

Chapter 7 International Trade

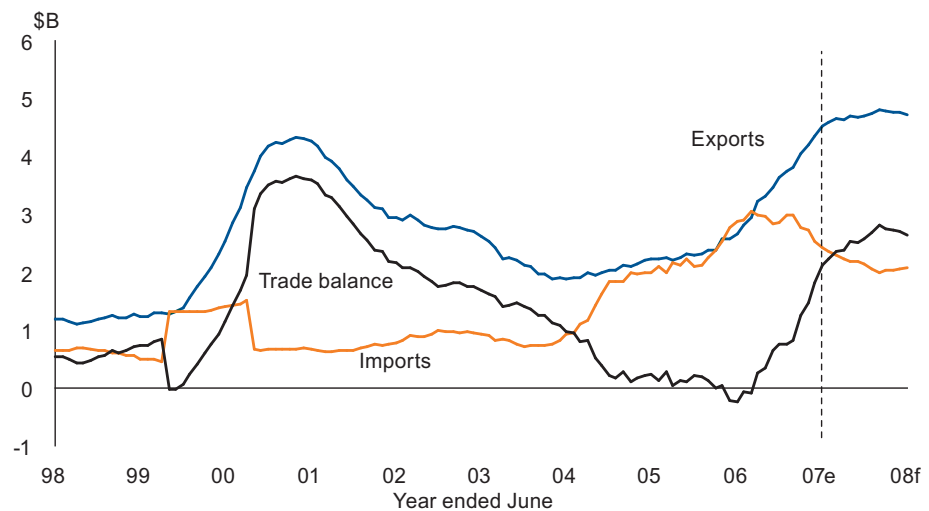
Key Points

- » In 2006-07, the Northern Territory's international trade surplus (that is, exports of goods and services less imports of goods and services) increased to an estimated \$2.6 billion, up from the \$179 million surplus in 2005-06.
- » The Territory's international merchandise trade balance increased to an estimated \$2.1 billion in 2006-07, up from the \$230 million deficit in 2005-06.
- » Mineral ores, mineral fuels and services related to international visitors (tourists and foreign defence personnel) dominate international exports in the Territory. In 2006-07, merchandise exports increased by 71 per cent to an estimated \$4.5 billion, largely due to increased global commodity demand and prices.
- » Merchandise exports is forecast to increase to an estimated \$4.7 billion in 2007-08, supported by a second full year of liquefied natural gas (LNG) production, manganese from Bootu Creek mine and alumina from Alcan's Gove refinery.
- » The major Territory imports are machinery and equipment (mostly industrial equipment for mining and construction activities) and refined fuels. In 2006-07, imports decreased by an estimated 16 per cent to \$2.4 billion, and are forecast to decline by a further 14 per cent to \$2.1 billion in 2007-08. The decline is primarily due to weakened demand for machinery and transport equipment (particularly for major oil and gas projects), and a reduction in national aircraft imports via Darwin.
- » The value of mineral fuel imports is forecast to decrease by about 2 per cent in 2007-08 as demand continues for the importation of feedstock gas for the Wickham Point LNG plant.

International trade is an integral part of the Territory economy. In 2006-07, the Territory's international trade surplus increased to an estimated \$2.6 billion, with international merchandise trade accounting for \$2.1 billion of the Territory's total international trade. Exports in the Territory are dominated by mineral and energy commodities and, to a lesser extent, the agricultural sector. The Territory's reliance on the mining and energy sector, which is often characterised by projects with long lead times, price fluctuations and exchange rate movements, can substantially impact on the Territory's trade performance. For example, the commencement of a full year of LNG production in 2006 has led to an increase in the Territory's level of exports by almost 50 per cent (Chart 7.1). The volatility in exports was also evident in 1999 and 2000 when production at the Laminaria-Corallina oilfields commenced, leading to a 68 per cent increase in Territory exports. Although the volume of LNG production will remain at current levels for the next five to ten years, the value of production will fluctuate, impacting on the Territory's international trade performance.

