

Chapter 7 International Trade

Key Points

- » In 2007-08, the Territory's international trade surplus (that is, exports of goods and services less imports of goods and services) increased to an estimated \$1.7 billion, up from the \$1.5 billion surplus in 2006-07.
- » The Territory's international merchandise trade balance (goods only) increased to an estimated \$1.4 billion in 2007-08, up from \$1.2 billion in 2006-07.
- » Mineral ores, mineral fuels and cattle dominate international exports in the Territory. In 2007-08, the value of merchandise exports increased by 6 per cent to an estimated \$4.3 billion, largely due to increased global commodity demand and prices.
- » The major Territory imports are refined fuels, and machinery and equipment (mostly industrial equipment for mining and construction activities). In 2007-08, imports increased by an estimated 2 per cent to \$2.9 billion, and are forecast to grow a further 13 per cent to \$3.3 billion in 2008-09. The increase in 2007-08 is primarily due to rising prices of imported mineral fuels and gas feedstock for the LNG plant at Wickham Point. Partly offsetting the increase in the value of mineral fuels imports is weakened demand for machinery and transport equipment imports (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 increase by about 26 per cent in 2008-09, due to continued importation of feedstock gas for the Wickham Point LNG plant and higher fuel prices.
- » Territory service exports are forecast to increase 1 per cent in 2007-08 and a further 1 per cent in 2008-09, driven by greater demand for travel services. Territory service imports are forecast to increase 5 per cent in 2007-08 and increase a further 5 per cent in 2008-09, due to a higher demand for transportation services and travel services.
- » Strong growth in merchandise exports is forecast for 2008-09, supported by a third full year of LNG production, manganese from the new Bootu Creek mine and alumina from Alcan's Gove refinery.

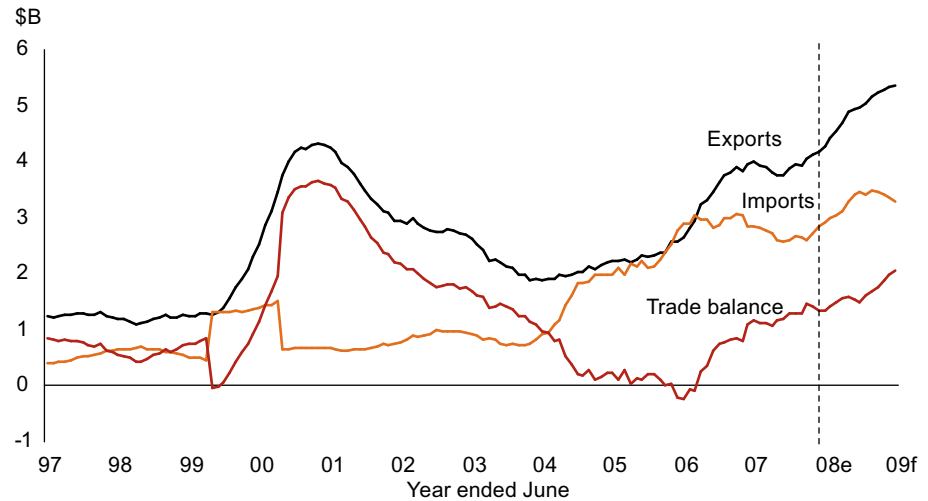
International trade is an integral part of the Territory economy. In 2007-08, the Territory's international trade surplus increased to an estimated \$1.7 billion, with international merchandise trade (goods only) accounting for \$1.4 billion of the surplus, a substantial improvement from the \$236 million deficit recorded in 2005-06. The Territory's positive trade balance is primarily due to the strong 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. 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 liquefied natural gas (LNG) production in 2006 has led to an increase in the Territory's level of exports of 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 began, leading to a 105 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 with price changes, 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, had a significant impact on Territory imports, there was 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, rather it is regarded as an interstate export.

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



e: estimate; f: forecast

Source: Northern Territory Treasury, Australian Bureau of Statistics

Merchandise Trade Balance

Historically, the Territory is a net exporter, largely due to its abundance of mineral and energy resources. In 2007-08, the Territory's merchandise trade balance is estimated to be a \$1.4 billion surplus (merchandise exports exceeding merchandise imports), reflecting the high level of commodity exports from the Territory. 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.

