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NEWS

DECEMBER 2008 NEWSLETTER**A.C.C.C. QUESTIONS COMMITMENT TO COMPETITION IN AUSTRALIAN STEVEDORING**

The Australian Competition and Consumer Commission has issued its tenth annual monitoring report which questions the future direction of the container stevedoring industry.

"The report shows that the Australian community has benefited from the significant reforms that commenced ten years ago," ACCC Chairman, Mr Graeme Samuel said.

During this time, demand for stevedoring services has doubled. The cost of using stevedoring services has fallen in real terms. In turn, the stevedoring businesses have become more productive and profitable, even during a period when significant expenditure on assets was made. However, as the ACCC has noted in previous reports, questions remain about the extent to which the stevedores actually compete to win each other's business. This is important when we look forward ten years and consider the high rates of demand that are forecast to continue.

The ACCC urges State governments and port planners to ask themselves: What role can competition play in meeting Australia's future stevedoring needs? While some ports are well progressed in testing the market for new competitors, others seem to have settled for the convenience of the current duopoly.

While the ports of Sydney and Brisbane have forged ahead, Melbourne-our largest port-is lagging behind, with a third container terminal not due to commence operation until around 2017.

Productivity has improved across the five major container ports. Volume growth continued to rise with throughput, measured in terms of twenty-foot equivalent units (TEUs), increasing by 10.7 per cent. Unit total revenues (which are indicative of prices) were largely unchanged at \$173.24 in 2007-08. Lower unit revenues for non-stevedoring activities were offset by slightly higher stevedoring unit revenues. Unit total costs were also largely unchanged at \$128.59 in 2007-08, reflecting a marginal decrease of 0.9 per cent from 2006-07 levels. Industry profitability (measured by a rate of return on average assets) increased slightly in 2007-08 and remain at levels that are significantly above the average for the top 200 companies listed on the Australian Stock Exchange as well as comparable overseas container port operators tracked during the monitoring program. Continued capacity expansion over the coming decade provides real opportunities to promote higher levels of efficiency through the benefits that are likely to arise from more intense competition in the market for stevedoring services.

STRONG TRADE SURPLUS REASSURES CONFIDENCE IN AUSTRALIAN ECONOMY

Australia recorded a strong trade surplus of \$1.5 billion in September, according to ABS figures.

"This is the second highest trade surplus on record. It is up 18 per cent from the revised August trade surplus of \$1.2 billion.

"In the midst of a global financial crisis, the \$1.5 billion trade surplus is a reassuring mark of our trade performance," said Minister for Trade Simon Crean.

"Australia's trade performance is now moving in the right direction. It is further reason to be confident that the Australian economy is well placed to withstand the global financial uncertainty."

This result was driven by increases in resources exports, especially metal ores and coal. Total exports of goods and services rose 8 per cent to \$26.5 billion in September 2008. Resources exports rose 14 per cent per cent to \$12.8 billion. Metal ores and minerals exports were up by \$941 million or 19 per cent, driven by higher volumes and a 10 per cent rise in Australian dollar prices for iron ore. Coal exports were up by \$626 million or 14 per cent. The September figures showed that services exports added \$4.8 billion to Australia's bottom line.

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NEWS

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A NEW CAR PLAN FOR A GREENER FUTURE

Prime Minister Kevin Rudd has announced a \$6.2 billion plan to make the automotive industry more economically and environmentally sustainable by 2020. The Green Car Plan will feature an expanded \$1.3 billion Green Car Innovation Fund which will provide Australian car companies with the opportunity to receive Government funding to design and sell environmentally friendly cars. The Innovation Fund will see the Australian Government match industry investment in green cars on a \$1 dollar to \$3 dollar basis over a ten year period from 2009. The 13-year New Car Plan for a Greener Future is about manufacturing competitive, low emission, fuel-efficient vehicles in Australia. It will create well-paid, highly-skilled green jobs for the future. The plan is expected to generate \$16 billion in investment in the Australian automotive industry over the life of the plan. The plan works in four key areas. It will:

- Attract new investment in long-term, sustainable vehicle production;
- Green the industry – improving fuel efficiency and reducing carbon emissions;
- Strengthen the local supply chain and boost skills; and
- Link to international supply chains and improve market access for Australian manufacturers.

Industry response has been generally supportive. The Motor Trades Association of Australia welcomed the plan as a well articulated and considered policy response to the environmental challenges of transferring to a carbon restricted economy. The Australian Chamber of Commerce and Industry welcomed the direction of the plan for the automotive industry. AI Group Chief Executive Heather Ridout said the car plan is a strong package that will be welcomed by the industry and will provide much needed support. The peak body representing the Australian automotive industry, the Federal Chamber of Automotive Industries (FCAI), says the Government's response to the Bracks Review will help underpin future investment and innovation in the automotive industry.

DESTRUCTION DAY FOR PIRATED DVDs

The Minister for Home Affairs Bob Debus and NSW Minister for Fair Trading Virginia Judge have overseen the destruction of more than 230,000 pirated DVDs, as well as computer equipment and burners, which are used in the manufacture of pirated DVDs.

