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Inside Busan Finance

Maritime Finance

In 2023, the International Maritime Organization (IMO) presented the 2050 Net-Zero Roadmap as a decarbonization master plan, including greenhouse gases, at the 80th Marine Environment Protection Committee (MEPC) meeting. The Korean maritime industry is undergoing an environment-friendly paradigm shift and requires a strategy to transform the national fleet into an environment-friendly one, along with a groundbreaking financial strategy to support this transformation. In this issue, the BFC looks at the trend of environment-friendly fleet conversion, explained in the context of the EU-ETS, the introduction of a Korean ship tax leasing system, and an interview with the Japan Maritime Center to explore the way forward for Busan as a financial center specializing in maritime finance.

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A Maritime Financial Hub after a Long Tunnel

Professor,
Graduate School of Maritime Finance,
Korea Maritime & Ocean University

Yun Hee-sung

Professor Yun is the Dean of the Graduate School of Maritime Finance at Korea Maritime & Ocean University. He is a former executive at a leading shipping company and previously served as the head of the research center at the Korea Maritime Institute. He earned a master's degree in Maritime Finance from the University of London and a doctorate in Business Administration from Korea Maritime & Ocean University. Recognized as a distinguished expert in both academic and practical domains, Prof. Yun has extensive hands-on experience in managing bulk carrier operations and devising management strategies for Korean shipping companies.
His primary research interests focus on freight risk management for shipping companies through the use of shipping derivatives, financial impact assessments of environmental regulations on the shipping industry, and forecasting and decision-making methodologies utilizing artificial intelligence.

Introduction

It has been 15 years since Busan was designated as a maritime finance hub. Opinions on this achievement may vary, but as with most matters, negative perspectives tend to highlight pessimistic outcomes, while positive views emphasize optimistic results. The utility of discussing the strengths and shortcomings of the past deserves careful consideration. Reflecting on past events does not seem productive in the context of a rapidly changing global environment.

From a maritime finance perspective, which forms one of the two key pillars of Busan's finance hub, most of the past 15 years have been challenging, with development often falling short of expectations. At the end of 2008, the subprime mortgage crisis, triggered by the collapse of Lehman Brothers, sent unprecedented shockwaves through the maritime market. The so-called "China Boom" that had driven the global maritime industry for five years since 2003 led to excessive, pro-cyclical investments, fueled by the shipping finance industry's eagerness to capitalize on lucrative maritime opportunities. However, this expanded supply created a surplus in the market, compounded by the economic downturn following the financial crisis. Even as demand slowly recovered, the maritime market remained in oversupply, unable to return to pre-crisis conditions. This situation is analogous to an individual submerged 3 meters underwater who, despite ascending 2 meters, remains unable to breathe.

As large-scale bankruptcies in the maritime industry and subsequent defaults forced many shipping financial institutions into crisis, European commercial financial institutions, which had historically dominated shipping finance, began downsizing their shipping portfolios or exiting the market altogether. Basel III, introduced in September 2010 as a response to the 2008 financial crisis, further limited shipping finance, as it classified such assets as high-risk.

These challenges were not confined to Western financial institutions, which have traditionally led shipping finance. Domestic shipping finance institutions in Korea were also severely impacted, leading to their retreat from the shipping finance sector. As financial resources shifted to the booming property market, the budding expertise in maritime finance was effectively dismantled.

Some critics contend that the focus on maritime finance merely served as a pretext for establishing the Korea Ocean Business Corporation and facilitating the opening of the Maritime Finance Center (MF Center) by the Korea Development Bank (KDB), the Export-Import Bank of Korea (KEXIM), and Korea Trade Insurance Corporation (K-SURE). However, such criticism overlooks the context of Busan's designation as a financial hub for maritime finance and derivatives in 2009, which coincided with the onset of a prolonged maritime slump lasting over a decade.

In this context, policy financial institutions stepped in to compensate for the weakened role of private financial institutions. Following the bankruptcy of Hanjin Shipping in 2016, the Korean government has undertaken concerted efforts to revive the ocean-going container shipping industry. These efforts include the restructuring of HMM in response to criticism about dismantling a 40-year legacy of a global sales network in liner shipping. These efforts, bolstered by extraordinary government support and coincidental benefits from the COVID-19 pandemic, have yielded significant results. Policy financial institutions, particularly the KDB and the Korea Ocean Business Corporation, established in 2018, played a pivotal role in this success.

Busan has yet to fully realize its potential as a financial hub, particularly in the private financial sector, having only satisfied the establishment of relocated policy financial institutions. However, this is merely part of its history. Currently, the shipping and shipbuilding markets are undergoing significant transformations. Last year, the International Maritime Organization (IMO) revised its 2018 greenhouse gas (GHG) reduction strategies and introduced various regulations to achieve net-zero emissions by 2050. Measures such as the Energy Efficiency Existing Ship Index (EEXI) and the Carbon Intensity Indicator (CII), which took effect in 2023, along with mid-term strategies like the Goal-Based Marine Fuel Standard (GFS) and the GHG Pricing Mechanism expected by 2027, signal transformative changes in the industry within a relatively short decade. These developments present both opportunities and challenges for Korea's shipping and shipbuilding sectors, with shipping finance poised to play a critical role in navigating this transition.

