



Press Release

March 5, 2009

Restructuring of Shipping Companies

1. Background

In recent years, shipping companies have continuously grown in size* driven by drastic rise in freight rates (Baltic Exchange Dry Index (BDI)).**

*Number of companies: 73 (471 ships) end-2004 → 177 (819 ships) end-2008

**Freight Rates(BDI): 4,535 (between 2004 ~ 2007)→ 11,793 (May, 2008)
→663(Dec. 2008)

Starting from the end of last year, the business environments have gotten drastically worsened with sudden freefall of freight rates. Consequently, many had to curtail their operations and some became insolvent.

For instance, Samsun Logistics, the 9th biggest in terms of asset size, filed for petition for a rehabilitation program in February.

Although the freight rates have gone up a bit lately, up to 2,084 by March 4, due to prevalent oversupply, a recovery in full scale is deemed difficult.

As such, there has been some concern about increasing insolvency among shipping companies as it might burden other related industries, especially shipbuilding or financial companies. Furthermore, their insolvency can be easily spread over to the overall shipping industry because of the complex, multi-layered chartering contracts.

Most certainly, if the number of chartering contract cancellation continues to increase, then shipbuilding and financial companies will inevitably face the risk.

Therefore, the following restructuring plans, which are to be carried out on a day-to-day, ongoing basis, will help contain increasing insolvency in the shipping industry and to revamp the industry so as to strengthen its competitiveness in the global market.

2. Restructuring Plans

A. Continuous restructuring of shipping companies

In line with the existing corporate restructuring procedures* supported by the Corporate Restructuring Promotion Act, creditor banks will conduct credit risk assessment of subject shipping companies on an ongoing basis.

*Already, companies whose total loans amount to KRW 50 billion or more are subject to annual mandatory credit risk assessment, due June every year, by their creditor banks.

To facilitate the restructuring process, creditor banks will be advised to complete risk assessments by early May this year for shipping companies potentially insolvent.

Based on the result of the assessment, creditor banks will have to decide on ways to provide supports based on the restructuring plans devised by either creditor banks or the companies themselves. Even before the completion of the assessment, creditor banks will continue to monitor liquidity conditions of those companies.

B. Regulatory and systemic supports to shore up the industry

The government is to offer tax benefits and relax the relevant regulations on investment schemes to the shipbuilding industry. The main purpose is to help promote stability in shipping business environments. At the same time, the government will take further regulatory steps to enhance its transparency and operational efficiency.

In early April the government will announce a plan in support of reinvigorating the shipping industry.

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