

NEWSLETTER 2010/5

OCTOBER 2010

VIC PORTS AND FREIGHT MOVING AHEAD

The development of Victoria's ports and freight network is on track, with the release of a report card detailing progress on more than 20 of the Government's major ports, freight and logistics policies and projects. Roads and Ports Minister, Tim Pallas, recently released the report card showing the Government's progress on delivering its Freight Futures and Ports Futures action plans for an efficient and sustainable freight network to support Victoria's prosperity and liveability. Mr Pallas said the Government's key planning and policy initiatives were providing the key essentials to delivering a more efficient and sustainable freight network. "Our Transport Legislation (Ports Integration) Bill is paving the way for integrating management of the Ports of Melbourne and Hastings to ensure they are developed in a complementary, coordinated and sustainable manner," he said. A trial of longer B-double trucks is also underway in Melbourne's inner west and the Green Triangle region, which is aimed at reducing the number of freight vehicles on Victoria's roads. Other key port and freight achievements include:

- More than \$1.2 billion in regional road projects underway on major road freight routes;
- The Channel Deepening Project completed in November 2009, one month ahead of schedule and \$248 million under budget;
- \$40 million Altona intermodal upgrade project on schedule for early 2012 completion;
- More than \$1.3 billion committed by the Victorian and Australian Governments to developing Victoria's rail freight network;
- Delivering \$5 million in road upgrades and \$4 million in rail upgrades as part of the Green Triangle Freight

Action Plan;

- Development of a business case is underway for a new rail terminal in Melbourne's west to support interstate freight; and
- A workforce strategy for freight drivers released and pilot programs underway to broaden participation and address sleeping disorders.

The Freight Infrastructure Charge to be introduced at the Port of Melbourne will also contribute up to \$1 billion over ten years towards transport infrastructure including \$18 billion in road projects that will directly benefit the freight industry.

IATA CAUTIOUS DESPITE FAST GROWTH IN AIRFREIGHT

The International Air Transport Association's (IATA's) scheduled traffic figures for July show a continuing growth in the demand for airfreight. The numbers published on August 26, – (Continued on Page 2)

GST ON LOCAL SHIPPING COMPANY CHARGES

The GST law was changed with effect from 1 July to ensure non-residents were not liable for GST on delivery charges in Australia. The changes have had some unintended consequences with the Australian Tax Office still considering at the time of publication whether or not GST should be charged by shipping companies for local services such as port charges, terminal handling fees and delivery order fees. As a result, the GST treatment of these charges varies from one shipping company to another. The ATO is working towards a solution that is consistent and can be applied by all stakeholders. The solution will also need to take into account and apply the same principles to the roles played by various service providers in the air freight industry.

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(Continued from Page 1) – show that growth is no longer just 'bounce-back', but is growing above the levels seen before the recession began. Overall demand in terms of volume is now 4% higher than that seen in early 2008. Whilst it is unsurprising to see growth in the Asia Pacific region growing on a year-on-year basis at 25.3%, it is surpassed by the growth in North America at 27.1%. The Middle East saw the most marked upturn of all, at 30%. Latin America also grew strongly at 25.3% but Europe saw the lowest levels of growth at 12.1% as compared to the same period last year. Growth in July for the entire sector was 22.7%. Airfreight capacity as measured in 'Available Freight Tonne Kilometres' grew markedly less, at 11.9% on a year-on-year basis. In Europe this was in the low single figures suggesting a brighter picture for airfreight rates. Despite this prospect, IATA described the picture for airline profitability as fragile. Profitability is returning in regions such as North America and there are increasing levels of consolidation which may help in the long-term, but margins remain very thin at 0.5%. IATA also cautioned that growth levels were likely to slow in the near future. The year-on-year comparisons would moderate reflecting the recovery that began towards the end of 2009, whilst the wider macro-economic conditions were unlikely to support growth. In the past six months air transport in general, and the air freight sector in particular, has grown faster than the wider economy and at annualised growth rates of 17%, air freight is experiencing growth way above trend.

