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NEWSLETTER 2011/3 **JUNE 2011**

2011 BUDGET

Budget announcements in the Customs area were limited and even fewer related to the interface between Customs and business. The Customs and Border Security portfolio budget statement mentioned:

- a significant investment to replace the current Bay Class patrol vessels with an enhanced capability. It is anticipated that the first vessel will come on line in 2012–13, and the full fleet is expected to be operational by 2015–16.
- $15.7m over two years for the Border Security—continuation of Ashmore Guardian lease measure. This vessel plays a vital role in protecting marine parks from environmental damage caused by illegal foreign fishing.
- $59.1m over four years from 2010–11 for the Border Security—Illegal foreign fishing—securing Australia's northern waters package to maintain offshore engagement and a strong deterrence to illegal foreign fishing.
- $23.7m is provided over four years to enhance Customs and Border Protection's capacity to risk assess passengers in the air environment.

Other Budget measures related to trade and transport included:

- $445 million in the upcoming financial year to Australia's biosecurity system to safeguard the economy, facilitate access to overseas markets and protect the environment.
- $425.4 million over three years from 2012-13 to maintain funding for the Quarantine Border Security Program. The funding supports frontline services at airports – *(Continued on Page 2)*

UP TO $700 MILLION IN REVENUE DOWN THE DRAIN

The Fair Imports Alliance says it has received a written admission from the Customs and Border Protection Service that proved Custom's advice to the Government about a lower GST import threshold being economically and administratively unfeasible was baseless. Alliance spokesperson, Brad Kitschke, said the admission proved previous government decisions to maintain the low value import threshold at $1000 were made without any factual basis. "The Government, from the Prime Minister down, has said it cannot lower the threshold because it would be economically or administratively unfeasible. It is now clear the Government and industry has been lead down the garden path by the bureaucrats in Customs," Kitschke said. The issues paper, released by the Productivity Commission last month as part of its review into the structure of the retail industry, determined the Commonwealth is missing out on an estimated $1.3m per day or $480 million annually in GST income alone, but the Fair Imports Alliance said uncollected Commonwealth revenue could be much higher once Custom duties were considered. "Custom duties are also charged at the border, with a varying scale of rates, (footwear 5%, and apparel 10%). Once estimated uncollected Custom duties are added to the estimated $480m in lost GST, the uncollected Commonwealth revenue could be as high as $700m as a conservative estimate according to the Alliance.

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(Continued from Page 1) – and mail centres, and includes a $205.6 million allocation to Australian Customs.

- $25.3 million investment over two years in:
    - ➢ a new Brisbane-based national heavy vehicle regulator with responsibility for registration and aligning regulations applying to trucks and buses over 4.5 tonnes;
    - ➢ a new national rail safety regulator in Adelaide with oversight of the country's urban passenger rail networks and interstate freight operations. The Australian Transport Safety Bureau (ATSB) will become the national investigator of rail accidents;
    - ➢ Extension of the Australian Maritime Safety Authority's (AMSA) regulatory responsibilities to cover all commercial vessels, not just those involved in interstate and international trade.

AIR PRICE INDEX HITS FIVE-MONTH HIGH

The Drewry Air Freight Price Index pushed back up to its highest level in five months in March despite slipping 5.6 percent on a year-over-year basis, according to Drewry Shipping Consultants. The decline against the year-ago level was the fifth straight slide in the monthly Drewry measure. But the index, based on a combination of export rates out of Shanghai, increased 9.2 percent from February to March as demand heated up after the Lunar New Year in early February. That pushed the Drewry index to 107.1, the highest point since last November. Air freight capacity has been on the upswing this year. The Association of Asia-Pacific Airlines said available cargo space grew 6.1 percent in the first quarter over the same quarter a year ago while freight traffic grew just 1.1 percent.

US CONSUMER DEBT GROWS

Consumers are gradually becoming more willing to borrow and banks more willing to lend, according to the Federal Reserve Bank of New York. Its quarterly report said total consumer debt rose $6 billion in March, completing its first six months of consecutive gains, and has made up about 16 percent of the decline that began with the Lehman Brothers failure in September 2008. Tight credit and low demand has been blamed for slowing consumer spending and home purchases that are crucial to economic recovery. Retail sales account for 70 percent of U.S. economic activity and a large portion of U.S. containerized imports, and real estate sales support transportation of construction materials and imports of furniture and furnishings. Credit inquiries, an indicator of consumer demand for new credit, came off their recent peak in the fourth quarter of 2010. "We are beginning to see signs of credit markets healing gradually and evidence of greater willingness of consumers to borrow and banks to lend," said Andrew Haughwout, Vice President and New York Fed research economist. "We will continue to closely monitor these trends and see if they are sustained in coming quarters."

