

Industry Update

December 2008



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KWE France Office Relocation

KWE is pleased to announce the relocation of KWE France Headquarters and Roissy CDG operations (air and ocean, import / export) to new facilities in the International Business Park CDG Airport.

Office Information:

KWE Roissy CDG
Paris Nord 2
294/296 Avenue du Bois de la Pie
BP 64077 – Roissy en France
95973 Roissy Charles De Gaulle Cedex
France

Contact phone and fax numbers remain the same:
Tel: + 33 1 41 84 33 33 / Fax: + 33 1 41 84 33 45

Description of our new facility:

- Modern state-of-the-art quality building
- Electronic access control at gates
- Security Card access control at all points of entry and exit
- 24 hours camera security throughout the facility
- Easy accessibility for customers and partners
- Location is close to all airport facilities

KWE France relocated its HQ and CDG operations in response to:

- Desire to provide an enhanced worker-friendly environment affording KWE staff improved working conditions
- The desire for better organization and communication among the Administration, Finance, IT, Sales and Operations departments.
- Need to accommodate the growth of KWE France
- Enable KWE France to provide even better service and support to our customers

KWE France HQ's new office will provide an excellent business environment, enabling us to provide even better service to all our valuable customers.



New Service for KWE Russia

KWE Russia is pleased to announce that as of November 2008, 20 new trucks have been added to the 40 KWE-owned trucks already in service in the Russian market.

This additional service is to meet the growing demand for:

High Quality

- Brand new trucks
- Hiring drivers by ourselves and educating them to fit our high standards for customer service

Traceability

- Each truck will be equipped with GPS for easy and precise tracking

Capability

- Secures the trucks according to client's orders
- An average of 140 trips/month from Finland-Moscow is expected with this added service

KWE Russia will continue to improve and expand our business and transportation capabilities in order to provide better service to all of our customers.

Japan Ship Orders Fall

Japan received orders for export ships totaling 571,810 gross tons in October, down 83.9 percent from the same month a year ago, according to figures released by the Japan Ship Exporters' Association.

The sharp decline in export orders received by Japan, one of the world's top shipbuilding nations (along with South Korea and China), comes as demand for new ships weakens due to the fallout from the global financial crisis.

Japanese shipbuilders received orders for 11 ships in October -- seven bulk carriers, three oil tankers, and one general cargo vessel.

Japanese shipbuilders received orders for a total of 288 ships -- 244 bulk carriers, 29 oil tankers and 15 general cargo vessels -- between April and October, the first seven months of fiscal 2008.

The 288 ships totaled 12.6 million gross tons, down 19.6 percent from the previous-year period.

In fiscal 2007 ending in March this year, Japan received orders for a total of 576 ships -- 468 bulk carriers, 71 oil tankers and 37 general cargo vessels totaling 2.5 million gross tons. Combined gross tonnage in fiscal 2007 was 27.4 million tons, up 24.3 percent from fiscal 2006.



East Coast Ports Feel Pressure from Mega-ships

East Coast ports are looking to the expansion of the Panama Canal in 2014 with a mix of fear and optimism.

While it is generally accepted that the expanded canal's ability to accommodate the new generation of mega-ships will make East Coast ports more competitive in attracting imports from Asia, only those ports that offer deep channels and the most efficient marine terminal operations will cash in on the cargo bonanza.

Port executives are already feeling the pressure. Politically-oriented harbor commissions are promoting their ports as East Coast load centers, but port executives are wary about making large investments in dredging and terminal expansion projects for a boom in cargo that will not materialize if they don't make the cut.

On the other hand, East Coast ports that could become major gateways for Asian imports must begin the necessary engineering and environmental studies now because it can take a decade or longer for a terminal project to move from conception to completion.

Since many ports are self-financing, it is risky to make a large financial commitment at a time when cargo volumes and revenues are down.

Norfolk, Va., today is the only East Coast port that can accommodate the 8,000-TEU ships fully-loaded that will most likely become the vessels of choice for all-water services from Asia in 2014, when the canal project is completed. Other East Coast ports will face costly dredging projects, and possibly opposition from environmentalists who believe that rapid growth leads to increased pollution.

The environmental battle that is being fought today in Los Angeles-Long Beach over clean trucks, trains and vessels will soon find its way to the East Coast, yet ports have no failsafe color chart that tells them just how green they must be.

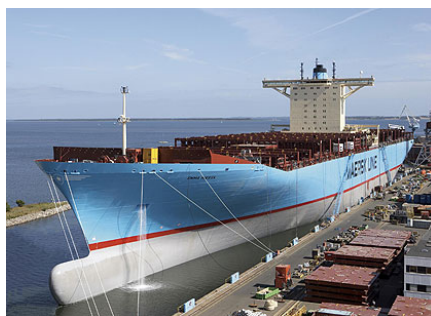
The ability of marine terminals to efficiently work mega-ships is also a big question mark. Terminal operators in LA-Long Beach had to make significant adjustments to their vessel, yard and gate operations when the 8,000-TEU ships arrived several years ago.