HONG KONG VOLUME GROWS 9.7 PERCENT IN JULY

Container volume through Hong Kong rose 9.7 percent in July after growing by double digits in each of the year's first six months, the Hong Kong Port Development Council reported. Despite the slower growth rate, July's estimated 2.056 million 20-foot equivalent units still represented Hong Kong's busiest month this year. July was the fourth consecutive month with volume higher than in the previous month. Through the first seven months of 2010, Hong Kong handled 13.426 million TEUs, an increase of 14.5 percent from a year earlier and 9.3 percent from the first quarter of this year. First quarter volume was up 17.3 percent from the corresponding period of 2009.

WTO REPORTS WORLD TRADE GROWING AT 25%

Whilst the condition of much of the global economy has been fragile, the logistics sector has been experiencing a robust return to growth, particularly in airfreight and containerised sea freight. This better performance has been due to the recovery in world trade. The latest numbers from the World Trade Organisation (WTO) show growth in merchandise exports increasing by 7% in the second quarter, as compared with the first quarter of 2010. However this disguised considerable volatility with actual declines in trade during April and May followed by what must have been a quite violent

recovery in June. Combined with the growth seen in the first quarter of the year, overall trade increased by 25% for the first six months of 2010 if compared to the same period in 2009. In US Dollar terms the increases have been very marked. China for example saw a year-on-year increase in exports for the quarter of 41% and imports of 44%. The US saw a year-on-year increase in exports of 25% and imports of 32%. This is obviously a remarkably high degree of growth and hints at a consequent level of what might be called 'friction' in freight transport markets which have been struggling to keep-up. Previously the WTO had predicted that world trade growth would grow by 9.5% in 2010.

MAERSK CULLS 20FT REEFERS FROM VARIOUS ROUTES

Availability issues with 20-foot reefer containers have forced Maersk Line to change its bookings acceptance policy in Australia, New Zealand and the Pacific islands. The carrier says that to improve availability of the 20-foot reefer fleet it will no longer ship these containers from Oceania to Bulgaria, Democratic Republic of Congo, Croatia, Equatorial Guinea, Georgia, Ghana, Greece (Thessaloniki and Heraklion), Ivory Coast, Kenya, Latvia, Malta, Morocco, Tunisia and Yemen. "This policy will come into force on October 1, 2010 and help us serve customers better by improving our turn time," Maersk said. Customers can still ship 40-foot reefer and 40-foot high cube reefers to these destinations." Sources said these were hardly high-volume destinations from this region and the change would have minimal effect. Separately, Maersk has joined ANL and Hapag-Lloyd in announcing higher southbound Europe-Australia freight rates. The increase is €100 per teu and €150 per feu, applicable from 1 October. Maersk abandoned Europe-Australia direct services several years ago and now uses a combination of its mainline vessels between Europe and Tanjung Pelepas and the Boomerang service from there to Australia.

CONTAINERSHIP FLEET HAS GROWN BY 19%

An increase in the size of the active containership fleet is starting to have an impact on freight rates, with averages prices out of China falling for the last two months. According to analyst AXS Alphaliner, the active containership fleet has grown 19% over the last eight months, from 11.55 million TEU at the start of the year to 13.8 million TEU in August and the extra capacity is causing rates to decline. Alphaliner said: "The rapid increase in capacity deployed has finally started to have an impact on container freight levels, with average rates out of China sliding by 6% in the last two months. The additional capacity comes in as a weaker-than-expected peak season has led to declining utilisation levels." All the major carriers, except for NYK, deployed additional tonnage during the period, with MSC leading the market in terms of TEU increases – it has brought in an extra 282,000 TEU - while CSAV's active fleet has grown the most in percentage terms – up 61%. MSC is expected to

receive up to 13 vessels of the 14,000 TEU class this year, of which eight have already been delivered, based on Alphaliner records. "MSC has been very active in adding chartered tonnage, taking advantage of low charter levels during the early part of this year," Alphaliner said.

