

Key Points

- Mineral and energy exports dominate Northern Territory international merchandise exports, while tourism-related activities are the major international services exports.
- Refined fuels, manufactured goods, machinery and equipment make up the majority of international imports. Significant levels of international imports enter the Territory via other states and are therefore classified as interstate imports.
- Oil production has had a significant impact on Territory export levels since the Laminaria-Corallina fields commenced operation in 1999-2000.
- Territory exports are forecast to fall by 6.6 per cent to \$1.7 billion in 2004-05, as oil exports fall by 30 per cent. Imports are forecast to increase significantly as importation of material for the construction of the liquefied natural gas plant and pipeline continues.
- Over time, the operational phase of the Adelaide to Darwin railway is expected to generate increased international trade as landbridge-related opportunities develop. By 2007 it is anticipated that 50 000 containers of international freight will be moved by rail through the East Arm Port.

Trade Balance

The Territory's international trade balance (that is, exports of goods and services less imports of goods and services) as a ratio of Gross State Product (GSP) was 24.5 per cent in 2002-03, the second highest of all Australian jurisdictions and higher than the national ratio of negative 3.1 per cent (a trade deficit). The Territory is a net exporter largely due to its abundance of mineral and energy resources.

The Territory's international merchandise trade surplus is estimated to have decreased to \$1 billion in 2003-04, down from \$1.7 billion in 2002-03 and \$2.2 billion in 2001-02. The decline in the surplus in recent years is largely due to falling mineral fuels (oil) exports.

The Territory's major merchandise trading partners are in North East and South East Asia. North America is another important trade region.

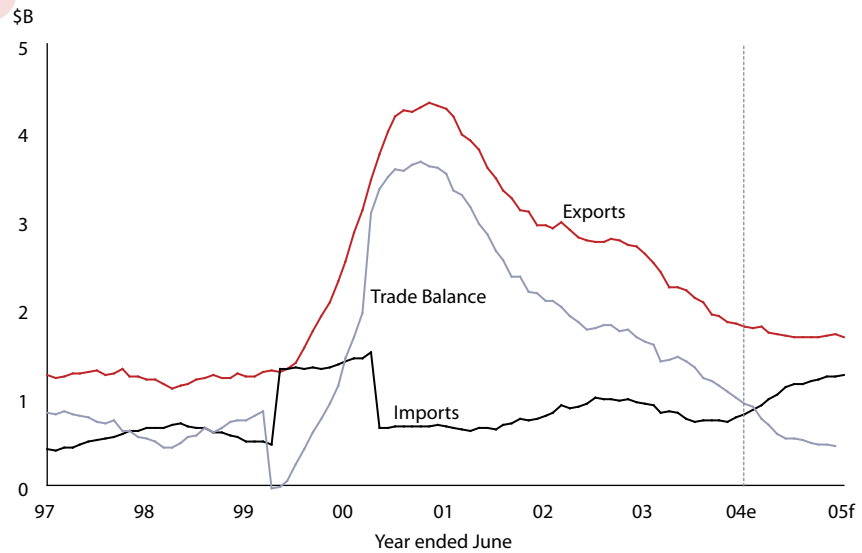
Exports

As well as oil, significant Territory exports include mineral ores and live cattle, which go predominantly to major trading partners in Asia (including Singapore, China, South Korea, Indonesia and Japan). Although the Territory is a significant gold producer, gold is usually refined in Perth before being exported, and as such is reported as an international export from Western Australia.

Table 7.1: International Trade (2002-03)

	Merchandise Exports (per capita)	Services Exports (per capita)	Ratio of Trade Balance to GDP/GSP (%)
New South Wales	3 762	2 126	-20.7
Victoria	4 352	1 458	-12.9
Queensland	6 435	1 448	7.1
South Australia	5 609	605	4.9
Western Australia	18 062	1 294	27.7
Tasmania	5 259	340	13.4
Northern Territory	14 409	2 455	24.5
Australian Capital Territory	15	2 236	-3.8
Australia	7 734	1 405	-3.1

Source: NT Treasury, ABS Cat. No. 3101.0, 5220.0



e: estimate f: forecast

Source: NT Treasury, ABS data service 5432.0.65.001

In 2002-03, the Territory's trade surplus in services fell by 20 per cent to \$284 million, with a fall in service imports more than offset by a fall in service exports. Nationally, the balance on international services trade deteriorated by \$1.5 billion to a deficit of \$1.9 billion in 2002-03. The Territory has averaged a services trade surplus of \$920 per capita over each of the past ten years, while the corresponding national figure is a deficit of around \$125 per person. In 2002-03, Territory international services exports were \$2 455 per capita compared to \$1 405 nationally. The Territory's major services exports are tourism related.

