

# Industry Update

May 2008



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## KWE Contingency Plan for Beijing 2008 Olympics

In anticipation of the upcoming Olympic Games in China, KWE has created a General Contingency Plan which the KWEUSA Marketing team will be updating and sharing with all customers.

The Contingency Plan Presentation will be accessible through KWEUSA's website at [www.kweusa.com](http://www.kweusa.com). As we receive notifications of changes from our Beijing office, the contingency plan will be promptly updated as necessary allowing customers to view the most updated status.

The Olympic Contingency Plan Presentation will cover;

- Map of Beijing Olympics Venues
- Beijing Olympics 2008 Schedule
- Beijing Paralympics 2008 Schedule
- Outlook For Restrictions
  - KWE Contingency Measures against **Vehicle control**
  - KWE Contingency Measures against **Traffic control**
  - KWE Contingency Measures against **Security Control: Air Export Import and Ocean Export Import**
- Olympic Restrictions Impact on Logistics - Environment Control
- Tailor-made Contingency Plan
- Related Web Sites

KWE customers are encouraged to contact the KWEUSA Marketing Department for further inquiries.



## 'ALLEX' to Start its Operation from Summer

As introduced in the January 2008 issue of the KWE Industry Update, KWE, Nippon Express and All Nippon Airways (ANA) have established a new joint venture company to provide business to business international express delivery service in Asia. The new company, called **All Express Corporation**, will commence trading under the brand name '**ALLEX**' this coming summer.

ALLEX will be headed by Mr. Tsugumichi Yoshimitsu of ANA and based at Tokyo's Haneda Airport. ANA will take a 36.38% share in ALLEX, with Nippon Express and KWE holding share of 30.38% each. Forwarding companies MOL Logistics and Yusen Air & Sea Service will also take a share of 1.43% each.

ALLEX is currently applying to all relevant authorities for operating licenses in preparation for its summer debut of express parcel delivery services from Japan to Hong Kong and Shanghai. ALLEX's future services will gradually extend and make use of ANA's Okinawa-based cargo Network- which starts operation in fall 2009. Having Naha Airport as its hub, ALLEX will cover the Asian region to provide the highest quality express international delivery services to cities within Asia.

Name	All Express KK (English name) All Express Corporation	
President & CEO	Mr. Tsugumichi Yoshimitsu	
Address	3-2-6 Haneda Airport, Ota-ku, Tokyo	
Date of Establishment	Apr-01-08	
Paid in Capital	210,000,000 yen	
Shareholders' ratio	ANA	36.38%
	<b>KWE</b>	<b>30.38%</b>
	Nippon Express	30.38%
	MOL Logistics	1.43%
	Yusen Air & Sea Service	1.43%
Main field of Operation	International express parcel delivery service : Other related services	
Brand Name	ALLEX	



## New KWE Corporate Video

It is with great pleasure to announce that KWE has released a new Corporate Video.

The video takes an in-depth look at what has made KWE a leader of Global Logistics Partners. It details the company's history, services, and KWE Grand Design for 21<sup>st</sup> Century. Further highlights include our integrated 3PL and warehousing services including Flower Logistics and transportation of wine and exhibition materials.

The corporate video can be viewed through the below link:

[www.kwe.co.jp/en/index.html](http://www.kwe.co.jp/en/index.html) > What's New > NEW KWE Corporate Video

## US and EC's Joint Roadmap on Security



The US Customs and Border Protection (CBP) and European Commission (EC) have decided to adopt a joint roadmap towards mutual recognition trade partnership programs.

The US and EU introduced Customs Security Programs to support the development and implementation of measures enhancing security of the supply chain through improved customs controls. The ultimate goal is to establish mutual recognition of the U.S. Customs and Trade Partnership Against Terrorism (C-TPAT) and the European Authorized Economic Operator (AEO) programs.

