

Industry Update

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Inside This Issue

- 1 KWE Receives Supplier Excellence Award from TI
- 2 Establishment of a Joint Company in Russia
- 3 Opening of the "Shanghai TWELVE Express"
- 3 Aramco Appoints KWE as New Logistics Provider
- 4 Air France Cargo-KLM Cargo Introduces New Fuel Surcharge Mechanism
- 4 Japanese Exports Shrink
- 5 KWE (U.K) Exhibits at the Farnborough-Air Show
- 6 North American Surface Trading Breaks Record
- 6 Panama Canal Wait Time Up in Third Quarter
- 7 CARB Presses on with Emission Rules
- 7 CBSA and US CPB Sign Mutual Recognition Arrangement
- 8 Carrier News
- 8 KWE U.K - Active Expansion of Products Handled
- 9 Continuing Shortage of Ocean Containers
- 9 Holidays

KWE Receives Supplier Excellence Award from TI

In recognition of superior performance, Texas Instruments (TI) recently honored KWE with its prestigious 2007 Supplier Excellence Award (SEA). KWE was one of only fifteen suppliers selected for this award from across TI's worldwide supplier base of over 14,000 companies.

Since 1983, TI has honored businesses that provide exemplary service through the SEA program. Given annually, the awards are a key vehicle for communicating TI's standards and expectations for suppliers as it strives to deliver solutions and service that help solve problems integral to customer success.

In 1998, TI refined its judgment criteria into 6 specific categories, collectively referred to by the acronym "CETRAQ". These are: Cost, Environmental Responsibility, Technology, Responsiveness, Assurance of Supply and Quality. Suppliers are regularly reviewed and evaluated under these six categories, and those consistently meeting and exceeding required standards are eligible for selection based upon actual results over the past three years. For KWE, these results included high marks in such specific areas as "Appropriateness of Transport Costs" and "High Quality Transport Time Management."

KWE commenced international airfreight handling operations in 1968, the same year that TI established its first Japanese registered company. Since that time, KWE has grown into a global service provider with operations on six continents, with expanded operations providing air, ocean and logistics services to all commercial centers on the globe.

Mr. Rob Simpson, Worldwide Procurement & Logistics Vice President, personally presented the SEA award plaque to Mr. Tsujimoto, KWE President, at the SEA award ceremony held on June 24 in Tokyo, Japan.



Establishment of a Joint Company in Russia

KWE and South Korea's Unico Logistics Co., Ltd. ("UNICO") will establish a joint venture company to provide trucking services to meet strong demand for truck transport centering on major South Korean conglomerates that have established plants and other business sites in Russia.

【Outline of the Joint Company】

1. **Company Name:** **Kintetsu-Unico Logistics LLC**
2. **Head Office:** Moscow, Russia
3. **Capital:** Paid in capital in rubles of an amount equivalent to 1,200,000 Euro (Approx. 200 million yen)
4. **Investors/Investment Ratio:** KWE 50%, UNICO 50%
KWE and UNICO will each invest 600,000Euro (Approx. 100 million yen)
5. **Directors:**

3 Directors From KWE

Joint Company President: Mr. Jaap Oosterling
 Director: Mr. Hirokazu Tsujimoto
 Director: Mr. Shinya Aikawa

3 Directors From UNICO

Director: Mr. H.J.Park / UNICO Korea
 Director: Mr. S.J.Kim / UNICO Korea
 Director: Mr. Lev Orkin / UNICO RUS
6. **Business:** Truck transport within Russia, as well as to Russia and other CIS countries. Fleet deployment of 20 company owned large scale trucks (with GPS) and chassis. for those trucks.

