

State of the Korean Shipyard Industry
and Effects of the Financial
Crisis on the Shipbuilding Cluster

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Overseas Economic Research Institute

Korea Eximbank

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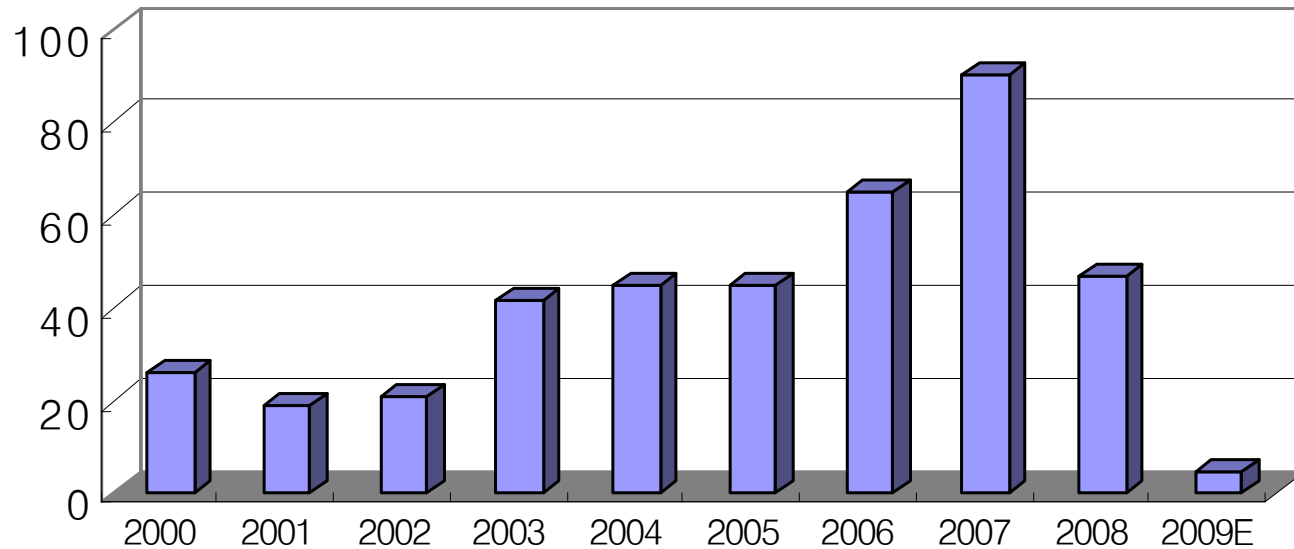
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I. World Contracts Trend

World contracts have rapidly decreased this year

World Contracts (M CGT)