For national accounting purposes, the Joint Petroleum Development Area is to be classified as a separate country and Bayu-Undan gas and condensate production will not be included in Territory international merchandise trade exports. However, 50 per cent of condensate production from Bayu-Undan stage one will be attributed to the Territory in the State Accounts.

Merchandise Exports

Mineral and energy exports comprise a large proportion of Northern Territory international merchandise exports. Oil production has had a significant impact on Territory export levels since the Laminaria-Corallina fields commenced operation in 1999-2000. Other major Territory international merchandise exports include live cattle, beverages, animal and vegetable oils, manufactured goods, machinery and transport equipment, and chemicals and related products.

The nominal value of Territory merchandise exports is estimated to have fallen by more than 30 per cent to \$1.8 billion in 2003-04. Merchandise exports have been volatile in recent years, due primarily to changes in oil production levels from the Laminaria-Corallina oilfields, exacerbated by large movements in crude oil prices and the Australian dollar. The value of oil exports is estimated to have fallen by more than \$0.7 billion to \$0.5 billion in 2003-04. The value of mineral ore exports is estimated to have been relatively steady in 2003-04 as the impact of price falls and production increases largely cancelled each other out. The value of live cattle exports is estimated to have fallen sharply as the stronger Australian dollar affected competitiveness.

Chart 7.2 shows Territory international merchandise exports by major category and clearly illustrates the significant impact of oil exports from the Laminaria-Corallina fields and also the significance of mineral commodity exports. In the five years to 2003-04, the value of annual live cattle exports accounted for around 6.0 per cent of exports each year, while other exports accounted for only 2.0 to 3.0 per cent of total export values.

The Territory's mineral fuel exports, consisting almost entirely of crude oil, represented on average around 20 per cent of total exports for most of the 1990s. Oil production from the Laminaria-Corallina fields has increased this proportion significantly, peaking in mid 2001 at almost 70 per cent of total Territory merchandise exports (supported by the weak Australian dollar and high crude oil prices at the time). Production and export rates have declined significantly from the peak, and as a proportion of total merchandise exports, mineral fuel exports are estimated to have fallen to 30 per cent in 2003-04.

Mineral Ore

Territory mineral ore exports are dominated by bauxite and alumina, manganese, zinc/lead concentrate and uranium. Despite relatively steady production volumes, fluctuating prices and exchange rate volatility have resulted in the nominal value of Territory mineral ore exports being in the range of \$1.0 to \$1.2 billion in the past few years.

