

# Industry Update

September 2008



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**KWE Receives 2008 "Quest for Quality" Award**



*Logistics Management (LM)* magazine has once again honored Kintetsu World Express with their "Quest for Quality" Award for 2008. LM recognizes the leading companies in the freight forwarding industry through presentation of this annual award.

For a quarter century now the transportation and logistics industry has regarded *LM's* "Quest for Quality" Award as the most important measure of customer satisfaction and performance excellence in the logistics industry.

KWE is honored to be recognized not only by *Logistics Management* but also by its customers as one of the "Best of the Best" in the increasingly competitive arena of freight forwarding.

KWE values the efforts of all its employees and pledges to continue providing excellent performance and customer service to all our customers in the years to come.

**Freight Forwarders**

	On-time Performance	Value	Information Technology	Customer Service	Equipment & Operations	Weighted Score
Nippon Express USA	11.88	8.84	4.60	7.09	3.89	36.30
Pilot Air Freight	10.95	8.08	4.73	7.38	3.71	34.85
UPS SonicAir	10.73	7.53	5.34	7.29	3.81	34.70
Lynden Air Freight	10.67	7.98	4.90	7.50	3.64	34.69
FedEx Trade Networks	10.79	7.48	5.27	6.86	3.89	34.29
Expeditors International of Washington	10.57	7.71	5.24	6.80	3.60	33.93
SEKO	10.51	7.71	5.08	7.15	3.45	33.91
YRC Logistics	10.12	7.70	4.82	7.02	3.80	33.47
Kintetsu World Express	10.68	7.60	4.64	6.44	3.38	32.75
Schenker	10.23	7.60	4.72	6.38	3.68	32.61
BAX Global	10.13	8.07	4.45	6.41	3.51	32.56
AVERAGE	10.14	7.63	4.61	6.61	3.52	32.51

All scores are weighted. Weighted scores are determined by multiplying the average raw scores by the average importance of each attribute (1= least important, 5= most important). To find the attributed weights for this category, see the introduction to the Quest for Quality report.

## 2008 Farm Bill Has Big Implications for US Importers

### New Import Value Declaration Requirements Under Section 15422 of the 2008 Farm Bill

US Customs and Border Protection is in the process of instituting a new entry requirement for the purpose of gathering additional information on the transaction value of all imported merchandise. Under these new rules, all consumption entries will require a declaration as to whether the value declared for entry purposes is based on the "first or earlier sale" occurring prior to introduction of the goods into the commerce of the United States.

In many cases, entered value is based on a first sale from the shipper to importer, and not on a subsequent re-sale to the end user in the United States. So, for many of our clients, we expect that this will be a positive "F" declaration indicating value at "First Sale." KWE Brokerage Staff will be asking all import brokerage clients for their written instructions on how this declaration should be made at the time of entry.

It is expected that enforcement of this new rule will be effective no later than September 20, 2008.

Another significant provision of the Farm Bill would require a new import declaration for plants and plant products. According to government officials, these provisions are expected to take effect on December 15th, 2008.

The recently enacted 2008 Farm Bill (Public Law 110-246) amends 16 USC 3371 (f) and expands the definition of "plants" to include plant products, including wood, cork, pulp, paper, certain apparel, furniture, games, toys, sporting equipment, and other areas which make up approximately one third of the Harmonized Tariff Schedule.

Plants and Plant Products will need an Import Declaration with the following information:

- Species Name – the scientific name of any plant contained in the importation (including the genus and species of the plant).
- A description of the value of the importation and quantity, including the unit of measure of the plant.
- The name of the country from which the plant was taken.
- Additional information will be required if the Species/Country are Unknown.

Packaging material: The plant and plant product declaration requirements of the 2008 Farm Bill do not apply to plants used exclusively as packaging material to support, protect, or carry another item, unless the packaging material itself is the item being imported.

KWE will be watching for any related notices published by US Customs or elsewhere in the trade community.

Please send an e-mail to [Customs.Compliance.Group@am.kwe.com](mailto:Customs.Compliance.Group@am.kwe.com) if you would like to receive the full text of this new regulation.



*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.*



## KWE Malaysia Receives Certificate of Appreciation

Kintetsu Integrated Air Service Sdn. Bhd. (KWE Malaysia) received a certificate of appreciation from the airport management company, Malaysia Airports (Sepang) Sdn. Bhd., for its contribution to environmental conservation at its Kuala Lumpur Airport freight station .

KWE Malaysia, the only forwarder within Kuala Lumpur Airport to have obtained the ISO14001 certification back in June 2004, has since been implementing specific activities to prevent environmental pollution by establishing and operating an environmental management system. KWE Malaysia's management of gasoline used to fuel the fork lifts in its freight station was highly appraised by the airport management company, and it was awarded the certificate of appreciation when it shared its know-how with all other forwarders occupying the airport's freight station.

