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medium sized Australian businesses to become sustainable exporters by providing partial reimbursement of some export promotion expenses. From 1 July 2010, the maximum amount initially payable for eligible expenses incurred in the grant year 2009-10 under the EMDG scheme will be \$27,500. This is the maximum amount that will be paid as an initial installment to eligible EMDG applicants upon assessment of their grant application. Grant recipients for the 2009/10 grant year with an entitlement up to and including \$27,500 will be paid in full. Recipients with entitlements above this amount will receive a second payment at the end of June 2011. In accordance with the usual and well established practice, the amount of the second payment will be determined at that time. The Government provided additional funding to the EMDG scheme in the 2008-09 and 2009-10 financial years. In each of these years, \$200 million was appropriated for the scheme. As the Government announced in the 2009-10 Budget, the appropriation for the EMDG scheme for 2010-11 is \$150 million. This reflects surplus within three years. Given these circumstances, an initial maximum payment amount of \$27,500 provides the most equitable distribution of grant funding within the available budget. It also reduces the risk of demand exceeding the available funding to enable all first round successful grant entitlements to be paid. Exporters who were approved for Export Market Development Grants (EMDG) in excess of \$50,000 will now receive 73.94 cents in the dollar for that part of their entitlement above \$50,000. These businesses, which represent 30 per cent of all EMDG applicants, will receive their payments next week. Previous forecasts had indicated that due to an unexpectedly high number of applications for the 2008-09 grant year, companies could only expect to be paid between 50 to 70 cents in the dollar.

## NEW X-RAY UNITS TO SEE THROUGH CRIMINALS

The Minister for Home Affairs, Brendan O'Connor, has announced that two new mobile x-ray units are now in action to help stop illegal goods getting into Australia. Mr O'Connor visited Fiat Australia's Sydney headquarters to see the new mobile x-ray units in action.

"These new mobile x-ray units will help officers do their jobs more efficiently and thoroughly, by detecting illegal drugs, firearms and weapons that offenders may seek to conceal." Fiat Australia manufactured the two vehicles in which the x-ray equipment is mounted. "These x-ray units are predominantly used to scan air cargo, but because they are vehicle mounted they can also be easily deployed to other border protection environments. "In the past, the units have been used to successfully detect narcotics brought into Australia by ship crews and passengers and find undeclared currency and prescription drugs in outgoing baggage," Mr O'Connor said. The \$390,000 mobile x-ray units will join the fleet of sixteen units in operation around Australia. "The new units will

help inspect and examine about 1.5 million air cargo consignments each year and make Australia a safer place for all of us to live," he said. "The units can also be deployed for joint agency operations with state and federal law enforcement authorities – further strengthening our co-operative approach to border protection." The delivery and operation of these two new units builds on other technology investments for Customs and Border Protection this financial year, including the replacement of pallet x-ray units in Sydney and Melbourne, deployment of additional trace detection technologies and the deployment of upgraded fume detection units to container examination facilities in Sydney, Melbourne and Brisbane.

## AUSTRALIA NOW 10TH LARGEST PRIVATE BANKING MARKET

Data just released in the 2010 World Wealth Report shows that as at year end 2009 Australia had the 10th largest private banking market in the world, up from eleventh place for 2008. The private banking industry in Australia has benefited from almost 20 years of sustained economic growth to become the third largest private wealth market in the Asia Pacific and the 10th largest in the world, according to Capgemini and Merrill Lynch's **2010 World Wealth Report**. Strategically, Australia offers a competitive regional location for providing wealth management services. Australia is distinguished by the strength and resilience of its economy, the size, depth and liquidity of its financial markets and the sophisticated and innovative nature of its funds management sector, underpinned by its mandatory retirement income policy. This, together with an open, transparent, best practice regulatory environment, favourable changes in taxation system and skilled multilingual financial professionals, makes Australia an attractive destination for investment.