Major transport routes planned are as follows:

 - * Finland – Moscow
 - * Kiev – Moscow
 - * Slovakia – Moscow
 - * St. Petersburg – Moscow
7. **Date of Establishment:** September 1, 2008 (Planned)

【Outline of UNICO】

1. **Company Name:** Unico Logistics Co., Ltd.
2. **Head Office:** Seoul, South Korea
3. **Representative:** Mr. H.J.Park, President&CEO
4. **Establishment Date:** November 2002
5. **No. of Employees:** 200
6. **Business :** Exclusive agent for Russia's JSCO Trans Container in South Korea and China. Deals with major blue-ribbon South Korean corporations in the sale of services related to transport utilizing TSR (Trans-Siberian Railway) for export of goods from South Korea and China to Russia and other CIS countries.

The new joint company is aimed to increase sales in the truck transport business within Russia as well as to Russia from other CIS countries focusing on major South Korean corporations.

KWE Russia Information : http://www.kwe.co.jp/en/service/russia_india/index.html



Opening of the "Shanghai TWELVE Express"

Starting August, KWE will commence the "Shanghai TWELVE Express," an ultra express delivery service that can deliver cargo from Japan to a consignee within the Shanghai metropolitan area in as little as 12 hours.

In addition, KWE has launched the "Shanghai TWENTY-FOUR Express," a service that provides express delivery within 24 hours of receipt of cargo from the Tokyo Metropolitan area or Kansai region.

The features of these new services are as follows:

- KWE, by delivering a single ULD unit to an airline company, is able to load cargo received by 6 a.m. at its Narita Terminal facility onto a direct flight departing before noon to Shanghai Pudong International Airport.
- KWE will perform expedited customs clearance through its local import department for cargo arriving at the Shanghai Pudong International Airport in the afternoon, and complete the delivery to the consignee with the Shanghai metropolitan area including Suzhou, Hangzhou and Wuxi by the same evening. (12-hour service)
- For cargo received in the evening, KWE Japan operates night customs clearance and utilizes the following morning's first available flight, completing delivery to Shanghai via Shanghai Pudong International Airport that evening. (24-hour service)
- For the Kansai region, cargo delivered in the evening to any KWE cargo centers within Osaka, Kyoto or Kobe is forwarded by KWE domestic trucking to our Narita Terminal by 6 a.m. the following morning. After early morning customs clearance, the cargo is immediately placed on a morning flight to Shanghai Pudong International Airport.
- These services will greatly reduce the previous 2 to 4 day via door-to-door transit times.
- As KWE's airline partners also specialize in heavy-cargo transport, the handling of large size cargo is also possible.
- Commencement of The "24-hour service" for the Tokyo metropolitan area was in mid July, and the service for the Kansai region will start the beginning of August. The "12-hour service" for the Tokyo metropolitan area will also commence at that same time. These services will initially be available from Monday to Friday with 5 flights per week.

Although these new services initially focus on transport of small items such as samples requiring high-speed delivery, KWE plans to expand them to general cargo and heavy-weight cargo transport.

Aramco Appoints KWE as New Logistics Provider

Aramco Overseas Company B.V. (AOC), has appointed KWE as its new logistics service provider. The four year contract, which was signed by AOC's Acting Managing Director Sultan Al-Ghadery and KWE Managing Director Mr. Shinya Aikawa on February 26, was effective as of March, 16, 2008.

AOC is affiliated with the Saudi Arabian Oil Company (Saudi Aramco), the national oil company of the Kingdom of Saudi Arabia. Headquartered in Saudi Arabia's Eastern province of Dhahran, it is a global petroleum enterprise and a world leader in exploration, producing, refining, distribution, shipping and marketing.

AOC has offices in the Netherlands, United Kingdom, Italy, China, Japan, Singapore and Malaysia. To provide AOC with products to support these operations KWE opened four logistics warehouses covering the European and Asian territories with locations in Amsterdam, Milan, London and Japan.

KWE Japan (Shinbashi branch) operates as the control center for all Asia shipments and KWE Amsterdam is the control center for all EU shipments.

Air France Cargo-KLM Cargo Introduces New Fuel Surcharge Mechanism

In order to adjust to the rising price of jet fuel and the EUR-USD exchange rate, Air France Cargo-KLM Cargo has decided to introduce a new fuel surcharge mechanism to replace the mechanism introduced in 2000.

