

# Chapter 7 International Trade

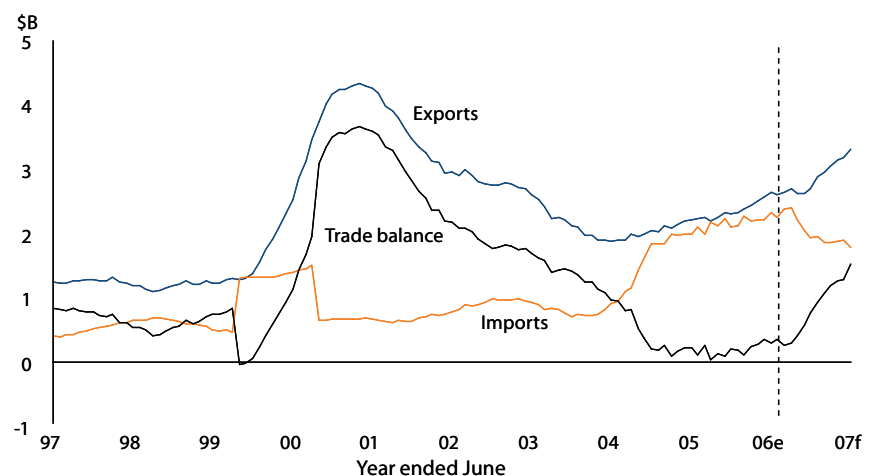
## Key Points

- Major Territory exports are mineral ores, mineral fuels and services related to international visitors (tourists and foreign defence personnel).
- Merchandise exports increased by 18 per cent to an estimated \$2.6 billion in 2005-06, largely due to increased global commodity demand and prices.
- Strong growth (26 per cent) in merchandise exports is forecast for 2006-07, supported by a full year of liquefied natural gas production, manganese from the new Bootu Creek mine and increased alumina from Alcan's Gove refinery.
- Major Territory imports are machinery and equipment (mostly industrial equipment for mining and construction activities) and refined fuels.
- In 2005-06, imports increased by an estimated 17 per cent to \$2.3 billion, largely due to equipment imported for the Bayu-Undan gas and condensate development and higher prices for refined fuel. The import of aircraft via Darwin for the Jetstar fleet also contributed to this increase.
- Imports are forecast to decrease by 23 per cent in 2006-07, due in large part to completion of work on the Alcan G3 refinery expansion and the completion of Jetstar's fleet purchases. Mineral fuel imports are forecast to increase significantly (32 per cent) with import of feedstock gas for the Wickham Point LNG plant.

An abundance of rich mineral and energy resources and a limited local market mean that international trade forms an integral part of the Territory economy. Reliance on the extremely volatile mining and energy sector ensures that the timing of large projects, price variations and exchange rate movements can have a dramatic effect on the Territory's trade performance. A recent example is the effect of the commencement of crude oil production from the Laminaria-Corallina oilfields in 1999-2000 (Chart 7.1), which led to a 68 per cent increase in Territory exports. Commencement of a full year of liquefied natural gas (LNG) production is likely to have a similar impact on Territory international trade from 2006-07.

Caution is required when interpreting international trade statistics for the Territory. The importation of some high value capital goods, such as the *Northern Endeavour* platform in 1999 and large number of passenger aircraft for Jetstar between 2004 and 2006, had a significant impact on reported Territory imports but is of little relevance to the onshore economy. Similarly, the majority of gold production in the Territory is exported via Perth, and is therefore not counted as a Territory export.

Chart 7.1: Territory International Merchandise Trade (moving annual total)



e: estimate; f: forecast

Source: Northern Territory Treasury, ABS data service 5432.0.65.001

## Trade Balance

The Territory's international trade balance as a ratio to gross state product (GSP) was 3.1 per cent in 2004-05 (Table 7.1), compared to a national ratio of -4.6 per cent (a trade deficit). The Territory has traditionally been a net exporter, largely due to its abundance of mineral and energy resources. In 2004-05, the Territory recorded the second highest level of merchandise exports per capita of Australian jurisdictions and the highest level of imports per capita.

