

Chapter 8 International Trade

Key Points

- In 2007-08, the international trade surplus in the Territory increased to \$2.3 billion. The positive trade balance is primarily due to strong demand for mineral and energy resources, high commodity prices and favourable exchange rates for the Australian dollar during 2007-08.
- The Territory's international trade position for 2008-09 is expected to increase to an estimated \$2.5 billion surplus.
- With more than half of Australia's top ten trading partners in recession, Territory exports are forecast to decline in 2009-10, reflecting the downturn in global demand for mineral resources.

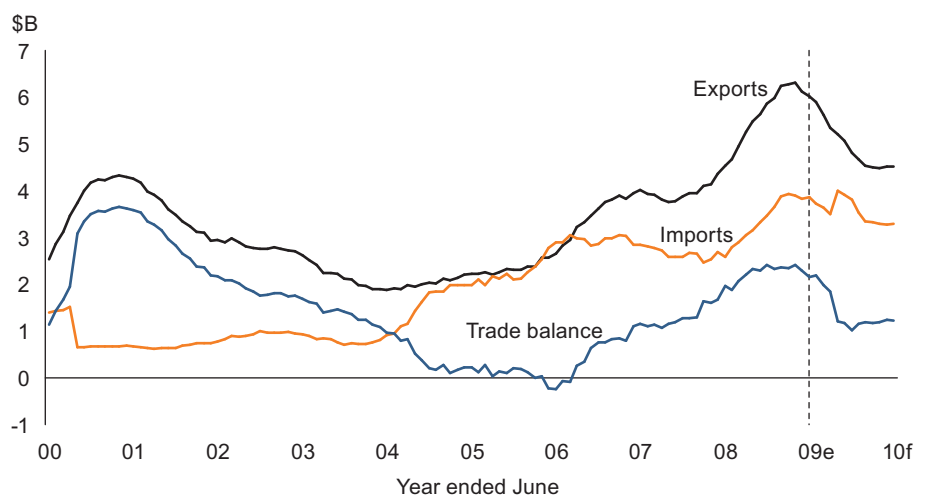
Background

International trade is an integral part of the Territory economy. Territory imports and exports are dominated by mineral and energy commodities. The mining and energy sector is characterised by large projects with long lead times. For example, construction of the Wickham Point liquefied natural gas (LNG) plant started in 2003 and LNG production began in 2006.

With completion of the LNG plant, the importation of gas feedstock from the Joint Petroleum Development Area (JPDA) increased from \$2.4 million in 2004 to about \$804 million in 2006. Similarly, LNG production boosted Territory exports by about 50 per cent over the period 2004 to 2006 (Chart 8.1).

In 2007-08, the international trade surplus in the Territory increased to \$2.3 billion. The positive trade balance is primarily due to strong demand for mineral and energy resources, good commodity prices and favourable exchange rates for the Australian dollar.

Chart 8.1: Territory International Merchandise Trade (moving annual total)



e: estimate; f: forecast

Source: Northern Territory Treasury, Australian Bureau of Statistics Cat. No. 5368.0

Merchandise Trade Balance

The Territory is a net exporter, largely due to the export of mineral and energy resources. The Territory's major merchandise trading partners include Japan, China, the United States of America, Indonesia, France, Canada, Singapore and Kuwait. In 2007-08, the Territory's merchandise trade surplus (goods only) increased to a \$1.9 billion surplus, up from \$1.1 billion reported the

previous year, reflecting increased demand and higher commodity prices. The merchandise trade surplus in 2008-09 is estimated to increase to \$2.2 billion in reflection of this demand, particularly for mineral ores and LNG exports.

In 2007-08, the Territory's trade balance as a ratio of Gross State Product (GSP) increased to 12.8 per cent, up from 7.9 per cent reported in 2006-07 and the third highest ratio behind Western Australia and Tasmania (Table 8.1).

