

Industry Update

August 2007

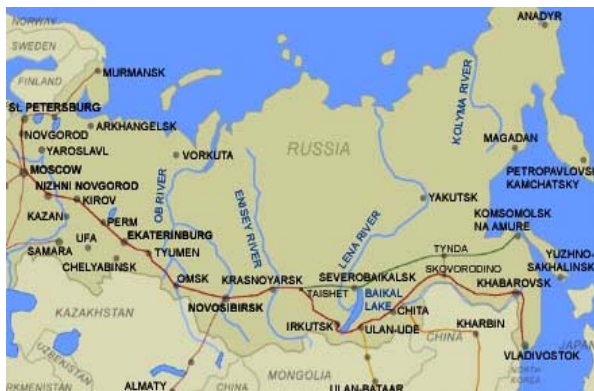


KWE Strategic Alliance with JSCO TransContainer

KWE is proud to announce a strategic alliance that has been formed with JSCO TransContainer ("TC"), a wholly-owned subsidiary of Russia Railways for container transport out of Japan. TC, the largest subsidiary of Russia Railways specializing in cargo transport has agencies in South Korea and China but the newest agreement with KWE enables them to establish a fully-fledged route originating in Japan. Both companies met in Moscow on July 26 for the formal signing of the agreement and press conference.

With the ongoing rapid development of Russian markets, this new cargo service provides ocean transport from major ports in Japan to Vostochny, the port district of Vladivostok located on the east coast of Russia. From Vostochny freight will travel by rail along the Trans Siberian Railway route providing comprehensive service to major cities throughout west Russia such as Moscow and St. Petersburg.

KWE will establish a "TransContainer Center" and act as TC's general agent within Japan and in cooperation with TC, manage the sales, operations, customer service and storage of the TC-owned containers in Japan. Customer sales activities are expected to begin upon opening of the TC Center in August 2007.



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Strike Averted at Long Beach / Los Angeles Ports

A strike at the Port of Los Angeles-Long Beach was averted July 26 when office clerical workers represented by the International Longshore and Warehouse Union reached agreement with 14 shipping lines on a new three-year contract.

The 14 separate contracts signed by the Office Clerical Unit of the International Longshore and Warehouse Union Local 63 with the shipping lines are retroactive to July 1, and call for a 14-percent pay increase over three years, raising wages to \$40 an hour for full-time port clerical workers. Under the previous contract, the 750 ILWU clerical workers earned about \$37.50 per hour.

On July 21 the two sides met to exchange “best and last” offers, but failed to reach an agreement so bargaining resumed on July 24. With no negotiations scheduled for July 25 there was great concern over the possibility of a strike as the negotiations lasted longer than any previous contract talks over the past 20 years. Longshoremen represented by a separate local of the ILWU had stated they would honor any pickets erected by the office clerks, effectively shutting down container handling at the busiest U.S. import gateway.

On the morning of July 26 Union leaders and employers met to finalize terms of the agreement

- Employers agreed not to use technology to reduce the clerical workforce or move clerical jobs to another location.
- Employers agreed to the union’s most important demand, which was to establish a multi-employer fund that will guarantee the solvency of worker’s health, welfare & pension programs regardless of what may happen to individual companies in the future.
- In exchange, the employers wanted written confirmation from the union that it would agree to negotiate a single contract for all 14 employers in 2010 in which the union agreed to “the goal” of bargaining as a single unit.

Both the union and employers “committed to meeting quarterly to work out issues” in order to reach the goal of having just one pact in 2010. The union also committed to setting up a panel to resolve disputes between labor and management.

KWE Japan Handles Picasso’s “Couple”

KWE Japan has been honored to handle the customs brokerage for Picasso’s “Couple” (1969). The famous painting is valued at 200 million yen (approx USD 1.6 million) and belongs to the National Museum of Western Art in Japan.

In September 2006 the painting was exported to Vienna for an exhibition and has just returned back to Japan on June 22. KWE handled both the export and import customs clearance for this valuable painting.



Picasso’s “Couple” (1969)



KWE Debuts the “Shanghai Twelve Express”

Starting August, KWE will commence the “Shanghai TWELVE Express,” an ultra express delivery service that can deliver cargo from Japan to a consignee within the Shanghai metropolitan area in as little as 12 hours.

In addition, KWE has launched the “Shanghai TWENTY-FOUR Express,” a service that provides express delivery within 24 hours of cargo receipt from the Tokyo Metropolitan area or Kansai region.