CO2 Emission Regulations for Ships and Funding Issues

In July last year, the IMO declared its net-zero emission goal by 2050 during the 80th Marine Environment Protection Committee (MEPC). While 2050 may seem distant, it presents an urgent issue for the shipping industry. Given that the typical lifespan of a ship is around 25 years, newly built vessels are already subject to progressively stricter CO2 regulations, while existing ships will need to be scrapped or replaced to comply with these standards.

Regulations for existing vessels commenced last year. The EEXI (Energy Efficiency Existing Ship Index), which functions similarly to energy efficiency grading systems for appliances, became effective, requiring ships to meet specific standards and obtain an International Energy Efficiency Certificate (IEE). Concurrently, the CII (Carbon Intensity Indicator) scheme began assessing carbon intensity based on actual voyage data. Ships that fail to meet escalating requirements through measures such as slow steaming or fuel switching will eventually be forced out of the market.

The IMO is not the only body driving these changes. This year, the European Union included the shipping industry in its Emissions Trading System (ETS) and will begin enforcing the FuelEU Maritime Regulation next year, imposing penalties based on GHG intensity. Moreover, CO2 regulations are expanding beyond Scope 1 emissions (direct emissions from ships) to Scope 3 emissions, encompassing entire supply chains. This may prompt customers to pressure their service providers to adhere to the regulations. Additionally, preferences for green finance and sustainability-linked finance, coupled with frameworks like the Poseidon Principles, will significantly impact the availability of ship investment funds. These factors are poised to play a decisive role in determining financial sector investments in shipping companies.

Environmental regulations for ships thus represent a transformative challenge that no individual company can evade. The capacity of the shipping and financial industries to respond effectively will determine the success or failure of the shipping, shipbuilding, and related sectors.

A detailed exploration of strategies to address funding gaps is warranted. Theoretically, with a 25-year lifespan for vessels, approximately 4% of the global fleet must be scrapped and newly built annually, even without accounting for additional fleet growth driven by increased global trade. The reasons behind the growing funding gap, despite the historical role of the shipping and financial industries in meeting such demands, merit thorough examination. Two primary factors contribute to this imbalance. First, there is an imminent need for large-scale investments to replace aging ships under stringent environmental regulations over the next decade. Second, the availability of funding is expected to fall short of demand in the current scenario, where private financial entities are being supplanted by policy financial institutions.

A 2023 report[1] by the Korea Maritime Institute (KMI) and the Graduate School of Maritime Finance at Korea Maritime and Ocean University estimated that replacing Korea's existing fleets to meet environmental regulations by 2030 would require approximately 56 trillion won. Based on a 200% debt-to-equity ratio, and categorizing the required amounts into owner's equity and borrowed capital, financial institutions would need to provide approximately 37 trillion won in funding. Extending the timeline to 2050 raises the total funding demand to 142 trillion won, of which 95 trillion won is projected to come from borrowed capital. Given the heavy reliance on borrowed capital within the shipping industry and the limited equity available, actual funding needs may exceed these estimates.

It is reasonable to anticipate Busan's evolution into a financial hub centered on maritime finance, converging with digital finance and derivatives. With 75% of Korea's maritime industry concentrated in Busan, Ulsan, and Gyeongnam provinces, the region possesses ample resources and potential. The maritime financial sector's prolonged struggles, attributed to the shipping industry's downturn, now necessitate new developments due to evolving circumstances.

Time to Initiate a New Approach

South Korea is a global leader in shipbuilding and ranks as the seventh-largest shipping nation. Yet, it has not achieved a comparable standing in the financial sector. This reflects the absence of globally competitive financial institutions in Korea and highlights the need for central and local governments to pursue coordinated political initiatives. The complexity of advancing maritime finance underscores these challenges.

Two innovative approaches and the cultivation of human resources are critical for advancing maritime finance. The first approach involves facilitating investment from the general public in the shipping industry through innovative financial mechanisms. For instance, the 'Ship Investment Company Act' provides tax exemptions on dividend income from shares valued at 300 million won or less, with separate taxation applied to shares exceeding this amount. Unfortunately, this is all about attracting funds from the general public.[2] Institutionalizing blockchain-based innovative finance, such as token securities (STO) and real-world asset tokens (RWA), alongside special taxation for long-term investments, could address the inherent financial challenges of the shipping industry. While ship assets possess a long economic lifespan, investments in them tend to be short-term, often requiring capital at the peak of the business cycle and disposal at the trough. This pro-cyclicality has led to widespread bankruptcies during shipping market downturns. By enabling ship investments in the form of STOs and encouraging public investment in ships as productive assets, the industry can better meet its large-scale funding requirements. Additionally, reducing income taxes and inheritance taxes for long-term investments in productive assets could promote healthy wealth transfers as a side benefit.

