

Industry Update

September 2009



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KWE Canada Breaks Ground on a New Logistics Center in Guelph, Ontario, Canada

KWE (Canada) proudly announces the ground breaking for KWE's newest Logistics Center! Strategically located in Guelph, Ontario, with direct access to Eastern Canada's main arterial highways, the new state-of-the-art facility will commence full-scale operations in June 2010.

Encompassing 140,826 ft² (12,615 m²), with the ability to expand up to 250,000 ft² (928 m²), the new facility will service existing and future customers from automotive, high tech and other industries. The new facility positions KWE Canada to provide customized 3PL, VMI (Vendor Managed Inventory) and Integrated Distribution services to the growing Southern Ontario market

The new Guelph facility compliments KWE Canada's existing distribution centers at Mississauga, Milton, Halton Hills, Montreal and Vancouver. This focus on growth in partnership with our customers, combined with the relentless pursuit of unparalleled service, will enable KWE Canada to meet its clients increasingly diversified distribution needs as we move into the 21st Century's second decade.



Pictured from left to right: Donato Atoni- Senior Vice President Canada, Masahiko Takeda-President Canada, Bert Lebre-Vice President Ocean, Pat Yung-Vice President Administration & Operations Canada



NEW GUELPH FACILITY - KINTETSU WORLD EXPRESS (CANADA) INC

Shanghai's Yangshan Port – The Next Global Shipping Center



A new strategy is in place to turn Shanghai's Yangshan Port into a global shipping center by 2020, instead of the regional center catering to North and East Asia traffic as previously planned.

According to Liu Tienan, Vice-Minister of the State Development and Reform Commission, the future Shanghai International Shipping Hub will feature accelerated shipping resources, a robust service function, sound market environment, efficient supply chains and the capability to arrange and relocate global shipping resources.



Analysts were skeptical whether Shanghai could achieve this goal to become a major center like Singapore but the outlook seems positive. The highlight of the strategy, released this month by the State Council, is the setting up of a comprehensive experimental zone for international shipping in the Yangshan Bonded Zone to pioneer the port's growth into a global shipping center. Shipping enterprises that set up operations in the Yangshan Bonded Zone will be exempt from business tax. Tax exemptions will also be offered to warehouse operators and logistics businesses, as well as insurers engaged in the international shipping business. The State Council also requires that Yangshan continue expanding its facilities during this phase.



Deepening of river channels will continue, and direct rail and river access will be developed to facilitate trans-shipment. The transport of containers down the Yangtze River and from coastal areas to Yangshan berths will be encouraged, while the railway, which currently plays a very small role in trans-shipment, will be built up to link directly to the berths at Yangshan. Ships sailing downstream along the Yangtze River cannot reach Yangshan yet and there is no rail link to the port.

CargoNews Asia reports the Shanghai Futures Exchange and the Shanghai Shipping Exchange will also introduce derivative products linked to shipping rate indices to create a better environment for risk control.

IATA E-Freight Initiative Launched in Japan

The International Air Transport Association announced the launching of its electronic freight initiative in Japan designed to improve efficiency and reliability for customers by eliminating the use of paper documentation for air cargo shipments.

The e-freight initiative is operational at Narita International Airport for exports to Amsterdam, Chicago, Copenhagen, Hong Kong, Seoul, London, New York, Singapore and Zurich. Airlines, freight forwarders, ground handlers and shippers participating in the voluntary effort are eliminating the use of 13 paper documents that often add manual costs and time to process at point of delivery rather than in advance. Japan is the 21st location worldwide to enable paper-free cargo shipments.

IATA's goal is to implement e-freight in all locations that have appropriate treaties and automated customs systems in place by the end of 2010.

Swiss – Japan Free Trade Agreement

A free trade agreement between Japan and Switzerland will take effect September 1st with a goal of eliminating tariffs on over 99% of the value of goods traded between the two countries within 10 years.

The bilateral trade liberalization pact is the first one between Japan and a European country as all of Japan's previous nine FTA's that have come into effect were concluded with Southeast Asian and Latin American nations.

Swiss federal councilor Mrs. Doris Leuthard described the free trade and economic partnership arrangement with Japan as the "most important free trade agreement concluded by Switzerland" since a 1972 deal with the European Union, the Alpine nation's largest trading partner.

