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KOREAN SHIPBUILDING POLICY OVERVIEW

(Paper by Korea)

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KOREAN SHIPBUILDING POLICY OVERVIEW

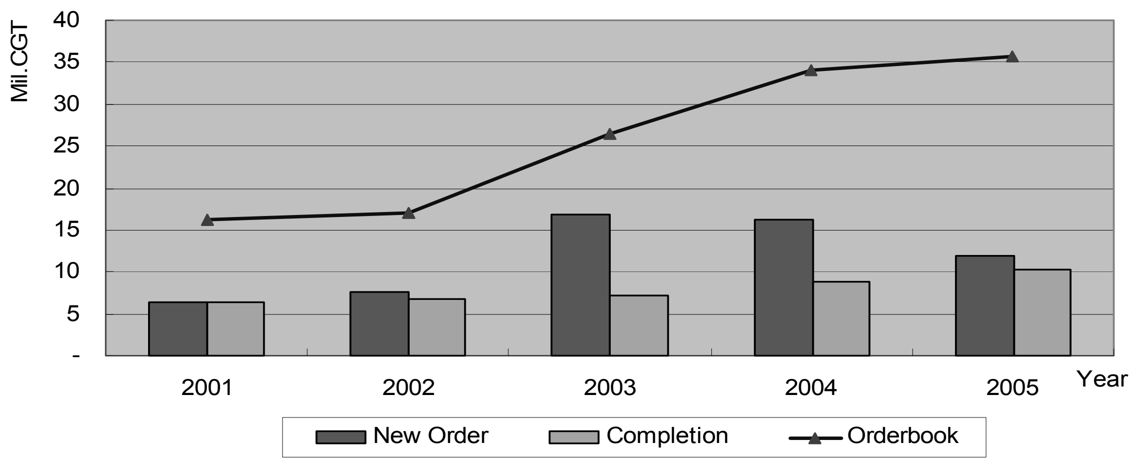
1. Overview of the domestic industry since 2001

1. Korea currently has 9 large shipyards registered with the Korea Shipbuilder's Association and around 58 small and medium-sized shipyards in operation with the Korea Shipbuilding Industry Cooperative. More than 95% of domestic output is produced in the 9 large shipyards, which namely represent the Korean shipbuilding industry.

2. This industry has seen continuous growth over the past 5 years. Since 2003, Korea has maintained its position as the world's number one leader in terms of new orders, completion, and orderbook. Such achievements are attributable to Korea's: rich experience; flexibility to respond to ship owners' demands; highly-capable human resources; technical innovation; and supply of high-quality marine equipment.

3. Another noteworthy factor is the unique environment in which both competition and cooperation are encouraged. Korean shipbuilders compete with each other for international bids, while they forge ahead in jointly developing commonly needed new technologies. Historically, these cooperative efforts resulted in the development of innovative technologies such as the ground-build and mega block methods.

< Table1> New Order, Completion and Orderbook trends in Korea



4. According to the data released by KSA, new orders placed by Korean large shipbuilders as of the end of September this year amounted to 15.6 million CGT, which is a 61.0% increase compared with 9.7 million CGT at the same period last year. By ship type, the data show that tankers shared 6 332 thousand CGT, or 39.9% of the total; container ships, 5,019 thousand CGT, or 31.6%.

< Table2> New Orders by Ship Type

(Unit : Thou. CGT)

	2002		2003		2004		2005		2006.9	
	No.	CGT	No.	CGT	No.	CGT	No.	CGT	No.	CGT
Tanker	126	3,291	229	6,247	187	4,663	122	3,142	200	6,332
B.C.	19	465	6	143	8	195	-	-	-	-
Container	71	2,719	202	8,469	159	6,033	162	5,588	106	5,019
Others	14	1115	33	1890	87	5416	65	3234	74	4231
Total	230	7,591	470	16,749	441	16,307	349	11,964	380	15,582

Source : KSA

5. With productivity improvement and sufficient workload, ship completions during the first nine months in 2006 marked 8.5 million CGT, an increase of 18.5% compared with those of the same period of 2005. By ship type, tankers shared 2 640 thousand CGT or 31.0% of the total ; bulk carriers, 142 thousand CGT, or 1.7% ; container ships, 4 423 thousand CGT, or 51.8% ; and other types, 1 337 thousand CGT, or 15.7%.

<Table 3> Completions by Ship Type

(Unit: Thou. CGT)

	2002		2003		2004		2005		2006.9	
	No.	CGT	No.	CGT	No.	CGT	No.	CGT	No.	CGT
Tanker	97	3,006	147	4,169	151	4,042	154	4,285	108	2,640
B.C.	19	362	6	132	14	349	6	143	6	142
Container	75	2,512	49	1,705	76	2,891	97	3,844	103	4,423
Others	19	943	21	1259	19	1596	28	1938	27	1337
Total	210	6,824	223	7,265	260	8,878	285	10,209	244	8,542

Source: KSA

6. As of the end of September this year, order books had recorded 43 million CGT, an 18.2% up over the 36.3 million CGT at the end of September 2005. This is more than a 3.5year workload.