Gasoline used in the fork lifts at KWE's Kuala Lumpur Airport facility was formerly stored independently by each company in oil drums, and fuelling was carried out by hand pumps; however, this method resulted in varied management conditions and frequent gasoline leaks, leading to the degradation of the airport environment. When KWE Malaysia obtained the ISO14001 certification, it ordered gasoline storage tanks specially designed to prevent gasoline leakage during fueling, thus establishing safe fueling practices. The airport management company decided this year to bring the entire freight station's management up to KWE Malaysia's standards, and as a result, KWE Malaysia's released data on the special tanks as well as its management manual.

Not only is KWE Malaysia dedicated to environmental issues; it is also committed to safety as a forwarder of chemicals, implementing thorough safety measures by carrying out periodical fire drills in the event of cargo stored in the freight station igniting.

KWE Malaysia also puts the words "reduce, reuse, recycle" to practice on a daily basis, making steady efforts such as using recyclable packing materials, and integrating a green engine (a fuel efficient engine) into all its trucks. KWE Malaysia will continue to provide service that is both high in quality, and environmentally friendly.

## KWE and Unico Drop Planned Russian Joint Venture

KWE has officially announced the dissolution of a planned new joint venture Russian trucking business just two weeks before the operation was due to have started.

In early July, KWE reported that in partnership with South Korean group Unico Logistics Co Ltd, it intended to establish a joint company in Russia from September 1. The intended main activity for that venture, would involve meeting a strong demand for truck transport from major South Korean conglomerates which had established plants and other business sites in Russia.

The new company, to be called Kintetsu-Unico Logistics LLC, would have its headquarters in Moscow and paid up capital equivalent to €1.2m, with the investment split 50/50 between the two Asian partners. The joint company would focus on providing truck transport within Russia and to other CIS countries. The initial plan was to operate 20 owned large trucks, equipped with GPS (global positioning system), plus accompanying chassis.

Unico, which has its head office in Seoul, is the exclusive agent for Russia's JSCO Trans Container in South Korea and China. It deals with major blue ribbon South Korean corporations in the sale of services related to transport utilizing the TSR (Trans-Siberian Railway) for the export of goods from South Korea and China to Russia and other CIS countries.

## Port Metro Vancouver Reflect Canada's Growth

Mid-year stats for cargo released by Port Metro Vancouver show significant growth in exports, along with an increase in both import and export container volumes. However, overall tonnage is down slightly from the same period in 2007.

This activity strongly reflects both international market trends and the relative strength of the Canadian economy. Influenced strongly by forest product market conditions, overall cargo volumes dropped while coal exports increased, demonstrated the strength in energy markets along with offshore supply issues, particularly in Australia.

Contributing factors also include a strong Canadian dollar, increased international competition particularly from Russia and Brazil, and the effects of BC's pine beetle infestation.

Market demand for grains, including special crops and feed, remains strong, however, domestic demand negatively influenced exports, with wheat experiencing the worst decline. Vegetable oil exports were also down, due in large part to soaring prices, higher domestic demand and biodiesel conversion.

A substantial decline in the chemicals, metals and minerals sector largely reflected a reduction in mineral exports. Petroleum exports remained stable, with reductions in aviation fuel offset by growth in gasoline, diesel and fuel oil. In contrast to many West Coast ports, total container traffic increased and Port Metro Vancouver continues to rank third among North American west coast ports in terms of foreign laden container traffic.



## Rotterdam Set to Break Ground on 8.5M-TEU Project

The Port of Rotterdam announced it will start construction work on an 8.5 million-TEU container complex in early September, some 15 years after it first unveiled plans for Europe's biggest box hub on land reclaimed from the North Sea.

The project still faces several appeals but the authority is confident it can successfully counter objections. A \$1.35-billion, 4 million-TEU terminal, being built by a joint venture of DP World of Dubai, MOL of Japan, CMA CGM of France, South Korea's Hyundai Merchant Marine, and Singapore-based APL, is scheduled to start operations in 2013.

A year later, APM Terminals, a unit of A.P. Moller-Maersk, the parent of Maersk Line of Denmark, is due to open a 4.5 million-TEU facility on the Maasvlakte site.

The port, which is facing severe volume constraints, will add extra capacity this year, including the 2.3 million-TEU Euromax terminal which will officially open Sept. 5 and start commercial operations in January. Separately, ECT, the port's biggest container handler, commissioned the first phase of the 300,000-TEUs Delta Barge Feeder Terminal this summer. Rotterdam's container traffic grew 4 percent in the first half of 2008 from a year ago to 5.4 million TEUs.

## China Supplants U.S. as Japan's Top Export Market

China in July replaced the U.S. as Japan's largest export market for the first time since the end of World War II, according to preliminary trade figures released by the Japanese Finance Ministry on Thursday.