AUSTRALIA CONTINUES TO BE ATTRACTIVE FOR FDI

Foreign direct investment (FDI) into Australia continues to grow, demonstrating investor confidence in the strong Australian economy. Data released by the Australian Bureau of Statistics shows that, year on year, FDI into Australia grew by 7.5 per cent to A$474 billion in 2010 after an 11.1 per cent increase in 2009. The top five major FDI source countries continue to be the United States, the United Kingdom, Japan, the Netherlands and Switzerland. FDI from the United States jumped 20.4 per cent to A$120 billion during 2010, and FDI from China grew by 41 per cent to A$12.8 billion following an increase of almost 150 per cent in 2009. Significant growth on 2009 FDI figures has also come from Korea (up 61.8%), Canada (31.6%), ASEAN (25.9%), Singapore (22.6%) and Hong Kong (22.5%). The outlook for 2011 is positive. Moody's Investors Service has maintained a stable outlook for Australia's AAA ratings based on the agency's latest report, released May 1. Specifically, the AAA ratings remain stable due to very high economic and government financial strength, and very low susceptibility to event risk. In its World Economic Outlook in April 2011, the IMF also noted Australia's continued strong economic performance.

PORT BOTANY TRADE UP 5.7%

Total container trade through Port Botany reached 1.531 million TEUs for the first three quarters of the financial year (1 July 2010 to 31 March 2011), representing an increase of 5.7% on the same period last year. Sydney Ports Chief Executive Officer, Grant Gilfillan, said that the latest container trade figures reveal that stronger import and export performance had lifted Port Botany to record levels.

PBLIS UPDATE

On 28 February 2011, Sydney Ports Corporation went live with the Port Botany Landside Improvement Strategy (PBLIS) Operational Performance Measures (OPM), switching on reciprocal financial penalties for stevedores and truck carriers. The first six weeks since the introduction of penalties for the OPM have seen positive results for Port Botany landside improvement. Truck Turnaround Times (TTT) have averaged 29.5

minutes over the six weeks. This is well below the 50+ minute averages that were being experienced prior to penalty implementation. It is hoped the TTT will remain under the benchmark of 50 minutes as container volumes continue to grow with seasonality. The initial six week period also indicates more carriers are arriving on time for their booked slots. Although stevedores are processing early and late arriving vehicles in substantial numbers, it is envisioned that this will reduce as more vehicles continue to arrive at the terminal at the correct time. The incidence of no show and cancelled slots by carriers is showing a slight decline. It is anticipated that the impact of penalties will lead to a further reduction in no shows and cancelled slots, will facilitate the desired change in behaviour and see an improvement in performance overall. Work is continuing on the implementation of the truck tracking system which is a key component of the operational performance framework, and governs the service levels of both truck carriers and stevedores at Port Botany. Truck carriers are now registered with Sydney Ports Corporation, with over 2,000 RFID truck tracking tags ordered. Truck carriers are close to completing the tag installation process to ensure they are compliant with the PBLIS Regulation and Mandatory Standards. Trucks that do not have the tag correctly installed or have the tag installed on the incorrect truck, will not receive the benefit of queue time included in their TTT when the measurement of TTT commences from "queue to gate out." The start of the "queue" as a point of measure is expected to take place in the third quarter of 2011.

IDLE BOX FLEET DECLINES TO PRE-RECESSION LEVELS

The number of idle container ships is at a 30-month low, with only 71 ships recorded as unemployed, according to a survey of the container fleet by Alphaliner. The survey said the total unemployed capacity currently stands at 134,000 20-foot equivalent units of containers, or 0.9 percent of the overall cellular fleet, which represents the lowest idle capacity level recorded since the start of the financial crisis in September 2008. The survey found only 26 carrier-controlled ships currently unemployed, with an idle capacity of 75,000 TEUs. The entire usable cellular fleet under carriers' control is expected to be employed by the end of May, except for a few over-aged mothballed ships and some damaged units. Two ships of more than 5,000 TEUs remain unemployed so far, but both (the 10,062-TEU Zim Djibouti and the 8,440-TEU ZIM San Diego) are slated to join the newly-launched Asia-Europe Express 2 service, a loop jointly operated by Zim, China Shipping and Evergreen. A further 45 ships controlled by non-operating owners with a capacity totaling 59,000 TEUs are presently idle. These include a few charter market ships recently redelivered to owners and without immediate employment. Alphaliner said the idle fleet numbers are now back to pre-crisis levels, with fairly balanced demand and supply conditions, at least for the time being. At the peak of the recession late in the year 2009, close to 400 ships controlled by non-operating owners and an additional 200 carrier-controlled ships were unemployed.