1 Green Finance for the Shipping Industry, Kim Tae-il et al., Korea Maritime Institute (2023)

2 The dividend income tax exemption was abolished in 2016.

The second approach focuses on incentivizing private financial institutions to participate in ship financing. To support the national shipping industry, advanced maritime nations have implemented tax lease systems, which defer corporate taxes through accelerated depreciation, benefiting both investors and shipping companies. Korea has not yet adopted a similar system to promote ship investments, particularly through subsidiaries of financial institutions that consistently generate profits. It is necessary to review and institutionalize this system in response to growing calls for such measures, which would enhance the shipping industry's competitiveness while ensuring the loan capabilities of commercial financial institutions under BIS regulations.

Implementing these measures requires consensus and coordinated efforts among government departments, local governments, and industry stakeholders.

As a designated maritime finance center, Busan Metropolitan City must collaborate with industry, academia, research institutions, and political sectors to identify and address key priorities. A critical emphasis must be placed on human capabilities. Regardless of the industry, it is people who make decisions, provide support, and drive results. The contraction of private ship financing institutions has led to a significant loss of maritime finance expertise within the financial sector. This expertise gap in industry, government, and local administrations has hindered progress. While the Korea Ocean Business Corporation has steadily cultivated maritime finance capabilities over the past six years, and the Graduate School of Maritime Finance at Korea Maritime & Ocean University has trained young talent with support from the government and local authorities, these efforts face challenges. The Financial Services Commission's support for graduate courses, provided under the Financial Centre Development Project, has ended, and Busan Metropolitan City's support for the industry's self-sustaining initiatives is also nearing its conclusion. It is concerning that the so-called "education requiring 100 years" is subject to "short-term" investments, producing only a limited number of master's graduates.

Conclusion

We have examined the environmental factors that have slowed the development of maritime finance in Busan, the heart of the maritime industry and the maritime capital of Northeast Asia. Incremental adjustments are insufficient to address transformative shifts effectively. Addressing only isolated issues, such as implementing innovative financial mechanisms or tax leasing, will not produce significant results. A comprehensive redesign of the entire ecosystem is essential. With the strengthened capabilities of the Busan Finance Center, combined with coordinated efforts from the government and local authorities, these holistic solutions will turn the upheaval brought about by 2D (Decarbonization and Digitalization) into opportunities.

Introduction to the Maritime Finance Center of Busan Finance Center

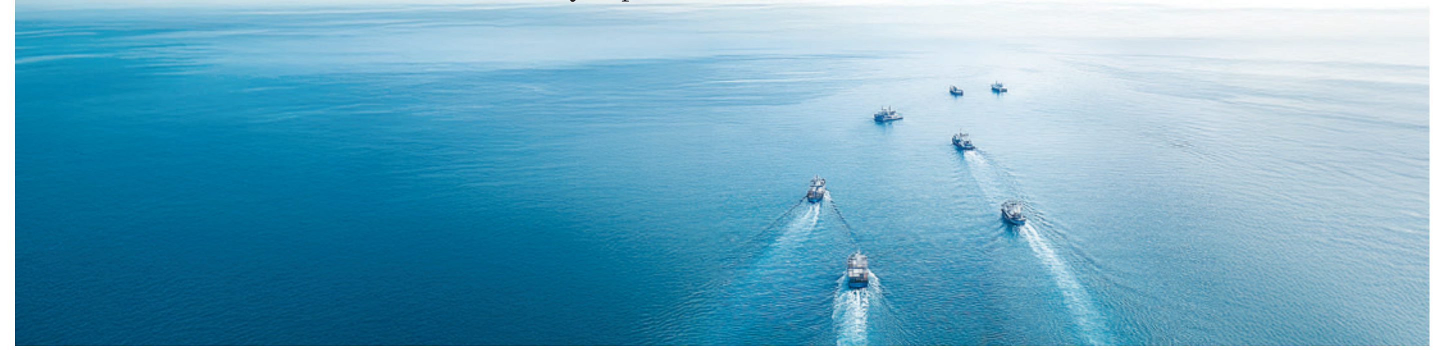
The Busan Finance Center opened the Maritime Finance Center (MF Center) in July 2024. The MF Center was established with the vision of making Busan a financial center specializing in maritime finance. To achieve this vision, Lee Dong-hae, former director of Korea Development Bank (KDB), was recruited as the head of the MF Center. The MF Center will work to develop maritime finance products and policy systems that will position Busan as a financial center.