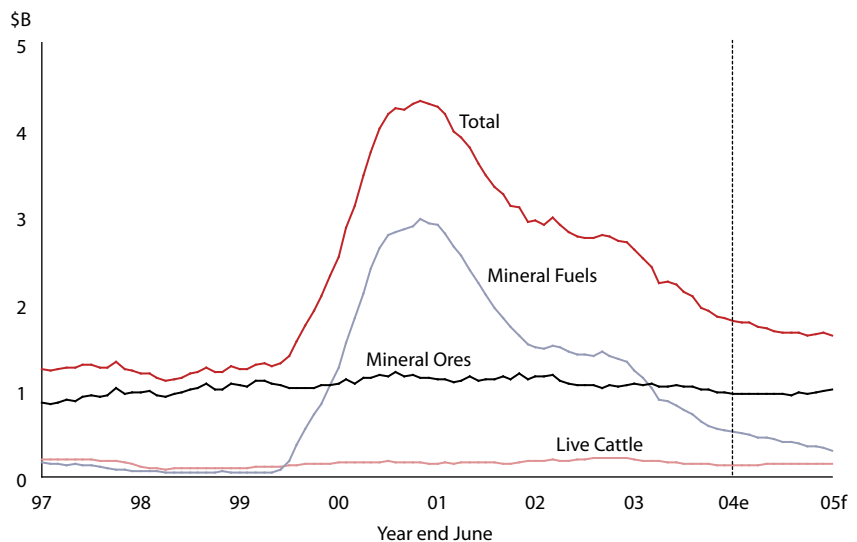
Gold

Although the value of gold production in the Territory is typically more than \$300 million per annum, gold is usually transported to Perth for further refining before being exported overseas. As such, gold produced in the Territory is generally reported as an international export for Western Australia rather than the Territory.

Live Cattle

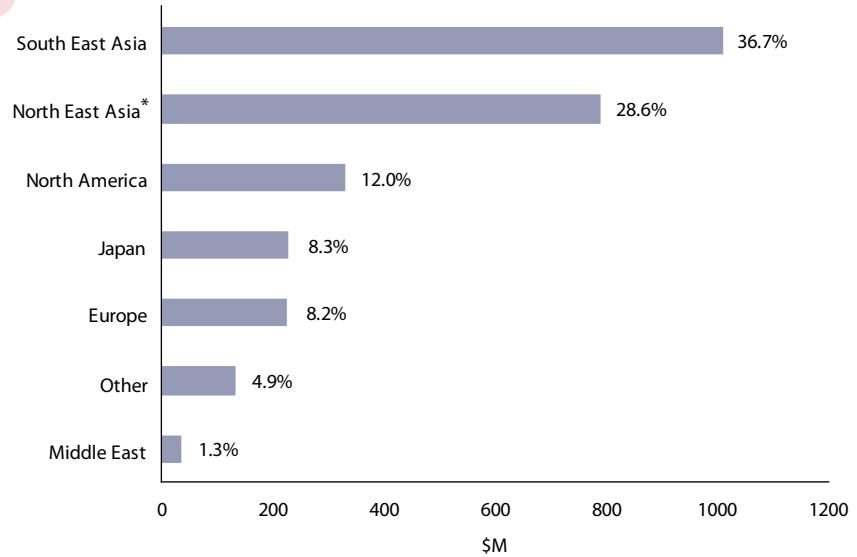
International exports of live cattle from the Territory fell significantly as a result of the Asian economic crisis of 1997. During this time, shipments to the key markets of Indonesia and the Philippines fell dramatically, although sales to most of the affected countries have since recovered to pre-crisis levels. Nonetheless, Territory live cattle exports are influenced by economic conditions affecting demand and supply in importing countries and the impact of exchange rates on the competitiveness of Australian exports. In 2003-04, the value of live cattle exports from the Territory is estimated to have fallen by close to 35 per cent to \$130 million.

Chart 7.2: Merchandise Exports by Major Group



e: estimate f: forecast
 Source: NT Treasury, ABS data service 5432.0.65.001

Chart 7.3: Territory Major Export Destinations (five year average, 1998-2003)



