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NEWS

FEBRUARY 2008

EU INVESTIGATES MORE CARRIERS

All Nippon Airways Co., Air New Zealand Ltd and Malaysian Airline System Bhd became the latest air-cargo carriers to be charged with violating European competition rules after an investigation into alleged price fixing. European Union regulators have filed formal accusations. They join carriers including British Airways that said they faced charges. Tokyo-based ANA said it will examine the findings of the Brussels based European Commission and respond "in due course". Subang, Malaysia-based Malaysian Air said its policy is to comply with "all applicable laws" and that it will seek legal advice in the case. Auckland-based Air New Zealand put the total number of airlines charged at more than 25. The carriers have two months to defend themselves before the commission considers whether to impose fines. European and U.S. regulators are investigating at least a dozen carriers for possible price fixing of fuel surcharges at their cargo businesses. EU fines in such cases typically amount to 2 to 3 percent of annual sales, and are capped at 10 percent. BA, Japan Airlines, Air France-KLM, Cathay Pacific, Singapore Airlines Ltd., Air Canada, SAS Group and Cargolux Airlines International SA have said that they were also charged. Lufthansa German Airlines is working with the commission and has won conditional immunity. BA, Europe's third-largest airline, was fined \$300 million by a U.S. court on Aug. 23 after pleading guilty to two criminal counts of conspiracy in setting extra charges on passenger and cargo flights to offset rising fuel expenses. The company was accused of fixing prices on air cargo as early as March 2002 and passenger flights starting in August 2004.

CUSTOMS DVD HELPS EXPORTERS COMPLY

Customs and Customs brokers met recently to release a new educational DVD aimed at eliminating the common errors made in export cargo reporting. The DVD, *Exports Reporting*, targets five common export compliance and reporting errors, and provides step-by-step guidance on how to report export information correctly the first time round.

"It is extremely important for Customs to find innovative ways of delivering business improvements. The launch of the educational DVD will provide a resource that is designed to assist industry efforts with voluntary compliance in their export reporting process," National Director Compliance, Peter White said.

"By following the principles laid out in the DVD, exporters can avoid the delays that occur when Customs has to verify data. Reducing errors will increase productivity and allow Customs greater opportunities to target high risk non compliance."

In October, a preview of the DVD was enthusiastically received at the Customs Brokers and Forwarders Council of Australia (CBFCA) national conference. Council Executive Director Stephen Morris said it was a great direction for Customs to take in training, both for CBFCA members and exporters.

"Training staff is one of the biggest challenges for companies in this sector and with such technical data entry and reporting requirements, it's fantastic to now have an easily accessible and effective product that our members and exporters can show their staff," Mr Morris said.

WEAKER EXPORTS FAIL TO DAMPEN MANUFACTURING GROWTH

Manufacturing growth picked up solidly in December with the **Australian Industry Group - PricewaterhouseCoopers Australian Performance of Manufacturing Index (Australian PMI®)** rising 3.8 points to 57.6 (remaining above the key 50.0 level separating expansion from contraction).

Key Findings for December were:

1. The **Australian PMI®** rose 3.8 points to 57.6 in December, the 19th

ONLINE TRACKING

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- consecutive month of growth.
2. The lift in activity reflected solid growth in production, employment, new orders and deliveries. Exports slowed while stocks remained stable.
 3. Input cost price growth remained strong in December, while selling price growth edged higher.
 4. Growth in wages eased moderately while capacity utilisation rose modestly.
 5. Explaining the solid lift in conditions, manufacturers cited solid domestic demand conditions, and rising orders as the key positive influences.
 6. The high level of the \$A, skills shortages, raw materials costs and Chinese demand and competition remain as the key negative factors in the business environment.
 7. Activity expanded in nine sectors in December, compared with six in November.
 8. Manufacturing grew in Victoria in December but eased in New South Wales, Western Australia and Tasmania. South Australia saw a return to growth in December while manufacturing remained stable in Queensland.