Caution is also required when interpreting international trade statistics for the Territory. Although the importation of some high value capital goods, such as the *Northern Endeavour* platform in 1999 and 20 passenger aircraft for Jetstar between 2004 and 2006, has a significant impact on Territory imports, it has minimal impact on the onshore economy. In addition, the majority of gold production in the Territory is exported through Perth, and is not considered a Territory international trade export, but rather as interstate trade.

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

Merchandise Trade Balance

Although historically the Territory is a net exporter, largely due to its abundance of mineral and energy resources, in 2005-06 the Territory's merchandise imports exceeded merchandise exports (mainly reflecting the importation of aircraft where Darwin was the port of entry into Australia). The Territory's major merchandise trading partners include North East and South East Asia (mainly China and Singapore). North America (mainly Canada) is another important trade region.

The Territory's international merchandise trade balance, as a ratio to gross state product (GSP), was -1.9 per cent in 2005-06 (Table 7.1), compared to the national ratio of -3.6 per cent. This ratio reflects a jurisdiction's relative international trade exposure. In the case of New South Wales and Victoria, the negative sign indicates a trade deficit, reflecting the fact that Sydney and Melbourne are Australia's primary ports for imports which are then distributed across the nation. In 2006-07, the trade ratio is expected to be positive for the Territory, as exports exceed imports.

Table 7.1: International
Merchandise Trade,
2005-06¹

	Merchandise Exports	Merchandise Imports	Merchandise Trade Balance	Ratio of Trade Balance to GDP/GSP
New South Wales	28 481	65 100	-36 619	-11.8
Victoria	19 599	47 793	-28 194	-12.4
Queensland	27 229	23 119	4 110	2.4
South Australia	8 610	5 874	2 736	4.5
Western Australia	40 003	16 775	23 228	21.5
Tasmania	2 574	498	2 076	12.5
Northern Territory	2 313	2 535	- 222	-1.9
Australian Capital Territory ²	11	3	8	0.0
Australia	128 820	161 697	-32 877	-3.6

¹ Chain volume measures. International trade, as a component of GSP, is included in the GSP expenditure account which is expressed in chain volume terms. Therefore the comparison of the trade balance to GSP ratio across jurisdictions is reported in chain volume terms (not current prices).

² Merchandise trade from the ACT is limited due to its size and geographic location.

Source: ABS Cat. No. 5220.0 and ABS data service 5432.0.65.001

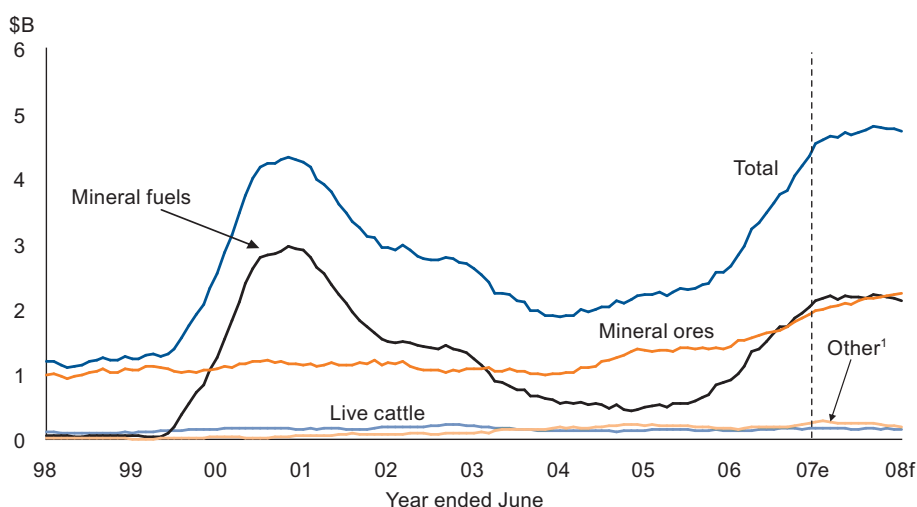
The Territory's international merchandise trade surplus increased to an estimated \$2.1 billion in 2006-07, up from the \$230 million trade deficit in 2005-06 (in current prices). The substantial improvement in the Territory's trade balance is primarily due to the increased value and production of LNG during this period. Other factors include the demand for, and increased prices of, mineral and energy commodities (such as alumina and manganese), together with weakened demand for manufacturing imports, following the completion of the Alcan G3 expansion.