In 2007, the US and EU initiated efforts to accomplish this goal. Ever since, The US and EU have achieved some notable successes which include:

- Completion of the initial Trade Partnership Pilot project in which the U.S. and EU Customs-Trade programs were compared both on paper and in practice
- An exchange of best practices and training programs
- The implementation of the EU's AEO program on January 1, 2008 in which the EU was able to benefit from U.S. experience with C-TPAT

Both US and the EU will continue the effort to establish eventual achievement of Mutual Recognition in 2009.

## Singapore – Implementation of RCAR

The Singapore Police Force, the Appropriate Authority for Aviation Security, has implemented the Regulated Air Cargo Agent Regime (RCAR) effective from April 1, 2008.

RCAR is a security measure to enhance air cargo security on commercial passenger aircraft.

Under this requirement, a cargo handling agent, freight forwarder, freight consolidator, freight carrier, cargo terminal operator or any other commercial and legal entity, or consignor of air cargo may register to be a Regulated Air Cargo Agent (RCA). Among the many benefits of this measure, the registered company will be subject to a lower level of screening greatly reducing a significant amount of associated cost.

Cargo agents/Freight forwarder who do not wish to register as RCAs may continue their current operations. However, shipments tendered for carriage on board commercial passenger aircraft will be subject to **100% security screening** at the airfreight terminals which may cause delays and incur additional costs.

At KWE Singapore, we understand that the secure supply chain is critical to our customer's business. KWE Singapore is registered as RCAs to ensure consistent and expedited cargo movements in secure manner.



*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.*



## IATA Adjusts its Profit Expectation for 2008



For the third time, the International Air Transport Association (IATA) downgraded its industry profit expectations for 2008. Based on global economic growth slowing to 2.6%, IATA has adjusted its profit expectation to US\$4.5 billion and an average annualized oil price to \$86 per barrel.

Initially, IATA predicted a \$7.6 billion profit for this year back in September 2007 but once the harsh impact of the credit crunch was observed, they sharply lowered to \$5.0 billion in December 2007.

At an average annual price of \$86 per barrel for Brent, fuel represents 32% of operating costs and a total bill of US\$156 billion. Even though IATA hopes to achieve a positive bottom line of \$4.5 billion, they predict that it may turn out to be very tough to reach this goal.

IATA analyzed three other key elements that are impacting the performance of the industry along with the credit crunch and skyrocketing oil prices.

- **Aircraft Delivery Cycle:** The downturn in demand coincides with a stepping-up of aircraft deliveries - from 1,041 new aircraft in 2007 to an expected 1,231 in 2008. While some of this will be offset by retiring less fuel-efficient aircraft, real yields (adjusted for inflation and the US dollar) are expected to drop 4.1% this year (compared to a 3.2% drop in 2007).
- **Increased competition:** The US-EU Agreement on Open Skies is increasing trans-Atlantic frequencies by 11% in April.
- **Non-Core Assets:** In the past two years, non-core business significantly boosted the consolidated profits of airlines. The contribution of non-core profits and asset sales almost tripled the airline business profit of \$5.6 billion to over \$15 billion in 2007 alone. The crisis in financial markets will make asset sales more difficult in 2008.

Even though US and Europe expect to suffer significant loss in profitability, many regions anticipate a profitable year in 2008. China, India and Latin American, where countries possess potential and strong commodity markets, anticipate positive results compared to 2007.

- **North America:** \$1.8 billion (down from \$2.8 billion in 2007)
- **Europe:** \$1.8 billion (down from \$2.1 billion in 2007)
- **Asia Pacific:** \$900 million (constant from 2007)
- **Middle East:** \$200 million (down from \$300 million in 2007)
- **Latin America:** Break-even (compared to a \$100 million loss in 2007)
- **Africa:** \$300 million loss (improved from the \$400 million loss in 2007)

## TSA's Certified Cargo Screening Program

The Transportation Security Administration's (TSA) responsibilities include ensuring the security of all modes of transportation, including cargo placed aboard airplanes with particular focus on passenger carrying planes.




