said. "It seems when the Government increases price through excise, consumers look for cheaper alternatives, with the report revealing that lower price was a key reason 60% of people bought illegal tobacco products. Key findings from the Deloitte report:

- Foregone tobacco excise revenue of approx $1.1 billion
- Tobacco black market has grown from 6.4% to 15.9% since 2007
- Jump in illegal tobacco occurs concurrently with 25% excise increase in April 2010
- Increased trend of pre-rolling 'chop chop' into cigarettes and selling in unbranded boxes
- The number of smokers aware of illegal tobacco has grown to nearly 60%

The report also outlines the increase in border seizures made by the Australian Customs and Border Protection Service.

MAERSK LINE HOLDS NO. 1 SPOT

Maersk Line's recent order for 10 ships with capacities of 18,000 20-foot equivalent units apiece cements its position as the world's largest container line, according to Alphaliner. Maersk's No. 1 position was briefly in doubt in recent weeks, because of what Alphaliner said were "inaccurate reports" that it had slipped behind Mediterranean Shipping Co. into the No. 2 slot. The Paris-based container analyst said the confusion arises because of Maersk's tendency to under-declare the actual loading capacity of its largest ships. The A. P. Moller-Maersk Group currently operates total capacity of 2.18 million TEUs, compared to MSC's 1.92 million TEUs. Alphaliner said even without the consolidation of A.P. Moller-Maersk's subsidiaries (Safmarine, MCC Transport and OACL), which operate a total of 215,000 TEUs, Maersk Line currently operates 1.96 million TEUs on its own, which places it ahead of MSC's operated capacity by 54,000 TEUs. Maersk's order for the 10 18,000-TEU containerships increases the size of its containership orders from 317,000 TEUs to 497,000 TEUs, according to Alphaliner figures, with a further 360,000 TEUs in the pipeline if the options for 20 additional units are exercised. Since its acquisition of P&O Nedlloyd in August 2005, Maersk's market share has been gradually eroded. Over the past five years, its market share has fallen from a peak of 18.3 percent following the PONL acquisition to 14.5 percent currently.

GLOBAL AIR CARGO JUMPS 9.1 PERCENT IN JANUARY

Global air freight traffic increased 9.1 percent in January from a year ago, driven by a surge in North America, to outpace growth in the previous two months, the International Air Transport Association reported. Cargo volume in January was 39 percent above the low point in the depth of the global recession at the end of 2009 and was 6 percent above the pre-recession peak of early 2008, according to the Geneva-based industry. The January increase compared with year-on-year gains of 7.3 percent in December and 6.9 percent in November. Freight traffic has, however, fallen 2 percent since its May 2010 peak at the height of the re-stocking bubble, IATA said in its latest monthly report. North American carriers reported the biggest increase of 14.1 percent from a year ago. Volume has risen by 11 percent since November and is now 10 percent above pre-recession levels. Asia-Pacific carriers boosted freight traffic 6.4 percent year on year. This was down from the 7.2 percent increase in December, but volume increased in January, IATA said. The much weaker economic climate in Europe continued to hold back the recovery in freight traffic in the region, which remains 11 percent below the pre-recession peak.

CONTACT DETAILS

New South Wales
1799 Botany Road, BOTANY NSW 2019
Telephone: 02 8335 1200 Fax: 02 9316 5114
Postal Address is: Locked Bag 69 Botany NSW 1455

Victoria
22 Sara Grove, TOTTENHAM VIC 3012
Telephone: 03 9314 4799
Office Fax: 03 9318 9055 Store Fax: 03 9314 4766

Queensland
Unit C1 Jetstream Business Park
5 Grevillea Place, EAGLE FARM QLD 4009
PO Box 105, PINKENBA QLD 4008
Telephone: 07 3860 4750 Fax: 07 3860 4751

Queensland Store (Northgate)
Telephone: 07 3267 1070 Fax: 07 3267 1437

South Australia
104 Sir Donald Bradman Drive, HILTON SA 5033
PO Box 2195
PORT ADELAIDE BUSINESS CENTRE SA 5015
Telephone: 08 8352 8355 Fax: 08 8352 8344