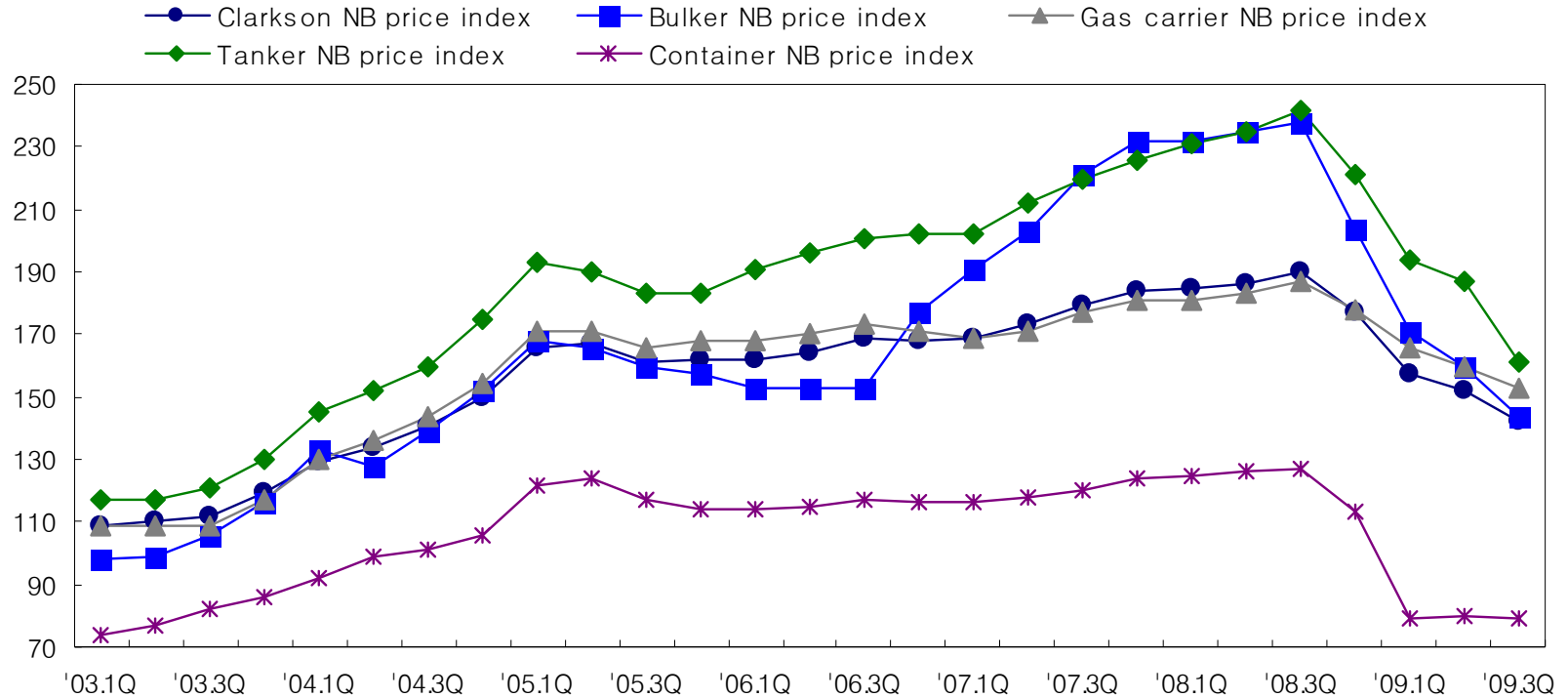


Source : Clarkson

- Key Issues :
- Global economic & shipping market recession
 - Sharp contraction in ship finance
 - Over supply of ships

I. World Contracts Trend

Newbuilding price has been going down and down.....