**Table 7.1: International Trade, 2004-05**

	Merchandise Exports (per capita) number	Services Exports (per capita) number	Merchandise Imports (per capita) number	Ratio of Trade Balance to GDP/GSP %
New South Wales	3 473	2 298	9 076	-13.5
Victoria	3 814	1 597	8 960	-12.5
Queensland	5 567	1 656	5 272	1.9
South Australia	5 082	662	3 643	3.3
Western Australia	17 587	1 374	6 726	22.1
Tasmania	4 894	367	1 222	11.3
<b>Northern Territory</b>	<b>9 606</b>	<b>2 416</b>	<b>9 216</b>	<b>3.1</b>
Australian Capital Territory*	0	2 270	92	-2.2
Australia	5 522	1 738	7 330	-4.6

\* Merchandise trade from the ACT is limited due to its size and geographic location

Source: ABS Cat. Nos. 3101.0, 5220.0

The Territory's international merchandise trade surplus increased to an estimated \$310 million in 2005-06, up from \$230 million in 2004-05 but down from \$1 billion in 2003-04. This increase is largely due to the commencement of LNG production which more than offsets the impact of the importation of aircraft for national airlines through Darwin.

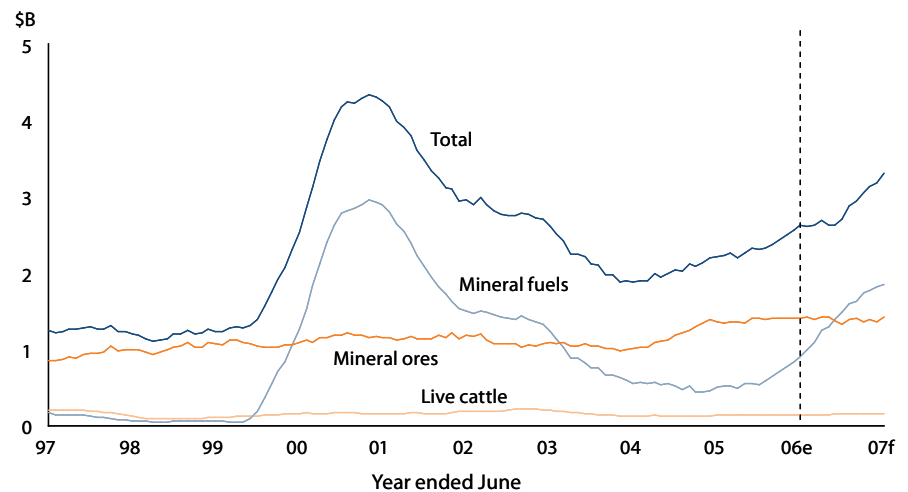
The Territory's major merchandise trading partners are in North East and South East Asia (mainly China and Singapore). North America (mainly Canada) is another important trade region.

## Merchandise Exports

Mineral and energy exports comprise a large proportion of the Territory's international merchandise exports. Other important merchandise exports include live cattle, animal and vegetable oils, manufactured goods, machinery and transport equipment, and chemicals and related products.

Merchandise exports have been volatile in recent years, due primarily to the combined impact of falling oil production from Laminaria-Corallina and large movements in crude oil prices and the Australian dollar. The nominal value of Territory merchandise exports increased by 18 per cent to an estimated \$2.6 billion in 2005-06. Mineral ore exports increased by about 3 per cent in 2005-06 to an estimated \$1.4 billion, reflecting strong world demand, while the value of oil exports increased by about 80 per cent to an estimated \$0.9 billion in 2005-06. The value of live cattle exports has fallen by 31 per cent since 2002-03, as the stronger Australian dollar affected competitiveness.

Chart 7.2: Territory Merchandise Exports by Major Group (moving annual total)



e: estimate; f: forecast

Source: Northern Territory Treasury, ABS data service 5432.0.65.001

**Mineral Fuels** Throughout the 1990s, mineral fuels (almost entirely oil) represented about 20 per cent of total merchandise exports. Oil production from the Laminaria-Corallina oilfields increased this proportion significantly, peaking in mid 2001 at almost 70 per cent of total Territory merchandise exports, supported by a weak Australian dollar and increasing oil prices. Production and export from the Laminaria-Corallina oilfields has declined significantly in recent years. By 2004-05, mineral fuel exports had fallen to just 23 per cent of merchandise exports. The commencement of LNG production at the Wickham Point processing plant will once again boost mineral fuel exports. Production of LNG is estimated to be valued at \$600 million in 2005-06 before increasing to an estimated \$1.36 billion in 2006-07.