The global maritime industry is faced with a major transition to decarbonization and digitalization in response to stricter IMO environmental regulations. The MF Center aims to accelerate the development of policies that will promote a green paradigm shift in the Korean shipping industry and revitalize the stagnant private ship finance sector during this transition.

Vision	Global Leading environment-friendly Maritime Finance Center	
Strategy	Strengthening the maritime cluster	
	Maritime Finance Policy THINK-TANK	
Priority Tasks	Promoting a green paradigm shift	Revitalizing private ship finance

Promoting a Green Paradigm Shift

By benchmarking the shipping industry support policies of shipping powerhouses such as Europe, Japan, and China, we will examine the introduction of a tax lease system tailored to Korean conditions. By doing so, we hope to accelerate the somewhat sluggish transformation to environment-friendly ships.



Revitalizing Private Ship finance

The revitalization of private ship finance, which has withdrawn from the ship finance market, is essential for the transition to an environment-friendly ship fleet. To this end, we will introduce a tax lease system to attract private investment and expand lending participation. Additionally, by establishing a new KRW-based ship finance market, we will explore ways to provide a favorable market environment for private banks that face challenges in procuring dollars.

Forming a Maritime Finance Network in Busan

We are working to revitalize the maritime finance market in Busan by creating an organic network with maritime finance-related organizations in the city. As there is already a physical concentration of policy financial institutions in the maritime finance sector, we plan to organize continuous meetings to exchange information and lay the foundation for cooperation between institutions.

2024 Busan Financial Museum Road Volunteer Completion and Launch Ceremony

Date/Venue Tuesday, July 2, 2024 / 53rd Floor Conference Room, BIFC

Hosted/Sponsored by Busan Metropolitan City, Busan Metropolitan Office of Education, Korea Exchange, Korea Technology Finance Corporation, Bank of Korea Busan Branch, BNK Busan Bank, Busan Finance Center

Contents Part of an educational volunteering project to enhance Busan citizens' knowledge of finance and the history of the capital market through financial education programs provided by various institutions.

The 'K-Silk Road Initiative' MOU to Support Middle East Market Entry for Busan SMEs

Date/Venue Wednesday, July 3, 2024 / Vision Room, 35th Floor, Korea Southern Power Headquarters, BIFC

Project Management Organizations Busan Regional SMEs and Startups Office, Korea Southern Power, Korea Technology Finance Corporation, Korea Asset Management Corporation, Korea Housing Finance Corporation, Korea Housing and Urban Guarantee Corporation

Project Executing Institutions Busan Finance Center, KEB Hana Bank

2024 Busan Financial Talent Academy

Date/Venue Monday, July 15, 2024 – Friday, August 2, 2024

Hosted/Sponsored by (Hosted by) Busan Metropolitan City

(Sponsored by) Busan Finance Center, Busan Economic Promotion Agency, Korea Financial Investment Association Busan Office

Contents
- Lectures on maritime finance, securities and derivatives finance, and digital finance, offering practical and region-specific financial education.
- A talent development program featuring career seminars and mentoring by industry experts.
- Participants: Approximately 25 young professionals from the Busan-Ulsan-Gyeongnam region aspiring to enter the financial sector.

IR Event for Promoting Busan as a Financial Hub and Attracting Financial Institutions

Date/Venue Tuesday, August 27, 2024 / D-Space, 63rd Floor, BIFC

Contents
- Presentation on Busan Financial Hub's development status to foreign attendees and FATF officials visiting Busan for FATF training programs.
- Discussion on collaboration between the Busan Finance Center and the FATF.

11th Busan Financial Hub Forum

Date/Venue Wednesday, September 11, 2024 / 39th Floor Conference Room, Korea Securities Depository, BIFC

Hosted by Busan Finance Center

Contents
- Discussions on visions, strategies, and actionable plans to advance Busan as a financial hub.
- Updates on the Digital Asset Exchange initiative and ongoing blockchain research projects led by the BFC.

Participants Approximately 30 experts from institutions including the Bank of Korea, Korea Exchange, BNK Busan Bank, Korea Technology Finance Corporation, and academia.

GFCI 36 Global Financial Centres Index Launching Symposium

Date/Venue Tuesday, September 24, 2024 / Nurimaru APEC House

Hosted by Busan Finance Center, Z/Yen Group

Contents
- Hosting the GFCI (Global Financial Centres Index) Launching Symposium to assess GFCI ranking in collaboration with Z/Yen, a global consulting firm.
- Announcement of Busan's highest-ever GFCI ranking (25th globally, 9th in Asia).
- Discussions on Busan's strategies for maritime, digital, and sustainable finance.