Table 8.1: International Merchandise Trade, 2007-08

	Merchandise Exports	Merchandise Imports	Merchandise Trade Balance	Ratio of Trade Balance to GSP/GDP
	\$M	\$M	\$M	%
New South Wales	33 845	75 928	-42 083	-11.7
Victoria	21 898	56 044	-34 146	-12.7
Queensland	35 594	32 329	3 265	1.5
South Australia	10 439	7 341	3 098	4.2
Western Australia	69 584	26 690	42 894	27.4
Tasmania	3 628	688	2 940	13.8
Northern Territory	4 586	2 582	2 004	12.8
Australian Capital Territory	5	13	-8	0.0
Australia	179 578	201 615	-22 037	-1.9

Source: ABS Cat. No. 5220.0

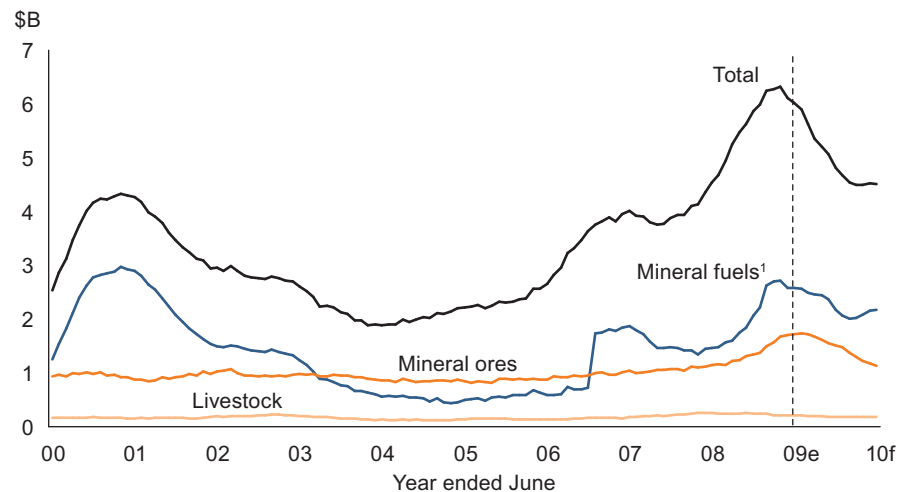
In 2007-08, merchandise exports as a ratio of GSP was 29.4 per cent, compared to the national ratio of 15.9 per cent. Although the Territory has a relatively high volume of exports, Western Australia has the highest ratio of exports to GSP at 44.4 per cent. This ratio reflects a jurisdiction's relative international trade exposure.

When interpreting international trade figures for the Territory, it should be noted that the importation of some high value capital goods, such as passenger aircraft, may have no direct benefit to the Territory economy but have a significant impact on the Territory's trade balance.

Merchandise Exports

Important Territory merchandise trade exports include live cattle, alumina and LNG. In 2007-08, the value of merchandise trade exports increased to \$4.5 billion, up from \$4.0 billion reported the previous year. This result mostly reflects the strength in export volumes and good prices. In 2008-09, the value of merchandise trade exports is estimated to increase to \$6 billion. This increase is largely due to the relatively high export volumes and good prices received before the downturn in the global economy.

Chart 8.2: 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 unpublished data

Energy and Petroleum Resources

In 2007-08, the value of energy and petroleum resources decreased from \$1.8 billion to \$1.4 billion. The decrease is mostly due to declining production from the Laminaria-Corallina oilfields in the Timor Sea. The peak production from Laminaria-Corallina for exports occurred in mid 2001 (Chart 8.2). In 2008-09, the value of mineral fuel exports is estimated to be \$2.5 billion, an increase of 76 per cent on 2007-08. The increase in energy and petroleum resource exports in 2008-09 is attributable to full production from the Wickham Point LNG plant, offsetting the declining oil production from Laminaria-Corallina.

Mineral Ores

The most significant mineral ore exports in the Territory include alumina, manganese, lead-zinc concentrate and uranium. The value of mineral ore exports in 2007-08 increased to \$1.2 billion up from \$1 billion reported the previous year. This result mostly reflects the strength in export volumes and historically high commodity prices. In 2008-09, the value of mineral ore exports is estimated to increase by 50 per cent to \$1.7 billion, largely reflecting the strong demand and good prices seen before a downturn in demand and lower prices.

In January 2009, Xstrata Zinc's McArthur River Mine (MRM), the world's largest lead-zinc mine, suspended operations due to legal complications arising from its decision to convert from underground to open cut operations. During suspension of the mine stockpiled ore was processed until depleted. Operations at the mine recommenced in February 2009, however due to a downturn in demand caused by the global financial crisis (GFC), production at MRM cut back about 50 per cent.

