

Chapter 7 International Trade

Key Points

- Mineral and energy commodities 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 estimated to fall marginally in 2004-05 as declining oil production is largely offset by higher oil prices. Imports are forecast to increase significantly as material for the liquefied natural gas (LNG) plant and fuel tank facility enter the Territory and significant aircraft imports are attributable to the Territory.
- In 2005-06, exports are forecast to increase by 4 per cent as LNG production late in the period more than offsets the continuing decline in oil production. Imports are forecast to increase marginally, and remain at a high level, as work on major projects continues.
- Over time, the operational phase of the Adelaide to Darwin railway is expected to generate increased international trade opportunities. Landbridge trials are continuing, and by 2007 it is anticipated that 50 000 containers of international freight will be moved by rail through the East Arm Port.

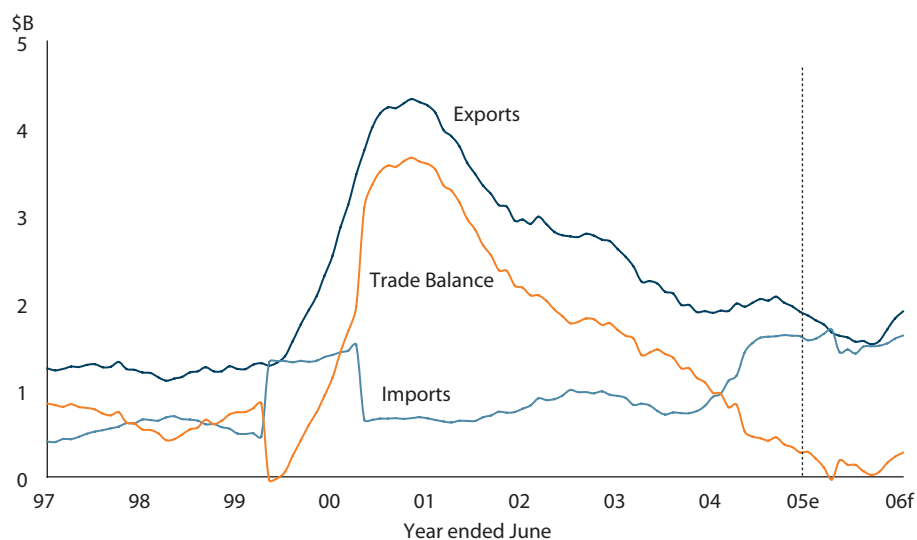
The range of Territory merchandise exports is relatively narrow, dominated by output from the minerals and energy sector and, to a lesser degree, the pastoral sector. Demand and supply conditions shape export performance and are influenced by world economic growth, competitiveness and capacity utilisation (that is, the capacity to respond to, say, an increase in demand). In the Territory, export performance tends to be quite volatile, heavily influenced by the impact of resource projects commencing production. The most recent example of this is the impact of oil production from Laminaria-Corallina in 1999-2000. The commencement of full-year production of liquefied natural gas will have a significant impact on exports from 2006-07 onwards.

Table 7.1: International Trade
(2003-04)

| | Merchandise Exports (per capita) | Services Exports (per capita) | Ratio of Trade Balance to GDP/GSP (%) |
|------------------------------|-------------------------------------|----------------------------------|---|
| New South Wales | 3 576 | 2 185 | -15.0 |
| Victoria | 4 175 | 1 519 | -13.3 |
| Queensland | 5 649 | 1 548 | 2.2 |
| South Australia | 5 661 | 624 | 5.0 |
| Western Australia | 18 472 | 1 361 | 38.0 |
| Tasmania | 4 783 | 377 | 11.5 |
| Northern Territory | 10 920 | 2 261 | 15.6 |
| Australian Capital Territory | 3 | 2 367 | -2.7 |
| Australia | 5 117 | 1 463 | -4.6 |

Source: ABS Cat. Nos. 3101.0, 5220.0

Chart 7.1: Territory International Merchandise Trade



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

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 15.6 per cent in 2003-04, the second highest of all Australian jurisdictions and higher than the national ratio of negative 4.6 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 \$290 million in 2004-05, down from \$1 billion in 2003-04 and \$1.7 billion in 2002-03. 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 (mainly China and Singapore). North America (mainly Canada) is another important trade region.