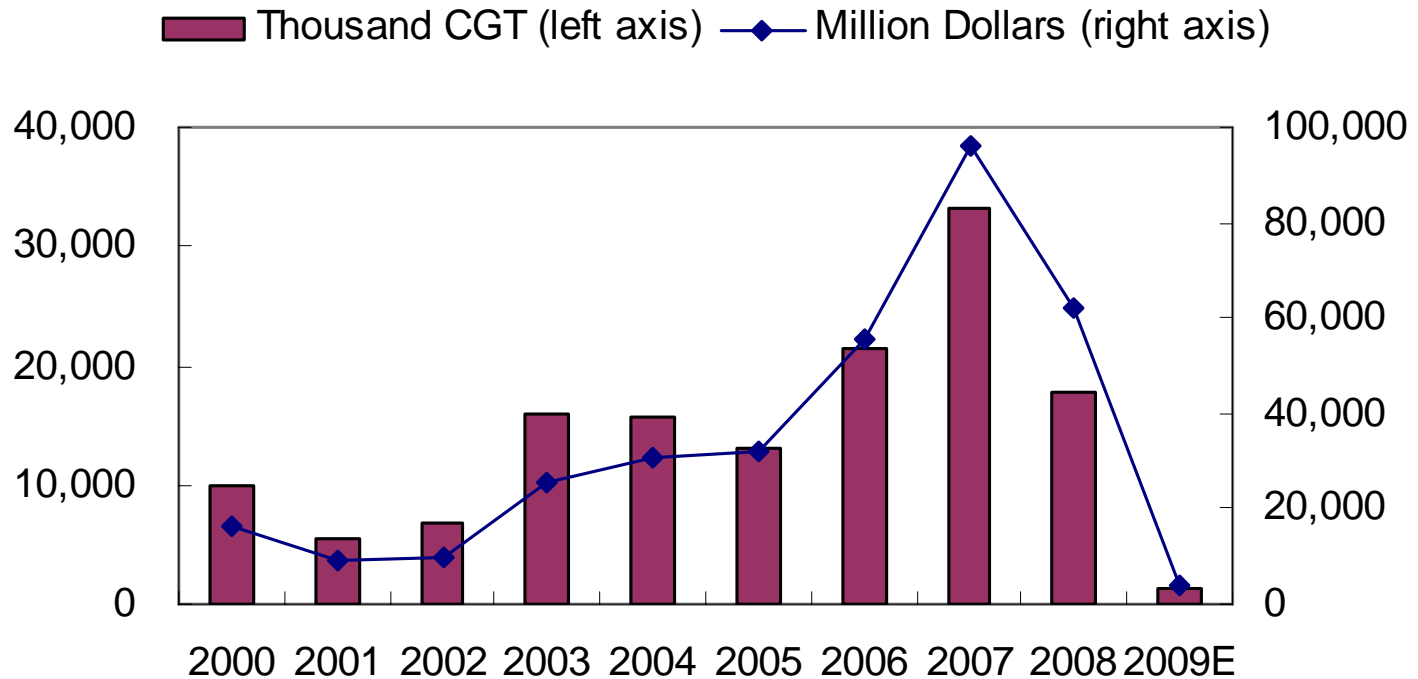


Source : Clarkson

- Compared with the peak value, 25~40% down.
- Chinese shipyards which have lower cost structure make it worse.