Territory exports, as a ratio of gross state product (GSP), were 29.3 per cent in 2006-07 (Table: 7.1), compared to the national ratio of 15.8 per cent, reflecting the Territory's relatively high volume of exports of commodities and LNG. This ratio reflects a jurisdiction's relative international trade exposure. Western Australia has the highest ratio of exports to GSP at 43.0 per cent, reflecting the high volume of commodities exports. Queensland's relatively high ratio of exports to GSP also reflects its trade exposure as a result of its commodity exports.

Table 7.1: International
Merchandise Trade, 2006-07

	Merchandise Exports (\$M)	Merchandise Imports (\$M)	Merchandise Trade Balance (\$M)	Ratio of Trade Balance to GSP/GDP
New South Wales	30 557	71 798	-41 241	-12.8
Victoria	20 816	51 600	-30 784	-12.7
Queensland	36 569	27 263	9 306	5.0
South Australia	8 076	6 577	1 499	2.3
Western Australia	54 910	21 437	33 473	26.2
Tasmania	3 078	592	2 486	12.9
Northern Territory	3 934	2 879	1 055	7.9
Australian Capital Territory	8	310	- 302	-1.4
Australia	157 949	182 457	-24 508	-2.5

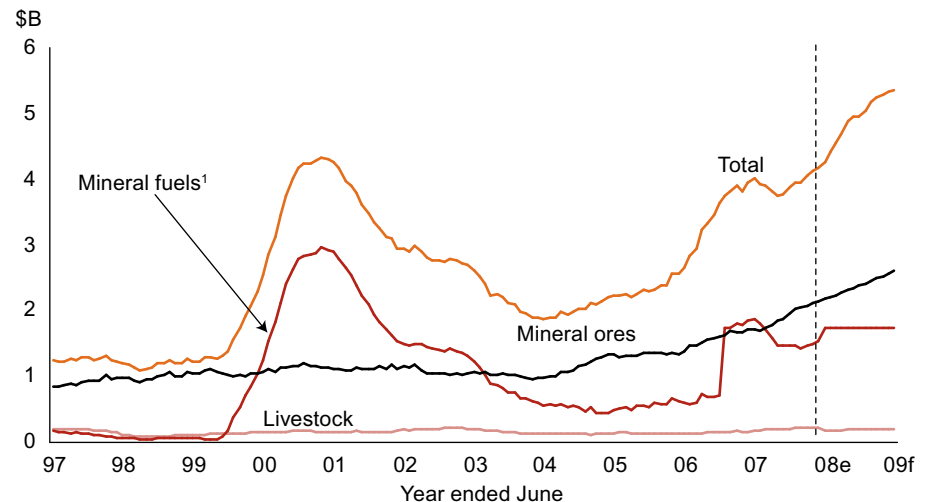
Source: ABS Cat. No. 5220.0

Merchandise Exports

Mineral and energy exports comprise a large proportion of the Territory's international merchandise exports. Multi-billion dollar onshore mining and offshore 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, and chemicals and related products.

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 2007-08, the value of Territory merchandise exports increased by 6 per cent to an estimated \$4.3 billion, primarily due to the increase in mineral ore exports and despite the significant appreciation of the Australian dollar.

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



e: estimate; f: forecast

¹ Mineral fuels includes LNG exports

Source: Northern Territory Treasury, Australian Bureau of Statistics

Mineral Fuels

In 2007-08, the value of mineral fuel exports is estimated to decrease by 7 per cent to \$1.7 billion, to which LNG exports contribute \$1.4 billion. The decrease in mineral fuel exports in 2007-08 is attributable to LNG production at Wickham Point decreasing significantly in late 2007 as general maintenance works were carried out. The significant increase in mineral fuel exports in 2006-07 is due to the commencement of LNG exports from the Wickham Point plant. 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. Despite the strong Australian

dollar, mineral fuel exports are expected to remain stable at \$1.7 billion in 2008-09 as full production of LNG continues at Wickham Point, offsetting the declining production of oil at the Laminaria-Corallina fields in the Timor Sea.