The new mechanism will take into account the current realities of key external parameters and introduces several amendments requested by their customers.

The main changes are:

Flight distance	The new mechanism stipulates fuel surcharge levels for three distance zones, thereby taking into account respective fuel-burning patterns.
USD as a basis	USD will serve as the basis for the new mechanism. The three new fuel surcharge levels in USD will be converted to EUR and other local invoicing currency, based on existing exchange rates. Also, in the event of future increases or decreases, existing exchange rates will be used to determine the new fuel surcharge levels, resulting in equal levels irrespective of currency.
Partial incorporation in freight rates	The fuel cost will be partly incorporated in the freight rate. The amount added to the freight rate is the difference between the new fuel surcharge level (according to the zone) and the applicable fuel surcharge level per country. The new mechanism will therefore not lead to a change in the all-in rate (freight rate + fuel surcharge) but will only change the relative proportion of freight rate and fuel surcharge.
Stability	In order to increase stability and prevent changes due to short-term peaks, a monthly moving average will be used for the jet fuel price. In addition, fuel surcharge increases/decreases will now be implemented in steps of 10 USD cents instead of 5 USD cents.

The new mechanism will take effect on September 1, 2008. Please visit www.afklcargo.com for more details.

Japanese Exports Decline

Japan's exports to the rest of the world declined in June for the first time in more than four years as shipments to the U.S., its largest export market, plummeted.

According to preliminary figures released by the Finance Ministry on Thursday, Japan's overall exports declined by 1.7 percent in June from the same month of 2007 to 7.2 trillion yen (about \$66.4 billion), while Japan's imports increased for the ninth month in a row in June, rising by 16.2 percent to a record 7.0 billion yen. That increase was largely attributed to soaring oil prices.

As a result, Japan's trade surplus with the rest of the world shrank for the fourth consecutive month, diving by 88.9 percent to 138.6 billion yen (\$1.3 billion).

The monthly decline in exports was the first since November 2003. Shipments to the U.S. fell for the 10th consecutive month, this time by 15.4 percent to 1.3 trillion yen (\$11.4 billion) amid a slowdown in the U.S. economy. The export decline in June was driven by sluggish auto shipments.

Japan's imports from the U.S. increased for the first time in four months in June, growing by 10.7 percent year over year to 783.6 billion yen (\$7.3 billion). As a result, Japan's trade surplus with the U.S. shrank for the 10th consecutive month, to 444.4 billion yen (\$4.1 billion), the smallest monthly amount since May 2001.

For the first six months of the year, Japan's trade surplus with the rest of the world declined by 42.1 percent, to 3.0 trillion yen (\$27.4 billion), as imports grew at a faster pace than exports. Japan's trade gap with the U.S. in the first half also contracted, by 17.2 percent to 3.4 trillion yen (\$31.5 billion).

KWE (U.K.) Exhibits at the Farnborough-Air Show

Kintetsu World Express (U.K.) Ltd, was recently featured in an exhibit at the annual Farnborough Air-Show, held from July 14 to 20, 2008. KWE took advantage of this major aerospace industry event to increase the visibility and recognition of our cargo handling programs and operations for the aerospace industry.

The Farnborough Air-Show, held in this town in southern England, ranks behind only the Paris-Air Show, as Europe's second largest aerospace industry showplace. Farnborough is recognized as an annual focal event for companies involved in all aspects of the aircraft business, attracting aerospace industry participation from all over the world, including both the civilian and military aircraft industries.

Among the KWE group companies, KWE (U.K.) is noted in particular for the significant amount of aerospace industry related cargo that it handles. KWE U.K. provides services to a wide range of customers, including both Japanese and other international airline suppliers and companies, as well as aircraft engine makers.