The features of these new services are as follows:

- KWE, by delivering a single ULD unit to an airline company, is able to load cargo received by 6 a.m. at its Narita Terminal facility onto a direct flight for Shanghai Pudong International Airport that leaves before noon on the same day
- Cargo arriving at the Shanghai Pudong International Airport in the afternoon, KWE will implement emergency customs clearance through its local import department and complete the delivery to the consignee within the Shanghai metropolitan area--including Suzhou, Hangzhou and Wuxi--by the same evening. (12-hour service)
- Cargo received in the evening of the previous day, KWE administers night customs clearance and utilizes the next available flight the following day, completing delivery to Shanghai via Shanghai Pudong International Airport that evening. (24-hour service)
- For the Kansai region, cargo delivered in the evening to any of KWE’s cargo centers located within Osaka, Kyoto or Kobe is forwarded by KWE’s own vehicles to its Narita Terminal by 6 a.m. the following morning. After early morning customs clearance, the cargo is immediately placed on a morning flight to Shanghai Pudong International Airport
- These services will greatly reduce transport times that previously would have taken between 2 and 4 days via door-to-door delivery. As the commissioned airline company specializes in cargo transport, the handling of large size cargo is also possible
- The “24-hour service” for the Tokyo metropolitan area commenced in the middle of July and for the Kansai region from the beginning of August. The “12-hour service” for the Tokyo metropolitan area will also commence at this time. Initially these services will be available from Monday to Friday with 5 flights per week.

Although these new services initially focus on transport for small items such as samples requiring high-speed delivery, KWE plans to expand them to general and large cargo transport.



KWE Opens New Warehouse in Shanghai Waigaoqiao Free Trade Zone

Shanghai Kintetsu Logistics Co., Ltd (SKL), one of the companies within the KWE Shanghai group registered in China, commenced full-scale operations of its new facility on July 19. The brand new large-scale warehouse is located within the Waigaoqiao Free Trade Zone, Shanghai and provides 46,000m² that will service over 400 customers. Modern warehouse functions such as temperature-controlled, humidity-controlled and frozen storage areas are available.

Prior to this opening, KWE (Shanghai) continued to expand its warehousing operations through three bonded facilities. Due to the increased demand and pressure on the limited combined space of 35,000m² it was ultimately decided to close two of the existing warehouses and open a new large-scale facility. Therefore, KWE Shanghai is now operating two integrated warehouse facilities within the free trade zone.

- 4 dedicated warehouses + 1 combined office/warehouse with total floor space of 46,000m² , one of the largest facilities within the industry in Shanghai and the largest one owned by KWE
- Full range of **Vendor Managed Inventory (VMI)** services to accommodate the great demand of hi-tech-related companies concentrated in east China
- 4,000m² dedicated to temperature controlled storage for the increasing needs of medical related products
- One of the facilities is "**TAPA Class A Certified**" which is the warehouse security standard achieved through establishment of comprehensive security systems

Feature of new facility

Office Profile



Name	Shanghai Kintetsu Logistics Center
Address	Aoni Rd, Xin Development Bldg 64,65,66,67,69 Waigaoqiao FTZ, Shanghai PR China Tel +86-21-50481616 Fax +86-21-50480532
No of Employees	34 (including 3 full-time Japanese employees)
Person-in-Charge	Mr. Liu Fang / Sr. Deputy General Manager
Commencement of Business	July 19, 2007

Commencement of Tokyo-Shanghai Shuttle Flights

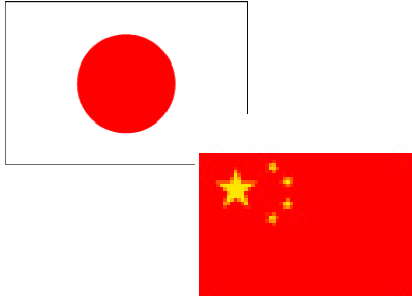
Japan and China have agreed to launch shuttle flights between Tokyo's Haneda airport and Shanghai's Hongqiao airport starting in October.

The agreement was reached during a meeting between visiting Japanese Land, Infrastructure and Transport Minister Tetsuzo Fuyushiba and Yang Guoqing, deputy director of the Civil Aviation Administration of China.

In April, Japanese Prime Minister Shinzo Abe and Chinese Premier Wen Jiabao agreed on the launch of the shuttle service possibly within this year, so the two countries can mark the 35th anniversary of the normalization of their diplomatic ties. Since then, Japanese and Chinese aviation officials have negotiated with the aim of operating four round-trip flights a day between the two airports.

The move is another push toward realizing a link of the three key northeastern Asian airports of Tokyo, Shanghai and Seoul with shuttle flights.

Japan and South Korea have been operating eight round-trip shuttle flights a day between Haneda and Seoul's Gimpo airport. South Korea and China have agreed to set up shuttle flights between Shanghai and Seoul.



Increased Global Airfreight Demand in June

According to a report from the International Air Transport Association (IATA), June airfreight demand increased by 4.9% with a capacity growth of 4.5%.

This is the second consecutive month of strengthening demand, following the 5% growth in May, and could be indication that a return to historical growth levels in the 5-6% range may be on the horizon.

These numbers portray significant improvement over the average for the sluggish first six months of the year, as the traffic grew 2.7% while capacity increased 5%.

