

Industry Update

November 2008



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Oct. 08 Industry Update correction:

- The Halton Hills location will be KWE *Toronto's* 2nd warehouse/dist facility, not KWE Canada which also has established locations in Montreal and Vancouver.
- The Clean Truck Fee has also been postponed until November 17th rather than the previously reported November 1st.

KWE Receives Excellence Awards



KWE's International Aero Engines teams in Miami, Florida and East Midlands, United Kingdom both received an Award of Excellence from International Aero Engines as a result of achieving 100% shipment fulfillment between July 2007 and 2008.

The inventories held at both KWE facilities on behalf of IAE is made up of the various components of the V2500 and the V2500 SelectOne aero engines, of which there are approximately 3100 in service, with a total of more than 50 million hours flown.

The KWE Teams at both locations support IAE aftermarket customers globally providing inventory management, order fulfillment, documentation, distribution and returns processing. During this period the two facilities processed over 12,300 orders with a total value exceeding \$172 million. The distribution centers are staffed by KWE personnel that are FAA Organizational Designated Airworthiness Representatives (ODAR) certified. Kintetsu's ODAR staff is FAA certified to complete 8130-3 Airworthiness certificates on behalf of IAE for all parts dispatched from the distribution centers.

On commending the award to KWE, Alyson Jasper, IAE Distribution Center Analyst, said:

"Beginning in July 2007 through August 2008, both KWE warehouses had no missed shipments to IAE's customers. This is an outstanding accomplishment that exemplifies KWE's dedication to our objectives."

"Please extend our congratulations to the Miami and East Midlands teams and our sincere thank you for a job well done."

KWE staff is committed to the challenge going forward to maintain and improve upon an excellent record, and continue to support a world-class engine manufacturer with world-class service.

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KWE UK Establishes New Branch

KWE is pleased to announce that Kintetsu World Express (U.K.) Ltd., with a contract from the major UK confectionary maker *Bon Bon Buddies (*BBB*), has opened a new combined warehouse and office facility with 3PL functions in Hawtin Park, Blackwood in southeast Wales. The establishment of this new facility brings the number of business sites of KWE (UK) to 10.

The Hawtin Park Branch incorporates state of the art warehouse management systems, a warehouse floor space of 9,000m² (all of which is temperature controlled) and a large-scale rack system.

The volume of cargo expected to be handled for BBB in 2008 is approximately 350 FEU of goods and their confectionaries that are transported by sea from Hong Kong and China as well as chocolate transported by truck from Belgium, France and Germany. During peak seasons, the facility expects to handle approximately 2,000 pallets per week.

With this expected demand, a rack system with a holding capacity of 7,700 pallets has been installed together with advanced distribution processing systems including those for repackaging and labeling. This combination of infrastructure and systems makes possible the provision of a comprehensive logistics service covering every stage from receipt of goods through to storage and processing for delivery to major retailers. While at present only warehousing operations are being performed, from January 2009 commencement of cargo handling operations for goods imported by sea from China is expected.

KWE (UK) established its first Welsh business site at Newport in 1992 and to date, as the only locally based Japanese freight forwarder, has been performing a wide range of sales activities. With the opening of the Hawtin Park Branch, KWE continues to expand its Wales network and in the future, based upon close tie-ups with local business such as BBB, KWE will further strengthen its provision of logistics services within the region.



Outline of the Hawtin Park Branch

Name	Kintetsu World Express (U.K) Ltd. Hawtin Park Branch
Address	Unit D Hawtin Park Industrial Estate Blackwood Gwent NP 12 2PZ TEL. +44-3-811650 FAX. +44-3-811651
Person-in-Charge	Mr. Paul Graham (KWE (UK) Head Office, Logistics Sales Division Manager)
Warehouse Floor Space	9,000m ² (Fully temperature controlled)
Operation Details	Cargo storage. Logistics operations such as cargo breakdown and sorting.
Number of Employees	15 (During peak shipping periods employment of approximately 50 short-term contracted employees expected.)
Commencement of Business	September 15, 2008

New US Safety Requirement to Affect Importation of Goods

New [US] import requirements for consumer goods will take effect Nov. 12 as a result of the Consumer Product Safety Improvement Act of 2008, which became law Aug. 14. Beginning on that date manufacturers and importers must certify in writing that products being imported for warehousing and/or consumption conform with the rules, bans, regulations or standards administered by the Consumer Product Safety Commission (CPSC). This requirement applies to nearly all categories of consumer goods, including fabrics, wearing apparel, toys, jewelry, sporting goods, refrigerators, furniture, hazardous materials, all-terrain vehicles - even pharmaceuticals subject to child-resistant cap standards.