II. Korean Shipbuilding Industry Trend

Contracts have almost vanished this year

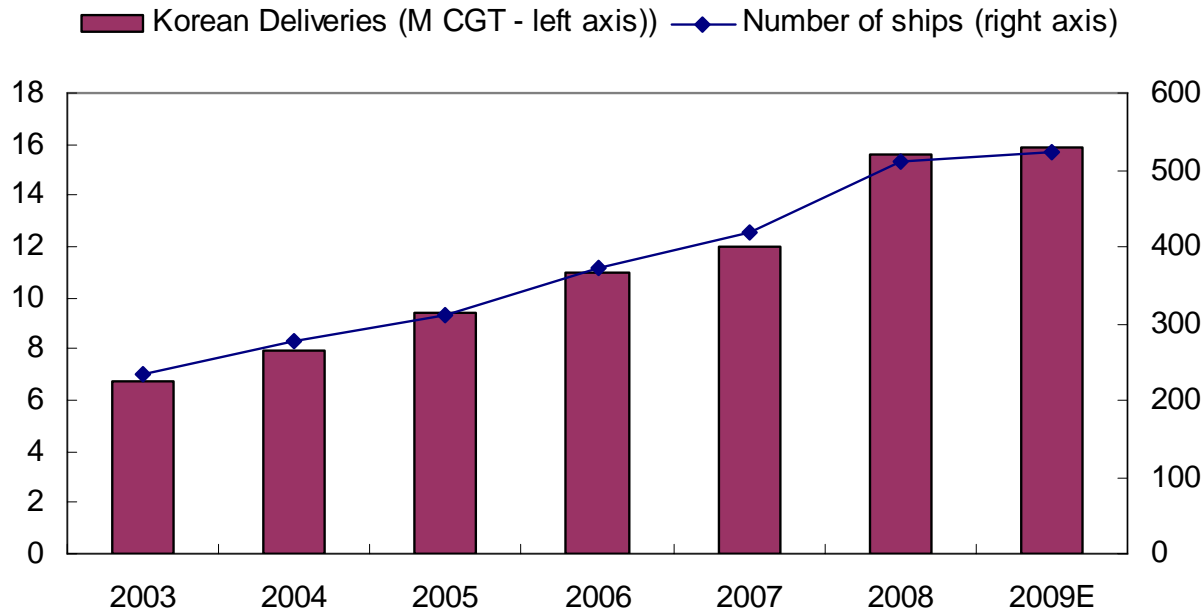


Source : Clarkson

- Compared with last year, a decrease of 97% – for real new contracts

II. Korean Shipbuilding Industry Trend

Delivery quantity is still increasing But.....

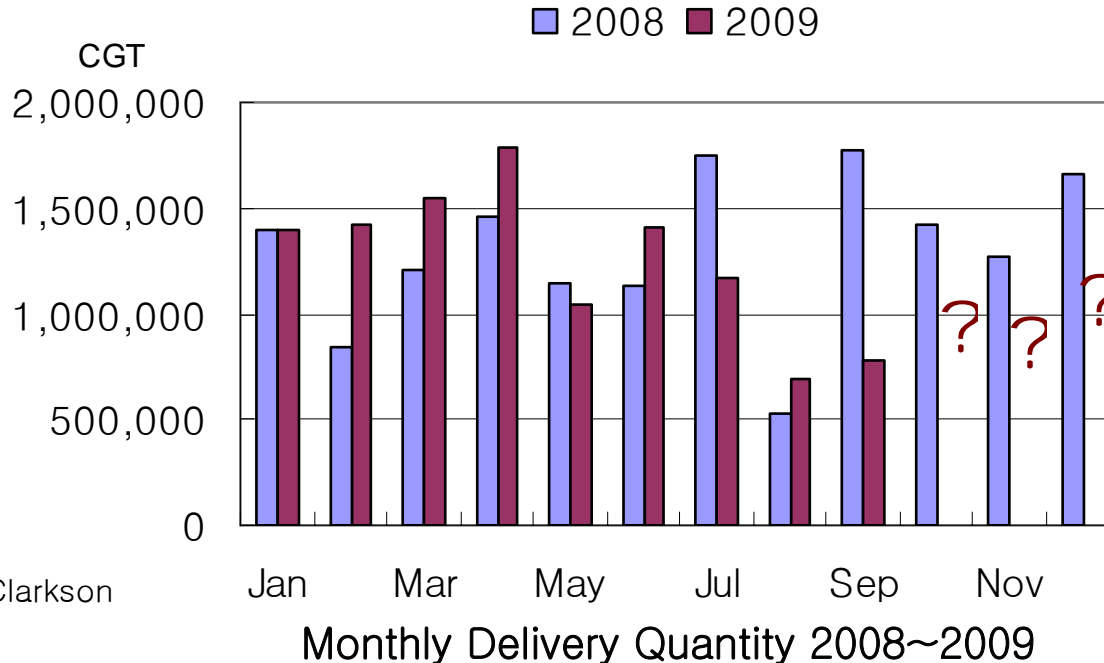


Source : Clarkson

- Estimated : Delivery quantity will increase **only 2%** this year
- The orderbook at the end of 2008 said ; Korean shipyards should deliver about **22 MCGT** ships in 2009 – But only **16 MCGT** will be possible
- Is it the affect of owner's request for **delayed delivery** or **order cancellation** ?

II. Korean Shipbuilding Industry Trend

What is the meaning of the monthly delivery quantity decrease?