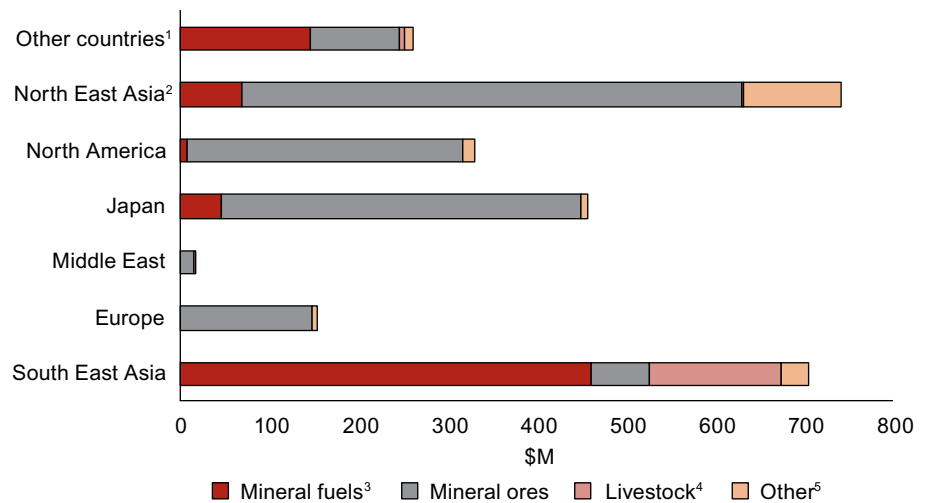
Mineral Ore The dominant mineral ore exports in the Territory include alumina, manganese, lead-zinc concentrate and uranium. The value of mineral ore exports increased by 26 per cent to an estimated \$2.2 billion in 2007-08, reflecting an increase in demand for, and prices of, such resources.

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. McArthur River mine continued its mining operations from its test pit during the conversion process, with capacity set to increase from 1.8 million tonnes to 2.5 million tonnes in 2008.

Livestock Territory livestock exports, more than 90 per cent of which are live cattle, 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 2007-08, the value of livestock exports from the Territory increased by 6 per cent to an estimated \$184 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, Malaysia and the Philippines. Although the drought has affected cattle properties in Central Australia, the export of livestock from the Territory is expected to increase a further 6 per cent in 2008-09. In March 2008, the Territory's cattlemen's and livestock exporters associations announced that they were meeting with the Vietnamese Government and potential buyers of cattle, possibly adding a new cattle export market in the next two years.

Key Export Markets In the five years to 2006-07, about 70 per cent of Territory merchandise exports went to Asia (Chart 7.3). Of all mineral ore exports from the Territory, 36 per cent were sent to North East Asia, with the other major destinations including North America, Japan and Europe. The Territory exports 63 per cent of its mineral fuel to South East Asia, with the other major destinations including Japan and North East Asia. Nearly 95 per cent of all livestock exports were to South East Asia in the five years to 2006-07.

Chart 7.3: Territory Merchandise Exports, 2002-03 to 2006-07 (five year average)

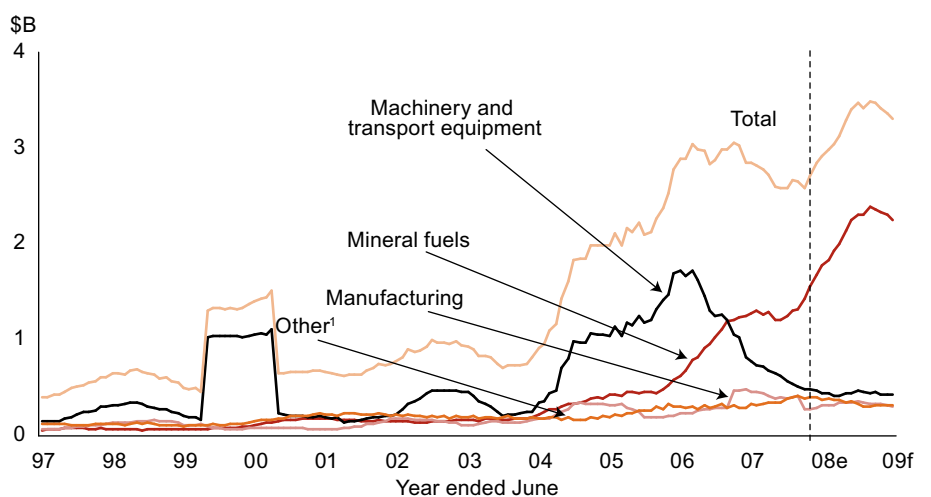


1 Includes the United Kingdom, Africa, South America, New Zealand, Ireland and Central America
 2 Excludes Japan
 3 Includes LNG exports
 4 Predominantly live cattle exports
 5 Primarily alumina and may also include beverages and tobacco, manufactured goods, machinery and equipment and miscellaneous manufactured articles
 Source: Australian Bureau of Statistics