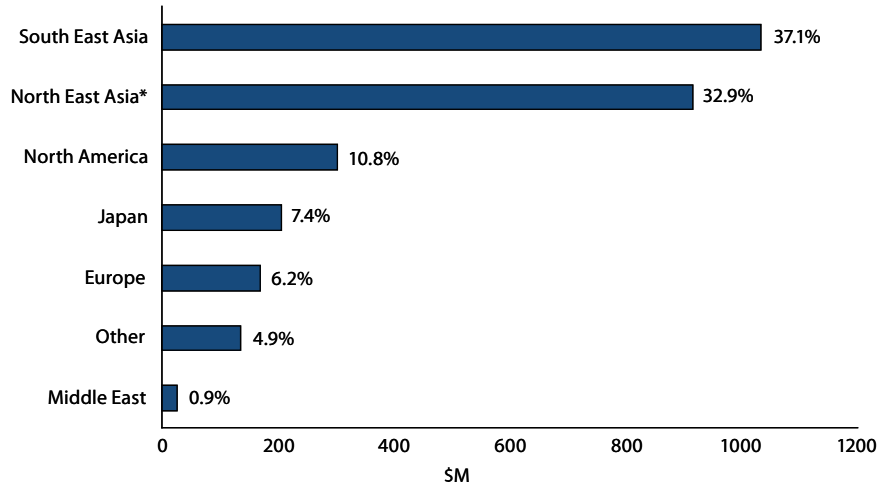
**Mineral Ore** Territory raw mineral ore exports are dominated by alumina, manganese, zinc/lead concentrate and uranium. Despite relatively steady production volumes, strong commodity prices and a strong Australian dollar resulted in the nominal value of Territory mineral ore exports increasing by 36 per cent to \$1.4 billion in 2004-05. Although the value of gold production in the Territory is typically more than \$300 million per annum, gold produced in the Territory is generally reported as an international export from Western Australia rather than the Territory.

The McArthur River mine, which contributed more than \$150 million a year to the mineral ores exports over the past decade, ceased underground mining operations in September 2005 and a proposal to move to an open cut operation is currently under consideration by the Territory Government. The impact of any reduction in output from McArthur River will be somewhat offset by the new Bootu Creek manganese mine which began production in early 2006.

**Live Cattle** Territory live cattle exports are influenced by economic conditions in importing countries as evidenced by the dramatic decline following the 1997 Asian economic crisis and subsequent exchange rate movements. In 2005-06, the value of live cattle exports from the Territory increased by an estimated 5 per cent.

**Key Export Markets** In the five years to 2004-05, about 77 per cent of Territory merchandise exports went to Asia. The major destination markets for Territory mineral ore exports are China and Japan as well as North America and Europe (Chart 7.3). Territory oil is exported to a broader range of countries to be refined, including Singapore, Korea, Japan, Taiwan and the United States.

Chart 7.3: Territory Major Export Destinations, 2000-01 to 2004-05



\* excluding Japan  
 Source: ABS data service 5432.0.65.001

### Merchandise Imports

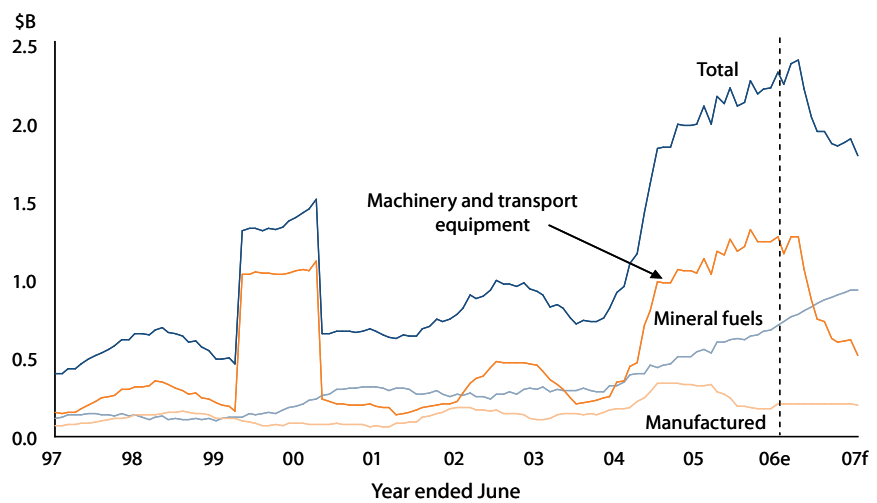
Machinery, equipment and mineral fuels are the Territory's major international merchandise imports. Machinery and transport equipment imports have been particularly high in recent years as a result of equipment imported for major resource projects (Chart 7.4).