Likewise, rail and truck carriers grappled with congestion and capacity issues caused by mega-ships unloading 3,000 to 4,000 containers in a single call.

Most United States ports operate far below world-class standards, leaving carriers reluctant to deploy their biggest ships in the U.S. trades.

Vessel operators limit their mega-ships to one or two calls in a coastal range. They prefer to call at load centers where at least half of the cargo is destined for a population within a day's drive of the port.

East Coast ports that hope to attract 8,000-TEU ships will have to perform better than LA-Long Beach. Marine terminals there take more than three days to turn an 8,000-TEU vessel when it should take half that time.



Japan's US Exports Experience Sharp Decline

Japan's exports to the United States fell for the 14th consecutive month in October, declining by 19 percent to \$12.7 billion. This marks the fifth straight double-digit monthly decline.

According to preliminary figures released today by Japan's Finance Ministry, imports from the U.S. fell for the first time in three months, by 11.1 percent to \$7.3 billion. Japan's trade surplus with the U.S. shrank for the 14th month running, by 27.5 percent to \$5.4 billion. Overall exports declined in October at their fastest pace in nearly seven years as economies in major markets, including Asia, the U.S. and Europe, weakened due to the fallout from the global financial crisis.

Exports in October fell for the first time in four months on a year-on-year basis, declining 7.7 percent to 6.926 trillion yen (\$72.6 billion). The pace of decline was the largest since a 14.5-percent drop in December 2001. Exports to the Asia region also decreased for the first time since early 2002.

Imports grew for the 13th month in a row in October, by 7.4 percent from a year earlier to \$73.3 billion. But import growth fell to a single-digit pace for the first time in five months, reflecting a slide in crude oil prices, among other factors.

As a result, Japan posted a trade deficit of \$669.7 million in October, the first monthly gap in just two months but the first October shortfall in 28 years.

Exports to the European Union decreased 17.2 percent to \$9.9 billion in October, their fastest decline since December 2001.

Exports to the rest of Asia, including China, also dropped in October for the first time since February 2002, declining 4 percent to \$35.5 billion. Exports to China declined for the first time since May 2005, dipping 0.9 percent to \$12.2 billion.

China Struggles in Medical Supply Chains

China faces challenges in the management and transportation of clinical trial materials.

The pharmaceutical industry in China has maintained sustained growth with the government prioritizing the biotech and pharmaceutical sectors.

The increasing global costs of R&D (research and development), coupled with decreased productivity, has led multinationals to outsource their clinical trials to China and other developing countries.

Supply chain medicinal services are still not up to best-of-kind standards, with growing numbers of third-party service providers, low-tech facilities and high costs.

Pharmaceutical storage conditions vary greatly across the board. In addition there is still limited understanding in China of international GMP (good manufacturing practice) standards.

Statistics show that the cost of distribution of pharmaceutical products in China is around 12% while the profit yield is about 1%. In more advanced economies, distribution costs are around 3% with profit yield at 1.5%.



Demand for Trucking Expected to Increase Late 2009

By late 2009 the demand for trucking services is expected to outweigh supply.

The prediction among carriers is that trucking rates, which have been hammered over the past 18 months, will rebound as the North American economy begins recovery late next year.

The current downturn has decimated the industry, wiping many small – and some not so small – trucking companies out of the market. Sky-high diesel prices and reduced freight demand, especially in north-south lanes, has taken its toll. Most carriers experienced softer freight demand in 2008, though, like the overall economy, some sectors of the industry, and some regions of the country, have been harder hit. Regardless of area of operation all carriers faced a major challenge this year with sky-rocketing diesel fuel prices and a slowing economy. Obviously, the appreciation in the value of the Canadian dollar and slump in the US economy continued to have a profound negative impact on the Central Canadian economies and correspondingly on the volume of freight. This trend was especially visible in the volume of freight southbound to the US, which had been the underpinning of industry growth for the past 20 years.

Carriers have been reducing their fleet sizes, getting rid of trucks and not replacing them with new units. Many trucking companies have left the market; either because they decided they'd had enough, they couldn't get sufficient credit, and/or they went bankrupt. Tighter credit has also made it more difficult to enter the marketplace. While there will continue to be tough sledding in 2009 – reflecting current global economic concerns, and, as always, punctuated by a chronic long-term labor shortage – trucking services capacity is expected to be that much lower when demand begins to recover.