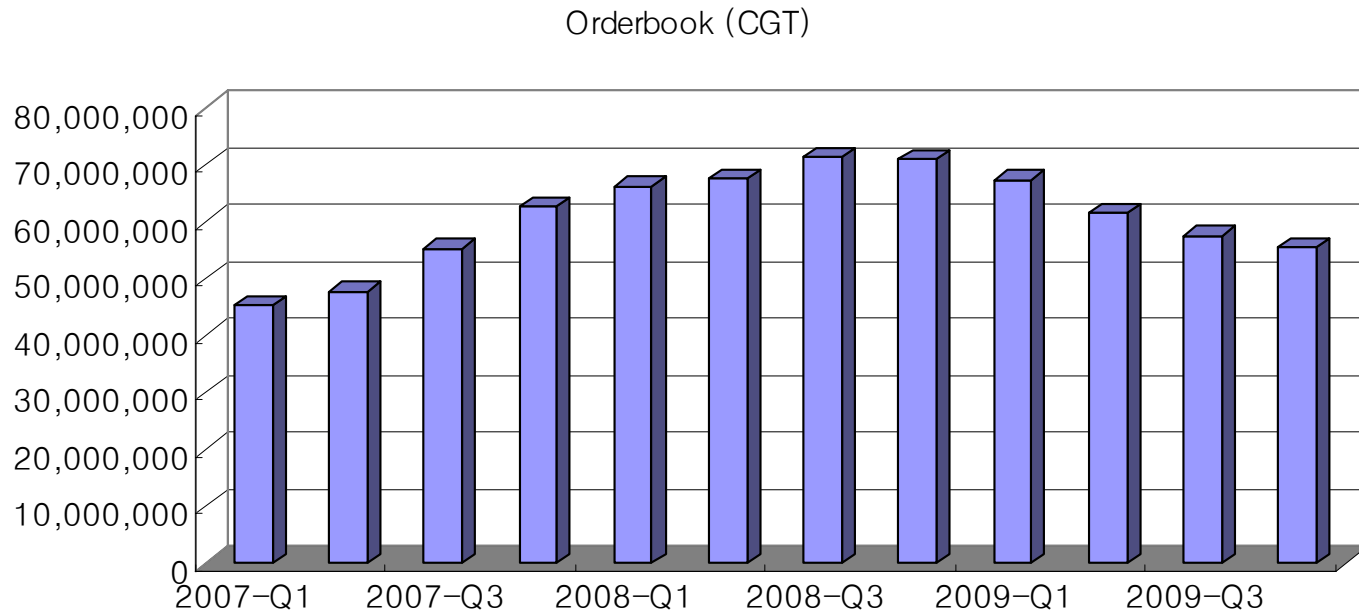


Source : Clarkson

- Since July, monthly delivery quantity has been decreasing compared with last year.
- It can be the affect of the owners' request.
- Predicted : Annual delivery quantity is expected to decrease next year

II. Korean Shipbuilding Industry Trend

The orderbook is rapidly decreasing



Source : Clarkson Note : As at the start of period specified

- Korean ship builders still have 3years worth on their orderbooks
- Korean ship builders may have under 40 MCGT at the end of 2010

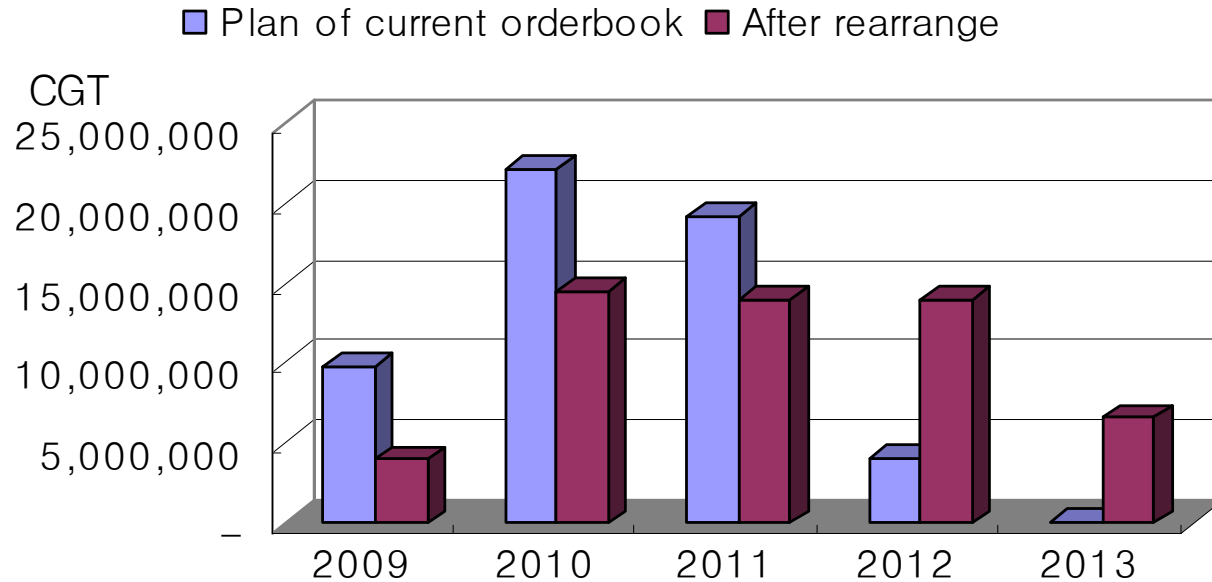
III. Effects of the Financial Crisis on the Shipbuilders