"In the past 12 months State and Federal Police have seized more than a million illegal DVDs. While many people view this as a less serious crime, police intelligence shows that criminals use movie piracy to fund a range of criminal activity like drug trafficking and money laundering.

"Those issues are worth considering by any member of the public who thinks purchasing counterfeit DVDs is a victimless crime. In copyright offending alone revenue loss to industry groups in Australia is estimated to be around \$1.7 billion each year."

The illegal DVDs were crushed under supervision and were seized during anti-piracy operations across New South Wales which were conducted by State and Federal Police. Mr Debus said maintaining a strong Intellectual Property (IP) enforcement system was required under current international treaties and would be crucial for future trade and investment in the Australian economy.

In the 12 month period from October 2007 to October 2008, the Australian Federation Against Copyright Theft assisted State and Federal police on enforcement actions which resulted in the seizure of 967,500 pirated DVDs and 741 burners capable of producing over 18 million pirated DVDs a year.

AUSTRALIA PRESSES FOR PROGRESS ON FREE TRADE AGREEMENT WITH GULF STATES

The Minister for Trade, Simon Crean, visited Riyadh and Dubai in November to press for progress in negotiations for a Free Trade Agreement with the States of the Gulf Cooperation Council (GCC).

"Australia has emphasised to our Saudi and UAE hosts the strength of our commitment to advancing these important trade negotiations", Mr Crean said.

"The GCC as a whole is Australia's eleventh largest merchandise export market. This is true in the case of automobiles where the GCC took \$2.2 billion in Australian exports in 2007-2008 - and also in a host of other sectors, including services, infrastructure, mining, energy and agribusiness.

"This rapidly growing market matters to our trading future".

AUSTRALIAN GOVERNMENT LOOKS AT TRANSPACIFIC RIGHTS

The Australian government appears more likely to cut Qantas's stranglehold on the lucrative Australia-US route after federal Transport Minister, Anthony Albanese, said the government might consider opening up the route to other carriers once Virgin Blue's long-haul carrier, V Australia, began services between Sydney and

Los Angeles in February.

"Our position is to get a second carrier on that route and once that occurs, further liberalisation can be considered," said Albanese.

Singapore Airlines and Air Canada are prime contenders for rights. Qantas currently controls about 75 per cent of capacity on the route and US carrier United Airlines the rest. Singapore Airlines welcomed Albanese's comments, saying "liberalisation of routes like the trans-Pacific maximises trade and tourism opportunities".

CHINA TO KEEP GROWTH RECORD – BOEING

US airplane manufacturer Boeing says China will order 3,710 new airplanes worth about US\$390 billion over the next 20 years.

"China will continue to be the fastest-growing aviation centre in the world, with 41 per cent of the entire Asia-Pacific region airplane demand. This makes China the largest market outside of the US for new commercial airplanes," said Randy Tinseth, Boeing Commercial Airplanes Vice President - Marketing.

The company says China's air travel and air cargo market growth will cause China's fleet to more than triple to 4,560 airplanes by 2027 - about as many airplanes as are in Europe today.

QANTAS TOPS BA FINE IN AUSTRALIA

The Australian Competition and Consumer Commission (ACCC) has fined Qantas \$12.3 million and British Airways \$3.1 million for making customers pay a fuel surcharge on cargo shipments between 2002 and 2006. According to David Shepherd, BA World Cargo's Senior Vice President for Europe and the Americas, the airline remains subject to ongoing investigations in the EU, New Zealand and Canada.

Earlier this year, former BA World Cargo Commercial Manager, Keith Packer, was fined \$20,000 and sentenced to eight months in prison by the U.S. Department of Justice for his role in a price-fixing cartel which so far has involved 20 airlines and a reported \$1.2 billion in penalties.

Commenting on the new fine, ACCC Chairman Graeme Samuel said: "The airlines are the first to be proceeded against in Australia because both came forward and voluntarily made admissions.

"British Airways has provided significant information as to its own role and that of others. It has made available staff to assist and voluntarily responded to multiple requests for information and undertaken to continue doing so," he added.

The ACCC said it is continuing to investigate other airlines and expects to reach a swift conclusion with those that are cooperating.

AIRLINES ON TRACK FOR PROFITS

Airline capacity cuts and other cost cutting measures may ensure profits next year if fuel prices stay at current levels, according to US airline analyst Jamie Baker of JP Morgan Chase. He said he sees a profit next year for every jet airline he follows, even if airlines encounter one of the weakest periods for demand in the industry's history.

"We are having a tough time modelling losses," he said.

Jet fuel prices have dropped from spot prices well over US\$4 a gallon in early July to lower than US\$2.75 a gallon now. The International Air Transport Association says a one-cent increase in the cost of a gallon of jet fuel increases the industry's fuel bill by US\$187 million. That would suggest that the drop of more than US\$1.25 per gallon since July could save the industry more than US\$23 billion.

