OECD COUNCIL WORKING PARTY ON SHIPBUILDING (WP6)

WORKSHOP ON MARKET DISTORTING PRACTICES

3-4 December 2009

ROOM DOCUMENT 1

SUBMISSION BY THE EUROPEAN COMMUNITIES PROVIDING ADDITIONAL INFORMATION ON GOVERNMENT SUPPORT

November 2009

SUBMISSION BY THE EUROPEAN COMMUNITIES

Information from open sources on possible government support in the shipbuilding industry

Korean sale and leaseback scheme extended

Keith Wallis - Monday 16 November 2009 Lloyds List

KOREA Asset Management Corp has widened its ship sale and leaseback scheme for South Korea's financially pressed shipping companies after inviting owners and financiers to offer further vessels to the scheme.

Kamco has also broadened the programme by allowing shipping lines and banks to put forward newbuildings that are due to be delivered within the next six months.

The government controlled body launched its Won480bn ($415.6m) fund in July and has so far bought and leased back 17 ships. Carriers including Hanjin Shipping, Hyundai Merchant Marine and STX Pan Ocean offered more than 60 vessels and negotiations are taking place for Kamco to buy a total of 45 ships.

Kamco confirmed on Sunday that it had extended the scheme and was accepting applications from carriers and banks to put forward further vessels for sale and leaseback.

The agency gave no deadline when the application period would close, although the sale and leaseback programme is only open to South Korean shipping lines and banks.

Kamco is also set to increase the size of the war chest available under the programme to around Won1trn although this is likely to be expanded further to Won4trn.

The Kamco scheme is closely linked to the Korea Development Bank 'Let's together' ship finance initiative.

The Kamco programme covers the sale and lease back of vessels, while the KDB fund helps provides finance to South Korea shipowners for newbuildings.

The bank agreed its first deal, a capesize newbuilding ordered by Korea Line, in October and is finalising a financial package for a further two Korea Line bulkers.

Seoul raises yard loan total-Fairplay

09, November 2009

SEOUL has decided to increase loans tied to ship construction to 3 trillion won ($2.6M), from 2.5 trillion won.

The Export-Import Bank of Korea is offering the money to eight South Korean builders that are being restructured.

Seoul seeks to shift these builders into ship repair, block fabrication or maritime leisure sector. The government would also extend medium and long-term export insurance to the Korea Export Insurance Co under the proposal.

The transport and maritime industry damage is increasing for Korean builders because of postponements and cancellations.

For this year's first nine months, the volume of new orders was less than 10% of the figures posted in the same period last year, it said.

S. Korean government widening scope of ship acquisition fund

KAIJI PRESS - 11/Nov/2009

The South Korean government has compiled an additional support plan for the country's shipping industry and reported it to President Lee Myung Bak on Nov. 5. In addition to increasing the investment ratio in the ship acquisition fund of the government's structural adjustment fund to 60% from the previous 40%, it has also widened applicable scope of the fund to include ships still under construction. Because the fund had thus far been used only by major shipping companies, the government has eased the requirements in an effort to see the fund more widely used, including by small and midsize companies.
In addition to this, the South Korean government's supplemental support policy has also eased loan-to-value (LTV) requirements for ship funding through the Export-Import Bank of Korea, and has widened the scope of insurable vessels by the Korea Export Insurance Corp. (KEIC) to include those owned by not only domestic but also overseas owners. Other than financial support, a government-led shipper, shipping and shipbuilding caucus has been established to examine the promotion of dedicated ships by the nation's maritime industry.

The ship acquisition fund is part of the policies the government mapped out in April 2009 for structural reorganization and enhancement of international competitive edge to combat the predicament the nation's shipping industry has been in since autumn 2008.

The fund works by buying ships and leasing them back to financially-battered shipping companies in the country in order to prevent them from dumping their ships on overseas buyers. **Funding is provided by the government structural reform fund and loans from financial institutes, while the Korea Asset Management Corp. (KAMCO) performs the fund operation**.