Along with MRM, a number of other Territory mines have been affected by the GFC. OM Holdings cut back its manganese production at its Bootu Creek operation by about 30 per cent and the Redbank copper mine went into care and maintenance mode. Production at other mines not affected by the GFC includes; alumina production by Rio Tinto Alcan at Gove and iron ore production at the Territory Resources' Frances Creek mine (see Chapter 10: Mining and Energy).

Livestock

Economic conditions in the major livestock importing countries such as Indonesia, as well as other factors including drought and the value of the Australian dollar, have significant influence on Territory livestock exports, of

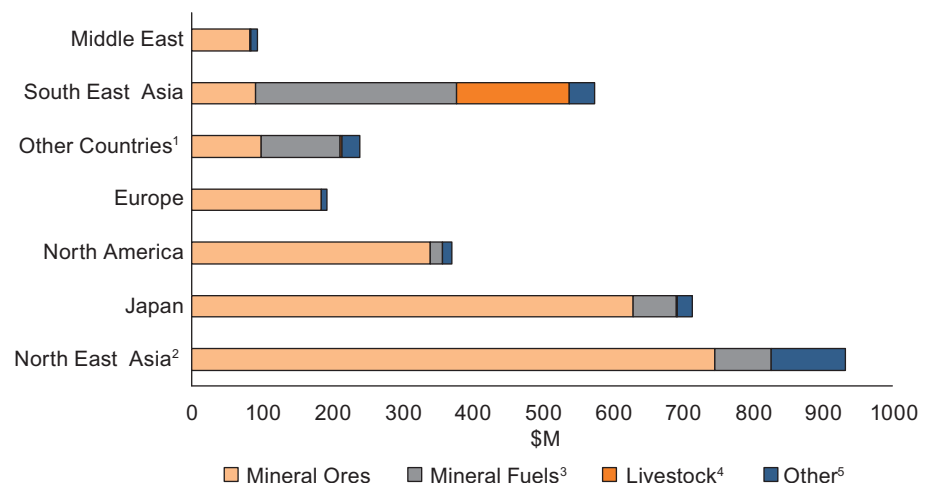
which more than 90 per cent are live cattle. In 2007-08, the value of livestock exports from the Territory increased to \$164 million, up from \$120 million reported in 2006-07. This increase is largely due to increased demand for live cattle by South East Asian countries such as Brunei, Indonesia, Malaysia and the Philippines.

The Northern Territory cattlemen’s and livestock exporters’ associations are looking to expand into new markets in South East Asia over the next two years, particularly Vietnam. Territory livestock exports are expected to increase to \$175 million in 2008-09, although signs are emerging that demand in South East Asia for live cattle may weaken in 2009 due to the global economic slowdown.

Key Export Markets

In the five years to 2007-08, about 70 per cent of Territory merchandise exports went to Asia (Chart 8.3). Of all mineral ore exports from the Territory, 30 per cent were sent to North East Asia, with the other major destinations including North America, Japan and Europe. The Territory exports 51 per cent of its mineral fuel to South East Asia, with other major destinations including Japan and North East Asia. Nearly 97 per cent of all livestock exports were to South East Asia in the five years to 2007-08.

Chart 8.3: Territory Merchandise Exports, 2003-04 to 2007-08 (five-year average)