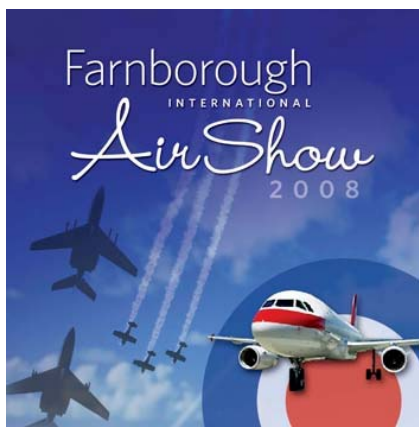
In addition to the above, KWE (U.K.) satisfies customers needs through a comprehensive range of other services. Among those services is the transport of mass-production aircraft parts from Japan and the transport and re-positioning of engines and critical maintenance related parts.

In support of KWE U.K.'s commitment to further strengthen its aerospace industry involvement and market share, beginning in April this year KWE (U.K.) has expanded our staff of specialists in the area of handling and transport of aerospace related cargo.

Furthermore, in June this year KWE became the first Japanese-based company to be certified by the SBAC (Society of British Aerospace Companies) as an **"Aerospace Logistics Provider"**. As a result of that accreditation, KWE (U.K.) is authorized to conduct expanded wide-range sales and operations activities targeting the European aerospace industry, encompassing companies other than those with Japanese-based distribution networks.

Within its Phase III Medium Term Management Plan, KWE has set the following as a central tenet: *"Expansion and Diversification of the Range of Items Handled"*. A core element in this strategy is expansion of the amount of aerospace industry related freight handled.

This was a driving force behind KWE's desire to participate in the Farnborough exhibition. KWE actively continues our efforts to increase sales in the field of aerospace related freight forwarding and distribution.



North American Surface Trading Breaks Record

Surface trade between US, Canada and Mexico reached a monthly record high in April, according to the Bureau of Transportation Statistics (BTS). The BTS, a part of the US Department of Transportation's Research and Innovative Technology Administration, reported that trade using surface transportation between the US and its North American Free Trade Agreement (NAFTA) partners Canada and Mexico was 14.3% higher in April 2008 than in April 2007, reaching \$74.3 billion, the highest monthly level ever recorded.

The BTS reported that the value of North American surface trade in April topped the previous monthly high of \$74.2 billion in October by 0.1%. The value of US surface transportation trade with Canada and Mexico rose 5.0% in April from March. Surface transportation consists largely of freight movements by truck, rail and pipeline. About 88% of US trade by value with Canada and Mexico moves on land.

The value of U.S. surface transportation trade with Canada and Mexico in April was up 58.7% compared to April 2003, and up 91.8% compared to April 1998. Imports in April were up 106.0% compared to April 1998, while exports were up 75.8%. US-Canada surface transportation trade totaled \$48.9 billion in April, up 15.4% compared to April 2007. The value of imports carried by truck was about 1% higher in April 2008 than April 2007, while the value of exports carried by truck was 13.1% higher. Michigan led all states in surface trade with Canada in April with \$6.4 billion.

Panama Canal Wait Time Up in Third Quarter

The waiting time for passage through the Panama Canal increased significantly in the third quarter ended June 30. According to the fiscal third-quarter data released today by the Panama Canal Authority, the total number of ships and the tonnage they carried increased slightly. Average Canal Waters Time (CWT), the time it takes a vessel to transit the Canal, including waiting time, rose 56.3 percent in the third quarter, increasing to 38.31 hours from 24.50 hours in the same quarter a year ago. CWT for booked vessels (those ships holding reservations) increased 19.5 percent, from 16.55 hours in 2007 to 19.77 hours.

The authority attributed the increase to a surge in arrivals within the waterway's February-May peak season, coinciding with maintenance work at the Pedro Miguel and Miraflores Locks. Weather conditions and the mix in size of arriving vessels also contributed to delays.

Total Canal transits increased 2.5 percent during the quarter, to 3,821 from 3,726 a year ago. Booked transits (excluding slots auctioned off) rose 4.5 percent from 1,954 to 2,041.