COMMODITY EXPORT EARNINGS UP DESPITE DROUGHT AND STRONG DOLLAR

Australian commodity export earnings are forecast to increase by 1 per cent to more than \$140 billion in 2007-08, according to the December issue of ABARE's *Australian Commodities*. This increase is smaller than the 4 per cent rise forecast in ABARE's September issue, and reflects the effects of drought and the strong Australian dollar.

'Farm export earnings are forecast to decline by more than 3 per cent to \$26.8 billion in 2007-08, because of poor seasonal conditions in many parts of Australia,' said Phillip Glyde, Executive Director, ABARE, on releasing the report.

The decline in farm export earnings is due mainly to a drought reduced winter grains crop. Export earnings from grains are forecast to decline by 14 per cent. The value of Australia's minerals and energy exports is forecast to be around \$110 billion in 2007-08, an increase of 2 per cent from \$108 billion in 2006-07. The forecast increase is slightly less than ABARE's September forecast because of the negative effect on earnings of the stronger Australian dollar and some weakening in metals prices. Earnings from energy exports are forecast to increase by 7 per cent to \$42 billion, supported by an increase in the value of thermal coal, LNG, uranium, crude oil and related petroleum products exports. The metals and other minerals industries are forecast to contribute nearly \$68 billion – a decline of more than 1 per cent – to Australian exports in 2007-08.

SURVEY OF INVESTOR CONFIDENCE

The January 2008 SAI Global / ACCI Survey of Investor Confidence shows that while economic conditions remain favourable and employment continues to expand modestly, there has been a fairly broad-based re-examination of economic conditions. Over the December quarter, many indicators levelled off or declined moderately and less optimism is being expressed regarding future business conditions. This may be due to ongoing international and domestic financial problems but also is likely being influenced by business' higher inflation, interest rates and wages growth expectations. ACCI's quarterly index on Constraints on Investment found that interest rates reached seventh position - an all time high. This accurately reflects business feelings towards the effects of the November interest rate rise by the RBA which has brought interest rates to their highest level since 1996. The survey covers the months of October, November and December 2007 and had 956 respondents, covering the following industries: mining, manufacturing, construction, retail/wholesale trade, accommodation, cafes and restaurants, and services.

PORT PHILLIP BAY PROJECT APPROVED WITH CONDITIONS

An application by the Port of Melbourne Corporation to deepen the main shipping channels in Port Phillip Bay has been approved by the Australian Government, after the Minister for the Environment, Heritage and the Arts, Peter Garrett, imposed 16 additional environmental conditions.

"Under the Commonwealth's *Environment Protection and Biodiversity Conservation Act 1999*, my powers are confined to matters of National Environmental Significance. To safeguard migratory birds, the Australian grayling and the Western Port Ramsar site, I have insisted on strong new protection measures on top of those required by the Victorian Government," Mr Garrett said.

The Port of Melbourne Corporation will also invest \$6.65 million in the environmental initiatives recommended by the Victorian Minister for Planning in his assessment.

Victorian Minister for Roads and Ports, Tim Pallas, has announced the start of works on the channel deepening project with the state-of-the-art equipment and vessels to be mobilised in January, and deepening to begin in February. Mr Pallas said the strict environmental conditions would give the community additional confidence in the project and ensure the protection of the bay.

Mr Pallas also announced that Mick Bourke, Chairman of the EPA, would be appointed as the Independent Environmental Monitor to oversee the project.

AUSTRALIAN BUSINESSES AIM AT CHINA'S GOLF MARKET

Thanks to its increased prosperity and continuing growth, China now boasts the fastest growing golf industry in Asia. There are already more than 240 golf courses across China and the number of courses is increasing by 30 per cent annually, with hundreds of courses currently under construction to accommodate the expected boom in golfers. Around one million Chinese are fans of the sport, but with incomes on the rise, numbers are forecast to grow exponentially for some years to come, prompting Australian businesses to tackle the lucrative market by taking part in this year's China Golf Show at Beijing. According to Austrade's Senior Trade Commissioner in Guangzhou, Alan Morrell, Australian companies have already tasted success in exporting their goods and services to the Chinese golf industry. "We've had some great success stories in recent times, such as Cashmore Design, a Victorian company which has been responsible for the design of several golf courses in China", Mr Morrell said. "As well as course design, Australian companies have gained popularity in golf education and coaching. Australia has almost seven times as many golf courses as China and around 20 per cent more players, so our businesses have the experience and capabilities to meet the demands of the growing Chinese market." "Australia is well-regarded in China for its expertise in design and management, particularly when it comes to being green."