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NEWSLETTER 2011/2 **APRIL 2011**

SHIPPING COMPANIES FROM RED TO RECORD BLACK

Hapag-Lloyd has reported record results for 2010, recovering from its loss a year earlier. The German container line posted operating earnings before tax, interest and depreciations recovering to €904m ($1.25bn) compared with a loss of €103m a year earlier. Cargo volumes increased 7% to almost 5m TEU, while freight rates averaged $1,569 per TEU, an increase of 25% from $1,238 in 2009. Group revenue climbed to €6.2bn in 2010, an increase of 39% from a year earlier. The company's result improved from a loss of €603m to a profit of €583m, a positive swing of nearly €1.2bn. The company said it had been able to capitalise on the "positive industry dynamics", leading to a record year in terms of profitability. It said its performance was supported by a stronger than expected recovery in the global economy and world trade as well as the better business environment. CMA CGM earned $2.5 billion before interest, tax, depreciation and amortization in the year, equivalent to a margin of 17.6 percent, one of the industry's highest. This compares with a $667 million loss in 2009. The number of containers transported increased 15 percent to 9.04 million 20-foot equivalent units from 7.88 million TEUs in 2009. All markets grew strongly through the year with the Asia-Europe and intra-Asia lines enjoying record business. The Asia-U.S. trade has now returned to pre-recession levels after being severely impacted by the decline in world trade. CMA CGM took delivery of 20 new ships in 2010, of which 12 are owned. Of the owned ships, eight have more than 11,000 TEUs capacity. The company said it expanded capacity 17.7 percent in 2010 to take an 8.6 percent world market share.

QANTAS INVESTIGATES ALGAE-BASED SUSTAINABLE FUEL

Qantas will collaborate with Solazyme, one of the USA's leading renewable energy companies, to investigate opportunities for sustainable, algae-based aviation fuel. Qantas and Solazyme will, during the next year, develop a business case for the introduction of the fuel technology in Australia. Qantas also has an agreement with the US-based Solena Group for research into waste-based aviation fuel. Qantas CEO, Alan Joyce, said that both projects are part of the airline's strategy to accelerate the commercialisation of 'drop-in' alternative jet fuels to significantly reduce greenhouse gas emissions. "The costs and environmental impacts associated with traditional jet fuel mean it is imperative that we push hard now for the commercialisation of alternative fuel sources," Mr Joyce said. "We want to be at the forefront of this growing sector." The Qantas Group is one of the largest fuel users in Australia, consuming 4.6 billion litres of jet kerosene in the last two years, at a cost of $3.3 billion. Austrade's Regional Director for The Americas, Graeme Barty, said, "Austrade has been working with the top US biofuels companies for the past three years as part of a strategy to attract investment and grow the advanced biofuels industry in Australia." "These agreements highlight both the – *(Continued on Page 2)*

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(Continued from Page 1) – US market as a leader in this space and Australia as a high-potential, key investment target for international companies." Qantas said cleaner fuel sources are sought to ensure the company's long-term sustainability.

CONFUSION OVER PACIFIC BOX TRADE FORECAST

Preparations for containership deployment on the Pacific during the forthcoming northern hemisphere peak season have been thrown into confusion by varying trade forecasts. Ocean carriers and their customers face growth projections ranging from just 1% to as high as 13% for east-bound transpacific volumes in 2011. While several established analysts are predicting increases of between 6% and 8% for volumes moving from Asia to the US, some projections differ widely from that mid-range mark. New figures indicate that east-bound volumes should expand by 8.2% in 2011 to 13.5m TEU. Westbound traffic across the Pacific is expected to be up by 11% this year to 6.9m TEU, compared with 4.3% growth in 2010. US import volumes would be underpinned by an expected 3.2% increase in consumer spending, an improvement from the 2010 figure of 2.9%.