Merchandise Exports

Mineral and energy exports comprise a large proportion of the Territory's international merchandise exports. Multi-billion dollar land-based mining and sea-based oil and gas extraction projects have a significant impact on the Territory's economy and trade performance. Other important merchandise exports include live cattle, manufactured goods, chemicals and related products, machinery and transport equipment, and animal and vegetable oils.

Merchandise exports have been volatile in recent years, reflecting the combined impact of falling oil production from the Laminaria-Corallina oilfields, fluctuations in crude oil prices, increased production of LNG at Wickham Point and movements in the Australian dollar. In current prices, the value of Territory merchandise exports increased by 71 per cent to an estimated \$4.5 billion in 2006-07. The main contributors to the increase in merchandise exports are mineral fuels, mineral ores and live cattle exports.

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



e: estimate; f: forecast

¹ 'Other' includes beverages and tobacco, manufactured goods, machinery and equipment and miscellaneous manufactured articles

Source: Northern Territory Treasury, ABS data service 5432.0.65.001

Mineral Fuels

In 2006-07, the value of mineral fuel exports increased by 133 per cent to an estimated \$2.1 billion, due to the value and production of LNG production rising from \$300 million in 2005-06 to more than \$1.3 billion in 2006-07 (after a full year of LNG production). The peak in merchandise exports in mid 2001 (Chart 7.2) was due to oil production from the Laminaria-Corallina oilfields, a weak Australian dollar and increasing oil prices. Mineral fuel exports are expected to remain at an estimated \$2.1 billion as full production of LNG continues at the Wickham Point processing plant and the production of oil at the Laminaria-Corallina field in the Timor Sea increases.

Mineral Ore

The dominant mineral ore exports in the Territory include alumina, manganese, lead-zinc concentrate and uranium. The value of mineral ore exports increased by

38 per cent to an estimated \$2.0 billion in 2006-07, reflecting an increase in demand for, and prices of, such resources.

Following Xstrata’s decision to cease underground mining operations at its McArthur River lead-zinc mine in September 2005, a proposal to expand the mine to allow open cut operations was approved by the Territory Government in late 2006. The mine is expected to reopen for production in late 2007 with a 15 year extension of mine life. The McArthur River mine contributed more than \$200 million a year to mineral ore exports over the past decade. The Bootu Creek manganese mine and the reopening of the gold mine and processing plant at Pine Creek have partially offset the reduced exports from McArthur River.

Live Cattle

Territory live cattle exports are influenced by the economic conditions in the major importing countries such as Indonesia, as well as other factors including drought and the value of the Australian dollar relative to the currencies of Asian trading partners. In 2006-07, the value of live cattle exports from the Territory increased by 25 per cent to an estimated \$170 million. This increase is largely due to the combined effects of higher cattle prices and growth in live cattle export demand by South East Asian countries such as Brunei, Indonesia and Malaysia. Although the drought has affected cattle farms in Central Australia, the export of live cattle from the Territory is expected to remain stable in 2007-08.