Exports

As well as oil, significant Territory exports include mineral ores and live cattle, which are exported predominantly to 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.

In 2003-04, the Territory's services trade surplus fell by 15 per cent to \$292 million, while services imports increased by 5 per cent, and export of services fell by 6.9 per cent. Nationally, the balance on international services trade fell by 17.3 per cent to a deficit of \$329 million in 2003-04. The Territory has averaged a services trade surplus of \$1012 per capita over each of the past ten years, while the corresponding national figure is a deficit of around \$75 per capita. In 2003-04, Territory international services exports were \$2296 per capita compared to \$1491 nationally. The Territory's major services exports are tourism related.

Joint Petroleum Development Area

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 production from Bayu-Undan stage 1 will be attributed to the Territory in the State Accounts. Gas from Bayu-Undan used as feedstock to manufacture LNG in Darwin will be included in Territory international merchandise trade imports.

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, animal and vegetable oils, manufactured goods, machinery and transport equipment, and chemicals and related products.

The nominal value of Territory merchandise exports fell by 28 per cent to \$1.9 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 around 23 per cent to \$0.4 billion in 2004-05. The value of mineral ore exports is estimated to have increased by 8 per cent in 2004-05 as the increase in world demand for resources impacts on the Territory's economy. 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 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 2004-05, live cattle exports typically accounted for around 7.2 per cent of exports each year.

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 the mineral fuels proportion of total merchandise exports is estimated to have fallen to 25 per cent in 2004-05.

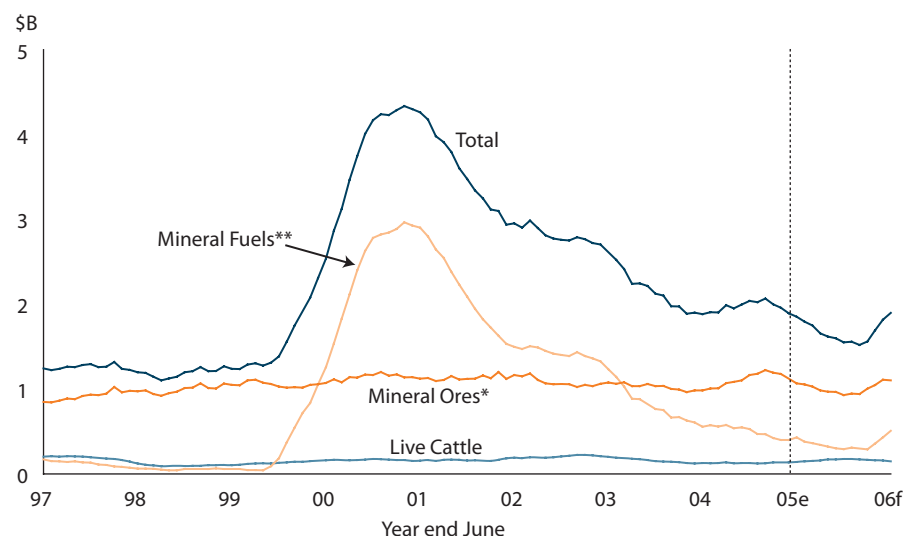
Mineral Ore

Territory raw mineral ore exports are dominated by bauxite, manganese, zinc/lead concentrate and uranium. Although classified as a manufactured product, alumina exports are reported here in the mineral ore category. 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.

Chart 7.2: Territory Merchandise Exports by Major Group



* includes alumina production

** includes liquefied natural gas

e: estimate; f: forecast

Source: NT Treasury, ABS data service 5432.0.65.001

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 supply in importing countries and also the impact of exchange rates on the competitiveness of Australian exports. In 2004-05, the value of live cattle exports from the Territory is estimated to have fallen by close to 10 per cent compared to last financial year.

