

## **FAQ on Shipping Industry Restructuring**

### **1. What is the background behind the ship purchase and debt restructuring program?**

The global economic downturn has led to a drop in shipping volume, and the shipping industry has deteriorated as a result. Accordingly, some concerns have risen that the industry restructuring could trigger a sharp decline in ship prices as companies are forced to sell their ships due to their waning purchasing capacity potentially causing market malfunctioning.

Therefore, the Korean government has devised a ship purchase and debt restructuring program to purchase ships that are to be put out for sale as a result of restructuring. While this program will be led by the public sector, private investors are allowed to participate by purchasing ships at the market price as profit-making opportunities. Creditor banks and other interest groups will also be asked to take part as an appropriate step of loss sharing.

Through such measures, the government aims to cushion the market failure while facilitating the effective restructuring of shipping companies.

### **2. What is current progress with the credit risk assessment on the shipping companies by their main creditor banks?**

The credit risk of 38 shipping companies with debt amounts of more than 50 billion won is currently being assessed.

The assessment process will continue until the end of April. Once the assessment is completed, the government will devise support measures for restructuring and ship purchasing.

However, the government does not plan to disclose the result of the assessment as it may impact the global competitiveness of shipping companies.

Banks will voluntarily assess the credit risk of small-and-medium sized shipping firms.

### **3. What pricing method will the government adopt when purchasing the ships? How will prices be determined?**

Ship prices and freight charges have dropped significantly amid the economic crisis. Market prices such as recent transaction prices will be used to purchase ships. The final price will be determined by interested parties based on the transaction price and the level of freight charges.

### **4. What's the timeframe for the ship purchase?**

Currently, the National Assembly is reviewing to pass the legislative bill to allow for the Corporate Restructuring Fund which will be the main funding source for the ship purchase. In order to proceed with the purchase as soon as the law is passed, the government is making all the preliminary ground work. Further detailed plans for the ship purchase such as establishing a ship investment company and private investment programs will be devised in due course.

## **5. What is the current progress with the effort to establish the legal framework for a ship investment company, and what are the expected results from this?**

The main gist of the bill is to lift regulatory hurdles for investors as to ultimately ease the funding process in investing in ship purchasing from companies under restructuring.

For instance, the required minimum investment period of 3 years and fidelity chartering period of 2 years will be removed. The bans on real asset investment in the ship investment corporation, issuing new equity after a completion or purchasing of a ship, and limitation on private bond amount will be also lifted.

The legislative bill was submitted to the National Assembly and will be reviewed as one of the priority bills subject to pass during the April session.

Because this bill's main effect lies in getting rid of legal restrictions in selling and purchasing ships, it is difficult to project its quantitative effects once the bill goes into effect. Nonetheless, taking into consideration the expectation that has been built in the market for this bill especially by the shipping and financial industries, we project that the new law will bring some stimulus effect to the market.

Most markedly, under the new law the flow of funds from the Corporate Restructuring Fund to ship investment companies will be greatly eased.

*\*1 trillion won of investment from the Corporate Restructuring Fund in a ship investment company is expected to bring about an investment effect equivalent to 3 to 4 trillion won of total asset size.*

## **6. What are the precedents in other countries?**

Germany: Germany's KG Fund, which was adopted as the prototype of Korea's ship investment company scheme, started in the 1960's providing tax benefits and other supports to strengthen its ship financing industry.

In 2007 the KG Fund provided financing equivalent to 10 trillion won and currently holds 30% of the world's container ships.

*\*By 2007 471 funds in total have been set up, invested in more than 600 ships worth 11.1 billion Euro (roughly 20 trillion won).*

Korea's top management company operates 30 funds invested in 30 some ships equivalent to 1 trillion won.

Singapore: Since 2006, the Singaporean government has been offering MFI or Maritime Finance Incentives through which significant tax benefits are being given to shipping companies in order to promote Singapore as Asia's ship financing hub. Among the tax incentives, most notably, shipping companies that use Singaporean ship financing companies can enjoy property tax exemption for the life time of each ship applied (more than 20 years) as well as the property tax exemption on the ship management company.

Also, numerous international ship financing companies have their Asian offices in Singapore.

Overall, many investors in Korea view now as the opportune time to invest in ships as their prices are perceived to have hit the bottom.

## **7. Korea Eximbank's loan program for ocean-going ship purchases**

Korea Eximbank will provide a total of 1 trillion won in loans to national shipping lines that build new ships (including ships currently being built) at a Korean shipyard.

Previously, Korea Eximbank only provided foreign currency-denominated loans for ocean-going ship purchases. The bank now plans to provide won-denominated loans to support the shipping industry.

Foreign currency loans by Korea Eximbank totaled \$2.3 billion in 2006, \$2.76 billion in 2007, and \$1.59 billion in 2008.

Korean shipping companies and special purpose companies (SPCs) located overseas but owned by Korean shipping companies may apply for the loan. The loan must be used to purchase ocean-going ships (ships that are used for ocean transport between domestic and foreign ports and between two different foreign ports).

Details of the loan contract terms are as follows:

- Loan amount: Up to 80 percent of shipbuilding contract value
- Repayment term: up to 12 years from the delivery date of vessel
- Repayment profile: Equal installments made at least once a year
- Interest rate: CIRR + Exposure fee or LIBOR + Exposure fee  
(CIRR stands for Commercial Interest Reference Rate and is the average return rate of five-year National Housing Bonds + 1 percent. This is 6.49 percent (5.49 percent + 1.00 percent) during the period from April 15, 2009 to May 14, 2009.)
- Securitization method:

<b>Plain vanilla method</b>	<b>Structured finance method</b>
Guarantee from banks or other suitable institutions or,  First priority mortgage over the vessel if the loan is secured by the borrower or the borrower's parent company	Establishment of escrow account on cash flow generated by the finance ships + first priority mortgage over the vessel (+ additional securities)

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