*excluding Japan
Source: NT Treasury, ABS data service 5432.0.65.001

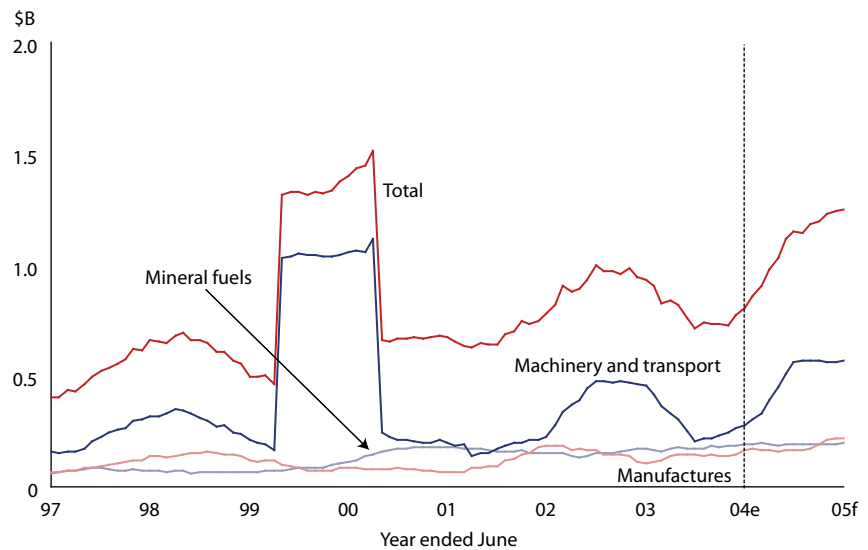
Key Export Markets

In the five years to 2003, around 70 per cent of Territory commodity exports went to Asia (including Japan). Mineral ore exports typically go to China and Japan as well as North America and Europe. Territory oil exports go to a more diverse range of countries for refining, predominantly Singapore, Korea, Japan, Taiwan, the United States, the Philippines and China, and small amounts to New Zealand and Indonesia.

Merchandise Imports

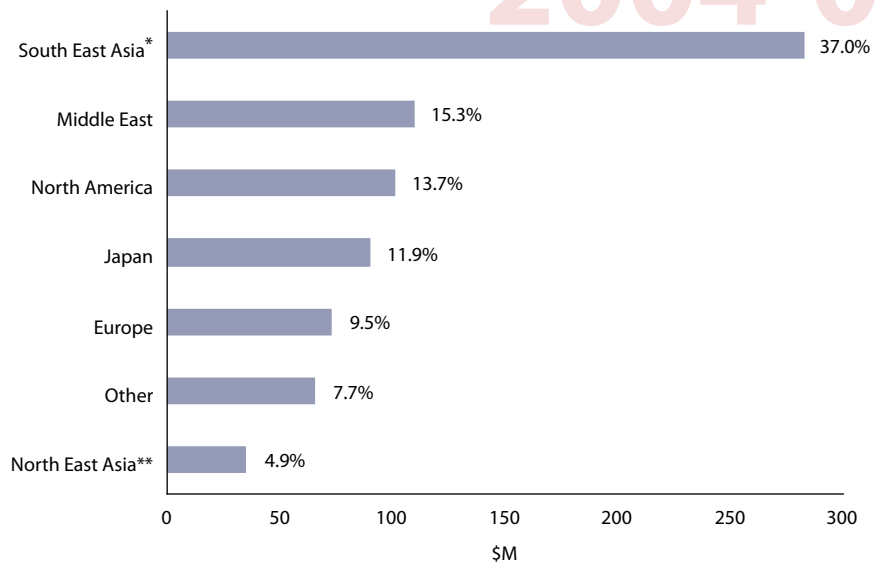
Machinery and equipment and mineral fuels are the major international merchandise imports to the Territory. Machinery and transport equipment imports were abnormally high in 1999-2000 due to the one-off effect of the *Northern Endeavour* (the production, storage and offtake vessel used for the Laminaria-Corallina oil fields).

Chart 7.4: Merchandise Imports by Major Group



e: estimate f: forecast
Source: NT Treasury, ABS data service 5432.0.65.001

Chart 7.5: Major Import Sources
(five year average, 1998-2003)



*includes impact of the *Northern Endeavour* in 1999-2000

** excluding Japan

Source: NT Treasury, ABS data service 5432.0.65.001

Machinery and Transport

The value of imports is estimated to have decreased by 13 per cent to \$800 million in 2003-04 after being boosted in 2002-03 by the import of equipment for the Bayu-Undan gas and condensate fields and aircraft engines for fleet upgrades. The value of machinery and transport equipment imports is estimated to have fallen from \$460 million in 2002-03 to \$280 million in 2003-04, but still represented roughly 35 per cent of Territory merchandise imports. The high proportion of machinery and equipment imports reflects the Territory's demand for industrial equipment and machinery for mining and construction, as well as demand for vehicles and other transport equipment.