The new certificates of conformity:

- must be based on a "reasonable" testing program;
- must be issued jointly or separately by two and sometimes three participants in the supply chain (i.e., manufacturer, importer and any private labeler, as appropriate);
- must accompany the product or the shipment of the product; and
- thereafter must be furnished to each distributor or retailer of the product.

A separate certificate (or certificates) is required for each product in a container. If no certificate is issued, or if a false certificate is found to be on hand, the affected products will be barred from entry and/or distribution in the U.S. and may be destroyed, company officials can be charged with newly increased civil penalties of up to \$100,000 per violation and face the possibility of spending up to five years in jail, and there could be a scarcity of necessary consumer goods and a measurable escalation in retail prices.

Certificates of conformity must include the full contact information of the manufacturer and importer, as well as the person maintaining records of the test results upon which the certification is based; must reference the specific standard to which the product is subject; and must indicate the place and date of manufacture.

Other New Statutory Requirements

In addition to the certificate of conformity requirement, the CPSIA :

- requires manufacturer and importer certification of third-party testing by an accredited laboratory of all children's products, beginning by the end of 2008;
- lowers permissible levels of lead content in children's products and paint;
- mandates a reduction in the amount of certain phthalates in children's products;
- requires permanent tracking labels on children's products;
- increases civil penalties for violations of consumer product safety laws; and
- provides for potential criminal liability for such violations for corporate officers.

Businesses that may be negatively affected by these new requirements, will have until **Oct. 29** to advise the CPSC why the certification requirements are impossible or unreasonably burdensome to comply with given real-life global commercial realities. There may a better way to ensure that imported products comply with U.S. standards without implementing regulations that have the potential to eliminate all supply chains except those directly from the original product manufacturer to the U.S. importer or re-importer. Alternative options may be found to offer assurances of product safety to American consumers without holding foreign product manufacturers responsible for conducting conformity tests for standards and rules they may not understand and that they may not be equipped to perform.



KWE Receives Excellence Awards (continued)

Founded in 1983, IAE's shareholders comprise Pratt & Whitney, Rolls-Royce, the Japanese Aero Engines Corporation and MTU Aero Engines, four of the world's finest aero engine manufacturers representing four countries on three continents.

The IAE V2500 engine powers the Airbus A319, A320 and A321, the Airbus Corporate Jetliner and the Boeing MD-90 aircraft. More than 135 customers from around the world have made the V2500 the preferred choice on the A320 family, and more than 1,300 aircraft in service have accumulated more than 34 million flight hours. The V2500 boasts class-leading fuel burn, lowest noise, lowest total emissions and operating costs. Its high-tech design and world-class reliability have ensured total orders worth over \$35 billion with more than 5,000 engines delivered or ordered. The V2500 engines produce between 22,000 and 33,000 lbs of thrust required by 150-seat passenger aircraft, the fastest-growing market sector in the aviation industry.

For further information, contact John J. Cunningham, Director Aerospace Services, of KWE or Neil Williams of International Aero Engines at 860-565-1773.

September International Traffic Drops

The International Air Transport Association (IATA) announced global international traffic results for September. Passenger traffic declined 2.9% while cargo traffic dropped 7.7% compared to the same month in 2007. International load factors tumbled by 4.4% from August to 74.8% in September.

This is the worst decline since the technology bubble burst in 2001.

Declines in air freight have slowed year-to-date growth to 0.1%, with all regions except the Middle East and Africa reporting negative results.

The most alarming drop was with Asia Pacific carriers - the largest players in the market. The region's carriers reported a 10.6% decline.

Europe and North American carriers, which had seen flat growth through August saw cargo traffic fall 6.8% and 6.0% respectively.

The web of 3,500 bilateral air service agreements that govern international air transport denies market access until specifically agreed and the ownership clauses that are contained in these agreements preclude mergers across borders.

IATA has taken the extraordinary step of facilitating a discussion among 15 progressive governments on the future regulatory structure of international air transport. IATA circulated a paper among these governments examining solutions within the bilateral system that could be quickly implemented to expand opportunities for access to markets and to global capital.



Union Pacific Expects Better 2009 Peak Season

Union Pacific Railroad reported that net income increased 32% to \$703 million in the third quarter due primarily to fuel cost recoveries and core pricing gains. Operating income increased 21% to \$1.2 billion.

Intermodal freight revenue increased 9% in the three months to September from a year ago even though international intermodal volume decreased 14% due to the weak U.S. economy and the decline in containerized imports through West Coast ports.

Increases occurred due to the railroad raising its core freight rates and recovering a greater percentage of its fuel costs through diesel fuel surcharges. For all business lines, including intermodal, UP reported a 6.5% increase in core pricing.

The railroad's equipment management program contributed to improved productivity and helped to rein in operating costs. The third quarter 2008 operating ratio, a key measure of efficiency, improved to 74.9% from 76% in the year-ago quarter.