Participants Mike Wardle (CEO, Z/Yen Group), Ambassador Jacques Flies (Embassy of Luxembourg in South Korea), Liu Guohong (Deputy Director, CDI), Shin Hyun-seok (President, Busan Research Institute), Park In-ho (Permanent Chairman, Busan Citizens' Coalition for Economic Revitalization), Jo Jung-hee (Permanent Representative, Busan Citizens' Organization Council), Ryu Jae-ok (Chairman, Women's Culture and Human Rights Center), Lee Han-nyeong (Head, Bank of Korea), Nam Dong-woo (Financial Startup Policy Officer, Busan Metropolitan City), other notable attendees.

Hosting of the 2026 Annual General Meeting of the World Alliance of International Financial Centers

Date/Venue Tuesday, October 15, 2024 / Tokyo, Japan

Event 2024 Annual General Meeting of the World Alliance of International Financial Centers

Contents
- Rhee Myong-ho, President of the Busan Finance Center, participated in discussions on developing global financial centers and secured hosting rights for the 2026 Annual General Meeting, recognizing Busan's financial hub initiatives.
- Busan became the fourth city in Asia to host this meeting, following Abu Dhabi, Dubai, and Tokyo.

2024 Busan Maritime Finance Week

Date/Venue Tuesday, October 29, 2024 – Thursday, October 31, 2024 / Lotte Hotel Busan, Paradise Hotel Busan

Hosted/Sponsored by Busan Metropolitan City, Korea Ocean Business Corporation, Busan Finance Center, Marine Money, Financial Supervisory Service

Programs
1) 2024 KOBC Maritime Conference (Global and Chinese macroeconomies, trends in dry bulk, tanker, and container markets, and the prospects for global ports)
2) Busan Maritime Finance Convention (The present and future of the global maritime industry, innovative and collaborative strategies for sustainable growth, Busan's efforts to become a sustainable financial hub, and the role of finance in nurturing a maritime financial center)
3) Marine Money Korea Ship Finance Forum (Busan as a maritime finance center, global trends and prospects for smart ports, Korea's shipbuilding industry and new construction technologies, sustainable finance, and shipping business management)

EU | ETS

Transition Trends in environment-friendly Ships: Focusing on the EU-ETS System

CEO of Clarksons Korea

Choi Jae-sung

Choi Jae-sung, CEO of Clarksons Korea, earned his degree in Maritime Law and Shipping Management from the University of Plymouth in the UK. Before assuming his current role in 2017, he worked at AP Moller Maersk and Clarksons Plato Singapore.
He has also served as a consultant, advising financial public institutions such as the Korea Development Bank (KDB) and the Korea Deposit Insurance Corporation (KDIC) on ship sales and optimal sales timing. Additionally, he has been an active member of the Shipping, Shipbuilding, Transportation, and Logistics Subcommittee under the Presidential Advisory Council on North-East Asia Economic Cooperation.

1. Introduction

With increasing environmental regulations, the demand for decarbonization in the shipping industry has become a top priority. This is because a significant portion of global trade relies on shipping, which contributes substantially to greenhouse gas (GHG) emissions during maritime transport. The shipping industry is responsible for approximately 2% of global GHG emissions. Although this may seem relatively low compared to other transport modes such as aviation, road, and rail, given that maritime transport accounts for about 80% of global trade, the scale of emissions cannot be overlooked. Furthermore, considering the annual average increase in emissions, variations in ton-miles, and the growing number of ships worldwide, stricter carbon-neutrality goals and regulations within the industry are expected.

In this context, the International Maritime Organization (IMO) has revised its decarbonization goals for the shipping industry. Compared to the 2008 initiative, which aimed to reduce GHG emissions by 50%, the target has now been raised to achieving a 100% reduction by 2050. The IMO also plans to strengthen evaluation standards by assessing emissions throughout the entire lifecycle of fuels—from production ("Well") to consumption ("Wake")—known as the Life Cycle Assessment (LCA).

Additionally, the European Union (EU) will extend its Emissions Trading System (EU-ETS) to the shipping sector starting January 1, 2024. Under this system, ships exceeding 5,000 gross tonnage that call at EU member states or the European Economic Area (EEA) will be required to purchase allowances equivalent to their annual GHG emissions. This measure aligns with the IMO's 2050 zero-emissions target and accelerates the transition to greener practices in the global shipping industry.

Environmental regulations demanded by the international community have shifted from focusing solely on pollutants directly affecting the marine environment, such as oil and harmful liquid substances, to encompassing air pollutants, including nitrogen oxides, sulfur oxides, and GHGs.

As a result, shipping companies are compelled to comply with technical, operational, and economic regulations on vessels. Companies that achieve certification for environment-friendly ships will gain a competitive edge and sustain their operations in the market. Conversely, companies that fail to address non-compliant ships in a timely manner risk market exclusion. This represents an unprecedented ecological transformation for the industry, where freight rate disparities between environment-friendly and conventional ships are expected to widen, inevitably leading to the elimination of unprepared companies.
This paper examines the decarbonization trends confronting the shipping industry, focusing on recent regulatory changes and the anticipated issues stemming from them.