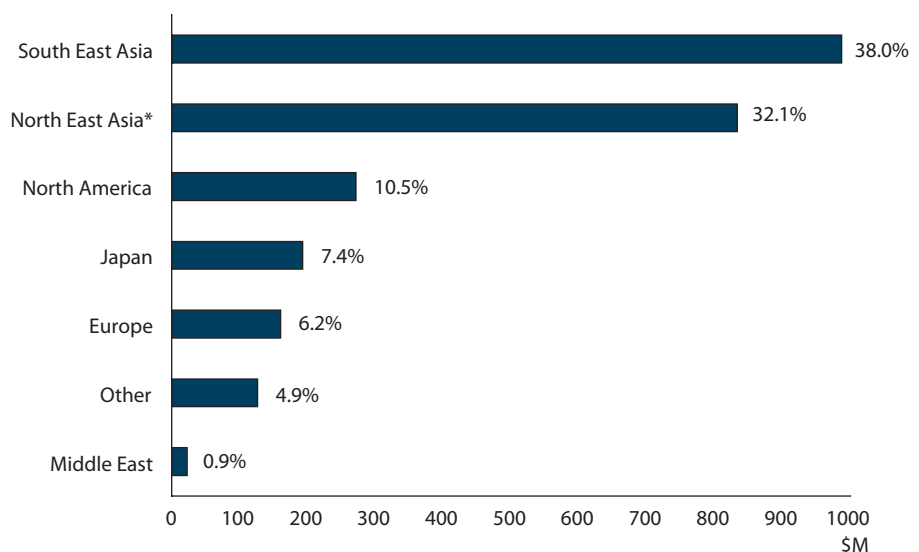
Key Export Markets In the five years to calendar year 2004, around 70 per cent of Territory commodity exports went to Asia (including Japan). Mineral ore exports typically go to China and Japan as well as North America and Europe. Territory oil exports go to a more diverse range of countries for refining, 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 particularly high in 1999-00 due to the one-off effect of the Northern Endeavour (the production, storage and offtake vessel used for the Laminaria-Corallina oil fields).

Machinery and Transport The value of imports is estimated to have increased by 70 per cent to \$1.6 billion in 2004-05 largely due to the import of equipment for the Bayu-Undan gas and condensate fields, but also higher fuel imports (associated with the sharp increase in prices) and aircraft imports. It appears that the Northern Territory was the first Australian 'port of call' for significant aircraft imports from France. While these aircraft are to be used nationally, they are attributed to the Territory given that it was the entry point for the aircraft.

The value of machinery and transport equipment imports is estimated to have increased from \$350 million in 2003-04 to \$670 million in 2004-05, representing roughly 45 per cent of Territory merchandise imports. Generally, the high proportion of machinery and equipment imports reflects the Territory's increased demand for industrial equipment and machinery for mining and construction, as well as demand for vehicles and other transport equipment. However, as discussed, the 2004-05 value of machinery and transport is slightly inflated due to aircraft imports to Australia where the Territory was the 'port of entry'.