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*The Implementing Recommendations of the 9/11 Commission Act of 2007 mandates 50% screening of cargo at the piece level by February 2009 and 100% by August 2010.*

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TSA is working closely with Congress to significantly strengthen security in air cargo traffic and by congressional mandate, 50% of all air cargo carried on passenger aircraft from or within the U.S. must be physically screened starting February, 2009, with 100% screening due in August, 2010.

TSA air cargo personnel from Washington, DC are now actively meeting and sponsoring outreach programs for both shippers and IACs (forwarders) concerning the **Certified Cargo Screening Program**.

The new Transportation Security Administration (TSA) Certified Cargo Screening Program has begun a phased rollout with limited groups of supply-chain entities in a total of nine cities through the first half of 2008.

The requirement for 100% screening will eliminate current exemptions and alternate means of screening for shrink-wrapped, strapped and banded pallets. TSA and the industry foresee significant air cargo handling delays at airlines where all screening is currently performed.

In order to avoid anticipated jams and significant cargo delays at major airports, TSA has proposed to push-out the screening requirement from the airlines' cargo dock to the forwarder, or even to the shipper level. Cargo would be screened prior to delivery at the airport, and would be safeguarded to ensure nothing could be introduced into or taken from the goods once screened.

In order to prevent delays and guarantee a flawless supply chain flow of our customers' cargo, KWE will be studying the feasibility of in-house cargo screening and qualifying its sites as Certified Cargo Screening Facilities (CCSF). However, at this early stage, benefits and merits of this program will be carefully analyzed and evaluated prior to making a final decision. KWE will monitor closely to optimize our strategy in implementing Certified Cargo Screen Program and provide updates as soon as more specific information is available.

*The Certified Cargo Screening Program is a voluntary program where a participating company will need to bear the whole burden of the program. No federal fund will be provided to offset the cost and the participant will be regulated.*

## Shanghai Port Enjoys Strong Growth

While volumes at all five western seaboard ports of the US are expected to drop as much as 3% this August compared with 2007, Shanghai International Port, China's biggest port operator port enjoyed robust growth in cargo throughput.

The port's throughput posted a 14% rise in first-quarter profit to US\$145 million compared with \$127.8 million and its earning was also was up by 14%.

Revenue was up 23% year-on-year to \$603.5 million. The port's container throughput hit 6.61 million TEUs, up 12.% year-on-year, while cargo throughput in the period saw a 4.8% increase to 89.5 million tons.

To encourage further growth, the Shanghai port has implemented new strategies focusing on the Yangtze River, Northeast Asia and global operations to reinforce its position as an international shipping center. It has an ambitious dream to develop this area into a major maritime hub such as Singapore and Hong Kong. The Yangtze River strategy will involve improvement of container handling service level at the Shanghai port and inland ports.

The Shanghai port will strengthen the cargo consolidation network and develop hinterland cargo sources to serve the Yangtze River Delta. Through this plan, Chongqing, Wuhan, and Nanjing and the rest of the Yangtze Delta will be updated and Shanghai will consequently benefit.



## Potential Increase in GRI - Canada

Member carriers of the Canada Transpacific Stabilization Agreement (CTSA) have proposed the following cost recovery program for May 1, 2008.

- **General Rate Increase**
  - USD \$400 per TEU for West Coast port to port
  - USD \$600 for all other traffic, including intermodal and East Coast all-water shipments.
- **Peak Season Surcharge** will be applied to shipments during the period of June 1 through October 31, 2008, subject to adjustments relating to the timing, duration and strength of the 2008 peak.
- **Bunker Adjustment Factor** will be a floating surcharge and adjusted on a regular basis to reflect bunker fuel price fluctuations.
- **Inland Rail Cost** from Vancouver to Western Canada will also be adjusted upwards to reflect the increase in rail cost.

CTSA members are APL, COSCO Container Lines, Evergreen, Hanjin Shipping, Hapag-Lloyd, Hyundai Merchant Marine, "K" Line, MOL, NYK Line, OOCL and Yang Ming and the above cost adjustments has not been finalized by the CTSA carriers.

