

Industry Update

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Air Cargo Traffic Increase For US Carriers in November 2009

This week, the Air Transport Association of America (ATA), an industry trade organization for leading US airlines, reported an overall 7% cargo traffic increase for November 2009.

In sharp contrast to prior months, US airlines saw cargo traffic, as measured in cargo revenue ton miles, grow 7% year over year (2% domestically and 11% internationally) in November 2009, driven primarily by increased international trade. This was the first observed increase in cargo traffic since July 2008 - December 2009 cargo data is not yet available.

However, US airline passenger revenue in December fell 4% versus the same month in 2008, which marks the 14th consecutive month in which passenger revenue declined from the prior year due to the combination of continued reduced passenger traffic and lower average ticket prices.

For the full year 2009, passenger revenue declined 18% compared to 2008, as a result of a 6% drop in passenger volume and a 13% drop in the average price paid to fly one mile, the largest annual decline on record, exceeding a 14% decline observed from 2000 to 2001.

Air Freight Growth Continues for Hong Kong

Evidence of heavy demand for air freight out of China is seen in the latest figures published by Hong Kong Air Cargo Terminals Limited (HACTL). November saw a year-to-year increase of 18.8% compared to the same month in 2008. However, over the first 11 months of the year tonnage was still down 11.6% compared to 2008. October saw an increase of 1.7% over 2008, and suggests a continuing recovery in volumes.

Imports lead growth with an 18% increase against 2008, with export increasing 15.3% and trans-shipment increase of 8.1%.

The continuation of this high growth rate is likely to exacerbate the shortage of capacity in the air -freight market. Since the middle of last year, shippers and freight forwarders have seen significant backlogs in shipments due to insufficient cargo space on aircraft. Airline response to the 2008 recession was an aggressive reduction in services, which has resulted in higher utilization rates, leading to sharp increases in rates, (which on some routes have doubled). The Chinese economy is the primary driver of this growth, and is triggering overspill of air cargo into neighboring countries, with freight being trans-shipped through Singapore, Thailand and Korea in order to satisfy demand.

Japan Airlines Begins Reorganization After Filing for Bankruptcy Protection

On January 19, Japan Airlines filed for one of the country's largest bankruptcies ever, entering a restructuring that will shrink Asia's top carrier and its presence around the world. Staggering under a \$25.6 billion debt mountain, the carrier applied for protection from creditors under the Corporate Rehabilitation Law — Japan's version of Chapter 11 — with the Tokyo District Court.

JAL will keep flying uninterrupted with the help of nearly \$11 billion in state support. Losses of 51 billion yen last year are expected to increase to over 250 billion yen for the financial year ending March 30. The projected losses are expected due to declining traffic and restructuring costs. JAL, which has almost 100 subsidiaries, will be forced to sell around half its assets. Lenders will forgive \$8 billion in debt, and JAL shares will be removed from the Tokyo Stock Exchange on Feb. 20, wiping out investors.

Japan's number two airline, All Nippon Airways, has said it is not interested in taking over JAL's international services. ANA is also struggling, and could lose 28 billion yen this year. International cargo volume grew for both carriers in November, but domestic cargo declined.

Delta Air Lines and American Airlines are interested in investments in JAL as a means of accessing Japan when an open skies deal is finally agreed between Japan and the US, expected later this year. Delta and its SkyTeam partners have offered \$1 billion, including \$500 million in cash to lure JAL away from American's oneworld alliance while American Airlines and its partners have offered \$1.4 billion for JAL to stay.

Transport Minister, Seiji Maehara, declined to comment on which U.S. carrier the government preferred and said it is "not in a position to force any partners on JAL." Delta is believed to be the option preferred by the Japanese government and JAL's senior management.

A state-backed turnaround agency pledged 900 billion yen (\$10 billion) in financial support for JAL — 600 billion yen in credit lines and a 300 billion yen cash infusion. The bankruptcy is the fourth-largest in Japan, according to figures from Teikoku Databank, which tracks corporate failures.

The day's events culminated a process that began in October when JAL — saddled with debts of 2.32 trillion yen (\$25.6 billion) — first turned to the Enterprise Turnaround Initiative Corp. of Japan for help. Under the prepackaged reorganization, it will embark on a massive overhaul to shed the fat and inefficiency that hobbled its finances.