AIRBUS TESTS NEW ENGINES

Airbus has partnered with Pratt & Whitney to test sustainable, next-generation aircraft engines. The pair are undertaking a series of test flights using the PW1000G demonstrator engine, which includes Pratt & Whitney's geared turbofan (GTF) technology. According to Pratt & Whitney, the PW1000G is up to 15 percent more fuel efficient and also quieter than engines currently used on mid-size aircraft. The evaluations are being conducted in an Airbus test flight facility in Toulouse using an A340 test aircraft. According to Airbus, the tests will conclude by the end of 2008.

Airbus plans to evaluate next-generation engines from all major engine manufacturers over the next few years, paying close attention to the results of fuel burn tests and CO2 emissions.

AUSTRALIA-CHILE FREE TRADE AGREEMENT IMPLEMENTATION BILL

The purpose of the Bill is to amend the Customs Tariff Act to implement the Australia-Chile Free Trade Agreement by:

- providing free rates, and preferential rates, of customs duty for goods that are Chilean originating goods in accordance with new provisions of the Customs Act.
- phasing the preferential rates of customs duty for certain goods to Free by

- 2015; and
- creating a new Schedule in the Tariff to accommodate the preferential and phasing rates of duty.

Complementary amendments will also be made to the Customs Act to give effect to the Agreement. It is estimated that the customs duty forgone as a result of the implementation of the Agreement will be approximately \$1.9 million in 2008-09 and between \$4 million to \$4.5 million per year between 2009 and 2012.

FRESH INDUSTRY CALL FOR AUSTRALIA-JAPAN FREE TRADE AGREEMENT

The Australian Chamber of Commerce and Industry (ACCI) has called for a fresh impetus to conclude an Australia-Japan Free Trade Agreement, as a strategic method of strengthening both economies in the wake of global financial market instability and slowing global economic activity. Speaking in Perth to Japanese and Australian business leaders at the 46th Australia-Japan Joint Business Conference, ACCI President, Tony Howarth AO, said that the exceptional trade relationship between Australia and Japan over two generations could mature into a bold and comprehensive Free Trade Agreement that would increase the integration of the two economies and lift their capacity to influence regional economic reform.

The recognition by both national governments of the need for structural economic adjustment, together with the quality and reliability of supply of agricultural, mineral and energy commodities from Australia, are a solid foundation for high level negotiations to be taken to the next step. Mr. Howarth stated that leadership from countries like Australia and Japan would also be needed to ensure that recent global instability did not see communities retreat from an embrace of open markets and globalization as the pivotal means of lifting living standards through trade and investment.

ACCI applauded the work of the Australian and Japanese governments to keep alive the prospect of a conclusion of the Doha trade talks. Japan and Australia also have a key role to play in seeking realistic global outcomes on climate change in the lead-up to the meeting of nations at Copenhagen in 2009.

TOP AWARD FOR BRISBANE AIRPORT

Brisbane Airport has capped off its biggest year on record by being awarded the Australian Airports Association (AAA) Capital City Airport of the Year. This year Brisbane has handled a record 18 million passengers and embarked on a massive \$2.5 billion expansion. Brisbane also was recently named the Best Airport Asia-Pacific in the Skytrax Awards, and the world's best water saver in the 2008 International Water Association Awards in Europe.

Receiving the award, Brisbane Airport Corporation (BAC) Managing Director and Chief Executive, Koen Rooijmans, said it was a great way to finish what has been a stellar year for Australia's fastest growing airport. He paid tribute to the 18,000 people who work at Brisbane Airport, who have given the airport a strong international reputation for quality facilities, efficient operations, customer-friendliness and a warm welcome to Queensland.

CUSTOMS ANNUAL REPORT 2007-2008

Customs CEO Michael Carmody reported that 2007-08 was characterised by continuing growth in international trade and travel and emerging fiscal restraint. This placed a premium on both the efficiency and effectiveness of operations.

Notwithstanding the continuing strong growth in passenger numbers at international airports, facilitation rates exceeded standards and last year's performance.

Satisfaction rates amongst passengers, as evidenced by independent surveys, remained high with 97% of passengers overall expressing satisfaction with the service they received from Customs staff at the primary control point. At the same time detection and seizure of prohibited imports from air passengers remained strong. Two highlights for the year were the successful implementation of SmartGate in Brisbane and Cairns international airports and the signing of the Australia-EU Passenger Name Record Agreement on 30 June 2008. SmartGate uses face recognition technology to give eligible ePassport holders arriving in Australia the option to self-process through passport control. The rollout of SmartGate to other international airports will continue in 2008-09. The volume of cargo imported into Australia grew strongly in 2007-08, with cargo reporting volumes for sea and air increasing by 6.7% and 7.6% respectively. Agreed performance targets were met and initial findings from a Time Release Study conducted to measure the time taken for release of goods after their arrival at port indicates that Australia's performance compares favourably internationally.

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