The price of diesel fuel is still extremely high compared to where it was just a couple of years ago, and is subject to wide day-by-day fluctuation. The industry still needs fuel surcharges until the market stabilizes.

Taiwan-China to Boost Transportation Links

Top officials from Taiwan and the China mainland have signed agreements on daily direct flights and new cargo routes, as well as direct ocean traffic between the two.

The two sides agreed to begin direct air and sea cargo shipments, open postal links and notify each other quickly of any food safety issues.

Negotiators agreed to allow 60 cargo flights a month, the first time that goods will be able to travel directly between Taiwan and the mainland.

The mainland will open 63 ports for direct shipping links, with Taiwan to open 11 ports.

Meanwhile, shipping and ports operator China Cosco Holdings has suggested that Taiwanese and mainland shipping companies be allowed to invest in pier and logistics centers on either side of the Taiwan Strait to boost cooperation between the two sides.

The suggestion was made by China Cosco's executive vice-president, who attended a closed-door industry forum held after Taiwan and the mainland had signed the agreements boosting transport links.



NAFTA Trade Volumes Increase

Despite the economic slowdown affecting trade in North America, U.S. freight shipments with Canada and Mexico increased 4.9 percent from \$866 million to a record \$909 billion in 2007 and, as the problems deepened, have risen further this year, according to the Department of Transportation's Bureau of Transportation Statistics.

Two-way trade volumes between the U.S. and Canada and the U.S. and Mexico reached nearly 606 million tons in 2007.

Total trade with Canada totaled \$562 billion in 2007, up from \$534 billion in 2006. Trade with Mexico, at \$347 billion, increased from \$332 billion.

Trucking carried 61 percent of the 2007 freight by value, at \$555 billion. Rail carried \$138 billion in goods exchanged, maritime, \$74 billion, pipeline, \$59 billion, and air, \$38 billion.

Trade grew as economic problems deepened in 2008. The latest BTS statistics showed surface trade worth \$72.3 billion in August, up 4.5 percent on-year. Surface trade for the first eight months of the year reached \$571.8 billion, up from \$525 billion.



OECD Forecasts Deepening Recession

The 30-member Organization for Economic Development is forecasting the most serious recession among developed countries since the early Eighties.

In the latest Economic Outlook, Gross Domestic Product in OECD countries is expected to fall by an average of 0.4 percent in 2009 before rising slowly to 1.5 percent in 2010. The GDP of the overall OECD group declined 0.1 percent in the third quarter of 2008, the first drop in seven years.

The U.S. GDP is projected to grow 1.375 percent in 2008 but decline 0.91 percent next year, then grow 1.79 percent in 2010.

France, Germany and the United Kingdom are all projected to show negative growth in 2009, after registering growth of less than 2 percent growth in 2008. Germany's growth rate will register 1.38 percent in 2008, but fall by 0.75 in 2009, before growing by 1.17 percent in 2010.

The GDP in France will grow 0.926 percent in 2008 but decline by 0.365 percent in 2009, and then expand 1.5 percent in 2010.

Among leading developing countries, China's GDP growth is projected to drop from 9.5 percent in 2008 to 8 percent in 2009 but then recover to 9.2 percent in 2010. Russia's growth will drop from 6.5 percent in 2008 to 2.3 percent in 2009, and then recover to 5.6 percent in 2010.

The total number of unemployed in OECD countries is expected to rise to 42 million by 2010 from 34 million today.

Inflation is expected to diminish among all OECD nations.

UN Calls for Worldwide Stimulus Packages

The United Nations called for governments around the world to undertake massive stimulus packages in order to deal with the impact of a global economic downturn.

In a new report the world body's economists forecast that the dollar and world per capita income will continue to drop in 2009. The report predicts that export growth and capital inflows will decline, and borrowing costs for developing countries will increase in 2009.

The Global Outlook Report calls for massive economic stimulus packages that are coherent and mutually reinforcing on a global basis, and linked with sustainable development imperatives. This is in addition to the liquidity and recapitalization measures already undertaken by countries in response to the economic crisis.

The report also proposed stronger regulation of financial markets and institutions, adequate international liquidity provisioning, an overhaul of the international reserve system and a more inclusive and effective global economic governance, to prevent against any future repetition.

According to the report, output of developed countries will decline 0.5 percent, compared with an average growth rate of 5.3 percent in emerging economies and 4.6 percent growth in developing countries.

Overall global growth will probably not exceed 1 percent in 2009, compared to 2.5 percent in 2008, and rates varying between 3.5 and 4 percent in the four previous years.

In the U.S. GDP growth will decline by 1 percent, the euro zone will drop by 0.7 percent and Japan by 0.3 percent. Growth in India, Brazil and Mexico are projected to reach 7 percent, 2.9 percent and 0.7 percent.