The turnaround will involve 15,661 job cuts — a third of JAL's payroll — by March 2013. The carrier will cut 14 international routes and retire all 37 of its Boeing 747 jumbo aircraft and 16 MD-90s, which will be replaced by 50 small and regional jets. As of March, JAL's fleet consisted of 279 aircraft, mainly from Boeing Co. It served 220 airports in 35 countries and territories, including 59 domestic airports.



KWE Contributes to the Success of the IPM Essen Germany Trade Fair

For the third time KWE Inc., Tokyo and KWE (Deutschland) GmbH, Dusseldorf has proudly served the exhibitors of the joint Japanese participation at the IPM Essen Germany 2010.

The IPM (Internationale Pflanzenmesse) Essen Germany is an international trade fair for plants, horticultural technology, florists and sales promotion. The event took place from January 26 through January 29 2010, in which 1,450 exhibitors introduced innovations, refined products and their services to the trade visitors from all parts of the world.

The national cooperative groups of participants from Belgium, Great Britain, Hungary, Italy, Poland and Spain have grown even further and South Africa represented itself for the first time. The Japan Pavilion showcased "Bonsai", the miniaturization of trees grown in pots, as well as newly-bred flowers, Cut/Pot Flowers, Orchids and Garden Trees. Once again visitors found what they were looking for: technique and harmony of the Japanese traditional beauty.

All exhibition equipment and plants for the Japanese exhibitors were flown from Japan by KWE and transported to the fair ground in Essen, which is in close proximity to Dusseldorf, the capital city of North-Rhine Westfalia.

KWE was honoured to support our clients and contribute to the success of this wonderful exhibition!



Air Cargo Market in Asia-Pacific Shows Evidence of Further Recovery

International air freight traffic for carriers belonging to the Association of Asian Pacific Airlines (AAPA) increased by nearly 25% in December, compared with December 2008. However, the figure for 2009 as a whole was 11% down from the previous year. December 2009 traffic was 4,359m FTKs (freight ton kilometers), compared with 3,502m the previous December, an increase of 24.5%. Freight capacity figure (in ATKs -available ton kilometers), was up 4.5% to 6,295m representing an 11.1% improvement in the overall freight load factor, which rose from 58.1% to 69.2%.

The 2009 ATK figure was 70,738m compared to 80,215m in 2008, down 11.8%; and the freight load factor was 66.1%, marginally up on the 2008 number of 65.5%. The assessment of AAPA is that "Overall, Asia Pacific airlines are expected to report significant losses for 2009, following similar heavy losses suffered in 2008."

Regarding projections for 2010, AAPA stated: "On a more optimistic note, traffic trends in recent months have shown signs of recovery, in line with the improving global economic outlook, led by developing economies in the Asia Pacific region. The cargo business is recovering some of its dynamism and passenger demand on short haul leisure routes within the region has already picked up, although business travel is recovering more slowly."

Customs and Border Patrol Details It's 10+2 Enforcement Approach

On January 19, 2010, U.S. Customs and Border Protection officials publicly detailed the enforcement approach it will take beginning January 26th, when it "fully enforces" the 10+2 interim final rule that amended 19 CFR to require Security Filing information from importers and additional information from carriers for vessel (maritime) cargo before it is brought into the U.S.

CBP now terms its enforcement approach as "graduated escalated", meaning a more lenient approach than previously expressed by CBP officials on January 14th, and its initial phases will mirror an "informed compliance" approach.

• The interim final rule was effective on January 26, 2009; however, it provided a one year delayed enforcement period (until January 26, 2010) to allow the trade to work through various problems and to come into compliance with the requirements.

CBP officials state that they will not use data collected during the delayed enforcement period against the trade. The data that CBP generates starting from January 26, 2010 will be used as CBP moves towards stricter enforcement of the filing requirements. As CBP will not be using the data collected during the delayed enforcement period, it will not be issuing any liquidated damages during the first quarter (until April or May 2010). Instead, CBP will be issuing warning letters.

For an importer that is not filing its Importer Security Filings, CBP will send a letter stating that the importer has not filed its ISF and is required to file and that the lack of filing will result in liquidated damages and other delays in the release of the importer's cargo.

For those that are filing but may be having trouble, CBP will work with them to resolve issues during the first quarter. If there are issues involved that require CBP to take specific actions for other reasons (other than ISF), such as smuggling, CBP will move against those entities with the full penalty tools that it has in place. CBP will issue "do not loads" (DNLs) where it's appropriate for national security purposes. However, ISF stand-alone issues will not see DNLs.