Other Imports

Mineral fuels typically make up one-third of the Territory's international merchandise imports. However, the value of fuel imports can vary markedly over time given the volatility in the price of oil and exchange rate movements. The solid increase in international fuel imports since 1999 represents a shift away from being supplied by Australian refineries in the south to being supplied largely from Singapore in the north. The value of fuel imports is estimated to have increased by around 10 per cent to \$185 million in 2003-04.

The Territory does not have a strong manufacturing capability, and manufactured products typically account for around 15 to 20 per cent of international merchandise imports.

In the five years to 2003, 37 per cent of the Territory's merchandise imports came from South East Asia (see chart 7.5). South East Asia and the Middle East are the major suppliers of the Territory's fuel requirements, with most fuel arriving from Singapore. While significant imports of road vehicles and other manufactured goods come from Japan, transport equipment (excluding road vehicles) is generally supplied from North America, North East Asia and South East Asia.

2004-05 Services

Government Services

Government services are typically the major services export from the Territory and largely comprises expenditure from visiting military forces, notably the United States. Growth in government services exports was the major contributor to services exports growth over the past nine years, accounting for more than half of the services exports growth. In the five years to 2002-03, average annual government services exports expenditure increased to \$220 million from an average \$140 million per annum in the five years to 1997-98, and comprised more than 50 per cent of total services exports from the Territory in 2002-03. This was the second highest proportion of the jurisdictions behind the Australian Capital Territory at 60 per cent.

Travel Services

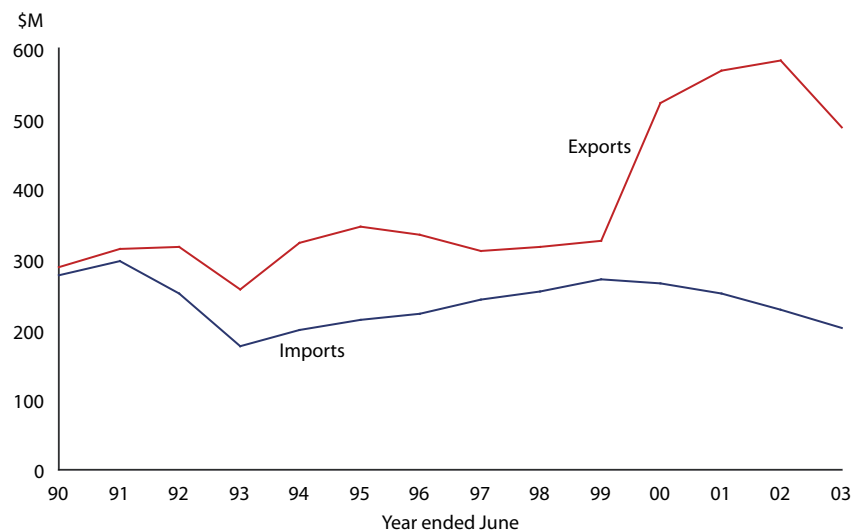
Travel services exports are those provided to overseas tourists and include services such as meals, accommodation, entertainment and sightseeing tours. Travel services typically account for around 30 per cent of Territory services exports. About one-third of the growth in services exports over the past nine years is attributable to travel services, and expenditure has increased from an average of \$110 million per annum in the five years to 1997-98 to \$155 million per annum in the five years to 2002-03.

Travel services exports also include expenditure by non-resident students in Australia, with expenditures in the Territory estimated at more than \$14 million per annum. Education-related travel services (as a proportion of total travel services exports) is typically around 10 per cent in the Territory, the lowest of the jurisdictions.

Other services exports include transportation and communication services, which typically account for around 13 per cent and 2.0 per cent of total international services exports respectively.

Territory services imports are dominated by Territory-based demand for travel and transportation, which each represented around 45 per cent of services imports in 2002-03. In line with the treatment for services exports, travel imports include the value of travel services consumed by Territorians overseas, while transport services include shipment and freight services provided by non-residents. The total value of services imports in 2002-03 was \$203 million.