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## NEWSLETTER 2010/4

### ELECTION 2010

"The government to be elected on 21 August will have to deal with a domestic and world economy facing renewed economic uncertainty, while meeting the demands of a booming resources sector and all the pressures that entails, such as skill shortages, a high dollar and further pressure on interest rates," according to Australian Industry Group Chief Executive, Heather Ridout. "At the same time, Australian industry is facing enormous volatility in business conditions and a recovery which is far from assured. "Underneath all of this, there are big structural issues which business will be looking for all parties to address over the next term of the Parliament. In particular, the incoming government will have to make some wise decisions to lift our flagging productivity performance and boost workforce participation to underpin efforts to address our big demographic challenge. "Ai Group will be seeking from all parties, policies to build a balanced, robust and sustainable economy. The Federal Election must renew the nation's focus on infrastructure development to sustain productivity and accommodate growth says Infrastructure Partnerships Australia, the nation's peak infrastructure body. "This election must bring a renewed national focus to how the Government and Opposition will equip Australia to better infrastructure challenges over the long-term" said IPA's Executive Director, Brendan Lyon. "Infrastructure Australia has been a success and industry urges the Government and Opposition to confirm its ongoing role in advancing national infrastructure policies and projects. "Infrastructure Australia has identified a long-term, prioritised list of the nation's most important infrastructure projects.

## AUGUST 2010

"The election campaign should now see a commitment from the Government and Opposition to create an equally robust and long-term mechanism to fund these projects. "Australia's infrastructure backlog is estimated at up to \$770 billion. Infrastructure shortfalls negatively impact productivity and Australia's global competitiveness. "This election must be about how Australia's national government can recommit to solutions to national infrastructure challenges.

### AIR CARGO SOARS TO PRE-CRISIS LEVELS

Freight traffic leaped by 34.3 percent in May, rising above pre-recession levels, the International Air Transport Association (IATA) has announced. "Demand rebounded strongly in May following the impact of the European volcanic ash fiasco in April. Passenger traffic is now one percent above pre-recession levels, while the freight market is six percent bigger," said Giovanni Bisignani, IATA's Director General and CEO. Matching capacity to demand will become increasingly challenging in the coming months, he warned. Aircraft utilization remains five percent below pre-recession levels for single-aisle aircraft and eight percent for longer-range twin-aisle aircraft. The 100 aircraft taken out of storage during May and the 93 new aircraft delivered globally add further capacity pressure. The strong surge in cargo traffic outstripped a capacity increase of 12.3 percent, pushing load factors to a record high of 55.7 percent. Strong traffic growth is contributing to a strengthening industry bottom line. Airlines are expected to post a US\$2.5 billion profit in 2010 in a dramatic turnaround from the \$9.9 billion lost in 2009.



- CONTAINER SHIPPING RATES TO HIT PRE-DOWNTURN LEVELS
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- PORT BOTANY UNDER PRESSURE

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## MAERSK RETURNS TO PRE-CRISIS PROFIT LEVEL

The owner of the largest container shipping line is back to earnings levels it enjoyed before the sector was hit by its worst-ever crisis, in the clearest sign yet of the industry's remarkably rapid turnaround. The Danish conglomerate said that it now expected annual profits this year to reach at least 2008 levels of \$3.5bn, after losing \$1.02bn in 2009. The group had previously indicated that it expected "a profit" for 2010 as it recovered from a collapse in container ship earnings that saw its container shipping division lose \$2.09bn for 2009. The company said that it had seen a better-than-expected improvement in its business, especially in container shipping, since the last forecast made in mid-May. The company now expects that the profit for 2010 will exceed the profit for 2008...provided that freight rates, oil prices and the US dollar exchange rate remain stable at current levels. The container shipping recovery was a "significant part" of the company's rapid turnaround. Last year saw the first year-on-year decline in volumes in container shipping's 54-year history, with volumes dropping more than 10 percent and earnings per container shipped below operating costs.

## 32 MEGASHIPS SET FOR DELIVERY

The second half of this year is expected to see an alarming containership delivery programme unfold, with over 30 vessels in the so-called megaship capacity bracket emerging from shipbuilding yards. According to latest statistics provided by PR News Service, there will be 32 vessels of 10,000 TEU and above, delivered between the beginning of July and the end of December. All of them will either be heading for the Asia-Europe trade, or even for lay up. The data also shows that by the end of 2012 a further 131 megaships are expected to be delivered. The order book is headed up by Mediterranean Shipping Co with a staggering 36 vessels expected to be delivered by the end of 2012. CMA CGM follows in second place with 23 vessels, and COSCO in third with 16 vessels of over 10,000 TEU capacity. Maersk comes in fourth with just 13 vessels.

