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2012 HARMONIZED SYSTEM CHANGES

Changes resulting from the World Customs Organization fourth review of the International Convention on the Harmonized Commodity Description and Coding System, commonly referred to as the Harmonized System, will preserve existing levels of industry protection and margins of tariff preference that apply to imported goods, including goods imported under Australia's free trade agreements. As a signatory to the Harmonized System, Australia is required to implement the changes resulting from the fourth review. The revised code was introduced with effect from 1 January 2012. The fourth review amendments concentrate primarily on environmental and social issues that are of global concern. This includes the use of the Harmonized System to identify goods that are of importance to the food security programme of the Food and Agriculture Organization of the United Nations. It also includes the creation of new subheadings for specific chemicals, which will facilitate the monitoring and control of international trade in these products.

MAERSK ENDS SYDNEY CONGESTION FEE

Maersk Line suspended its congestion surcharge of $100 per 20-foot container imposed earlier on shipments to and from Sydney, Australia. The Danish carrier said the congestion and delays that gripped the country's leading container gateway over the past few months have subsided recently, allowing restoration of "near" normal services. "While the situation at Sydney is still not optimal and continues to add costs for shippers servicing Sydney, we are working with various service providers to enable improved service levels," the carrier said. Maersk, the world's largest liner operator, said it will *(Continued on Page 2)*

INDONESIA'S ENTRY INTO REGIONAL TRADE GROUP

Trade Minister Craig Emerson has welcomed the entry into force for Indonesia on 10 January of the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA), hailing it a milestone in the relationship between the two countries. The move means the proportion of Australia's current merchandise exports eventually entering Indonesia tariff-free will rise from 56 per cent to 92 per cent. Another 5 per cent of Australian exports will enjoy tariffs no greater than 5 per cent. For Indonesia, 99 per cent of its current merchandise exports to Australia will enjoy tariff-free treatment, rising to 100 per cent when the agreement is fully implemented. "Indonesia has a fast-growing economy that is forecast to enter the global top 10 by 2030," Dr Emerson said. "As one of the Asian success stories in this, the Asian Century, its value to Australia and the region as a trading partner and friend is huge. "We welcome Indonesia to this high-quality agreement and look forward to forging ever-closer trading and investment ties with our dynamic neighbour." AANZFTA is the most comprehensive trade agreement ever negotiated by ASEAN. It covers goods, services, investment and intellectual property. ASEAN and New Zealand together account for 18 per cent of Australia's total trade in goods and services.

INSIDE

(Continued from Page 1) continue to closely monitor port conditions throughout Australia and take appropriate measures to achieve service improvements.

GLOBAL SLOWDOWN TO PUT BRAKES ON GULF AIRLINES

Gulf carriers could see their aggressive growth checked this year by weaker air traffic due to the slowdown in the global economy, making route expansion more difficult and prompting some airlines to delay aircraft deliveries, analysts say. High oil prices and conflict in the Middle East led to soaring fuel bills and plunging profits among Gulf airlines, Dow Jones reported. Yet, despite the challenging conditions, they have continued to expand rapidly, opening up dozens of routes and lavishing billions of dollars on new aircraft to grow their already chunky fleets. This freewheeling expansion could be thwarted by expected weakening demand for air travel in 2012 due to a lacklustre global economy. Analysts expect Gulf airlines to face a similar slowdown in passenger volumes but say they are better placed than older carriers in the West to weather any downturn in the industry. "I don't think they will be able to sail completely around the storm," said Andrew Charlton, an analyst at Switzerland-based consultancy Aviation Advocacy. "Over time, constantly expanding the amount of capacity requires constantly growing markets. That might be a challenge in 2012." Tony Tyler, secretary general of IATA, said in November there were "good reasons to expect weakness in demand" this year in passenger volumes. IATA said year-on-year worldwide air travel growth slowed in October to 3.6 percent, down from 5.6 percent in September. One way to absorb this falling demand is to defer aircraft deliveries, according to some experts. "I think they've got sufficient flexibility to slow down orders so they wouldn't need to take the aircraft when they originally were going to," said Peter Morris chief economist at UK-based aviation consultancy Ascend. "It may well be they need to slow down their expansion to reflect market conditions," he added. Because Gulf airlines are some of the biggest buyers of commercial jets in the world, they have the bargaining power with top two plane makers Airbus and Boeing to renegotiate delivery schedules if they wish. A spokesman for Dubai's Emirates Airline said there were "no plans to delay any aircraft deliveries". Abu Dhabi's Etihad Airways and Qatar Airways said they didn't plan to defer deliveries in 2012. Qatar Airways has orders worth over US$50 billion for more than 250 aircraft, while Emirates' order book is valued at around $84 billion. With their modern fleet of fuel-efficient aircraft and favourable geographical positioning between Europe and Asia, Gulf carriers will continue to grow at the expense of the so-called legacy carriers in Europe and the US, analysts say. "At the end of 2012 their share of global air transport will be greater than it is at the start of 2012," said Charlton. Increasing frequencies on existing destinations could also drive growth, he added.