Tonnage measured by the Panama Canal/Universal Measurement System also increased slightly, rising 0.9 percent from 76.5 million tons to 77.2 million tons.

Container ship transits decreased by 2.8 percent to 876 from 902. Tanker transits increased most significantly, up 9.1 percent from 536 to 585, while vehicle carriers increased from 192 to 194 transits.

The accident rate during the third quarter was 0.26 accidents per 1000 transits, down from 0.54 accidents per 1,000 transits in the prior-year quarter. An official accident is one in which a formal investigation is requested and conducted.



CARB Presses on with Emission Rules

The California Air Resources Board on Thursday approved regulations requiring vessel operators to burn low-sulfur diesel fuel rather than high-sulfur bunker fuel within 24 miles of the coast.

This is CARB's second attempt to regulate emissions from oceangoing vessels. A federal court last year struck down a similar regulation.

As it stands, regulating vessel emissions at California ports in order to reduce health risks has become primarily a jurisdictional issue, because many container ship operators voluntarily switch to low-sulfur fuel.

Even though the Pacific Merchant Shipping Association successfully challenged the previous CARB ruling in court, the PMSA advised its shipping line members to voluntarily switch to low-sulfur fuel as the vessels approach the coast. The association had sued primarily to challenge the authority of California to regulate vessel operations beyond the generally accepted boundary of three miles for all states.

In addition, the shipping industry prefers that ports worldwide adhere to a single, unified standard. The International Maritime Organization in March 2010 will implement amended regulations that will reduce vessel emissions at ports in most of the major trading nations. The U.S. is now a signatory to the IMO Annex VI regulations.

California continues to push its own regulations in order to speed the process and reduce health risks in the heavily populated coastal zones. CARB will require the use of fuel with a sulfur content of no more than 0.5 percent beginning on July 1, 2009. The sulfur limit will be reduced to 0.1 percent on Jan. 1, 2012.

CARB estimates that the rules will add \$30,000 per voyage to a vessel operator's fuel bill. That translates to about \$6 per container.

Although CARB's previous rule was struck down, the agency believes it has rewritten its regulation so that it will comply with federal requirements under the Clean Air Act by limiting the new regulation to a fuel-only standard. The issue of state jurisdiction beyond three-miles could be challenged, however.

CARB has indicated that it would suspend its rule if the IMO or federal EPA enforces regulations that are at least as strict as the California requirements.

CBSA and US CPB Sign Mutual Recognition Arrangement

The Canadian Trucking Alliance (CTA) is endorsing an announcement from the Canada Border Services Agency (CBSA) and US Customs and Border Protection (CBP) that the two parties have signed a mutual recognition arrangement covering the departments' respective supply chain security programs: Partners in Protection (PIP) and the Customs-Trade Partnership Against Terrorism (C-TPAT). The June 28 signing follows months of discussion between CBSA and business groups, including CTA, on ways to bring PIP into line with the more stringent C-TPAT program in the US.

Carriers that were members of the PIP program before June 30 will have six months to re-apply to the re-vamped program. The fleets will be required to complete a security profile, which will be reviewed by CBSA, according to a release from the CTA. A follow-up site validation may be required, but CBSA has indicated that this step may not be undertaken if a C-TPAT validation has been carried out within the past two years. Ultimately, carriers will be required to sign a memorandum of understanding with CBSA that sets out the roles and responsibilities of the respective parties.

Carb estimates that the rules will add \$30,000 per voyage to a vessel operator's fuel bill. That translates to about \$6 per container.

Carrier News

- **Air Canada** has slashed its Vancouver-to-Beijing/Shanghai service from 14 flights a week to seven as the airline cuts costs in response to record fuel prices. From October 26, it will fly from Vancouver to Beijing three times a week and from Vancouver to Shanghai four times. It currently offers a daily service to both Chinese cities.



- Pilots at German airline **Lufthansa** went on strike to press their pay claims, severely disrupting flights from Frankfurt, Europe's second busiest airport. The 12 hour walkout— the first in the airline's history — led to the cancellation of 75% of 500 planned flights, affecting 30,000 domestic and international passengers.