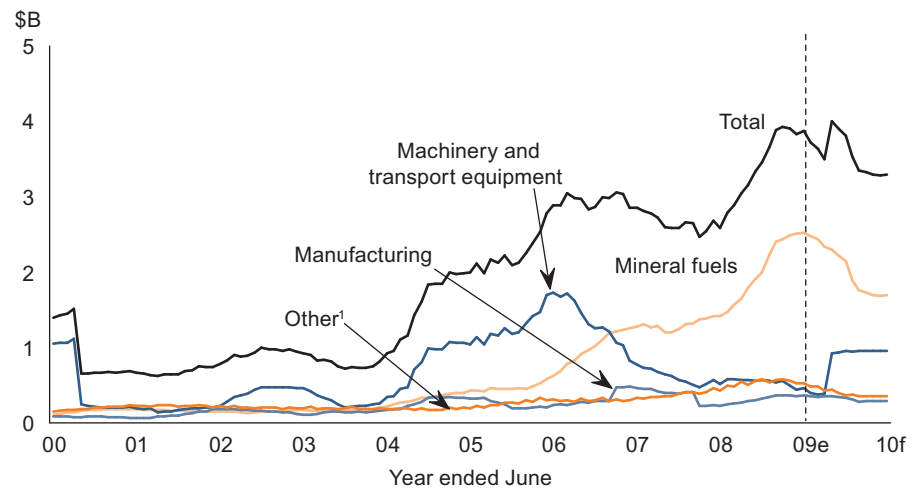
1 Includes the United Kingdom, Africa, South America, New Zealand, Ireland and Central America
 2 Excludes Japan
 3 Includes LNG exports
 4 Predominantly live cattle exports
 5 Primarily alumina and may also include beverages and tobacco, manufactured goods, machinery and equipment and miscellaneous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

Merchandise Imports

The Territory’s major international merchandise imports are mineral fuels, machinery and transport equipment (Chart 8.4). In 2007-08, the value of Territory imports decreased to \$2.6 billion, down from \$2.8 billion reported the previous year. The decrease largely reflects the decrease in imports of machinery and transport equipment.

In 2008-09, the value of merchandise imports is estimated to increase to \$3.9 billion. The increase in imports is primarily driven by an increase in the value of mineral fuel imports. The cost of fuel rose steadily to June 2008, due to higher crude oil prices. Crude oil and fuel prices have since moderated and are expected to remain low in 2009.

Chart 8.4: 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 unpublished data

Energy and Petroleum Resources

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.

Since 1999, there has been a shift in fuel supply, with less fuel being sourced from Australian refineries and more being sourced from Singapore. The international price of crude oil reached record levels above US\$140 a barrel during 2008, largely due to supply constraints and strong global demand, and then fell to below US\$40 a barrel in December 2008, however crude oil is only one contributor to mineral fuel exports.

In 2008-09, the value of fuel imports is estimated to increase by 78 per cent to \$2.5 billion. The increase is primarily due to increased demand for fuel by mining and construction companies before the global economic slowdown, and an increase in gas feedstock for LNG production. The full benefit of lower crude oil prices from December 2008 is being dampened by the 30 per cent depreciation of the Australian dollar against the United States dollar.

Machinery and Transport Equipment

Machinery and transport equipment imports to the Territory are primarily used by mining and construction companies and the transport industry. Machinery and transport equipment peaked in 2006 due to Darwin being the first Australian port of call for Jetstar's fleet of 20 Airbus A320s, recording more than \$900 million as Territory merchandise imports. In 2007-08, the value of machinery and transport equipment decreased to \$581 million, down from \$734 million reported in 2006-07.

In 2008-09, the value of machinery and transport equipment is estimated to decrease about 11 per cent to \$458 million. This estimate could rise considerably should the Montara oil project in the Timor Sea begin its purchase of well-head and other capital equipment before June 2009.

Manufacturing

The Territory has a small manufacturing base, with the majority of manufactured products imported from interstate and overseas. Manufacturing imports include items such as military equipment and building materials, paper, rubber, iron and steel products. In 2007-08, the value of manufactured imports decreased to \$228 million, down from \$464 million reported the previous year. In 2008-09, the value of manufactured imports is estimated to increase to \$363 million.