Several kinds of problems have been realized.

- New order contracts decreased by 97%
- Lack of Liquidity → Increased Loan from Banks
 - * Big 7's debt of loan from banks
 - 1.8 trillion KRW(about 1.6 billion US\$) at Aug 2008
 - 5.3 trillion KRW(about 4.6 billion US\$) at Aug 2009 : 194%↑
- The orderbook cancellation rate is estimated that,
 - * Big 7 : under 5% (There is no public notice of cancellation)
 - * S&M : 10~15% (in cases of RG issued contracts)
- Negotiations between ship owners and shipbuilders seem mainly focused on Delivery Delay and Change of the Payment Conditions
 - Estimated : 3~8 months are delayed

III. Effects of the Financial Crisis on the Shipbuilders

Delivery plan would be re-arranged and it would be helpful for both shipping & shipbuilding industry .



Source : Clarkson, Overseas Economic Research Institute in Korea Eximbank

- Predicted : Request for the delayed delivery will continue into next year
- That brings total ship building plan re-arrangement
- It will control the increase rate of fleet
 - Eventually, it would be benefit for both industry

III. Effects of the Financial Crisis on the Shipbuilders

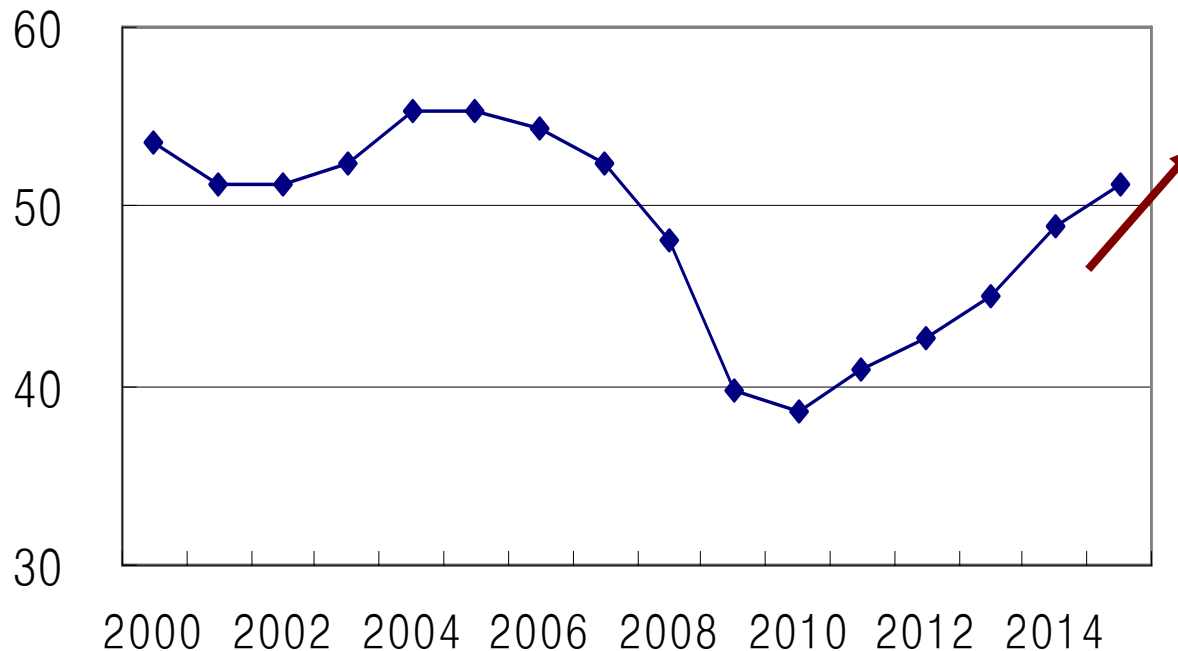
Shipyards may maintain 70~80% of operation rate.