## WARTSILA KITS TO SAVE FUEL, MAINTAIN OPERATIONAL FLEXIBILITY

Maersk Line has signed a contract with Finland's Wartsila Corporation to install Slow Steaming Upgrade kits on 34 of its large ocean container vessels. The order by the world's largest ocean carrier follows the successful installation and testing of a kit on a sister vessel, the Axel Maersk, in late 2009. Wartsila said it expects vessels equipped with the kits will achieve fuel savings of between 3 percent and 7 percent with the engine running at a low load. These savings are in addition to those attained through reducing speed to slow steaming operation. "The Wartsila slow steaming upgrade kit provides us with a solution for further fuel savings, while maintaining the necessary full operational flexibility of the ships," said Palle Laursen, Vice President, Maersk

Line. Most leading ocean container carriers introduced slow steaming over the past year in a bid to absorb an over-capacity of ships and to cap sharply rising fuel costs.

## PORT BOTANY UNDER PRESSURE

Both Port Botany stevedores have assured Sydney Ports Corporation they are making progress in efforts to end a prolonged period of congestion at the port as lines remain increasingly frustrated at the flow-on effects the oceanside problems are causing. Faced with claims the port's reputation is taking a battering, Sydney Ports Corporation has moved to address the systemic problems with ship servicing at the port. Lloyd's List DCN has reported on a series of delays affecting many of the major operators — a trend that last month prompted Shipping Australia to float the possibility of a surcharge for calls to the port — but the problems have not been isolated to the larger operators with regular services. Lines and agents say delays of up to a week have been common for several months, with no signs of any improvement in the short-term. A Sydney Ports spokesman agreed that the delays were both significant and more than isolated incidents, pointing to a number of disruptions affecting both DP World and Patrick in recent months. Sydney Ports has also pointed to the fact container trade is growing at 7.9%. DP World had lost the use of a berth during the commissioning of its two new post panamax cranes in April and May. The berth is now fully operational and DP World has told Sydney Ports it will have vessel schedules back to normal in the next few weeks. Patrick told Sydney Ports since April its productivity was improving after significant safety incidents, including a port worker fatality. Shipping Australia said the frequency and severity of the port's congestion would only encourage lines to pursue counter-measures such as applying a surcharge for all cargo going through Sydney but such an outcome would be very unwelcome and would tarnish Sydney's international reputation.

## CONTAINER SHIPPING RATES TO HIT PRE-DOWNTURN LEVELS

Ocean shipping container freight rates likely will return to levels reached before the global economic recession by the end of this year, according to Maersk Line. Prices "will come back to pre-crisis levels, to a level where the industry can get a return on their investments," said Nils Andersen, Chief Executive of Maersk parent A.P. Moller-Maersk. Anderson said he did not expect the container shipping industry to be significantly affected by a possible slowdown in China, according to a report by Reuters on his comments. The worldwide shortage of containers would provide a cushion for rates, Anderson said on the sidelines of a naming ceremony for a floating oil storage vessel built by Singapore's Keppel Corp. "The part of the shipping industry that might be affected by the slowdown in China will be the bulk carriers and oil carriers," Andersen said. Andersen said Maersk will add to container levels in 2010 and 2011 to address the global box shortage in the industry. Freight rates on several key liner trades, particularly Asia-to-Europe, retreated in May

following the restoration of a significant proportion of the idled container ship fleet in recent months, according to the China Containerised Freight Rate Index. But freight rates appear to be rising again, London shipbroker Clarkson said, noting the rate for a box shipped from China to Europe and the Mediterranean rose by 2 percent and 6 percent, respectively, from May to June.