WORLDWIDE FREIGHTER BASE TO GROW 4 PERCENT ANNUALLY

According to a worldwide freighter forecast recently compiled by OAG, the installed base of jet freighter aircraft will hit 2,629 vehicles by 2021, representing a 4.1 per cent compound annual growth rate (CAGR) from 2011's total of 1,755 aircraft. This increase will come in the form of 631 new aircraft and 768 conversions, the majority of which will be 757s. Nearly 570 freighters will be retired in the next 10 years. Surveying the current landscape, OAG found that 61 percent of the freighters currently in operation are wide-bodies, 37 per cent are narrow-bodies and 2 per cent are regional aircraft. Wide-body aircraft will increase by 10 percent in the next 10 years, but narrow-bodies will decrease to 28 per cent and regional aircraft will be cut in half. Of the retired aircraft, 50 per cent of the total will consist of 727, 747 and 757 planes. The sharpest increase in freighters will happen in the Asia-Pacific region, according to OAG. India is expected to see a CAGR of 10.5 per cent, and China's freighters will increase by 9.2 per cent. The majority of these planes, OAG revealed, will consist of 777-200Fs, 747-8Fs and A330-200Fs. Worldwide, 210 deliveries of -200Fs and 162 deliveries of -8Fs are anticipated in the next 10 years. Airbus will deliver 132 330-200Fs to carriers around the world in the next decade. With these significant increases in freighters come the increased costs of aircraft modifications, new components, and line, engine and airframe maintenance. Over the next 10 years MRO spend will rise from $5.4 billion in 2012 to almost $8.6 billion in 2021, according to OAG.

BOX LINES 2011 LOSSES FORECAST TO TOP US$5BN

Fight for market share eroded spot rates by 50% on key routes and, so, global box lines are forecast to post a collective loss of $5.2bn for 2011. Last year's expected shortfall compares badly with the joint profits of $17bn in 2010. At the start of 2011, Drewry Shipping Consultants had been anticipating that lines would remain in the black but carrier strategy then shifted from a clear focus on the bottom line to an all-out fight for market share. That sent freight rates crashing, with spot rates on head haul routes eroded by more than 50% over the course of the year. Drewry concludes in its Container Forecaster review that 2012 "will be another challenging year for liner operators". With uncertainty over the strength of global demand, delivery of big ships will continue to be a problem. That means carriers' future lay-up strategies will dictate whether or not they make money. Although relatively few ships are currently being idled, Drewry expects laid-up capacity to reach as much as 8% of the global fleet during the second half of the year, equivalent to between 1.3m and 1.2m teu. Inactive capacity peaked at around 1.5m teu during the 2009 downturn. Commenting on current market conditions, Drewry's head of container research, Neil Dekker, said that unless a substantial amount of tonnage is put into layup soon, "the consequences could be dire".

AUSTRALIA RECORDS ITS NINTH CONSECUTIVE TRADE SURPLUS

Australia continued its strong trade performance in November last year, recording a $1.4 billion surplus. It was the ninth consecutive monthly trade surplus for Australia – a solid performance in the face of continuing global economic uncertainty. The November surplus, released by the Australian Bureau of Statistics in its monthly International Trade in Goods and Services series, was similar to October's trade surplus, with exports up 0.2 per cent and imports up 0.4 per cent. A rise in exports of non-monetary gold (32 per cent), partially offset by lower exports of metal ores and minerals, was largely responsible for the rise in total exports. Exports of manufactured goods increased 4 per cent, with exports of transport equipment up 10 per cent. Rural exports rose 1 per cent, with shipments of cereal grains and preparations up 16 per cent. Exports of metal ores and minerals fell 4 per cent in November, as shipments of iron ores and concentrates fell 22 per cent on lower volumes and prices. Australia's merchandise exports to North Asia were down 8 per cent in November, although a 7 per cent increase in total exports to the Republic of Korea was driven by a sharp rise in coal exports. Services exports fell 2 per cent and services imports rose 1 per cent in November. The rise in total goods and services imports was driven by a 6 per cent rise in capital goods imports.

CHINA PRODUCTION ADVANTAGE ERODES AS US, MEXICO GAIN

The cost advantage of manufacturing products in low-cost manufacturing locations in Asia will erode in comparison to the U.S. and Mexico in 2012, according to a new report by global consultancy AlixPartners. China, which is experiencing negative pressure as an exporter because of wage inflation, exchange rate pressures and higher freight rates, could lose its cost advantage vis-à-vis U.S. production in four years if freight rates rise at 5 percent annually, according to the 2011 U.S. Manufacturing-Outsourcing Cost Index. Products produced in Mexico had the lowest landed costs for U.S. importers in 2011, while other key low-cost countries, including India, Vietnam, and Russia, had higher landed costs than Mexico for exports to the U.S., but remained more competitive than China. While the U.S. regained some cost advantage relative to the major low-cost countries in 2011 due largely to the weak dollar, AlixPartners said the major LCCs maintained a cost advantage over U.S. domestic suppliers, with savings potential similar to that seen in 2005-2006. Since 2007, Mexico, some locations in Europe and locations in Asia other than China have gained a competitive advantage for offshore manufacturing. In addition to Mexico, emerging LCCs, including India, Vietnam, Russia and Romania, had lower landed cost for their exports to the U.S. While China may not lose its cost advantages over the U.S., the report says U.S. manufacturers could face challenges if they continue to rely on China for their supply base and don't adopt a flexible sourcing strategy.