When CBP moves into the second quarter, the trade will see CBP putting shipments on hold if they are at risk, no ISF has been filed, and CBP has identified and informed the non-filing filer. If CBP sees repeated incidents of ISFs not being filed and there is no response from the filer, CBP may issue a claim for liquidated damages. CBP will take a more enforcement-minded approach in the third and fourth quarters where liquidated damages, holds, etc. would be what the trade sees if they continue to not file or have issues with filings where CBP has worked with them to rectify the issues but the corrections have not taken place.

Given the security environment, CBP cannot guarantee that the trade will not see delays if ISFs are not filed. Officials explained that the attempted terrorist attack that occurred on December 25, 2009 will have ramifications in both the passenger and cargo environments. If CBP has no ISF for a specific shipment and targeting regards it as a high-risk shipment, the trade may see a delay in release. There could be a request for documents a non-intrusive inspection (NII), or they put a hold on it so that they can do a physical exam on the cargo if needed.

The use of bonds for Importer Security Filing purposes will be required beginning January 26, 2010. In addition, client that do not have a continuous Importer bond may be required to post collateral of \$10,000 for each shipment which will be held by the surety company for up to 6 years or until Customs determines that no ISF penalty will be issued against that shipment (whichever is sooner).

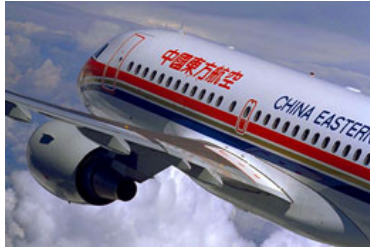
KWE will continue to keep our clients updated as CBP officials provide further details on its "graduated escalated" approach. If you have further questions, please contact KWE's Corporate Trade and Compliance Group by e-mail at customs_compliance_group@am.kwe.com or by telephone at (310) 667-4500 ext 4539



Disclaimer: The subject matter of this newsletter is provided for informational purposes only. All data is obtained from public sources and is believed to be true and accurate. KWE is not responsible or liable for any inaccurate information contained herein.



Carrier News



- **China Eastern Airlines Corporation Limited** announced recently that it will re-launch two international air routes beginning March 28, 2010. The two routes will both originate from Shanghai with destinations of London and Moscow. The Shanghai to Moscow route will land at Sheremetyevo International airport instead of Domodedovo International airport while the Shanghai to London route has had its flight times rescheduled to make it more convenient. Both routes will have four flights each week.



- Ocean container spot freight rates on key export trades lanes out of China to Europe and the U.S. (east and west coasts) soared by an average of 24% in the past three months. The rate of recovery is much quicker than expected, buoyed by a surge in demand this month. Continued high vessel utilization rates on certain lanes, especially on services to Europe since Christmas, have also created shortages of empty containers in a number of locations, which in turn, has underpinned the higher freight rates. The steep rise in rates resulted from successive rounds of rate increases imposed by ocean carrier since October and the extension of the peak season surcharge until February. It remains to be seen if the rates are sustainable as the Chinese Lunar New Year holidays in mid-February could lead to some weakening in freight rates. Asia-Australia and Asia-Africa spot rates have also risen over the past three months, but rates to the Middle East, especially to the Gulf region, remain under pressure.

KWE Achievements

- On January 2, 2010 **KWE-Kintetsu World Express (Singapore) Pte. Ltd.**, a locally registered company within the KWE group became the first Japanese based forwarder in Singapore to acquire the ISO13485: 2003 Quality Management System Standard for Medical Devices Certification. ISO13485 is an international standard supplementary to the ISO9001 general management standard that imposes special requirements to ensure the safety and efficacy of medical devices.

By acquiring this certification KWE SIN is able to perform distribution processing operations including pick and pack and labeling within its warehouses in addition to medical device import handling, inventory control and delivery operations. With this certification, KWE SIN warehouses can be used as a distribution hub for the Asia market, providing a variety of distribution services to meet all our customers' needs.

- **BKWE Dalian** branch office is pleased to announce Yang Ju and Jin Yu Lei as recipients of the Top National Customs Brokerage Company and Excellent Customs Broker Awards from CCBA (China Customs Broker Association) on December 22nd, 2009.



- **KWE Switzerland** is proud to be one of the first airfreight forwarders offering our customers the possibility to voluntarily offset the CO₂ emission caused by their airfreight transportation. To accomplish this, KWE Switzerland has formed a partnership with myclimate, an international climate protection organization, based in Zurich, Switzerland. As a spin off from ETH Zurich, myclimate is a non-profit foundation to inspire long term climate protection. Based on the distance and routing to the final destination, my climate has calculated the charge per kilo to achieve a climate neutral airfreight uplift.