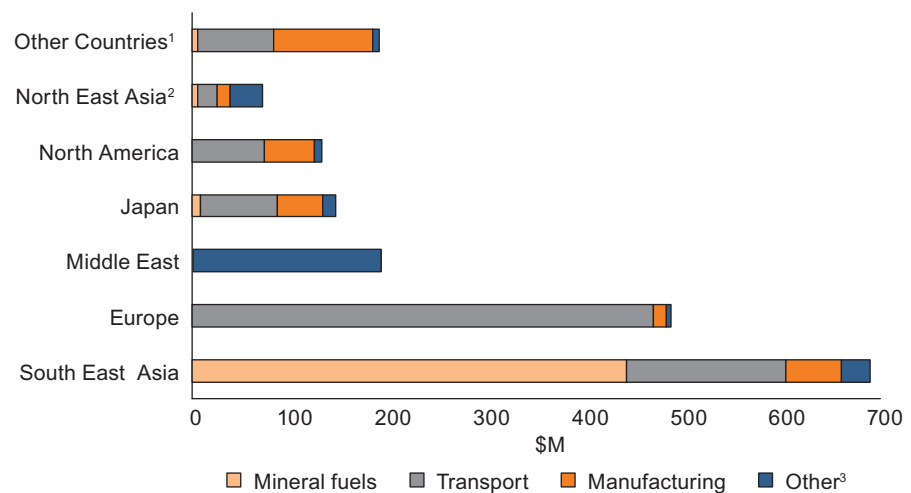
Other Merchandise Imports

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, the value of other merchandise imports increased to \$424 million, up from \$335 million reported the previous year. In 2008-09, other merchandise imports are estimated to increase to \$528 million. The increase in other merchandise imports is mostly attributed to increased demand for chemicals and related products.

Key Import Markets

In the five years to 2007-08, 62 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 2007-08, Europe was the Territory's second largest import source, largely due to aircraft imports from France (Chart 8.5).

Chart 8.5: Territory Merchandise Imports, 2003-04 to 2007-08 (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 unpublished data

Service Exports

International trade in service exports relates to the income received by local businesses from overseas tourists, business travellers, students and foreign government (mostly defence) personnel, for services such as meals, accommodation, entertainment and sightseeing tours. The Territory is a popular tourist destination and a preferred 'rest and recreation' destination for foreign defence personnel. The largest contributors to service exports in the Territory are 'Travel Services' followed by 'Government Services'.

Travel Services

In 2007-08, travel services were valued at \$382 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 8.6). This is largely due to the decline in international travellers since

the peak during the Sydney Olympics and also from the global downturn in international travel caused by international terrorism events. In 2008-09, the value of travel services exports is estimated to decrease by about 14 per cent with fewer overseas travellers expected due to the global economic downturn.

Government Services

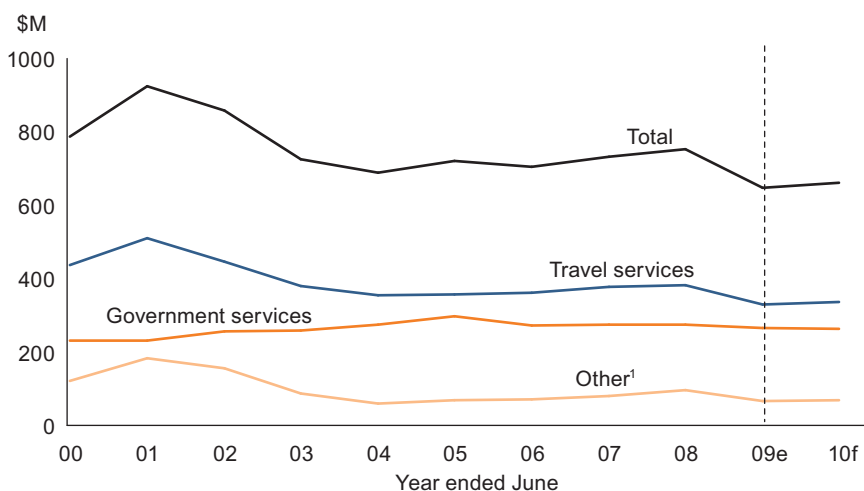
The majority of government services exports in the Territory are delivered to visiting defence personnel, particularly from the United States. In 2007-08, the value of government services exports was \$274 million, representing 37 per cent of total Territory services exports. In 2008-09, the value of government services exports is expected to decrease, as the number of major naval ships visiting the Port of Darwin declined in 2008, mainly due to operational demands and deployments of foreign forces away from the region.

The value of international education to services exports in the Territory increased by about 70 per cent to \$22 million over the five years from 2003-04 to 2007-08. Charles Darwin University (CDU) provides a comprehensive range of nationally accredited courses from vocational education through to higher education degrees and advanced research. Enrolments for 2008 show that CDU attracted international students from more than 50 countries.

Other Services

In 2007-08, other services exports were valued at \$96 million, accounting for about 13 per cent of total Territory service exports. Included in other services are transportation, communications and other business services.