According to local media sources, the fund has thus far received purchase/lease-back applications for 19 ships from Hanjin Shipping, six from Hyundai Merchant Marine (HMM), eight from STX Pan Ocean and three from SK Shipping. Of those, the fund has acquired 16 ships from Hanjin and one ship from HMM. So far, only 480 billion won (about Y37 billion) of the initially planned four trillion won has been used to acquire ships, and there had been criticism from members of Parliament, among other parties, that most of its users had been large-scale enterprises such as Hanjin.

Koreans seeking to swell yard aid

Tradewinds weekly-13-11-09

Seoul's call for more cash for its yards is ruffling rivals' feathers.
The South Korean government has called for upward of $1bn in extra financial support to be injected into shipping and shipbuilding in a joint public/private initiative to get both sectors through the recession.

The stimulus package from state-backed financial institutions now tops more than $4bn and is likely to save more than 100 orders facing cancellation because of a lack of funding.
But it could also lead to claims of foul play from competitors seeking to eliminate subsidies and oversupply.

The government has asked the state-run Export Import Bank of Korea to increase its lending to yards by KRW 500bn ($432m). The bank had set aside some KRW 2.5 trillion to help them overcome the liquidity squeeze but it is now being urged to up the amount as the order drought continues.

In a separate move, Seoul has opened talks with the country's commercial banks, asking them to loosen their loan-to-value requirements for funding orders.
A 30% to 40% fall in newbuilding values has seen banks, which were previously prepared to lend up to 100% of the value of a ship, shrink that to just 60%.
One local broker says he is unsure if the banks will bite. "Korea is not a communist country and the government cannot force the banks, especially the private ones, to follow its instructions. This is just a guideline," he said.

But to help provide security to the banks, Korean Export Insurance Corp has been asked to increase its insurance cover for newbuilding loans from 95% to 100%.
The government is also providing an extra fiscal boost to Korea Asset Management Corp (Kamco), which has been running a programme to buy and bareboart charter back vessels to domestic owners.

State funding for these deals was restricted to 40% with the remaining 60% coming from senior lenders. Given the uncertainty in the market, the Kamco fund has only concluded deals for 16 ships worth KRW 480bn, as against its target of 62 ships.
In a bid to boost the fund, the state will now provide 60% of funding for the Kamco business. Prospective deals are in line for one VLCC and a containership for Hyundai Merchant Marine (HMM).

State-owned Korea Development Bank earlier set up the "Let's Get Together Shipping Fund" with some $1.8bn to finance newbuildings and secondhand acquisitions.
Funding for a Korea Line Corp (KLC) capesize bulker has already been provided and it is ready to finance two more of KLC ships. Forty-four other applications have been made for funding by 16 Korean shipping companies.

Increasing support for shipbuilding is set to rile competitors in Japan and Europe ahead of an OECD meeting in Paris to discuss state support for the sector. Each country has been asked to outline its shipbuilding assistance as part of an ongoing process to come to an international agreement on support and capacity. Korea's measures will be scrutinised to see if they breach international agreements on export credit.

European yards have made their own proposal for a subsidy scheme that will encourage the scrapping of older vessels operating within Europe and replace them with newbuildings from European yards.

The Chinese government is also offering a stimulus package to its shipping and shipbuilding industries.

Former Shipbuilders Association of Japan head Nobutaka Nambu recently hit out at subsidies on offer in South Korea and China. Speaking at the Asia Ship Industry Summit in Shanghai, he was quoted as saying such aid leads to "unnecessary subsidised ships, which will only serve to delay a proper economic recovery".

Korea Development Bank rescues DSME newbuild

Lloyd's List- 26 octubre 2009

THE Korea Development Bank has finalised its first ship finance rescue after stepping in to **provide $67m for a Korea Line capesize newbuilding on order** at Daewoo Shipbuilding and Marine Engineering, *writes Keith Wallis* **.**

The bank's shipping finance team head Lee Dong-hae told Lloyd's List that negotiations were also under way to arrange financing for two other capesize vessels that have been ordered by Korea Line. All three ships have been arranged on long-term charters, which was a key ingredient in KDB being able to arrange the finance.

