Cruising For New Feeder

Executive Director of Samudera Shipping Line Ltd Mr Dhrubajyoti Das spoke about the company's positioning in a world economy rapidly evolving in the face of globalization.

The pace of globalization increases with each passing day as the company embarks on a series of diversification efforts to bring its business of feeder shipping worldwide.

Q1: Does the company have any safeguards in place against the effects of fluctuations in freight rates and energy prices?

We don't hedge bunker prices. We feel that it is too dynamic and requires lots of expertise to follow the oil prices and to read the marketing before hedging it. We feel that whatever happens to the market will affect the whole industry and we, being an active member in the industry will be able to react in the same manner as the rest of the industry. We have actually discussed the subject many times and made a deliberate conscious decision not to go into the business of hedging. If you hedge, all it would do is to give you a surety of cost. But the question is what price does the surety have to be bought at? Prices might change 3 months down the road and then we might be at a cost disadvantage against our competitors. Also, we do not have the confidence in reading and tracking oil prices, which constantly fluctuate unless we have say, a dollars per tonne contract signed for a medium to long term period. This means we have to carry that quantity of cargo and we get paid in dollars per tonne and therefore, the bunker cost is our cost. In situations like this where we have a forward visibility of our revenue then we would not mind hedging ourselves against the bunker price as long as we manage costs within a certain band.

Q2: In relation to the company's Industrial Shipping business, what percentages of revenues come from medium and long term contracts respectively?

In equivalent daily earnings terms, between 60% - 70% of the revenue is on the basis of medium to long term employment while between 30% - 40% of the revenue is on the basis of short term employment.

Q3: How often are vessels from the industrial fleet put in dry dock for maintenance routines?

Irrespective of whether they come under container or industrial shipping, the ships are classed under certain groups of specification societies which are internationally renowned and of high standards. All good shipping lines will have their ships classed under this international Association of Classification Societies. All these different classes, we have the same policy which is that every 5 years, the vessels have to be put through a special survey and in-between there will be an intermediate survey which happens every two and a half years. So, you can say that every two and a half years, the vessel is going for dry docking and a major dry docking that has to take place every 5 years. The special survey scope is usually more exhaustive than that of the intermediate survey and therefore the dry docking period for the special survey will be longer.

Q4: Is the launch of the Chittagong Express in March 2007 expected to have a significant impact on the earnings of the company for the next two quarters?

I do not think it is going to have a significant impact on earnings over the next two quarters. But we see it as a strategic move. Chittagong is and will remain as a feeder port because of its draft restrictions and the way the port is situated. That is the single most important port of Bangladesh so all its cargo goes through this feeder port. Therefore for companies like us who provide feeder services, it's important that we play a role in that part of the business. Typically, our customers would require frequency and availability. Frequency means that you need to have the ability to have so many freight movements in a given period of time and that's the Catch 22 situation because if you do it on your own and you cannot fill your ship by trying to provide some frequency, you end up losing a lot of money. The way we have addressed that is to have a partnership with other players where we take space in their vessels and they take space in ours to take advantage of the frequency of our partners going to Chittagong and back. Hence in this area, we are able to compete on an even footing with the major players. We believe we are able to take it to the next level in a few months time depending on how things work out. So once we have our footing there, we will be able to increase volume and capacity and have the advantage of economies of scale and contribute to earnings in the future. But at the moment, it is not going to be a significant contributor to our earnings.

Q5: What are the company's competitive advantages against bigger players in the shipping industry?

All the bigger shipping lines are going for huge ships, mega ships for economies-of-scale. As the ships get bigger, it also means that the product/day cost of the ship becomes that much higher. That means that there is less room for inefficiency at the port. What it means is that as the ships get bigger the numbers of ports which can handle such big ships also get less. Not every port can handle such big ships. The number one reason is the draft issue or the depth of the port to handle ships of that size. The second reason is the management of the port; mere physical infrastructure is not good enough. In order to turn around a big ship quickly, you need to have enough space behind your berth so that you can discharge your containers, load them and turn them around quickly. Many smaller ports