US-AUSTRALASIA CARRIERS POST RATE INCREASE

The six member carriers of the U.S.-Australasia Discussion Agreement have announced a general rate increase that will take effect on April 15. The six carriers in the agreement are seeking an increase of $100 per 20-foot container and $200 per 40-foot container for both dry and refrigerated shipments moving from the U.S. to ports in Australia and New Zealand. USADA members include CMA CGM, Hamburg Sud, Hapag-Lloyd, Marfret, Maersk Line and US Lines.

IATA HAS GLOOMIER OUTLOOK FOR AIRFREIGHT

The International Air Transport Association (IATA) has downgraded its profit expectations for the air freight industry this year because of a spike in the price of oil. IATA initially predicted that the industry would make a profit of US$9.1 billion in 2011, but now it expects the result to be around $8.6 billion. If its prediction proves correct, the air industry's net profits in 2011 will be 46% lower than in 2010. On expected industry revenues, that equates to a net profit margin of 1.4%. Stronger revenues will provide only a partial offset to higher costs. Profits will be cut in half compared with last year. Because of the increasing oil prices, IATA has raised its 2011 average oil price assumption to $96 per barrel of Brent crude (up from $84 in December), in line with market forecasts. Including the impact of fuel hedging, which is roughly 50% of expected consumption, this will increase the industry fuel bill by $10 billion, to a total of $166 billion, and fuel is now estimated to represent 29% of total operating costs (up from 26% in 2010). On the demand side, IATA has revised its cargo growth forecast to 6.1% (up from 5.5%), with capacity expected to increase by 6%, slightly lower than the 6.1% previously forecast. Around 5% of this increase will come from the 1,400 new aircraft being introduced to the global fleet this year.

CARRIERS FACE RENEWED CONTAINER SHORTAGE

Ocean carriers face a shortage of containers in the coming months as production of boxes lags growing cargo capacity, according to Alphaliner. The box-inventory-to-vessel capacity ratio will drop to 1.99 by the end of the year from 2.03 in 2010, the Paris-based analyst forecasts. This is the lowest ratio on record and compares with the capacity ratio of 2.99 boxes per slot in 2000. Back haul shippers from the U.S. and Europe will be hit hardest by the box shortage as carriers will need to quickly return empty containers to high demand locations in Asia, Alphaliner said. Ocean carriers and freight forwarders are also predicting a shortage of boxes later in the year will drive up freight rates, mirroring the situation last summer when lines responded to a dearth of equipment by imposing peak season surcharges of up to $750 per 20-foot container on the Asia-Europe trade. Over the past decade the global inventory of containers grew 6.9 percent annually while the container ship fleet increased 11.1 percent per year. Container manufacturers also ceased production of standard boxes in 2009 to focus on reefer and specialized equipment. The imbalance has stabilized since July, according to Alphaliner, as container manufacturers resumed production and carriers halted the scrapping of older equipment.

TRIPLE-E CLASS TO ALTER PORT AND LINE DYNAMICS

Arrival of 18,000 teu ships will create a 'cascade effect' and lead to more demanding contracts, APM Terminals Chief Executive, Kim Fejfer, has predicted. Mr Fejfer believes that the relationship between port and container lines will change with the arrival of the Maersk Triple-E class in 2013 and 2014. The contract for the ships sends a signal "regarding deep water ports and berths, crane equipment and general ability to produce higher berth productivity", Mr Fejfer said. He said it will have a "direct impact on the Asia-Europe trade, but there will be a cascading effect throughout other trades. In general, we will see bigger vessels in all trades over time, as a consequence of larger vessels coming in from the top but also as a consequence of trade growth." Cascade of tonnage, in Mr Fejfer's opinion, means that ports on those non Asia-Europe routes will become more important, and productivity, reliability and flexibility will become more important than price. Winners will be the port operations that are able to provide true value to the shipping lines, he added.