More than 96% of Lufthansa's 4,200 union pilots had voted for the strike, and the union warned management that a series of 24-hour walkouts was likely unless it improved its offer.

Other European airports were only slightly affected.

According to a study commissioned by the airline and the union, Lufthansa pilots earn about a third less than their peers at other European carriers. Pilots say they took a 30% pay cut 10 years ago as part of restructuring when the airline was in financial trouble. The pilots walked out of talks with the management in early April after Lufthansa offered wage increases of between 10% and 16% with profit sharing. Analysts estimated the 12-hour strike would cost Europe's second biggest airline after British Airways between 10 million and 12 million euros. Lufthansa would not comment.



- **Cargolux Airlines International** announced it recently took delivery of its last Boeing 747-400 freighter, the City of Contern, at a ceremony in Seattle. The aircraft is the 16th 747-400 freighter that the Luxembourg-based cargo airline has bought from Boeing.

KWE U.K - Active Expansion of Products Handled

Kintetsu World Express (U.K.) Ltd., established in 1985, has grown into a company with over 130 employees. Through KWE U.K. operations sites and the 3 locally established warehouses, KWE performs air and ocean freight import and export operations, as well as a comprehensive range of distribution services. In line with the accelerating pace of plant relocation by manufacturers to eastern Europe, KWE U.K. has focused on the handling of home appliances and electronic components.



KWE UK is aggressively expanding the range of commodities handled, and is receiving orders from major automotive manufacturers for both the transport of parts as well as warehousing and inventory management. In addition KWE UK has recently become involved in the bulk export, by air, of Scotch whisky. The further expansion of KWE's business lines includes acquisition of business from locally established companies involved in the manufacturer of airplane parts.

Continuing Shortage of Ocean Containers

Industry sources report a serious shortage of ocean containers at many US ports. The shortage is the result of the imbalance in the flow of, and demand for, ocean imports and exports. The devaluation of the USD has led to a surge in US exports at the same time that import demand is weakening. In addition, the shortage of containers at high-demand Ports necessitates the re-positioning of containers from ports with reduced-demand which may have a container surplus.

The extremely high cost of repositioning those containers is escalating shipping costs. Due to these factors KWE recommends that all ocean shippers plan and book a minimum of 4 to 6 weeks in advance for ocean consignments.

UPDATE : Bunker Adjustment Factor (BAF) Inland Fuel Charge (IFC)

Notice of fuel surcharge increases by ocean carriers for export shipments. There are two separate charges. One is the standard **Bunker Adjustment Factor (BAF)**, which it is for ocean sectors. The second is a new **Inland Fuel Charge** being assessed due to continue rising fuel costs in the USA for intermodal (truck & rail) sectors. These two increases will be effective **Aug 01 – Aug 31, 2008**.

	<u>EBAF:</u> Eastbound (to USA)	Westbound (from USA)
20' container	USD1012.00	USD1012.00
40' container	USD1265.00	USD1265.00
40' HQ container	USD1423.00	USD1265.00
45' container	USD1581.00	USD1265.00

IFC:

Inland transported by truck: \$134 per container

Inland transported by truck and rail combination: \$464 per container

Should you have any questions or require further clarification on the above increases please contact your local KWE office or your account executive.

Holiday Schedule – August 2008

4	August	August Bank Holiday – Ireland
9	August	National Day – Singapore
15	August	Independence Day - India
15	August	Liberation Day – South Korea
15	August	Assumption Day - Germany
21	August	Ninoy Aquino Day – Philippines
25	August	National Heroes Day – Philippines

Recently we have been seeing announcements from several carriers regarding pending Fuel Surcharge increases. The continued fluctuations of the global barrel prices are the driving force behind these actual and anticipated increases. KWE will continue to monitor the situation and provide updates as soon as more specific information is available. If you have any questions, please feel free to contact your local KWE office or Sales representative