TOBACCO SMUGGLER RECEIVES THREE YEAR GAOL SENTENCE

A 33 year old woman from Auburn NSW was found guilty and ordered to serve a three year gaol sentence in the Sydney Downing Centre District Court for tobacco smuggling offences. She was found guilty of intentionally and dishonestly causing a loss to the Commonwealth contrary to the Criminal Code Act. Customs and Border Protection investigations began in December 2008 following the interception of two shipping containers in Sydney. The containers were found to contain 18,734 kilograms of undeclared molasses tobacco. Customs and Border Protection said the conviction sends a strong warning to those attempting to defraud the Commonwealth of legitimate revenue by smuggling tobacco. Individuals who attempt to smuggle tobacco could face up to 10 years gaol and severe financial penalties.

MAERSK SAYS SLOW STEAMING HERE TO STAY

Slow steaming by container ships, introduced during the recession to absorb capacity and cut costs, is here to stay, according to Maersk Line, the world's largest ocean carrier. Even as the global economy recovers slow steaming "remains a win-win-win situation," said Maersk Line CEO, Eivind Kolding. "It is better for our customers, better for the environment, and better for our business," Kolding said. Maersk's management liner board has agreed to continue slow steaming because it will improve scheduled reliability, cap fuel costs and reduce the carrier's carbon foot print. "While some customers have complained about longer inventory time - in essence, with Maersk Line ships as floating warehouses - the analysis is that slow steaming helps prevent bottlenecks on terminals. "A ship that reduces its speed by 20 percent will use 40 percent less fuel, thereby reducing CO2 emissions, Maersk said in a briefing on slow steaming. To maintain the same service frequency and compensate for lower average speed, one to two extra vessels are added per route or string. Despite the extra ships, Maersk has cut its CO2 emissions by around 7 percent per container transported over the past 18 months. Maersk said its goal is to reduce CO2 emissions by 25 percent in 2020

ASIAN DEMAND STRONG FOR PORT'S RECORD CARGO

Container trade through Port Botany increased 8% in 2009/2010 financial year, reaching 1.928 million TEUs. A large part of the volume was driven by Asia. A strong import demand and a resilient export sector have pushed Port Botany's container numbers to unprecedented

levels. There has been close to a decade's worth of growth records for the port - a clear indication of the strength of NSW's economy. Of special note is the fact that the Asia region accounts for 62% of all volume into and out of the port of Sydney. New shipping lines are entering the Asian trade to capitalise on this region's quicker rebound to the global financial crisis compared to elsewhere in the world.

QANTAS FREIGHT GROWS PROFITS

Qantas Freight has reported profit grew from A\$7 million last year to underlying profit before tax of A\$42 million in 2010. Its airfreight business, including Australian Air Express and Star Track Express, grew revenue from A\$764 million in 2009 to A\$821 million. According to Qantas Freight Executive Manager, Stephen Cleary, the division is laying the foundations for a future of sustainable growth.

PORT BOTANY TECHNOLOGY SOLUTIONS

Request for Tenders (RFT's) have been issued for technology solutions as part of the Port Botany Landside Improvement Strategy (PBLIS). A Truck Tracking System is required for the independent capture and measurement of trucks arriving at and through the stevedores' terminals which is central to the introduction of a performance management framework governing stevedores and transport operator service levels. The Truck Tracking solution will also be used to validate the Truck Turnaround Time (TTT) beginning with the truck arriving in the queue through to exiting the terminal gates. The addition of the queue time into the TTT measurement is designed to reduce congestion in the port precinct by making the stevedores accountable for the queues. The second RFT, an Operational Performance System, is required to implement a solution to capture, store, process, analyse and report on overall port landside operations that will enable Sydney Ports to lead and coordinate improvements in landside performance through the transparent provision of accurate data. It will also be used to assist in the auditing of any disputes as part of the anticipated Operational Performance Measurement (OPM) framework between parties in the landside supply chain.

