survey shows a worrying trend, with growth measures moving down and costs growth continuing to be high. Profit growth has turned down highlighting the difficulty of current business conditions. The survey supports ACCI's Pre-Budget Submission advocating reforms and reductions

FUEL HIKES BENEFIT CONTAINER SHIP BUILDERS

Just-in-Time (JIT) freight delivery systems combined with fuel price hikes are having a positive impact on shipbuilders and ship leasing companies. So called 'slow steaming' - where ships run at slower speeds to conserve fuel - is increasing demand for container ships, according to Seaspan Corporation chief executive officer Gerry Wang. "Because customers still want goods delivered to their agreed schedule, slow-steaming means more ships are required to deliver the same quantity of goods - so a shipping line, through redeployment, might run nine ships on an Asia-Europe route that used to operate with eight", he said.

AIRBUS PREDICTS STRONG CHINA DEMANDS FOR FREIGHTERS

It's been estimated that freighter traffic in China will grow six-fold and the country will need some 130 new freighter aircraft over the next 20 years. That's the view of Airbus, which says China's freighter traffic demand will remain at a high level, with an average domestic market growth rate of 10.5 per cent per year - and an average international market growth rate of 8.5 per cent a year. It says China's dedicated freighter fleet will grow eleven-fold over the next 20 years - from 45 freighters to 471 in 2026. Airbus says the Chinese mainland will need some 2800 new passenger aircraft and freighters from now until 2026, with a total market value of US\$329 billion. It represents 11.6 per cent of the world total demand for more than 24,000 new planes in the next 20 years.

"In terms of in-service aircraft, Airbus' share of the in-service fleet on the Chinese mainland has already increased from seven per cent in 1995 to the current 38 per cent. Our aim is to reach 50 per cent in 2012," said John Leahy, Airbus chief operating officer customers.

PORT KEMBLA GETS READY FOR MORE CARS

New infrastructure at Port Kembla will assist the port's transition towards becoming NSW's vehicle importing hub, Ports and Waterways Minister Joe Tripodi said. Three new projects announced by Mr Tripodi will increase the port's capacity to handle car carrying vessels and ensure efficient handling of vehicles coming into the port. The Iemma Government is gearing up for Port Kembla to become the state's major vehicle import centre. One of the new infrastructure projects will see the extension of the port's "105 Berth" by 80 metres. This will give Port Kembla three dedicated berths totalling 800 metres in length to accommodate up to three car carrying vessels simultaneously. "The extension gives plenty of room for extra vessels as Port Kembla beefs up its capacity to handle car imports," Mr Tripodi said. A new bridge to cross the coal and grain rail tracks will allow continuous operations of coal and grain trains at the port to remain unaffected by vehicle stevedoring.

The bridge will make a further 10 hectares of land available for motor vehicle processing allowing 30 - 40 per cent of cars to be processed on site. A third contract for the construction of a security gate will further secure the port's major checkpoint and increase safety to port users. The bulk of car imports are due to relocate from Glebe Island in November.

BOEING PROFITS SOAR

The three delays to the 787 Dreamliner program did nothing to diminish Boeing's profit potential, it seems. The manufacturer's earnings in the first quarter rose 38 percent to \$1.2 billion. Revenue rose to \$16 billion, a 4 percent gain over last year's quarter. "We're off to a good start in what we expect to be another strong year of financial performance for Boeing," said Boeing Company Chairman Jim McNerney. "We are methodically working through our challenges, including the start-up of the 787," he said.

Total backlog at quarter-end reached a record \$346 billion, up 32 percent in the last year, with growth driven in part by commercial airplane orders. Boeing booked 289 orders during the quarter, 75 for the 787, to a record \$271 million. To date, 57 customers have ordered 892 787's since the program was launched.