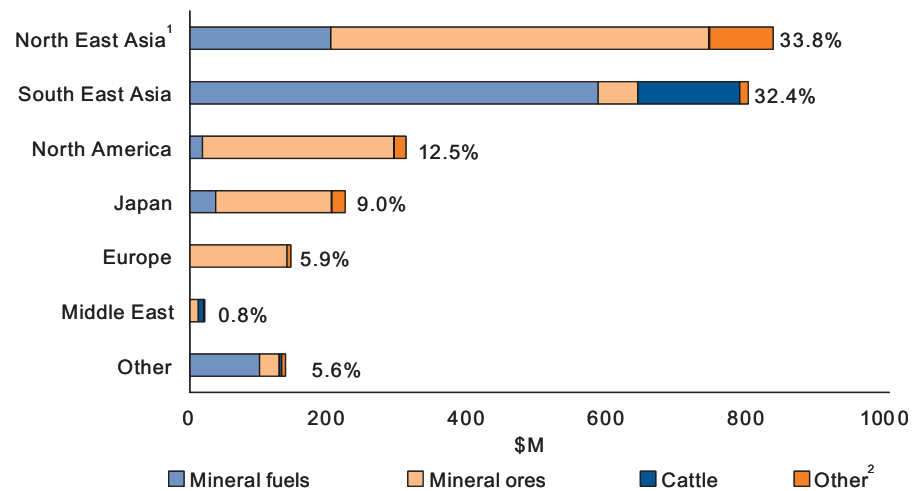
Other Merchandise Exports

Other merchandise exports for the Territory include manufactured goods, beverages and tobacco, machinery and equipment and miscellaneous manufactured articles. In 2006-07, the value of other merchandise exports increased by 55 per cent to an estimated value of \$270 million. The increase primarily reflects the higher demand for manufactured goods which accounted for about 70 per cent of all other merchandise exports from the Territory in 2006-07.

Key Export Markets

In the five years to 2005-06, about 75 per cent of Territory merchandise exports went to Asia (Chart 7.3). Of all mineral ore exports from the Territory, 44 per cent are sent to North East Asia, with the other major destinations including North America, Japan and Europe. The Territory exports 62 per cent of its mineral fuel to South East Asia, with the other major destinations including Japan and North America. More than 90 per cent of all live cattle exports were to South East Asia in the five years to 2005-06.

Chart 7.3: Territory Merchandise Export by Region of Destination and Commodity, 2001-02 to 2005-06, (five year average)



¹ Excluding Japan

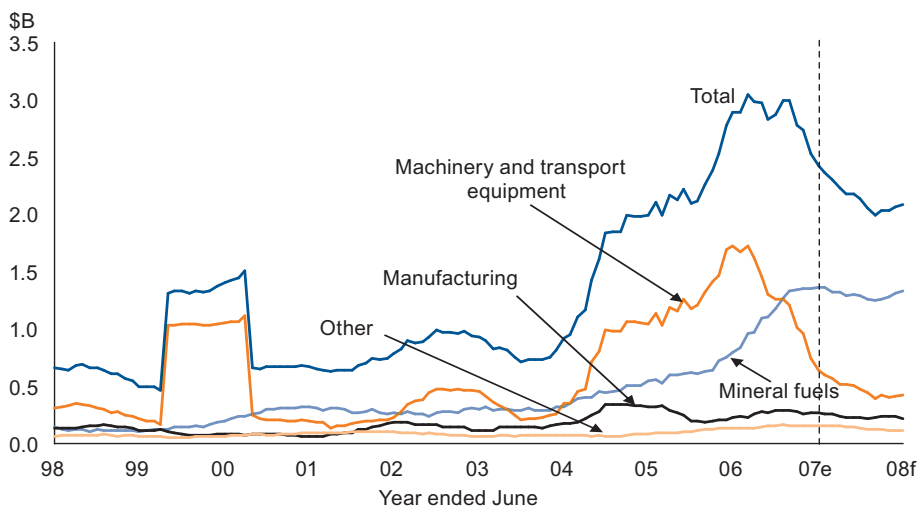
² 'Other' is primarily alumina and may also include beverages and tobacco, manufactured goods, machinery and equipment and miscellaneous manufactured articles

Source: ABS data service 5432.0.65.001

Merchandise Imports

In 2006-07, the value of imports decreased by 16 per cent to an estimated \$2.4 billion as major construction projects near completion, limiting demand for machinery and transport equipment imports. This contrasts with the previous two years when machinery and transport equipment imports were particularly high due to the importation of equipment for major construction projects, the import of aircraft for Jetstar and higher fuel imports. The Territory's major international merchandise imports are mineral fuels and machinery and transport equipment (Chart 7.4).

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

Mineral Fuels

Gas production at the Wickham Point LNG plant has had a significant impact on the Territory's international trade. 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). The JPDA is jointly managed by Australia and Timor-Leste and as such is classified as a country for international trade purposes. Half of all feedstock gas from Bayu-Undan is reported as a Territory import.