Chart 7.6: Northern Territory International Services Trade



Source: ABS Cat. No. 5220.0

Outlook

Merchandise Trade Surplus Forecast to Fall

The Territory's nominal merchandise trade surplus is forecast to fall to around \$440 million in 2004-05, after an estimated \$1 billion in 2003-04 and \$1.7 billion in 2002-03. Falling oil production from the Laminaria-Corallina fields is again a major influence on the outlook for exports, while construction of the Wickham Point liquefied natural gas (LNG) plant and pipeline will be the major impact on imports, which are expected to increase sharply in 2004-05. These events will have a significant downward effect on the Territory's international trade surplus. International services exports are expected to start to recover in 2004-05 in line with the strengthening global economy and its impact on discretionary international travel.

Export Forecast to Decrease

The nominal value of merchandise exports is expected to continue to decline in 2004-05. The major influence will be from falling oil production and prices (in Australian dollar terms). Further, while the strengthening global economy will increase demand for raw materials, increased global supply is expected to result in price falls, rather than increases, for many of the commodities that the Territory exports. Any further appreciation of the Australian dollar will also have a negative impact on competitiveness, and therefore the level of exports and returns, of Territory exporters. The value of merchandise exports is expected to decline by around 6.6 per cent to \$1.7 billion in 2004-05, down from an estimated \$1.8 billion in 2003-04.

Mineral Fuels

The value of mineral fuels exports is forecast to fall by 30 per cent in 2004-05 as both production and Australian dollar prices fall. Condensate exports will jump in 2004-05 as the Bayu-Undan fields in the Joint Petroleum Development Area have their first full year of production. However, as previously noted, this will not be recorded as an international export from the Territory.

Live Cattle

After weakening sharply in 2003-04, the value of cattle exports is expected to increase by close to 15 per cent in 2004-05 as strengthening economic conditions in the Territory's major live cattle export markets of Indonesia and the Philippines more than offset the negative impact of the stronger Australian dollar on competitiveness.

Imports Forecast to Increase

The nominal value of imports to the Territory is forecast to increase by almost 55 per cent to around \$1 billion in 2004-05. Construction of the Wickham Point LNG plant and the 500 kilometre gas pipeline from the Bayu-Undan fields are the major influence on the outlook. Imports for these projects will include pipeline construction materials such as steel, as well as significant machinery and transport equipment requirements.

Australia-US Free Trade Agreement

In relation to exports, the Australia-United States Free Trade Agreement is likely to provide only limited tangible direct benefits for the Territory in the short term (particularly as most major Territory export commodities to the US are already tariff free). The agreement might provide a medium-term indirect benefit for the Territory's cattle industry, with reduced tariffs and increased quotas for beef imports into the US, possibly resulting in increased demand for Territory cattle for abattoir in other Australian states. Over time, the Agreement is expected to facilitate the expansion of goods and services exports, such as specialty food exports, to the US. Improved access to US Federal and State government procurement markets, as a result of the agreement, may also open up new opportunities for suppliers.

In regards to imports, the Agreement is likely to improve the competitiveness of some major US imports into the Territory, as Australian-levied tariffs are to be removed from items such as machinery and equipment. This in turn has the potential to reduce the cost of future major development projects in the Territory. The changes to the investment approvals arrangements in Australia and the greater awareness in the US of Australian and Northern Territory opportunities, resulting from the agreement, may also assist the flow of US investment into major Territory development projects.

International Visitors

International visitor arrivals to the Territory are expected to increase by 23 per cent in 2004-05 and will boost international services exports. Although there are some risks to this outlook associated with the strength of the Australian dollar, the positive short-term outlook is based on improving global economic conditions, particularly in the Territory's major source markets, and an easing of travel-related health and safety concerns. Education and general government services exports are forecast to be largely unchanged in 2004-05.

Regional Transport Hub

Major transport infrastructure developments offer the potential for the Territory to develop into a major regional transport hub. Development of the landbridge concept based on the new Adelaide to Darwin rail link and the new East Arm Port is expected to see freight volumes through Darwin increase significantly over time. The landbridge, combined with shipping routes to densely populated manufacturing countries to the north, could see Darwin develop as a transport hub connecting interstate and international markets.

Further out, potential resource developments, as well as gas-based manufacturing, have the capacity to boost exports of oil and gas, although there is still some uncertainty regarding the likelihood and timing of such projects.