NORFOLK ISLAND AIRLINE CONTRACT AWARDED

Air New Zealand has been awarded the contract to operate regular return airline services to Norfolk Island from Brisbane and Sydney. The Federal Government awarded the contract following a tender process for an underwritten air service to the Island. Air New Zealand will commence services in March 2012 using a 168-seat A320 aircraft. Regional Development Minister Simon Crean said the announcement was a great outcome and natural fit for the airline. "Air New Zealand has operated into Norfolk Island since 1947 and has significant presence in the Tasman market," Mr Crean said. "The airline currently operates a weekly service between Auckland and Norfolk Island. "Attracting a carrier of this size and experience will kick-start Norfolk Island tourism activity and provide greater economic opportunities for the community. "The contract means the Norfolk Island Government will no longer have to carry the huge financial cost of running an airline. "Those funds can now be directed towards other important community services and infrastructure. "The Federal Government's commitment to underwriting an air service to Norfolk Island is part of the broader strategy to achieve a sustainable future for the Norfolk Island community."

EMIRATES PLANS TO ORDER MORE A380S

Emirates Airline, the largest customer for the Airbus A380 superjumbo, is hoping to soon place more orders for the 525-seat aircraft made by EADS's Airbus unit, the airline's chief executive told a

German newspaper. "I am personally very keen to get more A380s. I hope that we will soon order some," Emirates CEO Tim Clark was quoted as saying by daily Sueddeutsche Zeitung. Any purchases on top of the 90 superjumbos already ordered would depend on how much capacity could be created at Dubai airport, he was quoted as saying. "Almost all the flights with the A380 are full," Clark said, adding that he had never experienced an aircraft quite as popular. Emirates continues to see good demand, the CEO added. "At the moment planes are still pretty full."

PORT BOTANY SEES STRONG BOX THROUGHPUT

Container volumes through Port Botany rose 5.6% in November to almost 184,000 teu. Full containerised exports were 1.3% higher on the same period in 2010 to over 37,000 teu thanks to commodities such as cereals, chemicals, machinery and transport equipment, Sydney Ports Corporation said. Machinery and transport equipment, miscellaneous manufactures and chemicals boosted full containerised imports by 3.3% to almost 93,000 teu. These goods, which included motor vehicle parts and agricultural machinery, made up 31% of total full exports and 59% of total containerised imports, SPC chief executive Grant Gilfillan said. Mr Gilfillan said that the strong trade result was significant. "After a previous month when maintenance and industrial relations issues at Port Botany created congestion at the quayside, our strong trade performance is back on track," Mr Gilfillan said. Containerised imports through Port Botany were mainly sourced from East Asia (49.3%) and south east Asia (15%). Port Botany's third terminal, scheduled to open in 2013, will provide a "major boost to capacity and competition at the port," Mr Gilfillan said.

US MANUFACTURING JUMPS TO SIX-MONTH HIGH

A closely watched gauge of U.S. manufacturing activity rose in December, indicating the 29th consecutive month of expansion, and similar indexes showed improvement in China, India, the U.K., Switzerland and Australia. The Institute of Supply Management said its purchasing managers' index of U.S. manufacturing activity registered 53.9, up from 52.7 in November. Readings above 50 indicate expansion. "Manufacturing is finishing out the year on a positive note, with new orders, production and employment all growing in December at faster rates than in November, and with an optimistic view toward the beginning of 2012," said Bradley J. Holcomb, chair of ISM's manufacturing business survey committee. Strength in U.S. manufacturing comes as the decline in China's factory output slowed, according to the latest HSBC Purchasing Managers' Index. A gauge of U.K. factory output based on a survey by Markit Economics and the Chartered Institute of Purchasing and Supply rose to 49.6 from a revised 47.7 in November. Demand for U.K. exports has been affected by the sovereign debt crisis in Europe. Australia's monthly manufacturing index rose 2.4 points in December to 50.2, its first expansion in six months.

US EXPORT GROWTH WILL OUTPACE GDP IN 2012

The value of U.S. exports in 2012 will grow at twice the rate of GDP, with the value of outbound shipments expected to expand 5 to 6 percent, said a Moffatt & Nichol analyst. Walter Kemmsies, chief economist at the port design and engineering consultant, said he expects U.S. GDP to grow 2.5 to 3 percent this year. Kemmsies said the export of agriculture products, particularly of oil seeds and grains, could drive the next U.S. economic cycle. "As people move from rural to urban areas to take high-paying jobs," he said "their diets tend to become more protein-oriented, in particular beef, and they want better clothing." U.S agriculture exports have been key to President Obama's push to double exports by the end of 2015. American farmers exported roughly $135.5 billion in products abroad last year, a 17 percent increase from 2010. Farm exports have grown at an average annual rate of 2.6 percent since 2004.