2. Strengthened Regulations for Decarbonization in the Shipping Industry

The international nature of shipping poses challenges for GHG monitoring due to variations in national regulations and the cross-border movement of vessels. Consequently, individual national efforts to reduce GHG emissions are insufficient, necessitating global cooperation through international organizations like the IMO to address climate change.

The IMO has introduced technical and operational regulations to mitigate GHG emissions from ships, covering all stages from construction to operation. Beginning with the 2020 global sulfur limit, the IMO implemented the Energy Efficiency Existing Ship Index (EEXI) and Carbon Intensity Indicator (CII) in 2023. In July 2023, the IMO adopted a goal to achieve carbon neutrality in international shipping by 2050, committing to a 100% reduction in GHG emissions based on the Well-to-Wake criteria, thereby reinforcing its climate change measures.

The EU is spearheading decarbonization efforts in the shipping sector by including it in the EU-ETS starting in 2024.

This is expected to encourage the transition to alternative environment-friendly fuels to reduce GHG emissions.

Other countries are also advancing similar initiatives. The United States has implemented regulations on emissions during port stays in California and proposed federal-level legislation, such as the Clean Ship Act and the International Maritime Pollution Accountability Act. China plans to establish a national emissions trading system covering seven industries, including shipping, by 2025. Singapore is pursuing the Maritime Singapore Green Initiative, the United Kingdom has its Clean Maritime Plan, and Norway will enforce regulations limiting GHG emissions in Western Norway's fjords starting in 2026.

3. General Details of the EU-ETS in the Shipping Sector

Mid- to long-term measures to reduce GHG emissions from ships are categorized into technical and market-based measures. The EU-ETS represents a market-based measure, functioning as an economic regulation. While both carbon taxes and emissions trading systems are being discussed, the latter allows ships exceeding their allocated emission limits to purchase allowances through the emissions trading market. To ensure a phased implementation, the EU mandates the submission of allowances for 40% of emissions in 2024, 70% in 2025, and 100% by 2026. Consequently, the financial burden on the shipping industry is expected to rise from approximately $2.4 billion in 2024 to around $5.8 billion in 2026, when full compliance is required.

Although shipping companies are primarily responsible for EU-ETS compliance, when operational and fuel purchase responsibilities are assigned to other entities under contractual agreements, the EU has proposed measures to allow shipping companies to claim refunds for incurred costs. However, this principle—aligned with the "polluter pays" concept—does not absolve shipowners of ultimate responsibility for compliance, but vests the party supplying fuels and operating the ship with the right to claim costs incurred from the submission of allowances. Non-compliance results in fines of €100 per ton of emissions and public disclosure of the company's name. Furthermore, those who do not submit allowances after two years will be subject to port entry bans within the EU/EEA.

Emission allowances can be purchased through auctions at the European Energy Exchange or via secondary markets, with prices subject to supply-demand dynamics. In 2023, the average price of emission allowances was $92 per ton but dropped to $58 per ton in early 2024 due to milder winter temperatures and increased renewable energy generation. The fluctuating cost of allowances and the upward adjustment in required contributions pose substantial financial challenges for the shipping industry. Shipping companies must proactively establish risk management strategies to minimize allowance purchase costs.

4. Response Strategies and Implications for Shipping Companies

Firstly, shipping companies can respond by implementing slow steaming and adopting Energy Saving Technologies (ESTs). Lowering the sailing speed of ships with lower CII ratings could be the most immediate method to improve operational efficiency, but maintaining the same speed and expecting normal operations is not feasible in the long term. Therefore, it is necessary to apply energy-saving technologies to improve energy efficiency and attempt to reduce ship emissions.

However, as the shipping industry is expected to be increasingly exposed to stricter environmental regulations, especially towards the 2050 international shipping carbon-neutral goal, the focus will eventually shift from energy efficiency management to fuel conversion, and innovation of fleets into environment-friendly ships. While this change will inevitably incur short-term costs, it can lead to long-term savings in environmental regulation costs and improve corporate competitiveness by complying with such regulations. In the market, a dual-fare system, where environment-friendly ships receive higher fares, has already started, and this fare gap will gradually widen. As global corporations are also adopting measures to reduce carbon emissions across their supply chains, and final consumers are increasingly concerned about the environmental sustainability of the products they use, shipping companies will find it challenging to ignore this trend.

In this process, the timing of the fuel conversion to environment-friendly fuels is crucial, and an analysis of the most economical timing based on fleet management and operational conditions must be conducted in advance. For older ships in the existing category of fleets, while compliance with regulations can be achieved by reducing speed and improving energy efficiency, the ship is likely to be scrapped once the costs of compliance outweigh operating revenue and residual asset value. The opportunity to replace these ships with environment-friendly vessels will follow.