Mr Lee said that the financial assistance was only available to South Korean shipowners, but moves were under way to launch a similar scheme for foreign owners with orders at South Korean yards.

Explaining the details of **the new agreement, Mr Lee said Korea Line ordered the capesize ship at a cost of $81m and made advance payments of $16m, leaving a funding gap of $65m.**

Under the auspices of the KDB, a senior lender agreed to provide $36m, with the bank providing the balance together with a further $2m to cover the cost of arranging the financial package. He said the deal worked because the bank used the value of future charter earnings to help bankroll the vessel, which will be chartered by Korea South-East Power.
Mr Lee said Clarkson and Drewry were used to carry out a ship valuation.
He declined to give many details about the other two bulkers because the bank is in negotiations with potential senior lenders, but he said one of the vessels was on order at DSME and would be put on long-term charter to Hyundai Steel, while the other would be constructed by STX Offshore & Shipbuilding and chartered to China Shipping Development.

State finance supports China's shipbuilding industry

KAIJI PRESS - 7/Sep/2009

Government-sponsored financial aid is the bread and butter that support the Chinese shipbuilding industry today. Under its "**shipbuilding industry adjustment promotion plan**," the government has defined (1) **provision of sufficient operating funds to shipyards and** (2) **expansion of financial support to owners who order export ships** as its top priority policies. "Funds made available to shipyards are actually working," a local shipbuilding official told Kaiji Press.

The total volume of fresh loans made by Chinese financial institutions in the first half of 2009 is estimated at 6 trillion yuan (about Y83 trillion). Believe it or not, the value is roughly equal to the state revenues in 2008. In the fall of 2007, the Chinese government tightened its monetary policy in what it called "window guidance". It shifted to an easy policy in November 2008. Banks, willing but unable to lend before, are now expanding their loan portfolio.

The bulk of bank loans has been reportedly funneled into the real estate business. Local media reports say that 70% of new loans have been set aside for small- and medium-size enterprises. But there is no doubt that a good amount of funds have been put into the shipbuilding business, which is one of China's top 10 industries.

In fact, the Nantong branch of the Bank of China made a Y150 billion loan agreement with Jiangsu Rongsheng Heavy Industries in June. Earlier in April, the Export-Import Bank of China (China Exim Bank) agreed to provide loans totaling more than Y2 trillion to China State Shipbuilding Corp. (CSSC) and China Shipbuilding Industry Corp. (CSIC), the state-run entities that have a number of shipbuilders under their wings.

Loans are being made not only to support shipbuilders' operations but also to finance their newbuilding programs. "At the initiative of China Exim Bank, four major state-run banks are stepping up their lending activities. The Bank of China is particularly aggressive," the shipbuilding official said. Due to the impact of the global financial crisis, South Korean banks are having difficulties raising dollar funds. But China has foreign exchange reserves totaling more than $2 trillion, the biggest in the world. This solid financial environment serves as lubricant for dollar-denominated ship finance.

China Exim Bank set up a credit line for National Iranian Tanker Co. (NITC) in August to finance the construction of 12 VLCCs. It also opened a similar facility for Spain's Arborec Desarrollos SA in July to cover 10 offshore drilling rigs. These facilities have begun to be turned into actual deals.

"Our government won't let down shipbuilders," the official said, adding that the proof of it is the abundance of its financial aid to them.

"So far, so good," he uttered tersely. According to him, the Chinese government has again begun to tighten its credit policy. It is worried about risks of nonperforming loans and possible stock market gyrations. The favorable financial environment for Chinese shipyards is not likely to persist long. Their future looks murky.