<Table 4> Order Books by Ship Type

(Unit: Thou. CGT)

	2002		2003		2004		2005		2006.9	
	No.	CGT	No.	CGT	No.	CGT	No.	CGT	No.	CGT
Tanker	296	8,143	378	10,263	413	10,881	377	9,643	470	13,369
B.C.	24	552	22	536	16	378	10	235	4	92
Container	124	4,742	275	11,412	358	14,532	425	16,316	427	17,102
Others	52	3637	63	4198	131	8170	168	9446	215	12338
Total	496	17,074	738	26,409	918	33,962	980	35,640	1116	42,901

Source: KSA

7. As of the end of 2005, a total of 80,000 shipbuilding workers were employed by member companies of KSA.

<Table 5> Shipbuilding Employment

Category	2001	2002	2003	2004	2005
White Collar	11,400	11,200	12,000	11,900	12,700
Blue Collar	27,200	26,800	26,900	27,800	28,900
Subcontractors	25,300	26,900	28,000	32,100	39,000
Total	64,000	64,900	66,800	71,800	80,600

Note: KSA member companies only

8. The ship machinery and equipment industry in Korea consisted of 160 manufacturers and employed some 66 000 workers at the end of 2000 within the membership of the Korea Marine Equipment Association. They produce a wide variety of ship machinery and equipment, including engines, outfits, hulls, and electric and electronic products. The value of ship machinery manufactured in Korea was approximately 5.0 billion US dollars in 2004.

<Table 6> Ship Machinery and Equipment Production

(Unit: Mill.Won)

Category	2000	2001	2002	2003	2004
Hull	113,616	129,043	136,500	147,438	157,021
Engine	1,695,431	2,253,891	2,225,806	2,292,681	2,685,073
Outfitting	826,900	1,040,671	1,189,560	1,295,233	1,423,913
Electric&Electronic	312,466	464,898	542,728	580,350	691,053
Total	2,948,413	3,888,503	4,094,594	4,315,702	4,957,060

Source: Korea Marine Equipment Association

9. Korean shipbuilders also face challenges, however, such as the need to address spiraling costs and material shortages, as well as exchange rate volatility. In addition to problems with steel plates and exchange rates, the current shortage of skilled labor is a cause of growing concern in Korean shipyards.

2. Overview of the Korean Shipbuilding Industry Policy

2.1 Basic Direction

10. The vision of Korean shipbuilding industry is to maintain its position as the global leader in the future marine era. The basic governing principles in realizing this goal is to establish a level playing field for the industry to gain competitiveness through fair competition.

11. The Shipbuilding Industry Promotion Act was repealed in 1986. This was following the abolishment of the government's former industrial policy, which had separate policies for each industry. Since then, the shipbuilding industry has been treated in the same way as other industries without any particular treatment or support.

12. The focus of government’s role is to establish infrastructure necessary to the whole industry in common, as well as the institutional basis to promote fair competition. Also, due to the increasing number of rules being created in the international market, the government is also expanding activities in international organizations and enhancing its role as an active rule-maker.

2.2. Recent Policy Practices

Technology Promotion

13. In the 21st century, technology will drive and determine competitiveness. Therefore, technological advances, including the fusion of technologies, are crucial to raising productivity in all industrial sectors.

14. In this regard, the 'Industrial Technology Roadmaps' which are to provide the R&D guidelines to the business and to facilitate corporate investment are promoted in all industrial sectors with the participation of industries, universities, and research institutions. In the process of developing roadmaps, participants share the future vision of the industry and come to a consensus on technology development direction. In the shipbuilding sector, roadmaps are promoted in the areas of ships, parts, and marine plants.

Human Resources Development Program

15. In Korea, the shortage of skilled labor is growing to be serious problem. Therefore, various manpower education and training programs are encouraged such as the private-driven 'Sector Council', curricula in job-training schools and technical colleges, and the workforce demand and supply monitoring system. Sector Councils which are comprised of the industry, academic circles, and research centers analyze the status of workforce supply and develop measures to nurture human resources.

16. Due to the increasing ship orders, above-mentioned programs are also actively operated in the shipbuilding sector. These programs are especially needed for small and mid-sized shipyards, which have been experiencing difficulty in monitoring and meeting demand.

Active international activities as rule-maker

17. Korea is playing an increasingly active role as a rule-maker for regulations in the international shipbuilding industry by engaging in various conferences and rule-making sessions. We continue to be an active participant in bilateral and multilateral forums with other major shipbuilding nations, despite the suspension of the New Shipbuilding Agreement Negotiations in September 2005. With the increasing influence of international safety and environment regulations on the industry, Korea is expanding public-private participation in the IMO, ISO, IACS, and other international channels.