Chart 8.6: Territory Services Exports



e: estimate; f: forecast

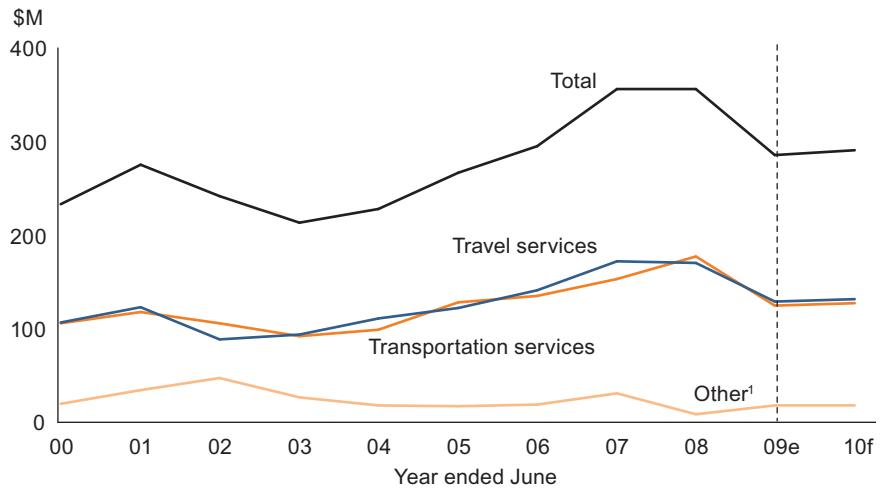
¹ Includes transportation and communication services

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 2007-08. The total value of services imports in 2007-08 was \$356 million, unchanged from 2006-07. In 2008-09, the value of services imports in the Territory is estimated to decrease by about 20 per cent to \$285 million as demand for transportation services and travel services continues to weaken with fewer Territorians travelling overseas.

Chart 8.7: Territory Services Imports



e: estimate; f: forecast
 1 Includes communication services and confidential items
 Source: ABS Cat. No. 5368.0.55.003

Outlook

The global economic situation toward the end of 2008 deteriorated sharply, with many of the world’s leading economies entering recession including the United States of America, the United Kingdom, Japan, Hong Kong and Singapore. The combination of a weaker world economy, downward revisions to China’s growth and falling commodity prices are expected to influence Australia’s short and medium term international trade position.

With more than half of Australia’s top ten trading partners in recession, and others forecast to contract over 2009, Territory exports are expected to decline, reflecting the downturn in global demand for mineral resources. Although demand may be down, Commonwealth fiscal stimulus policies thus far have not favoured a protectionist approach and are not acting as an impediment to international trade.

In 2009-10, the Territory’s international trade surplus is forecast to reduce 23 per cent to about \$1.9 billion. Despite weaker global demand for mineral ore exports, the Territory’s balance of trade is forecast to remain in surplus, supported by favourable exchange rates, steady LNG production and an improved outlook for the global economy in 2010.

Merchandise Exports

With the Chinese economy slowing, and many other economies in developed countries in recession, commodity prices, particularly in the mining and energy sectors, are not expected to increase in the short term. The value of merchandise exports in 2009-10 is forecast to decrease by 19 per cent to about \$4.9 billion.

Negative growth in merchandise exports associated with the global economic slowdown is contributing to reduced demand for mineral ores and lower commodity prices. However, Australian exports remain competitive, supported by the fall in the Australian dollar compared with the United States dollar.

In response to the global downturn in demand for mineral ores, a number of Territory mining operations have planned to cutback on production. The export commodities most affected by production cutbacks include manganese, lead, zinc and copper. Exports commodities expected to remain firm during 2009-10 include LNG, iron ore, bauxite, alumina and uranium.

Merchandise Imports

The value of Territory international merchandise imports is forecast to decrease 15 per cent to \$3.3 billion in 2009-10. The decrease in merchandise imports is primarily due to a fall in demand for fuel by mining and construction companies and the fall in crude oil prices, although limited by the fall in the Australian dollar.

Trade in Services

The value of trade services is forecast to increase by about 2 per cent to \$370 million in 2009-10. As the economic downturn begins to unwind, an improvement in trade services is predicted, with a slight increase in demand for travel services.