AUSTRALIA'S MERCHANDISE EXPORT SURPLUS WITH CHINA

According to the latest statistics from the Australian Bureau of Statistics, the rate of growth of Australia's economy appears to be marginally slowing down. Gross domestic product in Australia stood at $325,808 million in the September quarter and, although that increased to $328,229 million in the December quarter last year, the quarter on quarter percentage change is decreasing. In terms of merchandise exports of goods and services, the September quarter stood at $76,061m and the December quarter stood at $78,366m. It was a similar picture for merchandise imports of goods and services: $76,509m for the September quarter and $78,838m for the December quarter. China ($46,518m), ASEAN ($19,859m) and the EU ($15,920m) were the top merchandise goods and services export destinations by value in the 2009-2010 period. However, in the same period, the top three in respect of merchandise goods and services import origins were ASEAN ($41,092m), the EU ($38,489m) and then China ($36,374m). The result is that Australia is running a surplus of $5,764m of trade in merchandise goods and services with China but a deficit with ASEAN (-$4,888m) and the EU (-$4,595m).

AUSTRALIA WELCOMES INDIAN DECISION ON A FREE TRADE AGREEMENT

Craig Emerson, the Minister for Trade, has welcomed a decision by the Indian Government to launch negotiations for a Free Trade Agreement (FTA) with Australia. "India is an enormous, rapidly expanding market for Australian businesses and negotiations for a high-quality trade deal are central to the Gillard Government's wider plans for greater economic integration between our two countries," Dr Emerson said. "That India has now formally agreed to begin the negotiation process is a milestone in the Australia-India relationship." Dr Emerson highlighted the growth in recent years of Australian commodity exports to India, as well as the importance of education exports, recent increases in investment flows in both directions and the decision to convene a Chief Executive Officer (CEO) Forum. These moves towards greater economic integration are part of the wider economic objectives set by the countries' Prime Ministers in the Australia-India Strategic Partnership of November 2009. Dr Emerson underlined the importance of achieving a high-quality, truly-liberalising trade deal with India that supports the multilateral trading system. "Such a deal would broaden the base of merchandise trade, remove barriers to services trade, facilitate and encourage investment and address behind-the-border obstacles to trade," Dr Emerson said. India, with a population of 1.2 billion and an average economic growth rate during the 2000s of 7 per cent per annum, is already Australia's third-largest export market.

QANTAS, TOLL DEMAND AIRPORTS OVERHAUL

Australia's Qantas Airways and transport giant, Toll, have called on the federal government to crack down on the country's "demonstrably excessive" airport pricing practices. They say the government to date has failed to curb airport monopoly pricing and failed to protect airport users from abuses of market power. Their demands are backed by the Board of Airline Representatives of Australia (BARA), which represents most of the international airlines using Australian airports. BARA wants an investigation by the competition regulator, the Australian Competition and Consumer Commission (ACCC), into the practices of Sydney Airport.

"BARA believes that only the imposition of stricter economic regulation" can solve Sydney Airport's problems, BARA said in a submission to the country's Productivity Commission, which currently is investigating how airports are run and regulated. Among other things, Qantas wants a focus on charges for facilities that are not covered by price monitoring. In particular, it queried excessive lease costs for "critical infrastructure such as airline offices, lounges, hangars, maintenance facilities, check-in counters, service desks and staff car parking". It also wants regional airports to be bound by new codes of conduct. Toll says it firmly believes the primary function of airport managers should be to manage their facility as an airport and promote aeronautical operations for the benefit of Australia's economy and population.

BOX CARGOES FROM EUROPE INCREASE

Box exports from Europe to Australia have increased but box imports to Europe from Australia have fallen, according to the latest data from Container Trades Statistics. Estimated figures for February 2011, which were published this month, show that there were 34,300 box exports from Europe to Australia. This is a 2.08% increase on February 2010, which saw 33,600 such movements. It is also a small increase on January's box exports from Europe, which stood at 33,100. Meanwhile, box imports to Europe from Australia fell by 7.04% in February 2011 (13,200) compared to February 2010 (14,200). The figures remained flat from January to February this year.

AIRSHIPS BACK ON THE AGENDA

With fuel prices showing no sign of levelling off, new-generation airships increasingly are being seen as a viable alternative to freighter aircraft in a range of situations in China, Africa, northern Canada and other markets that have limited or only seasonal transportation infrastructure. The new airships are hybrids of lighter-than-air and fixed-wing aircraft, able to carry large payloads, land and take off without runways and with running costs a small fraction of conventional transport. Lockheed's SkyTug should be commercially available within about 18 months. It will have a range of 1,000 nautical miles and a 20-ton payload - and the 50-ton Skyfreighter should follow in late 2014. The destination and/or source cargo markets for airships typically are remote and have limited infrastructure.