Merchandise Imports

In 2007-08, the value of imports is estimated to increase by 2 per cent to \$2.9 billion, primarily driven by the increased value of mineral fuel imports, including feedstock gas for the Wickham Point LNG plant, despite the strong value of the Australian dollar. This increase is partly offset by a decline in the value of machinery and equipment imports as major construction projects near completion. This contrasts with the previous three years (2004-05 to 2006-07), when machinery and transport equipment imports were particularly high due to the importation of equipment for major construction projects and the import of aircraft for Jetstar. The Territory's major international merchandise imports are mineral fuels and machinery and transport equipment (Chart 7.4).

Chart 7.4: Territory Merchandise Imports (moving annual total)



e: estimate; f: forecast
 1 Primarily consists of chemicals and related products, and other unclassified items
 Source: Northern Territory Treasury, Australian Bureau of Statistics

Mineral Fuels Gas production at the Wickham Point LNG plant has had a significant impact on the Territory's international trade balance. Feedstock gas for manufacture into LNG is piped 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, while the other half piped to the Territory is classified as mineral fuel produced in the Territory.

In 2007-08, the value of fuel imports increased by 40 per cent to a historic high of \$1.8 billion, a result of the increasing demand for fuel by mining and construction companies. This increase in demand is despite rising oil prices that have been partially offset by the appreciation of the Australian dollar. The solid increase in international fuel imports since 1999 partially reflects a shift in the source of supply, with less being sourced from Australian refineries and more being sourced from Singapore. In 2007-08, the international price of crude oil reached record levels above \$US110 a barrel largely due to supply constraints and strong global demand.

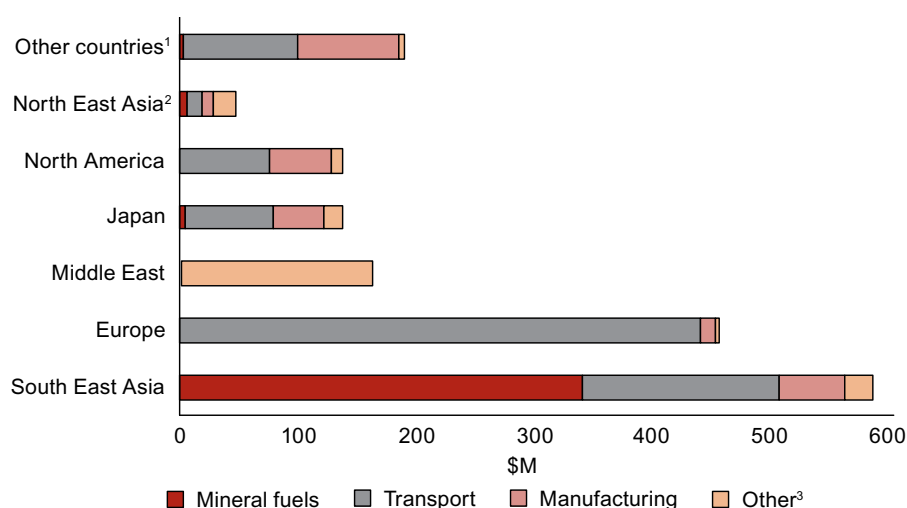
Machinery and Transport Equipment The value of machinery and transport equipment imports decreased from \$777 million in 2006-07 to an estimated \$442 million in 2007-08, representing about 15 per cent of Territory merchandise imports. In 2005-06, the peak in machinery and transport equipment was primarily due to Darwin being the first Australian port of call for Jetstar's fleet of 20 Airbus A320s, contributing more than \$900 million to Territory merchandise imports. Machinery and transport equipment imports have now returned 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. Manufacturing imports includes items such as military equipment and building materials. In the five years to 2007-08, manufactured imports accounted for 14 per cent of international merchandise imports. In 2007-08, the value of manufactured imports decreased by 32 per cent to an estimated \$315 million. This significant decrease is due to the one-off import of re-conditioned US M1A1 Abrams tanks and a variety of military support vehicles in March 2007, resulting in an unusually high manufacturing figure in 2006-07.