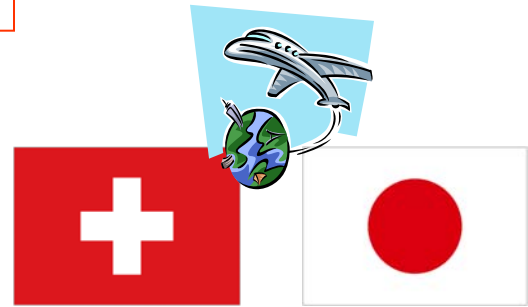
According to official data, Swiss exports to Japan reached CHF 7.1 billion (USD 6.6 billion), while Japan's exports to Switzerland were valued at CHF 4.1 billion (USD 3.6 billion) in 2008. The most important export commodities for Switzerland are chemical and pharmaceutical products, watches and various kinds of machines. Main commodities for Japanese exports to Switzerland are cars, noble metals, jewelry products, machines and chemical products.

Through the accord with Switzerland, Japan can expect to increase exports of cars and home electronic products as well as ornamental plants (bonsai), fruits, sake wine and cigarettes. Switzerland will also enjoy preferential market access for agricultural products like cheese, chocolate and other dairy products, dried meat, chocolate, wine and cigarettes. It is expected that Swiss exporters will save about CHF 100 million a year in duties. The FTA will also ease issues such as intellectual property rights, investments and labor flows as well as deregulation in electronic commerce.

For more detailed information, please click to official governmental sites:

Japan: http://www.mofa.go.jp/announce/announce/2009/7/1194357_1138.html

Switzerland: <http://www.seco.admin.ch/themen/00513/02655/02731/index.html?lang=de>



Vancouver International Airport - Leading the Way in Safety

Vancouver International Airport (YVR) is the first commercial airport in the world to install a day and night camera to its existing Tarsier Foreign Object Debris (FOD) radar detection system. The new camera will upgrade YVR's 24-hour automated runway debris detection system in all weather conditions by providing visual confirmation of any potentially dangerous objects on the runway.

Tarsier's high-resolution radar and advanced day and night camera work in tandem to provide continuous runway monitoring and safety. The camera's innovative illuminator helps produce FOD images in all light levels, turning night into day and giving operators greater confidence and certainty.

The camera allows the airport authority to determine quickly whether the FOD is a two inch worm that poses no threat, or a broken zipper from a suitcase that does. Tarsier's innovative system is an integral part of our safety management program that enables authorities to monitor the runway continuously with no disruption to runway operations. FOD as small and seemingly innocuous as a bolt, discarded plastic bag or clamshell dropped by a bird on the runway can cause serious damage to aircraft and poses a potential safety risk. Each year, loose objects on airport runways, taxiways and aprons cost the global aviation industry an estimated US \$12 billion.

Tarsier's networked high-frequency, high-resolution radars sweep the runway around the clock. When FOD is detected, an alarm is triggered in YVR's Operations Center where the user display highlights the object's location. The camera zooms in, sending a live image for visual confirmation and the object's GPS coordinates are provided, enabling accurate location and retrieval of the object in a matter of minutes. This will provide YVR with a valuable safety tool that helps guard against the dangers and costs associated with runway debris.

Changes Announced in Cathay Pacific Shareholding

The boards of Air China, Cathay Pacific, CITIC Pacific and Swire Pacific have made a joint announcement relating to two transactions that will collectively realign their shareholdings in Cathay Pacific. These changes will strengthen the existing relationship between Air China and Cathay Pacific and serve to further boost the position of Beijing and Hong Kong as key aviation hubs in the region.

Under the changes announced, which are subject to the appropriate regulatory approvals, CITIC Pacific will sell a 12.5% shareholding in Cathay Pacific to Air China for an aggregate consideration of approximately HK\$6,335 million, representing a price of HK\$12.88 per Cathay Pacific share, and a 2% shareholding in Cathay Pacific to Swire Pacific for an aggregate consideration of approximately HK\$1,013 million, also representing a price of HK\$12.88 per Cathay Pacific share. This means Air China's stake in Cathay Pacific will increase from approximately 17.49% to approximately 29.99%, while Swire Pacific's stake in Cathay Pacific will increase from approximately 39.97% to approximately 41.97%.