In 2005-06, the value of imports increased by an estimated 17 per cent to \$2.3 billion, largely due to the import of aircraft for Jetstar, equipment for the Bayu-Undan gas and condensate fields, and the higher value of fuel imports associated with a sharp increase in prices.

### Machinery and Transport

In 2005-06, the value of machinery and transport equipment imports increased from \$1.0 billion in 2004-05 to an estimated \$1.3 billion, and represent about 54 per cent of Territory merchandise imports. The high proportion of machinery and equipment reflects the Territory's high demand for industrial equipment and machinery for mining and construction. The large increase in 2005-06 is due to Darwin becoming the preferred first Australian port of call for Jetstar's fleet of 20 new Airbus A-320s, leading to more than \$900 million in aircraft imports from France being attributed to the Territory.

Chart 7.4: Territory Merchandise Imports by Major Group (moving annual total)



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



**Feedstock Gas**

Gas production at the Wickham Point LNG plant will have a significant impact on the Territory. Feedstock gas for manufacture into LNG is piped via a sub-sea pipeline from the Bayu-Undan fields in the Joint Petroleum Development Area (JPDA). Feedstock gas from Bayu-Undan will be reported as a Territory import, as the JPDA is jointly managed by Australia and Timor Leste and classified as a country for international trade purposes.

**Other Imports**

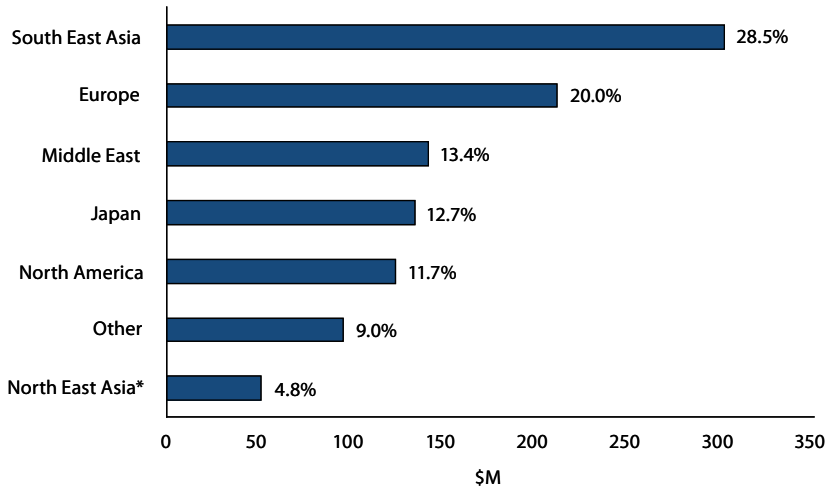
Mineral fuel imports made up about 35 per cent of the Territory's international merchandise imports in the five years to 2004-05. However, the value of fuel imports is heavily influenced by volatility in the price of oil and exchange rate movements. The solid increase in international fuel imports since 1999 reflects, in part, a shift in the source of supply, with less being sourced from southern domestic refineries and more being sourced from Singapore. In 2005-06, the international price of crude oil reached and maintained record levels in the aftermath of Hurricane Katrina, continued insurgency in Iraq and uncertainty of supply from Venezuela and Nigeria. This has resulted in the value of Northern Territory fuel imports increasing by an estimated 31 per cent to \$710 million in 2005-06.

The Territory has a small manufacturing base and, as such, the majority of manufactured products are imported. Manufactured imports accounted for about 13 per cent of international merchandise imports in the five years to 2004-05.

