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NEWSLETTER 2007/3

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CUSTOMS 2007 BUDGET

Budget announcements on customs duty and other taxes on imported goods are rare these days and this year's Budget was no exception. Points worth noting from the Customs Budget Statement include:

- Customs expects to collect just under \$6 billion in customs duty in 2007-8;
- The cost of running the Australian Customs Service will be almost \$1.5 billion;
- The Australian Taxation Office will pay the ACS more than \$50 million in the next financial year for Customs to administer GST collections on imports;
- Customs will spend more than \$260 million in its trade facilitation and revenue collection output. This covers processing of import declarations, collection of duties and taxes and post-importation audit activity.

The Budget papers also report some interesting performance indicators for Customs. For example:

- Proportion of electronically lodged import declarations where an authority to deal is transmitted within 15 minutes of finalisation of details

Target: 97%

- Electronic cargo systems – availability to Customs clients

Target: 99.7%

Other budget initiatives include:

- \$79.5 million over four years to develop, implement and operate the new Australian Maritime Identification System (AMIS).
- \$31.7 million over four years for the charter of a

vessel dedicated to the protection of the environmentally sensitive Ashmore Reef and Cartier Island Marine reserves.

- \$23.1 million over two years to enhance Customs ability to identify international travellers who may be of interest to a range of government agencies.
- \$7.8 million over four years for Customs to focus on border security matters with Papua New Guinea Customs.
- \$4 million over four years for additional airport officers and support staff to implement requirements for reporting cross-border movements of cheques, money orders and other bearer negotiable instruments.

CUSTOMS ACHIEVES CONTAINER X-RAY MILESTONE

Customs has reached a significant milestone in the operation of its Container Examination Facilities (CEFs) at key Australian ports. Customs has now x-rayed 500,000 Twenty Foot Equivalent Units (TEU) at its CEFs in Melbourne, Sydney, Brisbane, Fremantle and Adelaide since the first facility opened in 2002. A TEU is the industry-standard measure for shipping containers. The huge purpose-built x-ray facilities have helped Customs to stop illegal drugs and precursors with a total street value of more than \$1.5 billion from reaching the Australian community. The CEFs have also been responsible for the seizure of large amounts of copyright, trademark and undeclared goods, illicit tobacco, cigarettes and alcohol, firearms and other prohibited imports. More than \$84 million in revenue evasion has been prevented.

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RECORD INVESTMENT IN ADVANCED MINERALS AND ENERGY PROJECTS

ABARE's latest report of major minerals and energy projects has revealed 91 'advanced' (under construction or committed to) projects, at a record value of \$43.4 billion. 'This is a record value of advanced projects and, at 91, the number of projects is also at a historically high level,' Phillip Glyde, ABARE Executive Director, said on releasing the report Minerals and Energy: Major Development Projects – April 2007 Listing. In total there are a record 279 major projects in the April 2007 listing. 188 projects are at less advanced stages and still undergoing feasibility studies. 23 projects have been completed and 43 projects have been added to the list since October 2006. While not all of the 188 less advanced projects will necessarily proceed to development, it provides another indicator of the strong growth prospects of the sector.

NEW MARITIME CAPABILITY FOR CUSTOMS

The Australian Government has taken another significant step in the nation's border protection capability with the commissioning of four new medium patrol boats for the Australian Customs Service. The Minister for Justice and Customs, Senator David Johnston, said Customs has signed a contract for the delivery, worth \$3.5 million, that will enhance the agency's ability to deal with illegal incursions in Australia's northern waters. Customs had undertaken a thorough tender evaluation process before selecting Stebercraft Pty Ltd, based in Taree, NSW to build the new vessels. When delivered the vessels will be stationed at Darwin, Thursday Island, Grove and Weipa. Their primary role will be to transfer illegal foreign fishers from Customs' Bay class and Navy's Armidale class patrol boats to shore, allowing the larger vessels an early return to their offshore patrol areas. The first of the four vessels is expected to be delivered by July this year with the remaining vessels rolled-out by December 2007.

FUNDING BOOST FOR USA EXPORT NETWORK

Australian businesses looking to break into the important United States market will benefit from a 2007-08 Federal Budget initiative to extend the Austrade-managed USA export facilitators programme. Trade Minister, Warren Truss, has announced. Mr Truss said that the Australian Government will provide \$11.1 million in funding over two years for the programme that was established in 2005 to help businesses take advantage of export opportunities arising from increased market access under the Australia-United States Free Trade Agreement (AUSFTA). "Since its introduction the export facilitators programme has directly assisted more than 450 businesses achieve over \$280 million in exports to the US and has been effective in developing export opportunities for Australian businesses in the world's largest market," Mr Truss said. Austrade now provides extensive support for Australian exporters in the US

market with representation in 19 US cities; eight specialist industry teams including dedicated teams for agribusiness and selling to government, and a network of USA Export Advisers around Australia.