The proposed changes announced to the Hong Kong Stock Exchange follow on from a major shareholding restructuring announced in June 2006 that saw:

- Air China make a strategic investment in Cathay Pacific;
- Cathay Pacific increase its strategic investment in Air China;
- Dragonair become a wholly owned subsidiary of Cathay Pacific; and
- Air China and Cathay Pacific enter into a strategic relationship that included sales representation, the extension of code-share arrangements between Hong Kong and Mainland China, the proposed development of a cargo joint venture in Shanghai and the strengthening of business cooperation in a number of other areas.

Canada and Peru – Joining Together to Enhance Global Trade

Canada and Peru have achieved a new Free-Trade agreement (FTA) on Aug 1st. Officials say Canadian producers will benefit from the elimination of tariffs on exports into Peru, while many agricultural exports such as wheat, barley, lentils and peas will receive immediate duty-free status. The FTA provides enhanced market access in service sectors that are of interest to Canada, including mining, energy and professional services. Canada's banking, insurance and securities sector will also benefit from greater access to the Peruvian marketplace.

Parallel agreements on labor cooperation and on the environment also came into effect on Aug. 1st. The agreements commit Canada and Peru to respecting and enforcing international labor standards such as the elimination of child and forced labor, freedom of association and the right to bargain collectively. The environment agreement commits both countries to substantially increase environmental protection, to enforce their respective environmental laws, and to refrain from diminishing these laws or reducing their enforcement to encourage trade and investment.



 SWIRE PACIFIC



Canada Enters Blue Sky Transport Agreements With South Africa & New Zealand



The Blue Sky Transport agreements are opening doors around the world for Canadian businesses while supporting economic activity at home and abroad.

Canada and South Africa have reached a Blue Sky Air Transport agreement allowing scheduled direct air services to be operated between the two countries. South Africa is the 48th country since 2006 in which the Canadian Government has signed or updated an air agreement. Under the leadership of Prime Minister Stephen Harper, the Canadian Government has moved forward at this unprecedented pace because travelers and shippers want choice in destinations, flights and routes, and greater options for lower fares. The agreement will permit our citizens to fly more easily to South Africa, a regional hub for trade and investment. The agreement also provides rights for airlines to operate passenger and all-cargo flights between the two countries with routing and pricing flexibility. Airlines have the ability to offer air services using the flights of other airlines, commonly known as code-sharing services. Officials say the agreement contains strong provisions dealing with aviation safety and security and are being applied administratively prior to final signature of the agreement allowing new air services to be introduced immediately.

A new Blue Sky Agreement between Canada and New Zealand was signed while both parties attended the recent Asia-Pacific Economic Cooperation (APEC) meeting in Singapore and will be replacing the previous agreement which has been in effect since 1985. The agreement allows any number of air carriers from either country to operate passenger and all-cargo scheduled air services as frequently as desired, to and from any point within either country's territory. Air carriers of both countries will also be able to pick up traffic in each other's territory and continue to a third country en route to or from their home territory. The agreement also provides for enhanced all-cargo rights, allowing stand-alone cargo services between each other's territory and third countries, and includes a fully flexible tariff regime.

The Blue Sky Transport agreements are opening doors around the world for Canadian businesses while supporting economic activity at home and abroad. Canada's Blue Sky policies encourage competition and the development of new and expanded international air services to benefit Canadian travelers, shippers, and the tourism & business sectors.

Since January 2006, the Government of Canada has signed or updated Air Service Agreements with 48 countries:

- Eight Open Skies-type agreements: United Kingdom, Ireland, Iceland, New Zealand, Barbados, Dominican Republic, Costa Rica, South Korea, and South Africa;
- Six expanded agreements: Portugal, Mexico, Japan, Jordan, Singapore and Philippines;
- Six new agreements: Algeria, Kuwait, Serbia, Croatia, Panama and Turkey; and
- A comprehensive air transport agreement between Canada and the European Union's 27 Member States. This includes Cyprus, Estonia, Latvia, Lithuania, Luxembourg, Malta, Slovakia and Slovenia with which Canada did not previously have air agreements.