## Carrier News



- Starting from May 1, 2008 **Lufthansa** is operating an A340 aircraft from Dusseldorf to Newark on a daily basis and to Toronto and Chicago six days a week. Also, Shanghai and Peking/Beijing will be served five times a week nonstop with an A330 aircraft.

- Swiss Int'l Airline (LX)** will start its new daily operation from Zurich to Shanghai effective on May 9th. LX188 will depart Zurich at 13:05 and arrive Shanghai, Pudong Airport at 06:35 following morning. It will be operated by A340-300 with cargo capacity of approx. 14 tons.

- Cargolux** has launched a weekly flight to Miami from April 6, 2008 to strengthen its service to the Americas. The flight will continue on to Houston, before returning to Luxembourg. It will offer connections to destinations such as Manaus, Brazil; Caracas, Venezuela; and Lima, Peru.

- TSK Line** has launched a new joint India-China service with Germany's Hapag-Lloyd, Thailand-based Regional Container Lines (RCL) and South Korea's Hyundai Merchant Marine (HMM). Five ships of 2,700 TEUs each will be traveling the route by the end of the month — two from TSK and one each from the other partners.

The port rotation is Xingang, Qingdao, Ningbo, Shekou, Singapore, Port Kelang, Mumbai-Nhava Sheva and Pipavav.

At the same time RCL, Taiwan's Wan Hai Lines and feeder line Sea Consortium are expected to upgrade their South Korea-China-Straits-India service by replacing five ships of 1,790 TEUs with 2,500 TEU vessels. However, at the same time, South Korea will be dropped from the route.



- Emirates Airline** is expanding its network this year with the start of services to the U.S. West Coast. Beginning September 1, 2008, Emirates will open its third U.S. gateway with non-stop flights between Los Angeles and Dubai. Emirates will operate daily and the service will be the first non-stop operation connecting Dubai, the Gateway to Arabia to Los Angeles. Emirates will fly its Boeing 777-200LR on the route, offering 266 seats in a three class configuration and will provide up to 10 tons of cargo capacity from Los Angeles. The new flight runs a distance of 8,339 miles, clocking 16 hours 35 minutes journey time to California, while the shorter return flight will be just under 16 hours.

- Emirates SkyCargo** has launched daily service to Cape Town as of March 30, 2008. Emirates SkyCargo has carried an average of 12 tons a week from Cape Town through its road feeder services to Johannesburg. With the new direct flights, this figure is expected to increase to at least 50 tons per week. The growing demand for fresh and organic foods from Western Cape will contribute to rapid growth of cargo volume as local producers will be able to supply in a more direct manner.

## UPDATE : Emergency Bunker Adjustment Factor (EBAF) Inland Fuel Charge (IFC)

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 **May 01 – May 31, 2008**.

### EBAF:

	<b>Eastbound (to USA)</b>	<b>Westbound (from USA)</b>
20' container	USD796.00	USD796.00
40' container	USD995.00	USD995.00
40' HQ container	USD1120.00	USD995.00
45' container	USD1260.00	USD995.00

### IFC:

Inland transported by truck: \$102 per container

Inland transported by truck and rail combination: \$353 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.

**Editor's Note:** In the April 2008 issue of the KWE Industry Update, there was an error introducing KWE's forecast figures for the 4 year period, entitled "KWE Announces Phase III Medium Term Management Plan". The operating income amount for FY2010 is indicated as 49,000, however, this amount should be corrected to 19,000. We apologize for any inconvenience this may have caused.

## Holiday Schedule – May 2008

5	May	<b>Early May Bank Holiday</b> – Ireland	
5	May	<b>Children's Day</b> – Korea	
11~12	May	<b>Pentecost/Whitsun</b> - Germany	
12	May	<b>Buddha's Birthday</b> – Korea, Hong Kong	
19	May	<b>Vesak Day</b> - Singapore	
19	May	<b>Victoria Day</b> – Canada	
22	May	<b>Corpus Christi</b> - Germany	
			All offices closed Offices in DUS, FRA, STR, NUE & MUC closed

*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*