Japan's exports to China surged 16.8 percent in July from the same month of 2007 to 1.29 trillion yen (\$11.8 billion) in July on a customs-cleared basis, while those to the U.S. plunged 11.5 percent in July from a year earlier to 1.28 trillion yen (\$11.7 billion).

Japan's exports to China increased for the 38th consecutive month, while those to the U.S. declined for 11th straight month. China has been Japan's largest trading partner and largest source of imports in recent years.

Japan's exports to China, including Hong Kong and Macau, also have exceeded those to the U.S. since May 2007.

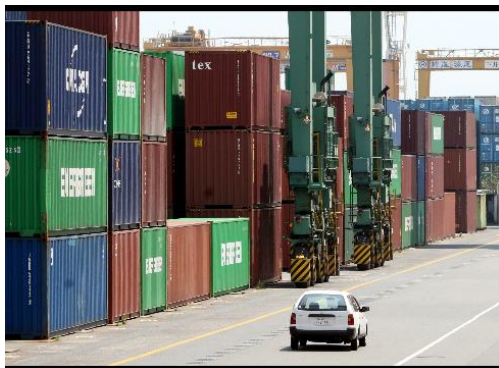
But it is the first time since the end of World War II that Japan's exports to China, excluding the two special administrative regions, surpassed those to the U.S. Japan's imports from China in July grew for the second successive month in July, increasing 5.1 percent year-on-year to 1.36 trillion yen (\$12.4 billion). As a result, Japan's trade deficit with China shrank for the fourth consecutive month, by 63.3 percent to 68.8 billion yen (\$631 million).

Japan's imports from the U.S. declined for the first time in two months in July, dropping 3.5 percent to 676.0 billion yen (\$6.2 billion). Because Japan's exports fell at a much faster pace than imports, Japan's trade surplus with the U.S. narrowed for the 11th consecutive month, shrinking 19.0 percent to 600.2 billion yen (\$5.5 billion).

Japan's exports to the rest of the world rose for the first time in two months in July, buoyed by strong exports to China and other Asian markets. Japan's overall exports totaled 7.63 trillion yen (\$70.0 billion), up 8.1 percent from a year earlier.

Japan's imports from the rest of the world rose for the 10th successive month and at a much faster pace than exports in July, soaring 18.2 percent year-on-year to 7.54 trillion yen (\$69.2 billion). The sharp surge in imports was due primarily to higher prices for oil. Resource-poor Japan imports almost all of its oil.

As a result, Japan's trade surplus with the rest of the world shrank for the fifth consecutive month, plummeting 86.6 percent from a year earlier to 91.1 billion yen (\$836 million).



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## ICAO Safety Audit Gives U.S. High Mark

The U.S. aviation system received a score of 91 out of 100 in a new safety audit released today by the International Civil Aviation Organization (ICAO), a United Nations agency that oversees international civil aviation.

The U.S. score, which was well above the global average of 56, reflected U.S. compliance with over 9,500 international safety standards. The FAA led U.S. preparations for the audit, which also included the National Transportation Safety Board, the U.S. Coast Guard and the Pipeline and Hazardous Materials Safety Administration.

The team of ICAO auditors conducted a comprehensive audit of all aspects of civil aviation in the United States, including aircraft operations and airworthiness, accident investigation, navigation services, airports, personnel licensing and legislation and regulations. The auditors interviewed technical experts and conducted site visits to government and industry facilities to assess overall safety oversight.

The Universal Safety Oversight Audit Program was established by ICAO in 1995 at the urging of the United States. It provides civil aviation authorities throughout the world with valuable information on the overall health and effectiveness of their airspace systems.



## Decline in U.S. Domestic Air Cargo

Domestic cargo traffic for United States airlines fell at its sharpest rate in nearly seven years in June, plunging 8.5 percent as a faltering economy and rising jet fuel prices pushed shippers of expedited freight to other modes.

The decline measured by the Air Transport Association was the worst since December 2001, when domestic air cargo traffic fell 15.1 percent in the industry-crippling aftermath of the 9/11 terror attacks. The 951 million cargo ton miles flown by U.S. airlines were the smallest total for any June since 2001.

That left domestic air cargo down 1.1 percent for the first half of the year, putting the business on track for the third annual decline in the past four years.

International cargo grew 2 percent in June, pushing airlines' overall traffic down 2.9 percent compared to the same month a year ago. That was the worst monthly showing since May 2005.

Many U.S. airlines are scaling back domestic capacity in favor of international business, however, and international cargo was up 6.1 percent in the first six months even after the meager gain in June.



## Airlines Shift on Surcharges

With rising jet fuel prices and surcharges exacting a greater toll on air freight business, Air France-KLM is taking action on the fundamental structure of the surcharges.