FDA to Open Food Safety Offices in China

The Food and Drug Administration (FDA) will open food safety offices in the Chinese cities of Beijing, Guangzhou and Shanghai to help ensure the safety of food products imported into the United States.

In an announcement, the FDA said its staff will provide technical advice to Chinese firms, and conduct its own inspections. The FDA will work with national and local authorities and with private groups, in an effort to develop safety certification programs.

Concerns over product safety has been growing since contaminated milk and pet food and other tainted products were traced back to China last year.

In 2007, Washington and Beijing signed an agreement to share information, develop supply chain tracking systems for food products, and tighten food safety standards.

Critics said a major challenge is that a large portion of food exports come from small companies that operate in antiquated facilities, and lack the money to implement higher health standards. Many small factories are located in smaller cities, where they are more difficult for authorities to monitor.



Carrier News

- **British Airways** plans to raise its flight frequencies on the Shanghai-London route to meet rising demands.

BA plans to raise its operations on the route from the current five flights to six weekly flights by the end of 2008.

With the 2010 Shanghai World Expo and the 2012 London Olympic Games on the horizon, the carrier also intends to operate daily on the route in the near future.



- **Eva Airways**, Taiwan's second-biggest airline, announced it will start daily direct flights to mainland China next month amid warming ties.

The move, part of an expanded flight agreement across the Taiwan Straits, would allow Eva Airways to fly to the cities of Shanghai, Hangzhou and Shenzhen.

The increased flights come after top officials from Taiwan and the mainland signed agreements earlier this month on daily direct flights, new cargo routes and food safety during Beijing's highest-level visit in 60 years.

- **Yangtze River Express Airlines** has resumed service to the U.S. after nearly two years.

The cargo carrier is operating a converted 747-400 freighter from the company's Pu Dong Airport headquarters location to Los Angeles' LAX. Services commenced on Oct. 23 and include four weekly round-trip flights.

Yangtze River will take possession of another 747-400 aircraft in 2009 with an eye toward further operations expansion. The company plans to enter three other major U.S. markets and should announce the new destinations early next year.



- **Northwest Airlines Cargo** has invested \$7 million in weight-efficient LD3 cargo containers from Aerobox.

The carrier has replaced all of its 5,000 aluminum LD3s with the polypropylene containers. NWA Cargo is in the process of recycling the aluminum containers for scrap and investing the cash back into its business.

Weighing in at 149 lbs., the new LD3s are far lighter than their predecessors.

- **Hong Kong Air Cargo Terminals Limited** (Hactl) announced that Star Airlines Macedonia, a cargo carrier based in the Republic of Macedonia's capital of Skopje, has appointed Hactl as its total solution cargo service provider at Hong Kong International Airport.

Star Airlines – Macedonia launched its inaugural flight to Hong Kong on 9 November, commencing its once weekly chartered service between Istanbul, Almaty, Hong Kong, Sharjah, and Lagos.

UPDATE : Emergency Bunker Adjustment Factor (EBAF) Inland Fuel Charge (IFC) and Clean Truck Fee

Notice of fuel surcharge increases by ocean carriers for export shipments. There are two separate charges. One is the standard **Quarterly Emergency Bunker Adjustment Factor (EBAF)**, 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 **December 01 – December 31, 2008**.

	<u>EBAF:</u>	
	Eastbound (to USA)	Westbound (from USA)
20' container	USD616.00	USD616.00
40' container	USD770.00	USD770.00
40' HQ container	USD866.00	USD770.00
45' container	USD975.00	USD770.00

IFC:

Inland transported by truck: \$92 per container
Inland transported by truck and rail combination: \$317 per container

CTF:

The Clean Truck fee (CTF) that was to be assessed effective November 17, 2008 has been delayed pending resolution of outstanding regulatory issues.

KWE will keep you informed of any changes that may occur regarding this fee collection.

Holiday Schedule – December 2008

16	December	Day of Reconciliation – South Africa
19-20	December	BakrEid Holidays – UAE
20	December	Hari Raya Haji – Singapore
24	December	Christmas Eve – Same countries as those celebrating Christmas Day
25	December	Christmas Day – Canada, France, Germany, Hong Kong, Ireland, Italy, Korea, Singapore, South Africa, Switzerland, United States
26	December	The first weekday after Christmas day – Canada, Germany, Hong Kong, Ireland, Italy, South Africa, Switzerland
31	December	New Year's Eve – Same countries as those celebrating Christmas Day
1	January	New Year's Day – Canada, France, German, Hong Kong, Japan, Italy, Singapore, South Africa

Recently we have been seeing announcements from several carriers regarding pending Fuel Surcharge changes. The continued fluctuations of the global barrel prices are the driving force behind these possible and anticipated changes. 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