PORT BOTANY EXPANSION SET TO BEGIN

Premier Morris Iemma has announced the contractor for the biggest port expansion NSW has ever seen – the \$1 billion redevelopment of Port Botany. Mr Iemma said the massive infrastructure project would see a 60 hectare expansion to cater for growth and reinforce the port's world class reputation.

"The Port Botany expansion is one of the NSW Government's most critical infrastructure projects, and today I can announce the joint venture of Baulderstone Hornibrook and Jan de Nul has been chosen to help deliver it," Mr Iemma said.

"Trade through Port Botany was worth more than \$40 billion last year, and that figure is expected to double over the next 20 years. "The Port Botany expansion is set to deliver 9,000 jobs to NSW and boost the State's economy by \$16 billion during the next two decades. "Expanding the port to accommodate that growth ensures Sydney's position as a world class trading city."

Ports Minister Joe Tripodi said the NSW Government will commence an international tender for a stevedore to operate in the expansion area early this year. "The first berths will be ready for trade by 2012, well in time for forecast trade growth," he said.

More than 100 planning conditions have been imposed for the Port Botany expansion to protect the bay's environmental health and local amenity. Mr Tripodi has also announced the NSW Government is moving forward with plans to construct a \$69 million berth in Port Botany to handle the growing bulk liquids trade. The project will see a second berth built, doubling the capacity of the port to handle the trade.

"The NSW economy continues to grow, increasing the demand for petroleum, chemicals and gases by almost 18 per cent last financial year," Mr Tripodi said. Almost 675,000 tonnes of bulk liquid moved through Port Botany last year. Trade is expected to continue to grow and the Government is moving to match demand. The project will see construction of a steel pier berth, marine loading arms, fire fighting equipment, onshore support facilities and pipelines from existing sites to the new berth as well as other infrastructure.

CLOSURE OF DARLING HARBOUR ENDS AN ERA IN SHIPPING HISTORY

The departure of the Southern Moana from Sydney's Darling Harbour on Friday 28 September marked the end of an era in shipping history. With the end of Patrick's lease at East Darling Harbour wharves 3-7, no further cargo ships will visit Darling Harbour, ending a 187 year-old history of wharves servicing general cargo vessels in the Harbour. Cruise vessels will continue to visit Wharf 8.

The lease to Patrick on the site started in 1996, and since then they have stevedored over 3,100 trading vessels at the site and traded over 450,000 TEUs. Other items traded through the site include cars, agricultural machinery, break-bulk cargoes, dry bulk cargoes, construction equipment and yachts and also a former Soviet space shuttle. This also marked the final visit of Wallenius Wilhelmsen vessels to Sydney Harbour, with the historically significant Tampa the last of the spectacular orange vessels to leave the port.

The site will be handed over to Sydney Harbour Foreshore Authority for demolition and redevelopment of Barangaroo.

JFK FREIGHT DIVES 5.8 PERCENT

Freight traffic at New York's Kennedy International Airport fell 5.8 percent in

September, the seventh straight monthly decline at one of the United States' largest cargo gateway airports. The drop in September also marked the sixth straight month of accelerating declines and the worst single-month freight drop at JFK since February 2006, according to a report released by the Port Authority of New York & New Jersey. International freight, a foundation for freight business at the New York airport, was off 5.9 percent compared to September 2006. Several airlines have seen sharp cutbacks in freight business at JFK this year. Over the past 12 months, freight tonnage for American Airlines, the airport's leading cargo carrier, has fallen 7.9 percent while volume is down 15 percent for both Air France and DHL carrier ASTAR Air Cargo, according to port authority figures.

HONG KONG FLIGHTS INCREASED

Qantas will increase services between Melbourne and Hong Kong by three flights per week from 01 April, 2008. The Executive General Manager of the carrier, John Borghetti, said that with the additional services, the airline would operate 10 services per week on the Melbourne-Hong Kong route. The new services will be operated by two-class, 297-seat A330-300 aircraft.