**Key Import Markets**

In the five years to 2004-05, about 29 per cent of Territory merchandise imports came from South East Asia. South East Asia and the Middle East are the major suppliers of the Territory's fuel requirements, with most fuel being sourced from Singapore. Europe is now the Territory's second largest import source, largely due to aircraft imports from France.

Chart 7.5: Major Territory Import Sources, 2000-01 to 2004-05



\* excluding Japan  
Source: ABS data service 5432.0.65.001

**Service Exports**

The Territory recorded the highest level of service exports per capita of the jurisdictions in 2004-05, primarily due to its large tourism industry and its status as a preferred rest and recreation destination for overseas defence personnel.

**Government Services**

The expenditure by foreign government personnel on services such as meals, accommodation, entertainment and sightseeing tours is classified as government services exports. The majority of Territory government services exports come from visiting military forces, particularly from the United States. In 2004-05, government services exports were valued at \$293 million and comprised almost 60 per cent of total Territory services exports.

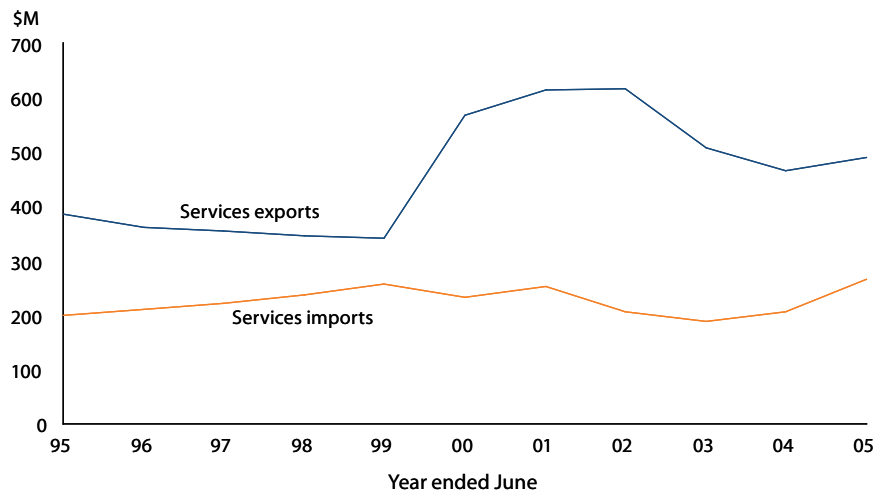
**Travel Services**

The expenditure by overseas tourists, business travellers and students on services in the Territory is classified as travel services exports. This includes meals, accommodation, entertainment and sightseeing tours. In 2004-05, travel services were valued at \$138 million, and accounted for 28 per cent of total Territory services exports. Since 2002, the value of Territory travel service exports has fallen by more than 27 per cent, due in part to a series of international terrorist attacks.

**Service Imports**

Territory services imports are dominated by Territory-based demand for travel services (consumed by Territorians travelling overseas) and transportation (shipment and freight services provided by foreign operators), each of which represented around 45 per cent of services imports in 2004-05. The total value of services imports in 2004-05 was \$266 million, up from \$207 million in 2003-04.

Chart 7.6: Territory International Services Trade (chain volume)



Source: ABS Cat. No. 5220.0

**Outlook**

The Territory’s nominal merchandise trade surplus is forecast to be around \$1.5 billion in 2006-07, a substantial increase from an estimated \$310 million in 2005-06, due to increased exports and a decline in imports.

**Exports**

The nominal value of merchandise exports is forecast to increase by 26 per cent to \$3.3 billion in 2006-07, driven by a full year of LNG production, manganese from Bootu Creek mine and increased production from Alcan’s Gove refinery. The value of mineral fuels exports, including LNG, is forecast to increase by 107 per cent in 2006-07, largely due to increased LNG production. Commodity prices are expected to retreat from current highs, with a predicted slowing of the Chinese economy and a subsequent decline in global demand reducing the value of Territory commodities exports.

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.

**Imports**

The nominal value of Territory international imports to the Territory is forecast to decrease by 23 per cent to \$1.8 billion in 2006-07. The completion of both Jetstar’s fleet purchase and work on the Alcan G3 refinery expansion are the key drivers of this decline. However, mineral fuel imports are forecast to increase by 32 per cent, as a result of the importation of feedstock gas for the Wickham Point LNG plant.