Other Merchandise Imports Other merchandise imports include food and live animals, beverages and tobacco, crude materials, animal and vegetable oil, chemicals and related products, and unclassified commodities. In 2007-08, other merchandise imports increased by 12 per cent to an estimated \$375 million. The majority of this increase in other merchandise imports is attributed to rises in chemicals and related products, increasing 7 per cent in 2007-08 and accounting for about 83 per cent of total other merchandise imports.

Key Import Markets In the five years to 2006-07, 60 per cent of Territory merchandise imports came from South East Asia or Europe. South East Asia supplied more than 95 per cent of the Territory's fuel requirements. In the five years to 2006-07, Europe was the Territory's second largest import source, largely due to the one-off impact of Airbus A320 aircraft imports from France (Chart 7.5).

Chart 7.5: Territory Merchandise Imports, 2002-03 to 2006-07 (five year average)



¹ Includes the United Kingdom, Africa, South America, New Zealand, Ireland and Central America

² Excludes Japan

³ Includes beverages and tobacco, food and live animals, crude materials, chemicals and related products, animal and vegetable oils and unclassified commodities

Source: Australian Bureau of Statistics

Service Exports

The Territory's level of per capita service exports was the highest of all jurisdictions in 2006-07. 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, in 2004-05, the value of Territory travel services exports was reported as \$138 million. As a result of the ABS revisions, in 2006-07 Territory travel services exports were valued at \$360 million. 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

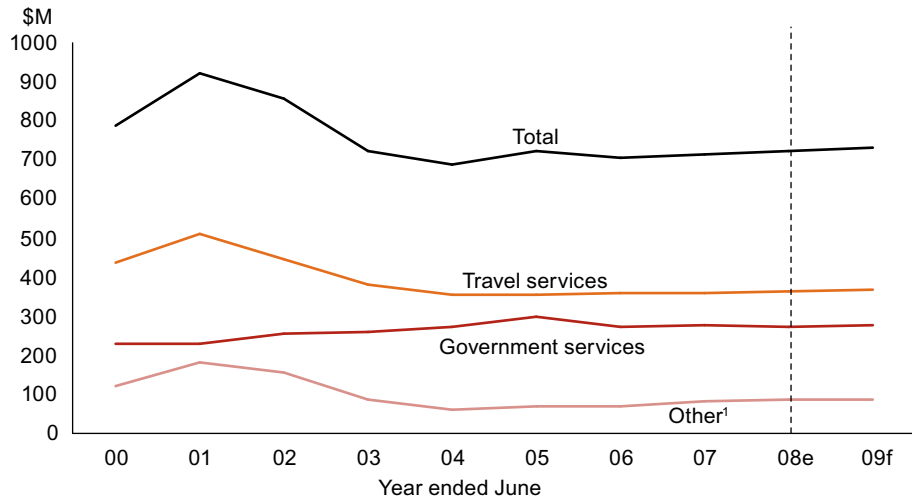
Travel services exports include the expenditure by overseas tourists, business travellers and students, on services such as meals, accommodation, entertainment, and sightseeing tours. In 2006-07, travel services were valued at \$360 million, accounting for more than half of the total Territory services 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 2007-08, the value of travel services exports is expected to increase by about 1 per cent as overseas consumers take advantage of low-cost carriers 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 are delivered to visiting defence personnel, particularly from the United States. In 2006-07, the value of government services exports was \$275 million, representing 38 per cent of total Territory services exports. The value of government services exports is expected to decline in 2007-08, as a result of fewer defence missions planned for the Top End region. The decline in the number of major naval ships

visiting the Port of Darwin is due to a number of factors including operational demands and ability to guarantee berthage.