China, Korea Aid for Shipping Industry May Prolong Rates Slump

Bloomberg 10.11.2009

South Korea and China, the largest shipbuilding nations, are helping their maritime industries weather a cargo slump. Their aid may prolong the slowdown.

South Korea has committed 400 billion won ($345 million) to help shipping lines pay for new vessels. China has asked state- owned banks to boost lending to the industry as commercial lenders cut financing. Germany, home to half of the global container fleet, is also bailing out **Hapag-Lloyd AG**, its largest line.

Aid will safeguard ship orders even after overcapacity and slowing trade caused container rates to slide about 30 percent from a year earlier in the third quarter and **dry-bulk rates** to plunge 61 percent. The slump has led to a year of losses at **Evergreen Marine Corp.**, China Cosco Holdings Co. and Neptune Orient Lines Ltd., Asia's three biggest container lines, and forced lines including France's CMA CGM SA to seek state help.

"You should let companies fail," said **Khalid Hashim**, managing director of Precious Shipping Pcl, Thailand's largest shipping company. "All types of subsidies are bad news."

Shipping lines have been hurt as U.S. and European consumers pare spending on Asian-made goods. **U.S. unemployment** hit a 26-year high last month, damping consumer purchases in the world's biggest economy. Asia-U.S. container trade has fallen for at least eight consecutive months, according to Clarkson Plc, the world's largest shipbroker.

<u>Record Ship Orders</u>

At the same time, shipyards are completing vessels ordered during a trade boom that helped them win five straight years of record deals. Yards may deliver about 93.6 million gross tons this year, 41 percent more than in 2008, according to Clarkson. Next year, the tally may rise to 100.2 million gross tons.

"Demand has to explode to accommodate all this new capacity," said **Jay Ryu**, a Mirae Asset Securities analyst.

World trade will need to increase about 30 percent every year through 2011 to utilize the new vessels, he said. Instead, trade will likely fall 12 percent this year and then rise 2.5 percent next year, according to the **International Monetary Fund**.

The overcapacity and slumping demand has caused Singapore- based **Neptune Orient** to predict "significant losses" through at least the first half of next year. Mitsui O.S.K. Lines Ltd., operator of the world's largest merchant fleet, cut its annual earnings forecast 93 percent last month.

<u>Bankers Worried</u>

"We are worried about the state of the shipping industry," said **Maarten Vis**, senior vice president of DVB Bank SE's dry-bulk group. "Even the larger companies have been hit hard with falling rates. Banks don't like uncertainty."

(Indian) Government agrees to pay subsidy to shipbuilders

LiveMint.com – the Wall St. Journal – Feb 27 2009

The move will help shipbuilders such as ABG Shipyard Ltd, Bharati Shipyard Ltd, and Larsen and Toubro Ltd, among others, to claim subsidy on orders estimated to be worth Rs5,306 crore

Bangalore: The Government on Thursday agreed to pay shipbuilders a subsidy on confirmed orders signed just before 14 August, when a five-year scheme providing financial support ended.

State support: An ABG shipyard in Surat, Gujarat.The govt move will help shipbuilders claim subsidy on orders worth Rs5,306 crore. Ashesh Shah / Mint

The cabinet committee on economic affairs, or CCEA, approved the shipping ministry's proposal to that effect.

"The government of India has decided to liquidate the committed liability for payment of subsidy for ongoing shipbuilding contracts entered up to 14th August 2007, the date of expiry of the subsidy scheme," a government statement said after CCEA cleared the proposal. "Thus, subsidy shall be released for all the cases for which contracts had been signed by 14th August 2007, as it is the committed liability of the government of India."

The move will help shipbuilders such as ABG Shipyard Ltd, Bharati Shipyard Ltd, and Larsen and Toubro Ltd, among others, to claim subsidy on orders estimated to be worth Rs5,306 crore. They had until now been considered ineligible by the ministry because shipbuilders did not follow certain procedures to avail of the financial support on those orders. *Mint* had reported on the demand for payment Wednesday.