In 2006-07, the value of fuel imports increased by 71 per cent to an estimated \$1.4 billion, the combined effect of stable oil prices and the appreciation of the Australian dollar increasing the demand for fuel by mining and construction companies. The solid increase in international fuel imports since 1999 reflects, in part, a shift in the source of supply, with less being sourced from Australian refineries and more being sourced from Singapore. In 2005-06, the international price of crude oil reached record levels largely due to the supply constraints caused by Hurricane Katrina, continued instability in Iraq and uncertainty of supply from Venezuela and Nigeria. According to Access Economics, crude oil prices are expected to weaken in 2006-07 from record levels as supply increases, impacting on the value of fuel imports to the Territory in the future.

Machinery and Transport Equipment

The value of machinery and transport equipment imports decreased from \$1.7 billion in 2005-06 to an estimated \$640 million in 2006-07, and represented more than a quarter of Territory merchandise imports. In 2005-06, the peak in machinery and transport equipment was primarily due to Darwin being the first Australian port of call for Jetstar's fleet of 20 new Airbus A320s, contributing more than \$900 million to Territory merchandise imports. It is expected that imports will return to levels reported in 2003-04, following the completion of Jetstar's fleet purchases in late 2006 and slowing demand for industrial machinery and transport equipment by mining and construction companies.

Manufacturing

The Territory has a small manufacturing base, with the majority of manufactured products imported from interstate and overseas. In the five years to 2005-06, manufactured imports accounted for 13 per cent of international merchandise imports. In 2006-07, the value of manufactured imports increased by 15 per cent to an estimated \$270 million.

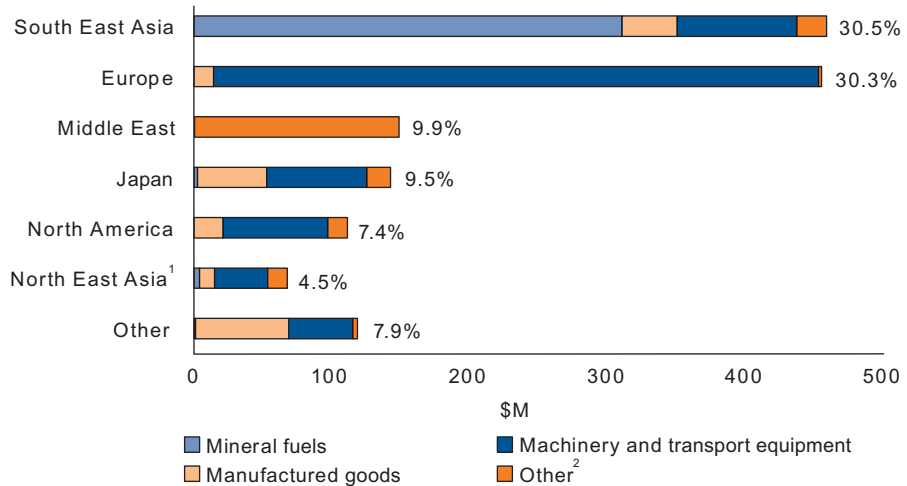
Other Merchandise Imports

In 2006-07, other merchandise imports increased by 13 per cent to an estimated \$160 million. Other merchandise imports include food and live animals, beverages and tobacco, crude materials, animal and vegetable oil, chemicals and related products, and unclassified commodities. Accounting for 63 per cent of all other merchandise imports in 2006-07, miscellaneous manufacturing includes furniture, apparel, travel goods and prefabricated buildings.

Key Import Markets

In the five years to 2005-06, almost two thirds of all Territory merchandise imports came from South East Asia and Europe (each accounting for 30 per cent of Territory imports). South East Asia is the major supplier of the Territory's fuel requirements, with more than 95 per cent being sourced from that region. In 2005-06, Europe as the Territory's second largest import source, largely due to the Airbus A320 aircraft imports from France (contributing 58 per cent of all machinery and transport equipment imports to the Territory).

Chart 7.5: Territory Merchandise Import by Region of Origin and Commodity, 2001-02 to 2005-06, (five year average)



¹ Excluding Japan

² 'Other' includes; beverages and tobacco, food and live animals, crude materials, chemicals and related products, animal and vegetable oils and unclassified commodities

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 2005-06. This was due to the relatively large contribution of the tourism industry in the Territory as well as the Territory's status as a rest and recreation destination for foreign defence personnel.