Chart 7.6: Territory Services Exports



e: estimate; f: forecast

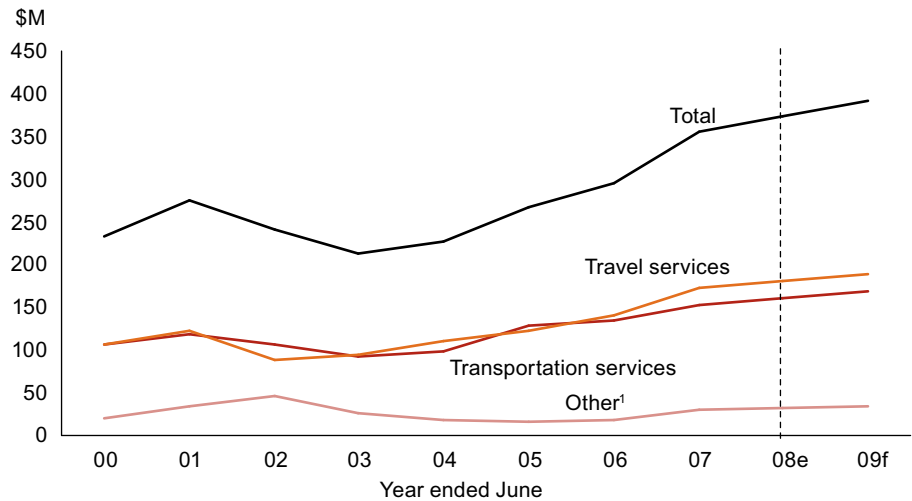
¹ Includes transportation and communication services

Source: ABS Cat. No. 5368.0.55.003

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 representing close to half of all services imports in 2006-07. The total value of services imports in 2006-07 was \$356 million, up from \$295 million in 2005-06. In 2007-08, the value of services imports in the Territory is estimated to increase by about 5 per cent as demand for transportation services and travel services continues to strengthen.

Chart 7.7: Territory Services Imports



e: estimate; f: forecast

¹ Includes communication services and confidential items

Source: ABS Cat. Nos 5368.0.55.003

Outlook

The Territory's trade surplus is forecast to be \$2.4 billion in 2008-09. The merchandise trade surplus is estimated to increase to \$2.1 billion, up from the \$1.4 billion trade surplus in 2007-08, and a substantial turnaround from the \$236 million deficit in 2005-06. The Territory's balance of trade is forecast to remain in surplus for 2008-09 as a result of factors such as weakening demand for major imports (such as machinery and transport), and strong growth in the value of LNG and mineral ore exports.

Merchandise Exports

The current value of merchandise exports is estimated to increase by 6 per cent to \$4.3 billion in 2007-08 and forecast to increase to \$5.4 billion in 2008-09. The growth in merchandise exports is associated with the increase in value of LNG production, manganese from the Bootu Creek mine and increased production from Alcan's Gove refinery. The value of mineral fuels exports is forecast at \$1.7 billion in 2008-09 as the value of LNG production is sustained, offsetting the decline of oil production from Laminaria-Corallina. Commodity prices, particularly in the mining and energy sectors, are expected to continue to increase as Chinese economic growth continues its solid performance, increasing demand and value of Territory commodities exports, despite a forecast slowdown of global growth led by the downturn in US economic conditions.

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

- alumina production at Alcan refinery plant to reach full capacity of 3.5 million tonnes by 2008-09;
- production of manganese at the Bootu Creek mine to reach 3.95 million tonnes in 2007-08, increasing to 4.25 million tonnes in 2008-09;
- iron ore production at the Frances Creek mine near Pine Creek is expected to increase production from about 530 000 tonnes in 2007-08 to 1.5 million tonnes in 2008-09; and
- production of manganese at the GEMCO mine to ramp up in 2009 following the \$167 million mine expansion.

Merchandise Imports

The current value of Territory international merchandise imports is forecast to increase to \$3.3 billion in 2008-09, following an increase of 2 per cent to \$2.9 billion in 2007-08. The increases in merchandise imports are primarily due to increasing demand for fuel by mining and construction companies and rising oil prices, partially offset by the appreciation of the Australian dollar.

Trade in Services

The trade services balance is estimated to decrease by 3 per cent to a surplus \$349 million in 2007-08 and further moderate to \$338 million in 2008-09. Trade services exports are estimated to increase by 1 per cent in 2007-08 with a further 1 per cent increase in 2008-09. This increase largely reflects greater demand for travel services (in particular personal travel services) as consumers access low-cost airlines such as Tiger Airways and Jetstar. The value of trade services imports is expected to increase by about 5 per cent to an estimated \$374 million in 2007-08 and further increase to \$392 million by 2008-09. The increase in trade service imports will be driven by higher demand for transportation services and travel services as cheaper airfares strengthen demand.