- The Middle East led the world in growth with traffic increasing 11.1% in June and 11.7% for the first half of the year
- Asia Pacific growth strengthened in June, climbing 7.4% over the year-ago month and topping the average for the first half of the year of 4.6%
- Europe gained momentum from a sluggish 0.7% six-month average to a 3.2% increase in June
- Traffic in Africa and Latin America continued to decline while North America traffic turned around in June increasing 0.4% after a six-month average decline of 1.2%

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Dalian Port Gains Preferential Tax Rates



China now has a harbor area with preferential tax rates in the north-eastern city of Dalian. This is a major step towards forming a free trade zone between China, Japan and the Republic of Korea.

The Dayaowan Bonded Harbor Area, at the Dagushan Peninsula in the northeastern part of Dalian, enjoys preferential taxation and foreign exchange policies.

It will remove tariffs for foreign cargo and offer tax rebates for domestic cargo. It will also exempt businesses from value added taxes and consumption taxes if they trade with each other. The first phase of the area covers 3.06 square kilometers and includes warehouses, cold storage facilities, a container terminal and processing and logistics services. About RMB200 million (\$25 million) has been spent on the construction of the area.

The second phase is expected to be finished by the end of next year, expanding the area to 6.88 square km.

The Dalian port is the seventh largest in China and handled 200 million tons of cargo and 30 million containers (TEUs) last year.



Increased Capacity to Australia

Air China and Qantas have announced plans to increase capacity between China and Australia over the next year.

A stronger than anticipated first quarter will see Air China not only expand its Australian operations with increased services, but will also see the airline upgrade carriers, products and facilities on Australia-China routes. Beginning October 2007, Air China will introduce three additional weekly A330-200 flights from China to Australia, bringing the total to ten per week. Additional services are planned on the Beijing-Shanghai-Melbourne route which now operates as a continuation of the Sydney service. Air China may also convert some of its Beijing-Shanghai-Sydney flights to direct services between Beijing and Sydney and has earmarked its new Boeing 787-8 Dreamliners for the route estimated to begin in mid-2008.

Meanwhile, Qantas has announced it will offer new twice-weekly direct flights between Melbourne and Shanghai from March 2008. This will elevate Qantas flights to ten return services a week to China, five between Sydney and Shanghai, two between Melbourne and Shanghai and three between Sydney and Beijing.



Carrier News



- Effective July 11, **Japan Airlines** has added twice weekly freighter service between HKG-NRT. The flight will depart HKG at 01:20 on Wednesdays and Fridays.
- Beginning July 27, **Asiana Airlines** will begin B747 freighter service from Incheon to Moscow, Russia and Gothenburg, Sweden. Service to Gothenburg will be weekly on Mondays and service to Moscow will be twice a week on Mondays and Thursdays.
- **Nippon Cargo Airlines** will resume its route to Seoul on July 24 which has been suspended since July of 2006. Three flights a week – every Tuesday and Thursday from Narita International Airport and every Sunday from Kansai International Airport. Flights to and from Seoul will utilize Boeing 747-400F aircrafts.
- In July, **British Airways** has launched two new weekly Boeing 727 freighter routings from Pakistan. The services are Karachi-Bahrain and Lahore-Bahrain which connect with the Bahrain-London line flights.
- **Lufthansa Cargo** will be discontinuing freighter flights into and out of Cologne on the 2007 winter flight schedule. Those services will instead be operated through Leipzig-Halle Airport beginning October 28.

Jet Fuel Prices Soar



Jet fuel prices jumped to their highest level in a year last week, reaching beyond \$2.20 a gallon in some markets and pushing airlines around the world to raise fuel surcharges.

Northwest Airlines, American Airlines and Cargolux were among the carriers raising surcharges a nickel to 60 cents a kilogram effective Aug. 1 as air carriers saw average jet fuel prices around the world rise for the six straight month in July.

The U.S. Energy Information Administration said jet fuel averaged \$2.181 cents a gallon in New York the week ending July 13. The prices peaked at the end of the week at \$2.213 in Los Angeles, the highest price the EIA has recorded since August, 2006.

Prices have grown steadily since starting 2007 as low as \$1.65 a gallon in some markets. Last week's average \$2.181 price in New York was nearly 29 percent higher than the prices there in January

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 **Aug 01 – Aug 31, 2007**.

EBAF:

	Eastbound (to USA)	Westbound (from USA)
20' container	USD510.00	USD508.00
40' container	USD635.00	USD635.00
40' HQ container	USD715.00	USD635.00
45' container	USD805.00	USD635.00

IFC:

Inland transported by truck: \$63.00 per container

Inland transported by truck and rail combination: \$216 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.

Holiday Schedule – Aug 2007

6	Aug	Civic Holiday -Canada	All offices closed
9	Aug	National Day – Singapore	All offices closed
9	Aug	Women’s Day – South Africa	KWE offices – Skeleton Staff
15	Aug	Assumption Day – Germany	MUC offices closed. All others open
15	Aug	Independent Day – Korea	

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