In August 2006, the Australian Bureau of Statistics (ABS) made revisions to the calculation of international trade in services exports, which has led to a significant change in the value of services exports for all jurisdictions. For example, the value of travel services exports in 2004-05 was reported as \$138 million of total Territory service exports and, as a result of the ABS revisions, travel services exports are now valued as \$356 million of total Territory service exports. Previously, travel services exports were apportioned to jurisdictions based on the main state of stay, an indicator more likely to favour larger states. However the revised methodology utilises the

number of stop-over nights, a better indicator of travel services exports. The following service export figures were calculated using the new ABS methodology.

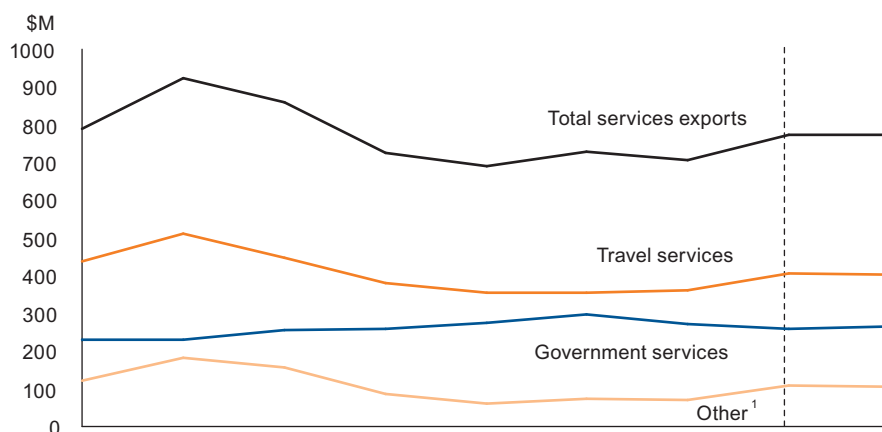
Travel Services

Travel services exports include the expenditure by overseas tourists, business travellers and students on services such as meals, accommodation, entertainment and sightseeing tours. In 2005-06, travel services were valued at \$361 million, accounting for more than half of total Territory services exports. Since 2000-01, the value of Territory travel service exports has declined by almost 30 per cent (Chart 7.6), largely due to a series of international terrorist attacks affecting worldwide tourism. In 2006-07, the value of travel services is expected to increase by about 12 per cent as overseas consumers take advantage of discount airlines providing services to Australia.

Government Services

Expenditure by foreign government personnel on services such as meals, accommodation, entertainment and sightseeing tours is included as government services exports. The majority of government services exports in the Territory comprise visiting defence personnel, particularly from the United States. In 2005-06, the value of government services exports was \$273 million, representing 39 per cent of total Territory services exports. The value of government services exports is expected to decrease by about 5 per cent to an estimated \$260 million in 2006-07. This decline is a result of fewer defence missions planned for the Top End region, reducing the number of visiting foreign navy ships.

Chart 7.6: Territory Services Exports



e: estimate; f: forecast

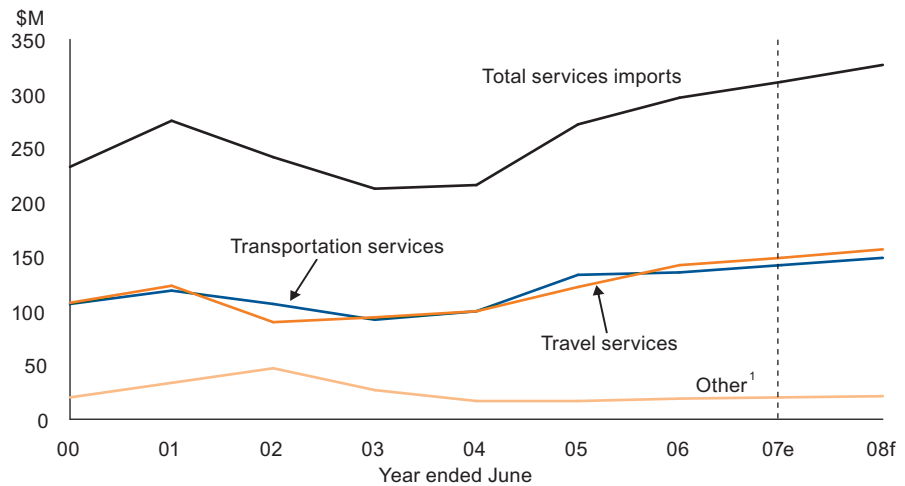
1 'Other' includes transportation and communication services