ON THE HUNT FOR AIR CARGO "CARTEL" COMPENSATION

Australian shippers will again pursue compensation for alleged cartel pricing by some of the world's biggest airlines, after a judge overturned a decision halting the claim. The latest twist in the air cargo cartel saga came when the Full Court of the Federal Court of Australia overturned a decision that had ruled out a claim led by shipper Auskay International. The claim is against Qantas, Lufthansa, Singapore Airlines, Singapore Airlines Cargo, Cathay Pacific, Air New Zealand, Air New Zealand (Australia), Japan Airlines International and British Airways (BA). The action is on behalf of a group defined simply as persons who spent over A\$20,000 (US\$17,700) on international airfreight during

the period that cartel pricing on fuel surcharges was alleged to have taken place. Maurice Blackburn, the legal firm representing the shippers, said: "In broad terms, the Full Court was satisfied with the statement of claim and set aside the order striking it out." Fines of more than £1 billion (US\$1.5bn) have already been handed out regarding the alleged cartel that operated between around 2000 and 2006, leading the media to label it as "the world's biggest criminal conspiracy". Around 30 airlines are alleged to be involved with investigations continuing in Australia, New Zealand and South Korea.

FOREIGN EXCHANGE

Guy Debelle, Assistant Governor (Financial Markets) of the Reserve Bank of Australia, told the recent Westpac Macro Strategy Forum that the foreign exchange market has been amongst the most resilient of markets throughout the financial crisis. Indeed, its resilience and the increasing attractiveness of foreign exchange as an asset class have seen many financial institutions expand their staffing in this area, even while they have been shrinking elsewhere. Turnover in these markets has increased by 30 per cent from the lows of early 2009, to be above its pre-crisis levels. Global turnover averaged US\$4 trillion a day in April 2010, 20 per cent higher than in April 2007. The growth has been broad-based. The UK, which is the largest market, experienced slightly above-average growth while market share declined in the rest of Europe. The Australian market's relative position was little changed, remaining the seventh largest market. There was more variation in growth rates by currency. Among the major currencies, the Canadian dollar and the Australian dollar experienced the fastest growth, with turnover increasing 50 per cent and 40 per cent respectively. The Australian dollar became the fifth most traded currency, overtaking the Swiss franc. The AUD/USD remains the fourth most traded currency pair. Turnover involving the US dollar grew slightly less than the average. However, it still maintains its dominant role in foreign exchange markets, being involved in 85 per cent of all transactions.

OOCL HIKES RATES

OOCL plans to raise rates on Oct. 1 on its services in both directions on the trans-Atlantic and on its services from the Middle East, South and Southeast Asia to Australia. The Hong Kong-based liner company said it will impose a general rate increase on all types of containers moving in both directions on the trans-Atlantic trade starting Oct. 1. At the same time, OOCL said it will increase rates by \$300 per TEU on containers shipped from Southeast Asia (Singapore, Malaysia, Thailand, Indonesia, Vietnam, Cambodia, Philippines, Indian Subcontinent and Middle East) to Australia.

MAP IN PROFIT TURNAROUND

Airport operator MAp Group - which owns 74 per cent of Sydney Airport - has reported a half year profit and says the near term outlook for growth in air traffic is

strong. It made a net profit of A\$19.7 million for the six months to June 30 compared to the A\$299 million loss made in the prior corresponding period.

Apart from its Sydney Airport share, MAp has a 30.8 per cent stake in Copenhagen Airport and a 36 per cent holding in Brussels Airport.

INTERNATIONAL AIRLINE CONSOLIDATION NEEDED - IATA

International Air Transport Association (IATA) chief, Giovanni Bisignani has reiterated the Association's belief that international consolidation of airlines is essential for the industry to move forward. Regional consolidation - in the United States and Europe - has helped airline profitability, he said, but a wider playing field was needed. "We need transatlantic consolidation (in order) to become a more integrated and global industry," said Bisignani. IATA also said international passenger demand in July was 9.2 per cent higher than July 2009, but carrier recovery has entered a slower phase. However, Bisignani said the worst is over for the airline industry following the global financial crisis.