ACCI WELCOMES INDUSTRY STATEMENT

The Australian Chamber of Commerce and Industry (ACCI) has welcomed many of the initiatives in the Australian Government's 2007 Industry Statement. The policy direction and intent of the announced programs should be a useful encouragement to industry and especially smaller enterprises as they seek international trading opportunities. As ACCI has previously argued, sections of Australian industry, most notably manufacturing, have significantly reshaped their approach for the better over the past decade. Part of the adjustment process in an era of lower tariffs is recognising the role Australian industry can play in global supply chains and the need to constantly innovate and participate in research and development opportunities. In this context the three major initiatives are well targeted including:

- the Global Opportunities Programme - \$17 million in 2007-08;
- Australian Industry Productivity Centres - \$27 million in 2007-08; and
- R&D Tax Concession Beneficial Ownership Provisions - \$50 million in 2007-08.

The various small business initiatives are positive including funding for the ABN Business Names Registration project which will help reduce start-up compliance costs and also extension of the Building Entrepreneurship in Small Business Programme.

FREE TRADE AGREEMENT NEGOTIATIONS: JAPAN AND CHINA

The Australian Government Budget has provided \$17 million over two years for the negotiation of free trade agreements (FTAs) with Australia's two largest trading partners, Japan and China. The Japan FTA negotiations commenced this year and are being led by the Department of Foreign Affairs and Trade. This funding covers the work of nine other Australian Government agencies in the conduct of negotiations. An FTA with Japan, the world's second largest economy, has the potential to significantly boost the Australian economy. It will help secure and improve access for Australian exporters of goods and services to our largest export market and promote greater two-way investment. An FTA with Japan will foster market-based economic integration in our region and further strengthen Australia's relationship with one of our most important regional partners. Funding is also being provided for the continuation of the FTA negotiations with China. The Department of Foreign Affairs and Trade leads the negotiations, and eight other agencies are also included in the funding provision. China is the world's fastest-growing major economy. It is now Australia's second-largest trading partner overall and trade continues to grow rapidly.

TRUSS LAUNCHES FTA POLICY GUIDE

The Minister for Trade, Warren Truss, has released a new booklet that outlines the Australian Government's policy on free trade agreements (FTAs). Mr Truss released *Free Trade Agreements: A Guide to Australia's Policy* at the 2007 launch of the Australian Export Awards in Sydney. "The booklet summarises the Australian Government's approach to FTA negotiations and uses case studies to illustrate how Australian companies of all sizes are benefiting from Australia's existing FTAs. "More than 60 per cent of Australia's trade is with our FTA partners – those countries with which we have or are negotiating an FTA." Mr Truss said. Australia has already negotiated FTAs with New Zealand (1983), Singapore (2003), Thailand (2005) and the United States (2005). Australia has also started negotiations with ASEAN (together with New Zealand), Malaysia, China, the Gulf Cooperation Council and Japan. The negotiating process has also begun with Chile and Korea. "Our bottom line is that FTAs should deliver commercial benefits to Australian consumers and businesses across all sectors of trade. FTAs should also act as a building block for trade liberalisation through the WTO. For copies and further information visit the Department of Foreign Affairs and Trade website (<http://www.trademinister.gov.au>/<http://www.dfat.gov.au/trade/ftas.html>).

AUSTRALIA RECORDS HIGHEST EXPORTS EVER, LED BY MANUFACTURES

Exports from Australia increased to their highest monthly level ever, up to \$18.5 billion in February. Australia's seasonally adjusted trade balance was virtually identical in February compared to January, as both exports and imports rose strongly by 2 percent. The trade deficit for goods and services was \$838 million in February, up \$6 million on the previous month. This was at the lower end of market expectations. There was double digit growth in exports to all North Asian markets over the 12 months to February. Leading the way was China, up 26 percent. Exports to India were up by an even greater amount, 28 percent. Overall in the financial year to date, exports are up by 13 percent. Imports have risen by 10 percent. Manufactured goods were up by 2 percent to \$3.9 billion - the highest level on record. Metal ores and mineral exports rose prominently in February, up 9 percent. Gold exports rose by 18 percent, with volatility in that market through imports of gold for reprocessing and then later export.

SIMPLER TAX FOR SMALL BUSINESS

The Government has announced a package of measures that will make it easier for small businesses to meet their tax obligations. There are up to two million Australian small businesses, around 95 per cent of all Australian businesses, and the Government is committed to helping them by reducing red tape and compliance costs. From 1 July, 2007, businesses with annual turnover of less than \$75,000 will no longer be required to register for GST.

The GST registration threshold for non-profit bodies will be increased to \$150,000. This means that both thresholds will be higher in real terms than when the GST was introduced in July 2000.

GOVERNMENT ASSISTANCE TO INDUSTRY

Import tariffs, budgetary grants and tax concessions provided Australian industry with the equivalent of around \$7.5 billion in net assistance (\$14 billion gross) last financial year, according to a Productivity Commission report. *Trade & Assistance Review 2005-06* sets out the Commission's latest estimates of industry assistance provided by the Australian Government. Most Australian industries have relatively low rates of assistance by historical standards, but pockets of high assistance remain. The textiles, clothing and footwear and the automotive industries remain the most highly assisted manufacturing industry groupings, although the Government has announced continuing transition programs designed to move both sectors to lower levels of assistance. Assistance to the primary production sector has increased recently, not least because of the substantial 'exceptional circumstances' drought support provided for farmers. The report notes that some forms of assistance, such as R&D subsidies, can deliver net community benefits if well designed. But it also indicates that industry assistance can entail significant costs to consumers, taxpayers and other industry - for example, tariffs on manufactured imports effectively penalised businesses in the services sector by around \$4 billion in 2005-06.