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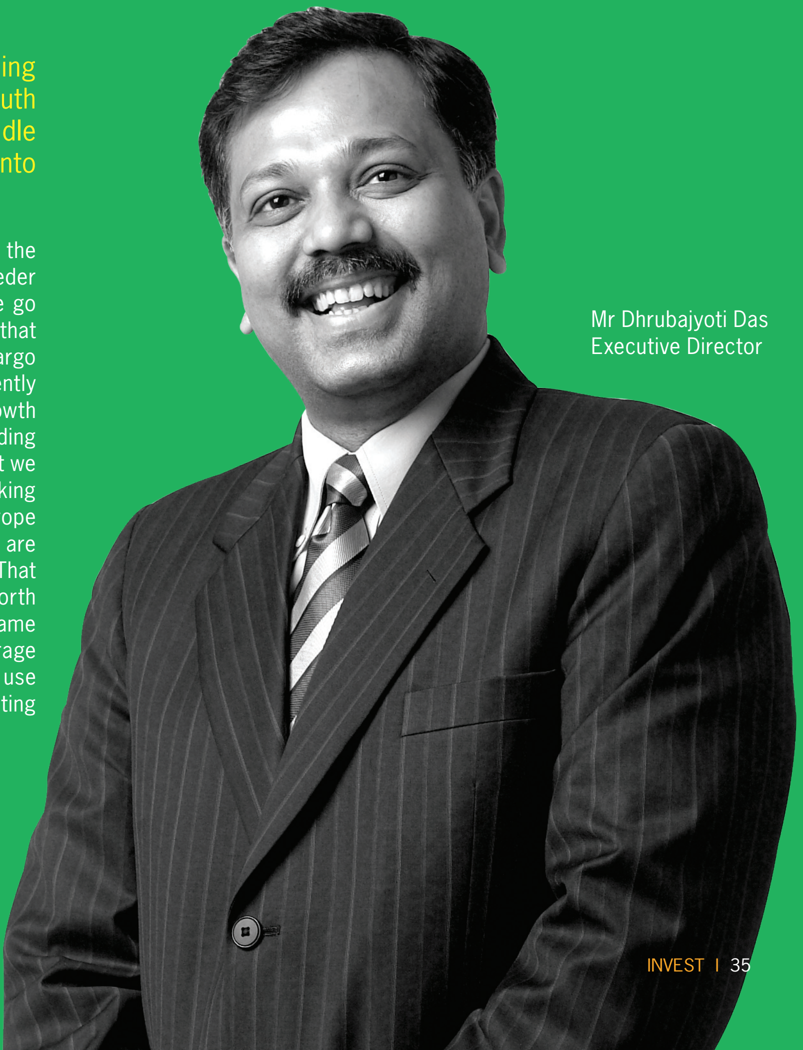
in Europe are struggling today in handling these big ships. That puts added pressure on the schedules of the big ships because of the longer turnaround times. What this means is that the bigger ships call at big ports and let the feeder companies like us handle the cargo from the big ports to the smaller ports. So the hub-to-hub game is played by the bigger shipping lines and the spoke-to-spoke game is played by the smaller feeder lines like us. The 3 strong pillars of globalization in terms of transportation include the hub port, major shipping lines to provide global shipping and the feeder shipping companies that carry cargo from the spoke ports to the hub ports and vice versa. We think that feeder shipping will have a continued role to play in the increasingly global nature of economies. The bigger shipping lines will need the services of companies like us. Hence, we will have room to grow.

Q6: The sailing schedules for your container shipping business cover major regions in the world including South East Asia, the Far East, the Indian Sub-Continent, the Middle East and Africa. Are there any future plans to expand into Australia and elsewhere?

The Australian market poses some challenges in the seasonality of the cargo and that the market is also pretty much well covered. The feeder scope of spoke to major ports there is very limited because people go there direct and so the imbalance of cargo is quite big. But we think that there could be opportunities in specifically niche areas like regional cargo moving from Indonesia to Northwest of Australia and we are currently studying possibilities. In terms of geographical diversification of growth we have plans to look at the Mediterranean and North Europe in providing feedering services. But I think we need to distinguish ourselves in that we are not connecting Asia to Europe or the Mediterranean. We are talking about providing the feedering services around the hub ports in Europe and the Mediterranean. In other words we are "copy pasting" what we are doing in Singapore and replicating it to another hub somewhere else. That hub could be in Dubai, the Red Sea, and the Mediterranean or in North Europe. Also, the customers that we serve here in Singapore are the same customers we expect to serve in other locations. So we hope to leverage our relationship that we have with our customers in one location and use that to our advantage by penetrating into new markets where our existing customers are also at. ■■



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