Fuel prices reached record levels, increasing 59% since 2007. However, UP reduced fuel consumption and recovered an increased share of the costs through fuel surcharges.

The company projects a continued weak demand for intermodal freight volume in the fourth quarter, although revenues will remain strong through solid core pricing and fuel cost recoveries.

Union Pacific projects another weak year in terms of freight volumes in 2009, with all types of freight in total expected to be flat to down 2 percent. International freight volumes, however, should pick up in the second half of the year, and UP projects that the peak season will reappear in 2009.

St. Lawrence Seaway Pact Ratified

Workers who had threatened to shut down the St. Lawrence Seaway to international traffic have ratified a new three-year contract, Canada's St. Lawrence Seaway Management Corp. announced.

The 445 members of the Canadian Auto Workers union under Canadian management of the bi-national waterway approved a tentative agreement reached Oct. 13. It provides for annual wage increases of 3 percent for the first two years and 3.25 percent for the third year, in a contract running from April 1, 2008 to March 31, 2011.

A key issue in talks had been plans by the SLSMC to replace workers with automated mooring at the 13 Canadian locks in the 15-lock system, and laser spotting of ships' positions upon entering locks. The jobs would only have been eliminated through attrition and with workers offered retraining for higher skills.

The revised contract includes the necessary flexibility for it to move ahead with the development of new technology, although no details were disclosed. Both automation systems have been tested for more than a year at some locks and one, the automatic mooring, needs greater reliability worked out still.



China's Port Capacity Exceeds Demand

China's port and shipping industry has been at its lowest ebb this year in terms of performance, and the situation may worsen in 2009. This is the consensus of the 140-plus representatives representing 94 container wharves nationwide, attending the China Port, Container Wharf Summit Forum.

The transport capacity of shipping companies has far exceeded the market demand in China at present. The freight charge for routes to Asia and America has dropped from US\$1,000 per TEU early this year to \$300 to \$400 currently. Many shipping companies have annexed sea routes and sealed orders to new ships. Handling capacity of ports is also oversupplied.

It is expected that the container handling capacity of Shanghai International Port (Group) (SIPG) will reach 28.5 million TEUs this year, falling short of the capacity target set earlier this year.



Panama Canal Container Traffic Declines

The number of transits by container ships passing through the Panama Canal declined in the fiscal year ending Sept. 30, as did the total number of ships and tonnage. The number of transits by container ships dropped from 3,622 to 3,544, but transits by tankers and dry bulk ships increased.

The average time it takes a vessel to navigate the waterway including waiting time, known as Canal Waters Time, increased by 13.3 percent. The authority attributed the increase to the surge in arrivals during maintenance performed on the Pedro Miguel and Miraflores locks during the second quarter of fiscal 2008. This increase influenced the year-end total, from 27.84 hours to 31.55 hours. For booked vessels (those holding reservations), CWT rose 8.3 percent from 17.09 in fiscal 2007 to 18.52 hours this year.

Booked vessels account for more than 60 percent of ocean-going transits, and utilization of the booking system in fiscal year 2008 dropped to 92.73 percent from 94.98 percent in fiscal year 2007. In response to the customers' requests for additional booking slots, the authority increased the number of booking slots available on a daily basis from 25 to 27 earlier this year in February.

Total transits declined slightly from 14,721 to 14,702 transits. Transits by ships with reservation (excluding auctioned slots) increased 3.9 percent from 7,857 to 8,167 transits. Panama Canal/Universal Measurement System (PC/UMS) tonnage decreased 1.1 percent from 312.9 million tons to 309.6 million tons.

Tanker traffic rose by 4.8 percent from 1,972 to 2,067 transits, mainly as a result of stronger movements of petroleum from the U.S. Gulf Coast to Chile for electricity generation as natural gas supplies coming from Argentina were suspended. Tanker tonnage also increased 8.6 percent.

Transits by dry bulkers increased from 2,406 to 2,420 transits.

The canal also saw an increase in passenger vessel transits, up 17.6 percent from 205 to 241 transits due to higher frequencies of smaller cruise ships.

Panama Canal Proposal Deadline Extended

The Panama Canal Authority announced that it is pushing back the deadline for companies to submit their proposals to build the waterway's new set of locks.

The four consortia of international engineering companies that are competing for the contract will now have until March 3, 2009 to submit their bids for what will be the largest project under the \$5.25 billion expansion program.

The proposals were originally due at the end of October, but it has received requests from the consortia to extend the bid submission deadline.

The additional time given to the consortia will result in more fully developed bids on both the technical and price proposals, ultimately benefitting the project. The expansion process continues to be on track and moving along as planned.

Expansion will build a new lane of traffic along the Panama Canal through the construction of a new set of locks that will double capacity and allow more traffic and longer, wider ships.