In addition to offering the option to their customers to offset the emissions, KWE also obtained the myclimate certificate for Climate Neutral Company in the year 2010 with a goal of offsetting 132.74 tons of CO₂ through carbon offset projects in developing countries.

ISPM No 15 Implemented in Malaysia

Effective January 1, 2010 the Department of Agriculture (DOA) Malaysia has implemented ISPM No 15 for all import shipments. Therefore, all wood packaging material (WPM) used in any consignments imported into Malaysia should be treated and marked accordingly as prescribed in the regulation. A grace period of six months from the date of implementation will be given to allow all government agencies, forwarding agents and the importers to familiarize with the necessary requirements.

Effective July 1, 2010, the following Phytosanitary Measures shall be enforced in the event the following situations occur:

- **WPM with Approved Marking but live regulated pests found**
 - Commodity shall be subjected to treatment at once, if it is not possible, the commodity will be returned to sender/country of origin or destruction of the WPM, all of which is at the importer/exporter's expense
- **WPM without Approved Marking, with or without regulated pests found**
 - Commodity shall be subjected to immediate treatment at the importer/exporter's expense
 - If WPM condition is bad, the WPM will be immediately destroyed at the importer/exporter's expense or may be refused entry

The official revised 2009 ISPM 15 document is downloadable at <http://www.ippc.int/IPP/En/ism15.jsp> and can be used as a reference.

If you have any questions or would like further information please contact your local KWE office or representative.

Factory Orders Show Gains in December

The U.S. Census Bureau has reported that new orders and shipments of manufactured goods gained in December, driven by increases in orders for machinery and shipments of petroleum and coal. Orders and shipments of durable goods also climbed and this week the Census Bureau added increases for nondurable goods to round out the picture of an economy building a recovery.



- New orders for manufactured goods in December, up eight of the last nine months, increased \$3.7 billion or 1 percent to \$370.4 billion following a 1 percent November increase. Excluding transportation, new orders increased 1.2% percent.
- New orders for manufactured durable goods in December, up following two consecutive monthly decreases, increased \$1.6 billion or 1 percent to \$169 billion. Machinery, up three of the last four months, had the largest increase, \$1.5 billion or 6.6 percent to \$24.3 billion
- New orders for manufactured nondurable goods increased \$2.1 billion or 1 percent to \$201.4 billion. Shipments of all factory goods, up six of the last seven months, increased \$7 billion or 1.9 percent to \$383.1 billion. This followed a 1.6 percent November increase.
- Shipments of manufactured durable goods in December, up four consecutive months, increased \$5 billion or 2.8 percent to \$181.7 billion. This followed a 0.8 percent November increase. Transportation equipment, up three of the last four months, had the largest increase, \$1.8 billion or 4.2 percent to \$45.8 billion.
- Shipments of manufactured nondurable goods, up eight of the last nine months, increased \$2.1 billion or 1 percent to \$201.4 billion. This followed a 2.2 percent November increase. This increase was led by petroleum and coal products, which increased \$1.2 billion or 2.8 percent to \$44.7 billion.

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

WESTBOUND (from USA to Asian destinations)				
	January 01 through March 31, 2010			
	20' dry	other dry	20' reefer	other reefer
BAF – West Coast	402	503	566	708
BAF – East Coast	799	999	1064	1330
IFC – Pure truck	58	58	58	58
IFC – Truck/Rail	200	200	200	200
EASTBOUND (from Asian origins to USA)				
	January 01 through March 31, 2010			
	per 20'	per 40'	per 40HQ	per 45'
BAF – West Coast	278	348	392	441
BAF – East Coast	551	689	775	872
IFC-Truck	58	58	58	58
IFC-RIPI	100	100	100	100
IFC-IPI	200	200	200	200

Holiday Schedule – February 2010

13-15	February	Lunar New Year – Korea	All offices closed
13-16	February	Lunar New Year – Hong Kong	All offices closed
13-18	February	Lunar New Year – Vietnam	All offices closed
13-19	February	Lunar New Year – China	All offices closed
13-21	February	Lunar New Year – Taiwan	Skeleton operations
14-16	February	Lunar New Year – Singapore	All offices closed
15	February	President's Day – USA	KWE offices open
15	February	Family Day – Canada	Gov't offices, businesses and banks closed in the provinces of Ontario, Alberta, Sasatchewan and Manitoba
15-16	February	Lunar New Year – Malaysia	All offices closed