Source: ABS data service 5368.0.55.001 and 5368.0.55.001

Service Imports

Territory services imports are dominated by Territory-based demand for travel services (consumed by Territorians travelling overseas) and transportation services (shipment and freight services provided by foreign operators), each of which represented close to half of all services imports in 2005-06. The total value of services imports in 2005-06 was \$296 million, up from \$272 million in 2004-05. In 2006-07, the value of services imports in the Territory is expected to increase by about 5 per cent as demand for transportation services (particularly rail freight) and travel services continues to strengthen.

Chart 7.7: Territory
Services Imports



e: estimate; f: forecast

¹ 'Other' includes communication services and confidential items

Source: ABS data service 5368.0.55.001 and 5368.0.55.001

Outlook

The Territory's trade surplus is forecast to be \$3.1 billion in 2007-08 as exports of goods and services continue to exceed imports of goods and services. The merchandise trade surplus is estimated to increase to \$2.6 billion, up from the \$2.1 billion trade surplus in 2006-07, and a substantial turnaround from the \$230 million deficit in 2005-06. The Territory's balance of trade is forecast to remain in surplus for 2007-08 as a result of factors such as falling import prices, weakening demand for major imports (such as machinery and transport) and an appreciating Australian dollar.

Merchandise Exports

The current value of merchandise exports is estimated to increase by 71 per cent to \$4.5 billion in 2006-07 and forecast to increase to \$4.7 billion in 2007-08. The growth in merchandise exports is associated with 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 is forecast to remain stable at \$2.1 billion in 2007-08, as LNG production levels reach full capacity and production of oil from Laminaria-Corallina increases. Commodity prices, particularly in the mining and energy sectors, are expected to weaken from current highs as the Chinese economic growth moderates from unsustainable highs and a subsequent decline in global demand, reducing the value of Territory commodities exports.

In the next 12 months, the following major resource developments may increase Territory exports:

- production at the new mineral sand mine in the Tiwi Islands is forecast to process 850 000 tonnes over the next three to four years and will begin exporting to China by mid-2007;
- iron ore production at the Frances Creek mine near Pine Creek is expected to commence mid-2007, with maximum production levels reaching 2 million tonnes per annum; and
- the new LNG deposit in the Timor Sea is expected to further extend the life of the project at Wickham Point.

Merchandise Imports

The current value of Territory international imports is forecast to further decline to \$2.1 billion in 2007-08 following a decrease of 16 per cent to \$2.4 billion in 2006-07. The decline in merchandise imports is primarily due to the completion of Jetstar's fleet purchase and weakened demand for machinery and transport equipment by Alcan as the G3 refinery expansion is completed. Additionally, the value of mineral fuel imports is forecast to decrease by 2 per cent as a result of the stable demand for feedstock gas at the Wickham Point LNG plant.

Trade in Services

The trade services balance is estimated to increase by 13 per cent to \$463 million in 2006-07 and slightly moderate to \$445 million by 2007-08. Trade services exports in 2006-07 are estimated to increase by 10 per cent to \$774 million and remain stable for 2007-08. This increase largely reflects greater demand for travel services (in particular personal travel services) as consumers access low cost airlines such as Tiger Airways. The value of trade services imports is expected to increase by about 5 per cent to an estimated \$311 million and further increase to \$326 million by 2007-08. The increase in trade service imports will be driven by higher demand for transportation services (mostly rail freight) and travel services, as cheaper airfares and the value of the Australian dollar strengthen demand.