



2016 Top Markets Report **Construction Equipment** Country Case Study

Australia

After a decade-long period of historic economic growth and construction driven largely by commodity exports, the Australian economy is transitioning to a more modest growth pattern as a result of lower commodity prices and a shift from construction to production. Despite these challenges and its distance from the United States, Australia is still the third largest U.S. export market for CE sector products. The Australia-United States Free Trade Agreement (AUSFTA), Australian end users' preferences for productive, reliable and technologically advanced CE sector products, and modest yet steady economic growth contribute to its desirability as a CE sector market.

Overall
Rank

4

Australia's Export Market

For the period from 2011 to 2015, cumulative U.S. CE sector exports to Australia of \$13.7 billion (\$2.7 billion annualized average) accounted for 7 percent of total worldwide U.S. sector exports. Construction machinery and mining machinery and equipment accounted for 78 percent of total U.S. CE sector exports to Australia at \$10.7 billion. Exports of engines for use in CE sector equipment accounted for 17 percent of exports at \$2.3 billion. Exports of pumps/motors and cylinders/actuators combined accounted for the remaining 5 percent of sector exports at \$635 million.

After reaching a high of \$4.8 billion in 2012, U.S. CE exports to Australia fell a total of 69 percent to \$1.5 billion by 2015. This decline mirrored global export trends for the U.S. CE sector, as post-2008 recession spending leveled off. Australia is heavily dependent on mining, oil and natural gas commodity exports, and continued low commodity prices likely contributed to the particularly sharp drop-off in U.S. sector exports. In 2014, iron, coal, gold and aluminum represented 38 percent of Australia's total exports with crude oil and natural gas contributed another 9 percent.¹ Continued low commodity prices will likely impact overall economic growth and demand for CE sector products.

Country Snapshot:

- Large export volume (third largest U.S. CE sector export market)
- Long-term steady export growth; however, low commodity prices are driving down current sector demand
- Buyers value reliable/productive/technologically advanced products

Australia's CE sector market is quite favorable to U.S. manufacturers. Buyers of U.S. CE sector exports are engaged in commercial and residential construction, mining, oil and energy production, and development of infrastructure to connect the country's mainly coastal population centers with each other as well as the interior regions. End users engaged in the mining and oil and gas sectors require machinery with the highest level of productivity and reliability. In addition, Australia's geography and population distribution requires considerable CE sector equipment usage in remote locations. U.S. CE sector manufacturers are both well-known and respected, with established dealer networks for sales and service. Strong competitors from Western Europe, Japan and South Korea, however, represent a challenge for U.S. companies competing in the Australian market in the high productivity/reliability

category. Domestic Australian CE sector manufacturers do not constitute meaningful competition for U.S. CE sector exporters.

U.S. CE sector exports to Australia have declined sharply over the past two years; however, long-term positive economic indicators continue to make Australia an important and favorable market for CE sector exporters. U.S. CE sector exports to Australia have grown 130.3 percent since 2000 at a Compound Annual Growth Rate (CAGR) of 5.7 percent. Australia's GDP is projected to increase by 2.8 percent in 2016 and 3.0 percent in 2017.² The country recorded 23 consecutive years of economic growth through 2014, fueled primarily by commodity exports. Although the continued downturn in commodity prices has influenced economic performance, Australia is still positioned to benefit long-term when prices rebound.

Challenges and Barriers to Export

Barriers to export for U.S. CE sector goods are low. Enactment of the Australia-United States Free Trade Agreement (AUSFTA) on January 1, 2005 granted immediate, duty free treatment to CE sector goods.³ Although not particularly difficult or complex, duty free treatment for U.S. CE sector products is contingent upon satisfaction of rules of origin requirements. AUSFTA does not share a common "rules of origin" documentation process with NAFTA⁴, so exporters more familiar with exporting to Canada or Mexico should be aware that they would need to complete documentation applicable to this agreement to receive duty free status.

Although U.S. CE sector exports face low barriers to trade in Australia due to AUSFTA, exporters do encounter challenges. Australia has entered into FTAs with South Korea⁵ and China,⁶ and an economic partnership with Japan,⁷ which individually result in the reduction or elimination of tariffs on imports of CE sector goods from these countries. Japanese and Korean CE sector products are comparable to U.S. products in terms of productivity and reliability, so duty free entry of products from these countries represents a particular challenge.

A weaker Australian dollar over the past twenty-four months has dampened CE sector demand. After trading at or above parity as recently as April 2013, the Australian dollar fell to a low of 0.68 against the U.S. dollar in January 2016 before recovering slightly,

effectively reducing Australian buyers' purchasing power for U.S. CE sector products by more than 25 percent.⁸

The primary current challenge for U.S. CE exporters, however, is the transition from a construction to production economic cycle. Low commodity prices and a weaker Australian dollar contribute to decreased demand, and the transition away from historic growth activity to more normal levels of construction activity will only continue to depress demand for U.S. CE sector products in Australia.