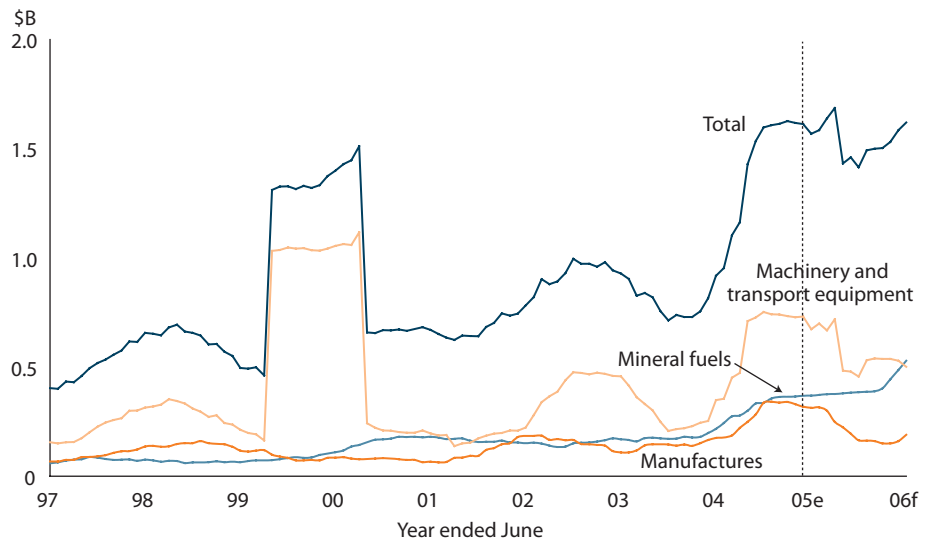
Chart 7.3: Territory Major Export Destinations (five year average to 2004)



* excluding Japan

Source: ABS data service 5432.0.65.001

Chart 7.4: Territory Merchandise Imports by Major Group



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

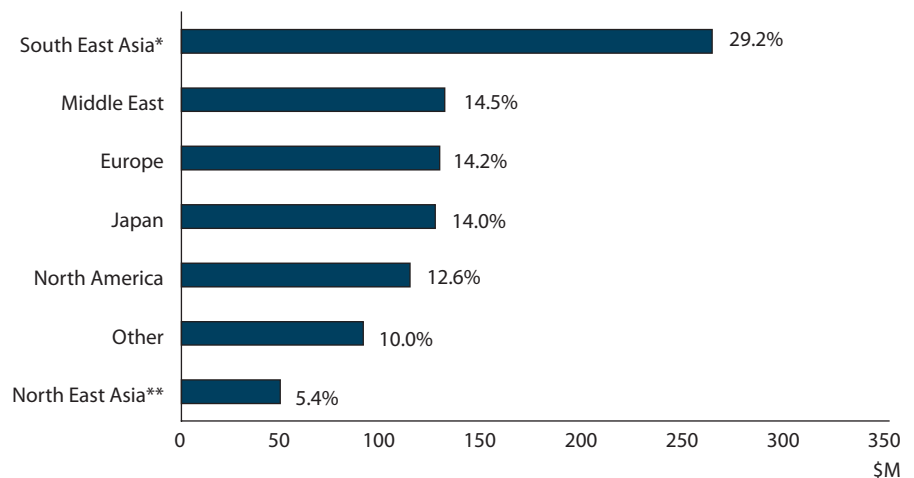
Other Imports

Mineral fuels typically make up one-third to one-quarter 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 70 per cent \$370 million in 2004-05.

The Territory has a narrow manufacturing capability, though manufactured products, primarily alumina, typically account for around 15 to 20 per cent of international merchandise imports. This proportion will increase sharply as liquefied natural gas (LNG) production commences in 2005-06 and alumina production increases sharply in 2006-07.

In the five years to 2004, 29 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.

Chart 7.5: Territory Major Import Sources (five year average to 2004)



* includes impact of the Northern Endeavour in 1999-00
** excluding Japan
Source: ABS data service 5432.0.65.001

Services

Government Services

Government services are typically the major services export from the Territory and largely comprise expenditure from visiting military forces, notably the United States. Growth in government services exports accounted for more than half the growth in this section over the past nine years. In the five years to 2003-04, average annual government services exports expenditure increased to \$250 million from an average \$111.8 million per annum in the five years to 1998-99, and comprised almost 60 per cent of total services exports from the Territory in 2003-04.