"The new flights will complement our current daily three-class B747-400 services on the route, and signal a move towards a double daily Melbourne-Hong Kong service in the future," said Borghetti.

The new Melbourne-Hong Kong flights will operate on Tuesdays, Wednesdays and Saturdays, departing Melbourne at 11:55am, and returning from Hong Kong at 9:05pm.

Qantas recently announced two services per week between Melbourne and Shanghai, commencing 11 March.

ASSEMBLY SCHEDULE CONFIRMED FOR 777 FREIGHTER

Boeing is set to begin production of its new 777 Freighter. Engineers recently completed more than 90 per cent of the design work and the company will start assembly of the first of the new freighters early this year at its Everett facility in Washington. Air France, the launch customer, will take delivery of the first aircraft in the fourth quarter of 2008.

"We designed the 777 Freighter to be the most capable twin-engine cargo aircraft," said Larry Loftis, Vice President, 777 Program Boeing Commercial Airplanes.

The aircraft manufacturer claims the new freighter will fly further and provide more capacity than any other twin-engine cargo aircraft. In addition, the main cargo deck door of the 777 Freighter is sized to facilitate easy direct-transfer shipments with the 747 freighter fleet, which provides about half of the world's freighter capacity.

To date, the company has sold 82 of the 777 Freighters to 11 customers, accounting for more than 20 per cent of the 777 program's current backlog.

JOBS GALORE AT BRISBANE AIRPORT

More than 25,000 people now work on Brisbane Airport, surpassing all previous airport employment records, according to the company responsible for the airport's management. Brisbane Airport Corporation (BAC) Executive Manager for Human Resources, Gwilym Davies, said more than 16,000 people are directly employed on airport across more than 100 different companies, with an additional 10,000 employed through contractors working on what arguably is the "infrastructure hotspot" in South East Queensland. Since July 2007 BAC itself has increased its workforce by more than 25 per cent, with significant growth expected to continue throughout 2008. Davies said these numbers would continue to grow at record levels over the next decade due to BAC's A\$2.2 billion infrastructure program currently under way.

CHALLENGING TIMES AHEAD FOR AIR CARGO SAYS IATA

International passenger traffic for October increased 7.7 per cent over the same month in 2006 but was down slightly from the 8.2 per cent growth recorded in September, according to new traffic results from the International Air Transport Association (IATA). It was a different story for cargo. Economic volatility is having a more immediate effect on international air freight demand, according to the report. Air cargo grew 3.6 per cent in October compared to the same month in 2006. But this is down from the 5.0 per cent year-on-year growth recorded in September and partly reverses the strong pick up of freight growth seen in mid-2007. Year-to-date freight demand has risen 4.0 per cent. Leading air freight indicators such as semi-conductor shipments and global manufacturing business confidence levels have slowed in recent months. Demand for air freight is still expected to grow, but at a slower pace for the remainder of the year. Asia Pacific airlines saw a fall in growth rates, from 7 per cent in September to 5.8 per cent in October, partly due to slower growth in semi-conductor shipments. European carriers grew 2.0 per cent and North America 0.6 per cent. IATA says this reflects the strength of competition from other modes of transport and slower US economic growth. "The numbers show that the fourth quarter will be challenging. With weakening confidence levels in manufacturing businesses and slower semi-conductor shipments, we have already

seen a slowdown in cargo growth from 5.0 per cent in September to 3.6 per cent in October," said Giovanni Bisignani, IATA director general and chief executive. "Air cargo is still expanding, but the industry has shifted gears to a slower pace of growth. Passenger demand remains strong, but this is a cyclical industry. The next months will be critical to see if the impact of the credit crunch spreads from cargo to corporate and leisure travel."

"Airlines are still on track to show their first profit since 2001 this year. That's good news. But with US\$200 billion in debt and oil soaring to record levels, it's no time to loosen the belt or the purse strings. Cost control is more critical than ever in all corners of the business," said Bisignani.

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