## CHANGES TO THE CALCULATION OF THE VALUE OF TAXABLE IMPORTATION

A new Australian Customs Notice advises of amendments to the GST Act that will change the determination of the VoTI in certain circumstances. It replaces information in ACN 2005/23, which Customs and Border Protection will review and reissue. The changes relate primarily to importations made on a door-to-door basis. Typically known as delivered duty paid or delivered duty unpaid where the supply agreement is for the sale of the goods to the local purchaser and the domestic transport of the goods forms part of the agreement for the international transport. Under the amended GST Act, for most door-to-door deliveries, the cost of the domestic transport and insurance and the costs of loading, handling and other services from the port or airport to the place of delivery in Australia will be GST-free:

- for the supplier who brings the goods to Australia (typically a non-resident who is not in Australia), or
- for subcontractors who supply services to a non-resident who is not in Australia.

These costs, to the extent there is no double counting, will generally be included in the VoTI. This change ensures the tax liability falls to the importer of the goods rather than the non-resident entity with a responsibility to provide the transport of the imported goods.

## CHINA BOOSTING PORT BOTANY TRADE AND TRADE UPDATE

For the eighth consecutive month, Port Botany has recorded record trade growth, due largely to growing China-Australia trade. Ports and Waterways Minister, Paul McLeay, recently released trade statistics showing trade performance for the financial year to May 2009/10 was 1.755 million TEUs, up 5.6% on the same period last year. "In May 2010, Sydney Ports saw the eighth consecutive month of record container throughput, reaching over 152,500 TEUs (twenty foot equivalent units). This is an increase of 7.9% on the same month last year," Mr McLeay said. "China represented over 60% of all volume into and out of the port and new services are being established by companies eager to capitalise on this surging demand between Australia and China." Mr McLeay said the recent arrival of COSCO's largest new container vessel, the Tian Jin He, and the Yang Ming shipping line's YM Antwerp were further demonstration of the strong trade relationships. Another new line PO Shipping (POS) is entering the Australian market offering a fixed weekly schedule, marketed as the China Australia Express. The POS Sydney was on her maiden voyage at Port Botany, berthing at DP World Terminal on the

afternoon of June 29, 2010. In mid July another new vessel completed her maiden voyage as part of the Pacific International Line (PIL) fleet, the Kota Lumayan which will be deployed on the Sino Australia Service.

## FIVE COMPANIES TENDER FOR PORT CHARGE COLLECTION

A shortlist of five companies is set to tender for the right to collect the Victorian Government's Freight Infrastructure Charge at the port of Melbourne. Acting Ports Minister, Peter Batchelor, said the five companies were identified after an expressions of interest process that began in April. The five companies were ConnectEast, ConnectEast/1-Stop Connections, Tenix Solutions, Transurban and VESystems. Mr Batchelor said the charge was aimed at making the port more efficient and sustainable. "It will encourage greater efficiency and utilisation of freight vehicles in the port precinct in response to the rapidly-growing container freight task," he said. Mr Batchelor said there would be more meetings with port shareholders to discuss the operation of the charge, which is expected to be implemented in the second half of 2011. The reaction of many stakeholders to the proposed charge has been negative.

## IA HIGHLIGHTS \$18.2BN OF KEY FREIGHT PROJECTS

Infrastructure Australia has identified more than \$18.2bn of port, rail and road projects deemed to have met its stringent criteria, including those able to strengthen the economy and clear export bottlenecks. The updated list of infrastructure priorities — worth more than \$80bn, with many projects not yet costed — sets out a path to make Australia's international gateways competitive and develop a national freight network. Infrastructure Australia has prioritised \$5.3bn of port projects, a figure that does not include the Oakajee port development north of Geraldton. The rail sector has almost \$2.9bn of projects earmarked as priority, although several projects in New South Wales and the Mt Isa-Townsville and East-West rail corridors are not included in that number. More than \$10bn of projects were identified for the road sector. New South Wales (\$8.2bn), Queensland (\$4.8bn) and South Australia (\$2.6bn) top the list of states in most need of funding for such projects, though several major projects were not included in the figure. Federal Transport and Infrastructure Minister, Anthony Albanese, said the list only included projects that had been "rigorously assessed as having real merit or significant potential". These proposals included the requirement that port plans have a 20-year horizon, that buffer zones be created around freight corridors and sites and that further investigation be carried out into sharing port information.

## INITIAL MAXIMUM PAYMENT UNDER EXPORT MARKET DEVELOPMENT GRANTS SCHEME FOR 2009/10 GRANT YEAR

The Export Market Development Grants (EMDG) scheme, administered by Austrade, assists small and