Shenzhen Quasi-Free Port to Test Hong Kong

Hong Kong's role as the principal ocean hub serving the mainland will be tested this month with the opening of a US\$8.2 billion bonded port and logistics park in Shenzhen.

The Qianhaiwan Custom-bonded Port and Logistics Park, which serves as a bonded warehouse and centralized customs inspection site, obtained the necessary approvals from the mainland's General Administration of Customs on July 10 to operate as a quasi-free port. Beginning now, the park can provide nearly every attraction Hong Kong offers - a tax-free conduit for imported goods and immediate tax rebates for exported products - the key requirements to qualify as an international sea hub.

Although Qianhaiwan is the smallest of 10 customs-bonded logistics parks on the mainland, at 1.2 kilometers² in the first phase and 3.7 kilometers² for the first two phases, further expansion is in the pipeline.

In the short term, Hong Kong could remain as the preferred ocean hub because of its advantages in efficiency, a more advanced financial system and accessibility of global information. However, Raymond Yu Liming, an executive director of China Merchants Holdings (International), the major investor in the park lamented that "In the longer term, Hong Kong and Shenzhen should be bundling together and merging their operations. To begin with, the city should see Qianhaiwan as the extension of its terminal facility."



TSA Lines Pursue Further Revenue Improvement in 2009

Container shipping lines serving the Asia-U.S. freight market announced that average rate levels achieved in the latest round of service contract negotiations are not sustainable over the typical 12-month 2009-10 contract term. As a result, lines in the Transpacific Stabilization Agreement (TSA) have adopted a voluntary guideline across-the-board increase of \$500 per 40-foot container (FEU), with proportionate increases for other equipment sizes, to take effect August 10, 2009. The increase will apply to rates for all commodities and U.S. destinations. TSA carriers said they will also pursue full implementation of the quarterly bunker fuel charge, which adjusted upward on July 1 to reflect higher fuel prices. The planned GRI does not preclude the possibility of a peak season surcharge if the market measurably strengthens and extensive peak season costs are incurred.

TSA noted that 2009-10 contracts were negotiated in the midst of a severely depressed global economy, in which first quarter 2009 cargo demand from Asia to the U.S. was more than 20% below levels from a year earlier, and conditions during the second quarter have shown only slight improvement. TSA reports a \$1,000-1,200 drop in average revenue per container during the period from October 2008 through May 2009 alone.

From an industry-wide point of view the damage is serious, and if current rates are extended out over 12 months, it's likely that the trade will encounter significant financial challenges as well as basic service sustainability issues going forth. In certain cases, it will be necessary for lines to engage with shippers in a renegotiation of contracts that do not provide for some form of interim rate adjustment. TSA acknowledged that container lines should not have given in to pressure to match short-term, concessionary rates in the market at the time contracts were being negotiated. However, the group also shared concerns voiced by customers in recent months that revenue deterioration would eventually lead to fewer lines operating at reduced service levels.

TSA is a 14 member research and discussion forum of major container shipping lines serving the trade from Asia to ports and inland points in the U.S. Members include:

APL, Ltd., China Shipping Container Lines, CMA-CGM, COSCO Container Lines, Ltd., Evergreen Marine Corp. (Taiwan), Ltd., Hanjin Shipping Co., Ltd., Hapag Lloyd AG, Hyundai Merchant Marine Co., Ltd., Kawasaki Kisen Kaisha, Ltd. (K-Line), Mediterranean Shipping Co., Nippon Yusen Kaisha (N.Y.K. Line), Orient Overseas Container Line, Inc., Yangming Marine Transport Corp and Zim Integrated Shipping Services



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



- **Air Canada** will add four seasonal nonstop routes to Europe next year. The new routes: Montreal-Athens; Montreal-Barcelona; Toronto-Athens; and Toronto-Barcelona will operate three times a week between Jun 3 and Oct 18, 2010. Air Canada will fly a 244-seat Boeing 767-300ER jets on the routes.

- **Jade Cargo International** expands partnership with Air Logistics Group to act as General Sales and Service Agent for Jade Cargo. In August 2009 they will expand their services in India and the Middle East. Besides their flight operations at Chennai/India and Sharjah/U.A.E. Jade Cargo will move forward with the development of those markets.