- Due to the re-arranged building schedule, operation rate will decline.
- Big 7s have 27 dry-docks, 3 berths, 4 on-land yards, 8 floating docks.
 - The on-land yards can be used for other purpose.
 - The floating dock can be resold to a repair yards
- Worry : Number of Ship block makers could decrease due to the self block-production of shipyards.
 - The on-land yard is very good for making blocks.
 - But that could be a trap for the shipyards in a re-booming period.

III. Effects of the Financial Crisis on the Shipbuilders

Booming will come again after 2014.

World container roll-on/roll-off volume/World containership fleet

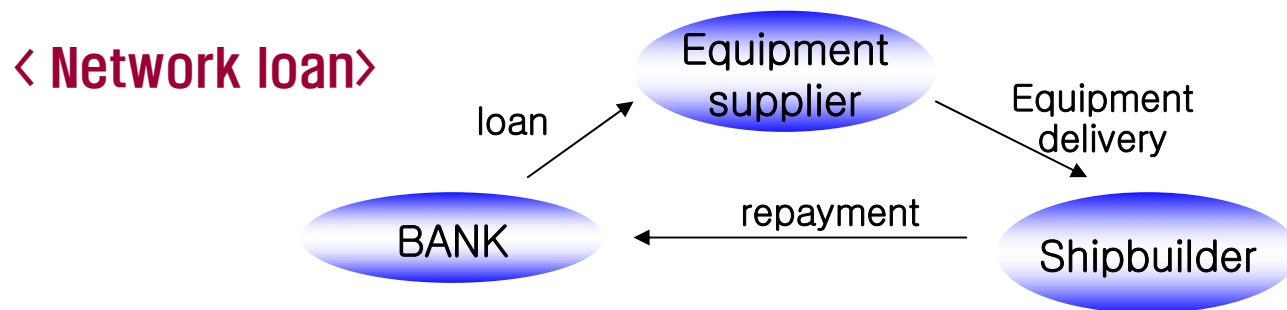


Estimated by Overseas Economic Research Institute in Korea Eximbank

IV. Effects of the Financial Crisis on the Banks

More difficulties in RG.....

- The small quantity of new contracts → No problem in RG issuing limits.
- BUT commercial banks began to avoid RG issues. Because,
 - There had been a few cases of RG claims
 - They recognized that RG issuing could be risky.
- In RG market, the portion of national banks, such as KEXIM, KDB, will increase.
- The construction finance had a big increase and banks still have enough funds
- Network Loan (for equipment supplier) increased



V. Perspectives

1. During the next 3 years, it will be a hard time for Korean shipbuilders
2. But they will overcome the crisis with their experience and the competencies
3. The market situation is a shock for Korean banks, but the RG market will normalize in 1 to 2 years
4. During the hard periods, national banks will support Korean shipbuilders continuously

Thank You !!

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