For relatively newer ships, if they currently have a mono-fuel engine system based on fossil fuels, the economic benefits of replacing energy sources and engines for alternative fuel use should be reviewed before deciding on a retrofit for fuel conversion, allowing the company to respond to future environmental changes.

Liquefied Natural Gas (LNG), biofuels, methanol, hydrogen, and ammonia are being discussed as next-generation alternative fuels, but it is difficult to determine which one will be the ultimate solution, given the unique advantages, disadvantages, and technological maturity of each fuel. Additionally, depending on the lifecycle scope, the emission reduction effect may be halved, or there may even be a reversal, with emissions increasing compared to traditional fossil fuels. Therefore, shipping companies must choose the fuel that suits their operating conditions and long-term strategy. They should avoid relying on a single solution and aim to implement dual-fuel engines or secure a "ready" option that allows retrofitting engines for dual-fuel use, thus achieving a more flexible response.

The number of companies ordering new ships that run on alternative fuels is continuously increasing, and major container carriers and large shipping companies are mostly occupying the top 20 list, indicating that the transition to alternative fuels is rapidly progressing among large companies. This highlights the need for significant investment for an environment-friendly transitionand at the same time, suggests that financing will be a key challenge. In other words, to survive in the competition, creating an environment that enables active participation from the private sector is essential.

As mentioned earlier, the transition to environment-friendly ships is currently being led primarily by global major shipping companies. When comparing the roadmaps of global and Korean shipping companies, domestic companies such as HMM and Pan Ocean are taking the lead in responding to environmental regulations. However, it is expected that the adoption of environment-friendly ships by domestic shipping companies, excluding large carriers, will take some time. For small and medium-sized carriers, priority is often given to addressing the immediate financial burdens of carbon emission fees, rather than the transition to environment-friendly vessels. As responding to international environmental regulations on a corporate level alone has its limitations, support from policies and the financial sector should also be considered to accelerate the transition to environment-friendly ships. In this process, investment demand may increase across the entire value chain, including shipping companies, shipbuilders, ports, and fuel suppliers, and it is expected that the financial sector will also see an increase in investment opportunities for these companies, establishing a virtuous cycle.

In conclusion, the heightened environmental regulatory requirements the shipping industry faces bring both challenges and opportunities. While new technologies and fuels are emerging within the evolving regulations, the definitive transition timing is still uncertain. However, the initial stage of fuel conversion has begun, with LNG being widely adopted as a transitional fuel. It will likely take more time to finalize the next-generation ship fuel choice. For domestic companies to secure competitiveness amidst newbuild orders driven by global shipping companies, financing capability will be critical, suggesting the need for both government policy support and private sector financing expansion in ship finance.

Introduction of the Korean Ship Tax Lease System

CEO of Global Marine Financing

Cho Kyu-yeol

Cho Kyu-yeol, CEO of Global Marine Financing (GMF) has worked in the Export-Import Bank of Korea in the shipping finance industry for 32 years, including as Vice President responsible for restructuring Daewoo/Sungdong Shipbuilding and Hanjin Shipping in the Marine and Restructuring Headquarters. He also served as President of Korea Maritime Guarantee Insurance and as Director of the Korea Ocean Business Corporation, eventually becoming CEO of GMF, where he leads ship funds and investments.
He earned a Master's degree in International Management from the KDI School of Public Policy and Management and a Doctorate in Shipping Management from the Korea Maritime & Ocean University. He currently serves as Chief Advisor for the Policy Advisory Committee under the Ministry of Oceans and Fisheries.

1. Overview

The ship tax lease system is a ship leasing financial technique that generates significant depreciation expenses through accelerated depreciation of a ship at the beginning of the lease period, creating tax benefits. A substantial portion of these tax benefits is transferred to the lessee (the shipping company), which reduces the ship purchase cost for the lessee. The United Kingdom first introduced the ship tax lease system in the early 1960s to support its maritime, financial, and legal industries. Subsequently, Japan introduced the system in 1978 to use accumulated domestic funds under low-interest conditions and attract foreign capital; France adopted it in 1998 to support its shipbuilding and maritime industries; and Hong Kong introduced it most recently in 2020 to promote the ship leasing industry. While the reasons for the introduction of the ship tax lease system vary depending on each country's economic conditions, they are similar in their goal of protecting and fostering their shipping and financial industries.

The ship tax lease system fundamentally involves tax benefits such as deferring corporate tax payments and reducing corporate tax rates. The scale of these benefits depends on factors such as the depreciation rate of ships in the country where the lease transaction occurs, the corporate tax rate, and the taxation system on capital gains when the ownership of ships or Special Purpose Companies (SPCs) is transferred. The system can provide shipping companies with effective tax benefits of up to 10% of the ship's price, depending on its design. If this system is introduced in Korea and the tax benefits are properly utilized, it could attract various new private investors into the domestic ship finance market and help reduce the cost of ordering environment-friendly ships, thus promoting the adoption of low-carbon vessels.