Beijing to Overhaul Food-Safety System

In a move that will affect exports of food products from China, United Nations officials called on Beijing to overhaul its food-safety system after tainted milk led to the deaths of at least four children and sickened tens of thousands more.

Over 5,000 children remain hospitalized with kidney ailments, after consuming baby formula made with powdered milk containing melamine.

China continues to rely on a complex web of agencies to enforce its food safety rules, which delayed the official response to the scandal.

The standing committee of China's National People's Congress held discussions on a draft of a new food-safety law designed to improve authorities' ability to trace and recall unsafe food. The new law would also strictly limit food additives.

A recent UN report called for shifting more responsibility for food safety to manufacturers in China, and requiring them to institute risk-management measures that can be audited by government inspectors. The report added that China's regulatory agencies are often severely under-funded and short-staffed.

China's exports of food and live animals nearly doubled from \$18.6 billion in 2004 to \$30.75 billion in 2007



Carrier News

- **China Eastern Airlines** currently connects two Indian cities, Delhi and Kolkata, with Shanghai, Beijing and Kunming in China.

It is now planning to increase its frequency of operations to India from next month.

The airline will add one more flight on its Delhi-Shanghai-Beijing route, which currently has a frequency of four flights a week.

It will also increase the frequency from three flights a week to daily on the Kolkata-Kunming by the end of next month.



- **Hong Kong Airlines** will introduce A330 wide-body operations in 2009, providing medium haul passenger and cargo services between Hong Kong and cities in the Middle East and Australia. Part of the process involves personnel changes to meet the different needs of operating wide-body aircraft.

The Company has only been serving short haul in the Asia region in past years. By the end of 2007, Hong Kong Airlines have placed a firm order for a total of fifty A330 wide-body aircraft and A320 aircraft. The plan is to expand into medium haul market which may be introduced as early as the middle of 2009.

- The U.S. Department of Transportation has named **Evergreen International Airlines** as a new all-cargo entrant in the U.S.-China aviation market.

Evergreen, if granted final authority, will operate six round-trip flights per week to Shanghai from New York with additional traffic stops in Chicago, Dallas/Fort Worth and Columbus, Ohio.

Evergreen would offer the first scheduled U.S.-carrier all-cargo service to China from both New York and Columbus. It also noted Evergreen was the only applicant that would use the entire capacity of its aircraft for China services. In addition, the Department cited Evergreen's experience operating in the U.S.-Asia market, including its U.S.-China charter services.



Note that all restrictions on scheduled U.S.-China all-cargo services will be lifted in March 2011.

- Swiss forwarder **Panalpina** announced that it has discontinued all domestic services, including customs clearance, in Nigeria.

Panalpina announced it was withdrawing from Nigeria in July. A U.S. government investigation of alleged bribery in Nigeria was only one in a series of criminal investigations at freight transport providers around the globe that have roiled the logistics industry.

A new company founded by Nigerian investors has taken over Panalpina's local service portfolio and acquired some of Panalpina's assets and resources. The company has also recruited employees from the Panalpina Nigeria workforce. It operates independently from Panalpina, which does not hold any equity stake.

**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 **November 01 – November 30, 2008**.

	<u>EBAF:</u> Eastbound (to USA)	Westbound (from USA)
20' container	USD976.00	USD976.00
40' container	USD1220.00	USD1220.00
40' HQ container	USD1373.00	USD1220.00
45' container	USD1545.00	USD1220.00

IFC:
 Inland transported by truck: \$108 per container
 Inland transported by truck and rail combination: \$375 per container

CTF:
 A Clean Truck fee (CTF) is to be assessed effective November 17, 2008 on cargo moving by truck to/from/via the ports of Los Angeles or Long Beach, California, by the ports and marine terminal operators in order to reduce congestion and improve air quality in and around these ports.

In order to cover our compliance and administrative costs, we, at Kintetsu World Express, regretfully will assess the following revised charges accordingly:

Applicable to: cargo moving by truck to/from/via the ports of Los Angeles/Long Beach
Not applicable to: cargo moving via rail through the Alameda Corridor to/from the ports of Los Angeles/Long Beach

	WM	PER 20'	PER 40'	PER 40'HQ	PER 45'
CTF	3.00	35.00	70.00	70.00	70.00
CTF Processing Fee	10.00 per B/L	10.00 per cntr	10.00 per cntr	10.00 per cntr	10.00 per cntr

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 – November 2008

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| 11 | November | Veterans' Day – United States |
| 11 | November | Remembrance Day – Canada |
| 12 | November | V-E Day – France |
| 23 | November | Labor Thanksgiving Day (forward to Monday) – Japan |
| 27 | November | Thanksgiving – United States |
| 28 | November | Thanksgiving Friday – United States |

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



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