As introduced in previous edition of KWE Industry Update, the cargo divisions at Air France and KLM new fuel surcharge mechanism is based on flight miles to better reflect today's realities of punishing high jet fuel prices and to provide forwarders a more transparent method of collecting the fee from customers.

The revised mechanism represents a complete change of the present model for air cargo surcharges. Effective Sept. 1, these two carriers will incorporate the fuel surcharges into the shipping rates

The U.S. dollar will serve as the basis for the new mechanism and be converted to the euro and other currencies for invoicing. Existing exchange rates will be used to determine the new fuel surcharge levels should prices increase or decrease.

The new model will be based upon short haul, medium haul and long haul flights, and fuel surcharge increases and decreases will now be implemented in steps of ten cents instead of 5 cents.

The shift comes as jet fuel prices have soared, pressed higher by oil prices that surpassed \$140 a barrel last month. Prices on all major air markets averaged close to \$4.20 a gallon by the middle of July, and the daily spot price hit a record \$4.392 a gallon in Rotterdam on July 3, more than double the price a year ago.

The Air Transport Association of America says \$1 in fuel is equivalent to \$470 million in annual costs for its carriers, meaning the price run-up in the past year has pulled nearly \$1 billion out of the airlines.

Please visit [www.afkclargo.com](http://www.afkclargo.com) for more details.

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*Two carriers implement a significant change of the present model for air cargo surcharges.*

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## China Relaxes Hazmat Embargo

The Civil Aviation Administration of China lifted its embargo on certain vehicles, mini-generators and magnetized material.

Before and during the Olympic Games in Beijing, the Chinese government imposed a variety of restrictions on foreign and domestic carriers. Some of those restrictions and bans shifted during the period leading up to and including the Games.

Chinese authorities were concerned with shipping security and bans on certain manufacturing activities in and around cities active in the Olympics.

Foreign airlines must still obtain Foreign Carrier Operation Certification from the CAAC. Documentation is required for the transportation of certain higher-risk medical products and components.

## Carrier News

- The Greater Toronto Airports Authority will be welcoming **Lufthansa Cargo** to Toronto Pearson International Airport as of Sept. 2. Lufthansa will be flying twice weekly service from Frankfurt using MD-11 freighters. This will provide the Canadian market with approximately 90 tonnes of air freight capacity on each flight. This shows that the demand for additional reliable cargo service exists and confirms Toronto's position as the largest air freight market in Canada.



The new service provides a non-stop from Europe's biggest cargo airport to Canada.

- **Air France-KLM** and **China Southern Airlines** are planning to run 93 flights a week in the spring of 2010 under a new cargo joint venture.

The joint venture will operate from the airports of Tianjin, Shanghai and Guangzhou and aims to have 10 aircraft by August 2009, increasing to 12 in July 2010.

- Shanghai-based **China Eastern Airlines (CEA)** will launch a business aviation service company that will, among other services, provide ground handling and maintenance for private and charter flights.

The new venture will be a wholly-owned subsidiary and will receive an investment of RMB50 million (\$7.3 million). CEA has no plans for the purchase of business aircraft but could look at the possibility of reconfiguring some of its existing aircraft. It is also in negotiations with an American company that may place its four business jets in Shanghai early next year.



- **Air New Zealand** has launched a direct flight from Beijing to Auckland, the first non-stop flight from Beijing to New Zealand. The new non-stop service will operate twice a week using Air New Zealand's new Boeing 777-200ER aircraft. Flights will leave Beijing on Thursday and Saturday and return from Auckland on Wednesday and Friday (local time).

- **MOL** has begun its Africa service at Shenzhen's Da Chan Bay Terminal One with seven vessels. Each vessel has an average capacity of 1,600 TEUs and will be at the terminal as they sail between Shanghai, Xiamen, Hong Kong, Singapore, Tamatave, Durban and Maputo.

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

Notice of fuel surcharge increases by ocean carriers for export shipments. There are two separate charges. One is the standard **Bunker Adjustment Factor** (BAF), 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 **Sept 01 – Sept 30, 2008**.

### BAF:

	<b>Eastbound (to USA)</b>	<b>Westbound (from USA)</b>
20' container	USD 1192.00	USD 1192.00
40' container	USD 1490.00	USD 1490.00
40'HQ container	USD 11676.00	USD 1490.00
45' container	USD 1886.00	USD 1490.00

### IFC:

Inland transported by truck: \$134 per container

Inland transported by truck and rail combination: \$464 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 – September 2008

13	September	<b>The Harvest Festival</b> – South Korea
15	September	<b>Mid-Autumn Festival</b> – China, Hong Kong
15	September	<b>Swiss Federation Fast</b> -- Switzerland
24	September	<b>Heritage Day</b> – South Africa
1	October	<b>Hari Raya Puasa</b> -- Singapore
3	October	<b>National Holiday</b> – Germany

*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*