MAERSK TO LIFT AUSTRALIA TO NE ASIA BOX RATES

Maersk will increase containers rates from Australia to North East Asia from this month. A general rate fee increase of US$250 for 20-ft containers and US$500 for 40-ft containers will apply to all dry and reefer containers from April 4. "Due to the sharp increases seen in operational costs, it is unsustainable to continue with rates at current levels," Maersk said. In comparison, major freight forwarders on the Asia-Europe westbound leg have raised concerns that the trade may be on the brink of a damaging freight rate war. Several leading North European buyers of container transport said as freight rates declined and new capacity was entered onto the trade, there was evidence that carriers were dropping rates in an effort to fill up tonnage. They predicted that a return to the first half of 2009 - when freight rates were at a historic low pushing several carriers towards bankruptcy - was not far away.

MANUFACTURING LIFTS IN FEBRUARY

Manufacturing was back in growth territory in February with the seasonally adjusted Australian Industry Group -PwC Australian Performance of Manufacturing Index (Australian PMI®) rising 4.4 points to 51.1. The improvement in the index follows five months of readings below the 50-point level separating expansion from contraction. Wood products and furniture, paper, printing and publishing, chemicals, petroleum and coal products, miscellaneous manufactures and, to a smaller extent, construction materials sub-sectors, all expanded in February. Ai Group Chief Executive, Heather Ridout, said: "The welcome lift in the manufacturing index was largely off the back of a substantial improvement in the new orders and those restocking. This suggests a more encouraging immediate outlook for the sector. While only reflecting a single month's improvement, the result underlines the resilience of the sector in the face of extremely tough trading conditions and the impact of the strong dollar," Mrs Ridout said. PwC Global Head of Industrial Manufacturing, Graeme Billings, said: "The improvement in activity in February is a positive sign for the manufacturing sector at a time of both structural and cyclical challenges. These challenges point to the need for further productivity enhancing measures to ensure the sector continues to be competitive in an ever changing environment."

Key Findings for February:

- Manufacturing inventories increased in February, up 13.2 points to 52.1.
- Manufacturing activity contracted in New South Wales and Victoria while all the other states recorded increases. Manufacturing activity picked up most strongly in Western Australia.

EXPORT VALUES TIPPED TO HIT RECORD LEVELS

Australian commodity exports are likely to exceed $250bn in value during 2011-12, the Australian Bureau of Agricultural and Resource Economics and Sciences predicts. ABARES' Deputy Executive Director, Paul Morris, said earnings from Australia's commodity exports were forecast to rise 14% to a record of $251bn in 2011-12, after a forecast increase of 29% to $221bn in 2010-11. "Over the medium term, commodity export earnings are projected to be maintained around this value in real terms, reaching around $255 billion in today's dollars by 2015-16," Mr Morris said. The value of farm product exports is tipped to rise 4.4% to $32.5bn in 2011-12, after an expected rise of about 9% to $31.2bn in 2010-11. Despite the impact of heavy rain and floods, the forecast value of farm exports in 2010-11 represents an upward revision of about $1bn from the ABARE December forecast. For mineral resources, meanwhile, the value of exports is expected to reach $215bn in 2011-12, a rise of 16 per cent from a forecast $186 billion in 2010-11. This is supported by projected strong commodity demand, especially from China and other emerging Asian markets.

TAXPAYERS LOSE $1 BILLION WHILE CRIMINALS MAKE MILLIONS

A Deloitte report into illegal tobacco in Australia has revealed taxpayers are losing out on almost $1.1 billion in excise revenue as the illegal tobacco market grows rapidly. The report estimated that 2.68 million kilograms of illegal tobacco products were sold in Australia during 2010, equivalent to 15.9% of the total legal tobacco market. Organised crime gangs importing loose leaf tobacco, counterfeit and contraband cigarettes are now the fourth largest tobacco player in Australia just behind Imperial Tobacco which holds 17% of the legal market. British American Tobacco spokesperson, Scott McIntyre, said the annual report highlighted the worrying upward trend in black market tobacco which pays no excise duty to the Government, is unregulated and often carries no health warnings. "It's alarming the illegal tobacco market has grown nearly 150% in just three years, from 6.4% of the total market in 2007 to 15.9% in 2010," Mr McIntyre