Opportunities for U.S. CE Exporters

Although the challenges brought by a transitioning economy are very real, Australia remains an overall favorable export market for U.S. CE sector goods in the long-term. The following factors enhance Australia's attractiveness as an export market:

Duty free trade status for CE sector goods: Under AUSFTA, virtually all properly documented CE sector goods enter into Australia duty free. Construction and mining business practices in the United States and Australia are similar, and there are no language/translation issues with product labeling or documentation.

Market stability: As previously mentioned, Australia's long-term market stability represents a favorable export climate for U.S. CE sector players. Despite the transition from a commodity export-led construction cycle to a more normal production-focused period, modest GDP growth and an eventual recovery in commodity prices will likely sustain demand for U.S. CE sector products.

Recognized brands: U.S. CE sector brands are well known and respected in Australia. U.S. sector leaders such as Caterpillar and Deere are recognized brands and their products are widely available.

Established dealer networks: Virtually all major large U.S. CE manufacturers have well-established dealer networks, either independent or through affiliated manufacturers. These dealerships sell large equipment and offer comprehensive product support services in addition to sophisticated parts distribution networks to support their dealers.

Business environment: In addition to the benefits of free trade under AUSFTA, Australia is ranked 12th in the 2015

World Bank Ease of Doing Business Index, which is a positive indicator of business friendly regulations, intellectual property rights protection, and a generally favorable export climate.⁹

Trade exhibitions: Although Australia is less geographically proximate than other U.S. FTA partners, U.S. CE sector exporters still have opportunities to make contact with prospective Australian buyers through trade exhibitions in North America. CONEXPO/ConAgg (Las Vegas, NV) is the largest sector trade exhibition in North America. Held every three years, the show is widely attended by Australian buyers and exhibitors. MINExpo International (Las Vegas, NV) is the world's largest trade exhibition for the mining sector and is held once every four years. Along with annual shows World of Concrete (Las Vegas, NV) and World of Asphalt (location varies by year), which are focused on equipment used in production and application of materials, these events provide good opportunities for U.S. CE sector exporters to reach Australian buyers. Australia's most prominent CE sector trade show is the Australian Construction Equipment (ACE) Expo in Melbourne. An ACE Expo was to be held in eastern Australia in Brisbane in 2015; however, according to the event organizer the event was postponed due to acknowledgement of the current state of the Queensland market and rescheduled to 2016.¹⁰

CIVENEX is Australia's premier infrastructure trade show with a focus on exhibitors supplying equipment for local governments, public works and major contractors. This year's event will be held in Richmond, New South Wales.¹¹ The biennial Asia Pacific International Mining Exhibition (AIMEX) is the region's largest mining products trade exhibition. AIMEX will next be held in Sydney in August 2017.¹²

Know the Buyer

Australian buyers are very similar to U.S. buyers of CE sector products. Construction and mining equipment make up 79 percent of total exports, and users engaged in the mining and oil and gas sectors demand machinery with the highest level of productivity and reliability that can work in difficult/remote environments and locations with limited onsite support. With the general slowdown of construction activity in Australia, however, buyers are becoming increasingly cost-conscious. Availability of lower-end, lower-cost Chinese CE products presents buyers with a viable alternative, and improvements in productivity and reliability of these products will make them an increasingly attractive alternative.

¹<http://dfat.gov.au/trade/resources/trade-at-a-glance/pages/top-goods-services.aspx>

²<http://data.worldbank.org/country/australia>

³<http://dfat.gov.au/about-us/publications/trade-investment/australia-united-states-free-trade-agreement/Pages/chapter-two-national-treatment-and-market-access-for-goods.aspx>

⁴http://export.gov/australia/build/groups/public/@eg_au/documents/webcontent/eg_au_050735.pdf

⁵<http://dfat.gov.au/trade/agreements/kafta/fact-sheets/Pages/quick-guide-key-industrial-products-outcomes.aspx>

⁶<http://dfat.gov.au/trade/agreements/chafta/fact-sheets/Pages/quick-guide-key-resources-energy-and-manufacturing-outcomes.aspx>

⁷<http://dfat.gov.au/trade/agreements/jaepa/fact-sheets/Pages/fact-sheet-outcomes-at-a-glance.aspx>

⁸<http://www.xe.com/currencycharts/?from=AUD&to=USD&view=5Y>

⁹<http://www.doingbusiness.org/data/exploreconomies/australia/>

¹⁰<http://aceexpo.com.au/>

¹¹<http://civenex.com/>

¹²<http://www.aimex.com.au/en/home/>