BOEING PROFIT SOARS

While revenue grew 8 percent at Boeing in the first quarter, net profit soared 27 percent. An improved yield was partly the result of lower expense from compensation plan changes, the company said. Revenue grew 8 percent to \$15.4 billion (all USD) and earnings from operations rose 36 percent to \$1.3 billion, yielding an 8.5 percent operating margin. Net income grew 27 percent to \$877 million. The aircraft maker had a record backlog of \$262 billion, leading the company to reaffirm its 2007 and 2008 financial outlook. Boeing Commercial Airplanes' first-quarter revenues increased 7 percent to \$7.6 billion on an 8 percent increase in deliveries to 106 airplanes, as well as higher commercial aviation services revenue. "These results are in line with our expectations for the quarter and represent solid progress toward the high goals we have for ourselves in 2007 and beyond," said Boeing Chairman, President, and Chief Executive Officer Jim McNerney. "Our record backlog, increasing productivity, and the progress of our development programs have us on track to achieve our growth and profitability objectives."

GLOBAL AIR FREIGHT SLOWS

Volume of international air freight grew only 2.3 percent in March, according to the International Air Transport Association. The trend in the last 12 months has been toward slower and slower growth as other modes

compete for freight. Passenger traffic increased by a healthier 7.8 percent. The March growth rate for freight was the slowest in 16 months; volume grew 2.4 percent in February; growth in the first quarter was 2.7 percent. Traffic fell for European and North American airlines in March as economic growth slowed. Growth in Latin America, Asia and especially in the Middle East was more positive. The Middle East continues to be the strongest performer with double digit growth of 12.7 percent in March, IATA said. Routes and types of cargo both expanded in the Middle East.

U.S. AIR CARGO FALLS

Cargo traffic for U.S. airlines fell for the first time in nearly two years in March, dragged down by deepening weakness in domestic air shipping. Overall air cargo business fell 2.1 percent in March, according to the Air Transport Association, leaving the airlines flat for the first quarter compared to last year. But the soft domestic market plunged 3.5 percent in March and now has fallen in three of the last four months. The decline was the worst monthly slide in that business since July 2005 and the domestic business was down 0.9 percent in the first quarter. International traffic was down 0.9 percent in March, the first decline in that arena in nearly two years. The latest figures from the ATA count only freight and express traffic, not mail. Postal traffic for the airlines has fallen more than 50 percent since 2000, when the U.S. Postal Service started a network management initiative and funneled more contract work to private express carriers.

OANTAS FREIGHT EXPANDS TO A SECOND FREIGHT TERMINAL IN SYDNEY

Qantas Freight will operate a second freight terminal (SFT2) from an off-airport location at Unit 3, 1-3 Burrows Road, Alexandria to meet customer demand for faster and more efficient services and to handle increased import volumes at Sydney Freight Terminal (SFT1). SFT2 operations are planned to commence from June, 2007. SFT1 handles more international freight than any other facility in Australia and SFT2 will provide greater capacity to support SFT1 and deliver consistent and reliable service to Qantas customers. SFT2 will provide additional handling capacity, which will:

- reduce congestion and improve freight availability;
- reduced queues and wait times;
- improve overall freight service delivery; and
- provide additional service offerings.

Selected import general unit load devices (ULDs) will be directed from SFT1 via a bypass lane and trucked directly to SFT2. Export freight will continue to be serviced at SFT1 and all import and export documentation will continue to be processed at SFT1.

SFT2 will initially handle import loose freight for major de-consolidators. Import customers will be advised when to pick up their freight from SFT2. All other freight will continue to be handled at SFT1. SFT2 will be the first of its kind in Australia. Qantas Freight has been working

closely with Australian Customs and AQIS to ensure all regulatory requirements are met.

CHINA TO MATCH USA

The Chinese economy will match that of the United States by 2012 and by 2020 China will become the biggest investor in science and technology.

Australian National University (ANU) Dean of Science, Tim Brown, said the implications of China's investment in innovation for nations such as Australia were enormous. Professor Brown compared Australia and China's approaches to science and technology innovation at the 2007 Cooperative Research Centres Association Conference in Perth recently. "What amazes me is the single minded concentration by the Chinese Government to ramp up its readiness in innovation by investing heavily and strategically in education and research," he said. Professor Brown is Australia's representative on a new study into China's innovation system by the Organisation for Economic Cooperation and Development (OECD) and Chinese Ministry of Science. He is compiling a chapter that deals with human resources in science and technology in a country whose gross domestic product is growing at about 10 per cent a year.

NOTICE

Please be advised that the above is not advice and you should not act solely on the basis of the material contained in this newsletter. Items herein are general comments only and do not constitute or convey advice per se. Also, changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting on any of the information.