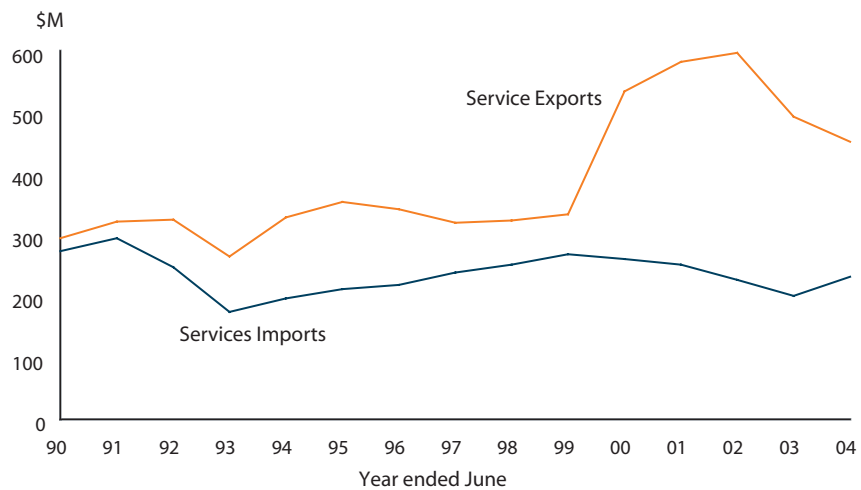
Travel Services

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 \$153 million per annum in the five years to 2003-04.

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) are 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 11 per cent and 2 per cent of total international services exports respectively. Territory services imports are dominated by Territory-based demand for travel and transportation, each of which represented around 46 per cent of services imports in 2003-04. 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 2003-04 was \$149 million.

Chart 7.6: Territory International Services Trade



Source: ABS Cat. No. 5220.0

Outlook

The Territory's nominal merchandise trade surplus is forecast to be around \$300 million in 2005-06, up marginally from an estimated \$290 million in 2004-05 and \$1 billion in 2003-04. Falling oil production from the Laminaria-Corallina fields will continue, but the major influence on exports in the short term is liquefied natural gas exports commencing in late 2005-06, with full year production in 2006-07. Sharp increases in alumina production will also result in stronger export growth in 2006-07. After falling over the past few years, international services exports are expected to continue to recover in 2005-06 in line with the stronger global economy and its impact on discretionary international travel, as well as increased advertising in major source markets.

Exports Forecast to Decrease

The nominal value of merchandise exports is expected to increase by 4 per cent to \$1.9 billion in 2005-06, with falling oil production more than offset by LNG production. 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.

Mineral Fuels

The value of mineral fuels exports, including mineral fuels manufacturing (that is, LNG) is forecast to increase by 18 per cent largely due to LNG production commencing. Condensate production from the Bayu-Undan fields in the Joint Petroleum Development Area is not recorded as an international export from the Territory.

Live Cattle

After weakening sharply in 2003-04, the value of cattle exports is estimated to have fallen by 10 per cent over 2004-05. Although from a relatively low base, exports are forecast to increase by around 5 per cent in 2005-06 as strengthening economic conditions in the Territory's major live cattle export markets of Indonesia and the Philippines offset the negative impact of the stronger Australian dollar on competitiveness.

Imports Forecast to Increase

The nominal value of international imports to the Territory is forecast to increase by 3 per cent to \$1.6 billion in 2005-06. Imports for the Alcan expansion project will mean that significant imports of machinery and transport equipment will continue.

Free Trade Agreements

Australia has finalised free trade agreements (FTAs) with the United States and Thailand, which came into effect in early 2005. These agreements are likely to provide only limited tangible direct benefits for the Territory in the short term but could provide medium-term indirect benefits. Over time these agreements are expected to facilitate the expansion of goods and services exports such as specialty food exports. Improved access to government procurement markets as a result of the agreement may also open up new opportunities for exporters.

In regards to imports, these agreements are likely to improve the competitiveness of imports into the Territory as Australian-levied tariffs are removed from items such as machinery and equipment. This 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 of opportunities may also assist the flow of 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 9 per cent in 2005-06, boosting international services exports. Although there are risks associated with this outlook, including 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 2005-06.

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 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.