"This is a very good move as non-availability of subsidy on confirmed orders would have impacted the financials of shipbuilders," said Dhananjay Datar, chief financial officer of ABG Shipyard.

The scheme, introduced in the mid-1990s and since given five-year extensions, should be extended further, he said.

The shipbuilding subsidy scheme offered state-owned and private shipbuilders 30% extra on building ocean-going merchant vessels that were more than 80m long, if they were built for the domestic market.

For export orders, however, ships of all types and capacities were eligible for the subsidy.

This support is given to public sector yards in instalments, while private companies get it after the ship is built and delivered to the buyer.

(Indian) Govt drafting subsidy scheme to promote shipbuilding

Posted: Tue, Nov 24 2009. 11:23 PM IST

Incentives for local orders will help boost India's shipping capacity

P.Manoj

Bangalore: The shipping ministry is working on a proposal that encourages Indian fleet owners to buy from or build ships at local yards according to Rajiv Gupta, a joint secretary-rank official in the ministry.

The move will provide a fillip to the local shipbuilding industry, and cascade down into other industries. Shipbuilding is a capital, labour, and raw material-intensive industry.

The ministry's proposal could form part of the new shipbuilding subsidy scheme, currently being drafted by the ministry for the approval of the finance ministry and the Union cabinet.

"The earlier shipbuilding subsidy scheme was loaded in favour of export orders placed by foreign fleet owners," Gupta said. This scheme ended on 14 August 2007 after a five-year run.

The old subsidy scheme offered shipbuilders an incentive equal to 30% of the value of the order for building ocean-going merchant vessels that were at least 80m in length, if they were manufactured for the domestic market. For export orders, however, ships of all types and capacities were eligible for the subsidy.

The subsidy was given to state-owned shipyards in instalments, while private firms got it after the ship was built and delivered to the buyer.

"The earlier subsidy scheme was more beneficial to foreign fleet owners than Indian owners because they could buy ships from Indian yards at cheaper rates," added U.C. Grover, director in charge of the technical and offshore division at India's biggest ocean carrier, the state-run Shipping Corp. of India Ltd, or SCI.

This was because, Indian owners had to pay extra taxes and other levies for buying ships from Indian yards, which foreign owners were not required to pay. "This jacked up the cost of ships purchased by Indian owners from Indian yards," he said.

So while Indian owners placed orders for new ships at global yards, many foreign fleet owners turned to India to buy new ships, particularly small- and medium-sized carriers. This is reflected in the order book position of Indian shipbuilders. At least 90% of the around 250 ships currently under construction at Indian yards are for foreign fleets.

Gupta said the shipping ministry wanted to "remove the disadvantages" faced by Indian fleet owners in buying ships locally. "Subsidizing export orders only benefited foreign owners and did not contribute to the Indian economy," he added.

A policy shift in favour of domestic orders would ensure that the assets remained in India apart from boosting shipping capacity. Shipbuilders have been lobbying the government for a reintroduction of the subsidy scheme.

"Ships owned by Indian firms should be built in India," said a Larsen and Toubro Ltd executive who did not want to be identified. The firm is setting up a mega shipbuilding facility at Kattupalli in Tamil Nadu.

About half of India's shipping fleet by capacity is at least 20 years old, and needs to be replaced in five years, said Y.D. Khatau, vice-chairman and managing director of Varun Shipping Co. Ltd.

Shipowners say they were willing to support Indian yards in return for incentives from the government. "If a level playing field is created, why would we run around elsewhere for buying ships?" asked Grover at SCI, which plans to buy 40 new ships worth close to $2.5 billion (Rs11,650 crore) over the next four-five years to replace old ships.

"The new policy, if approved, would be a win-win situation for both shipowners and shipyards," said Dhananjay Datar, chief financial officer of ABG Shipyard Ltd, India's biggest private shipbuilder.

Indian shipbuilders and shipowners have been going through a tough time since September 2008 after the global liquidity crunch and the recession cut demand for trade and, in turn, for ships.