Jade Cargo International Company Ltd. was founded in October 2004 as a joint venture between Shenzhen Airlines (51%), Lufthansa Cargo AG (25%) and the German development finance institute DEG-Deutsche Investitions- und Entwicklungsgesellschaft mbH (24%). Jade Cargo started flight operations in August 2006 and currently operates a fleet of six B747-400ERFs (Extended Range Freighter).



- **China Airlines** will launch a new cargo service from Taipei to Osaka and onward to Los Angeles on August 27. The new cargo flight marks a historic step for CAL, and will provide more convenient cargo service between Taiwan, Japan and the U.S. The new service will operate a Boeing 747-400F freighter on three weekly scheduled cargo flights, on Thursdays, Fridays and Saturdays.

CWTSAs Adopts New GRI Program

Container shipping lines in the Canada Westbound Transpacific Stabilization Agreement (CWTSAs) have adopted a GRI program effective October 1, 2009 to all destinations from Canadian West and East Coast Origins and IPI points. The new rates are intended to address rising operating costs in the trade, and to sustain basic service requirements. Member lines in the CWTSAs say they will raise rates on all dry commodities by US\$160 per 20' container (TEU), US\$200 per 40' container (FEU) and US \$200.00 per 45' container.

Also on October 1, CWTSAs intends to implement rate increases for all refrigerated commodities ex Toronto, Montreal, Winnipeg as well as all other IPI points by US\$400 per TEU and US\$500 per FEU. Rates ex Halifax and Vancouver will be increased by US\$200.00 per 20' container and US\$300.00 per 40ft container.

CWTSAs members include:

American President Lines, Ltd., Hyundai Merchant Marine Co., Ltd., COSCO Container Lines, Ltd., Kawasaki Kisen Kaisha, Ltd. (K Line), Evergreen Marine Corp. (Taiwan), Ltd., Nippon Yusen Kaisha (N.Y.K. Line) & Orient Overseas Container Line, Inc.



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

| WESTBOUND (from USA to Asian destinations) | | | | |
|--|------------------------------------|-----------|------------|--------------|
| | July 01 through September 30, 2009 | | | |
| | 20' dry | other dry | 20' reefer | other reefer |
| BAF – West Coast | 262 | 327 | 368 | 460 |
| BAF – East Coast | 524 | 655 | 700 | 874 |
| IFC – Pure truck | 38 | 38 | 38 | 38 |
| IFC – Truck/Rail | 132 | 132 | 132 | 132 |
| EASTBOUND (from Asian origins to USA) | | | | |
| | July 01 through September 30, 2009 | | | |
| | per 20' | per 40' | per 40HQ | per 45' |
| BAF – West Coast | 150 | 188 | 212 | 238 |
| BAF – East Coast | 308 | 385 | 433 | 487 |
| IFC-Truck | 38 | 38 | 38 | 38 |
| IFC-RIPI | 66 | 66 | 66 | 66 |
| IFC-IPI | 132 | 132 | 132 | 132 |

Holiday Schedule – September 2009

| | | | |
|----|-----------|-----------------------------|--------------------|
| 7 | September | Labor Day – USA & Canada | All offices closed |
| 21 | September | Hari Raya Puasa – Singapore | All offices closed |

Ramadan Holiday Schedule

| | KWE Malaysia | KWE Indonesia | KWE- UAE |
|------------------------------|---|---|---|
| Ramadan Period (8/22 – 9/19) | Normal | Mon-Fri 08:00 – 17:00 | Sun-Thurs 08:00 – 15:00 |
| Sept 20 | Public Holiday | Closed | Public Holiday |
| Sept 21 | Public Holiday | Public Holiday | Public Holiday |
| Sept 22 | Normal | Public Holiday | Public Holiday |
| Sept 23 | Normal | Normal | Public Holiday |
| Sept 24 - Onwards | Normal | Normal | Normal |
| Remarks | Normal Working Hours Mon-Fri : 0900-1800 Sat : 0900-1300 (Kuching Office) Mon-Fri : 0800-1700 Sat : 0800-1200) | Holiday Business : 18 and 23 Sep 2009 Normal Working Hours Mon-Fri : 0830-1730 | Normal Working Hours Sun-Thu : 0900-1800 |