Apart from ship tax leasing, there have been attempts to stimulate ship finance based on tax benefits, including Germany's KG Fund, Norway's KS Fund, and Korea's ship fund under the Ship Investment Company Act. The KG Fund grew rapidly in the 1990s due to tax benefits introduced by the German government in the 1970s. However, due to tax reforms in March 1999, most incentives were reduced or abolished, rendering the system largely ineffective. The KS Fund has a longer history than the KG Fund, with Norway offering substantial tax benefits to individual investors in the 1980s, which helped revitalize the Norwegian shipping industry. However, following a reduction in tax benefits in 1992, it is also now underutilized.

Countries generally do not disclose the core details of their ship tax lease systems, aside from the basic framework. In the case of the French ship tax lease system, in 2007, the EU raised issues regarding the system's transparency, leading to major revisions such as a reduction in the accelerated depreciation rate (from 40.6% to 28.125% annually), the removal of government pre-approval procedures, and the expansion of eligible lessees from French to EU-based shipping companies. However, even during this revision process, the French government introduced a 95% tax reduction on the capital gains from the sale of the Special Purpose Vehicles (SPVs) after the lease term to mitigate the reduction in tax benefits.

In Korea, the Ship Investment Company Act was enacted in May 2002, offering tax benefits such as the exemption or separate taxation of dividend income and the exemption of capital gains on stock transfers, leading to active creation and management of ship investment funds. However, with the abolition of tax benefits in 2016 and the prolonged slump in the shipping market, it has become very difficult to form ship funds with private investors. The following section will briefly explore the most suitable model for introducing a Korean-style ship tax lease system and the challenges to be addressed for its implementation.

2. Need for the System's Introduction

The ship tax lease system can be utilized for various purposes by appropriately distributing the tax benefits generated during the operation of the system to the relevant stakeholders. Above all, by transferring a portion of the tax benefits to the shipping company, the system can promote the order of low-carbon ships, and private investors will invest in low-carbon ship projects to gain tax benefits. The introduction of ship tax lease systems is required as follows:

Firstly, when a part of tax benefits is transferred to the domestic shipping companies, shipping companies would order low-carbon vessels eariler, contributing to the government's decarbonization policies. The Ministry of Oceans and Fisheries announced the "International Shipping Decarbonization Strategy" in 2023, aiming to achieve carbon neutrality by 2050. The details of the strategy are: ① Shift to an environment-friendly fleet, ② Improve investment conditions for the shipping industry, ③ Expand infrastructure for environment-friendly technologies and future fuels, and ④ Establish zero-carbon shipping routes. Low-carbon ships incur additional costs of 20–30% compared to conventional vessels. Therefore, if the ship tax lease system is used, domestic shipping companies can reduce approximately 5% of the capital costs for ships, enabling more proactive orders for low-carbon ships.

Secondly, transferring a portion of the tax benefits to domestic investors can help attract private financing, such as institutional investors, to the ship finance market, which is highly reliant on policy-based financing in Korea. Depending on how the model operates, the ship tax lease system can attract large financial institutions, institutional investors, and large cargo owners as investors. These investors, who typically generate significant annual operating profits, could benefit from tax incentives by offsetting losses incurred through accelerated depreciation. Therefore, if these surplus funds flow into the ship finance market, it could stimulate private investment in the ship sector and help elevate the domestic ship finance market.

Thirdly, if the tax benefits are transferred to domestic shipping companies participating in international competitive bidding, it will enhance the competitiveness of domestic shipping companies. Global markets offer projects like LNG carriers for

Qatar gas transportation and bulk carriers for Brazilian iron ore transport, which are provided to shipping companies through international bidding. Shipping companies from countries like France and Japan may use their domestic ship tax lease systems to secure ship finance, which could reduce their financing costs (CAPEX) by approximately 5% of ship value compared to the Korean shipping companies. To boost the competitiveness of Korean shipping companies in global bids, introducing a ship tax lease system comparable to those in competing countries is essential.

Fourth, the Korean government needs to support domestic shipping companies in securing cost competitiveness for large-scale orders of low-carbon ships through the introduction of the ship tax lease system. France's CMACGM and Japan's ONE are prominent national carriers that extensively utilize their domestic ship tax lease systems. Korea's national carrier, HMM, has recently achieved remarkable operating results with the government's support and the Korea Ocean Business Corporation's policies, a market rebound, and its own innovative efforts, securing over 10 trillion KRW in surplus funds. However, with the need for substantial low-carbon ship orders in the decarbonization process and intense competition in the shipping market amid alliance restructuring, Korean shipping companies must improve their cost competitiveness per TEU to compete with global shipping lines. Therefore, Korea must introduce a ship tax lease system to support the cost competitiveness of its national shipping companies.

Fifth, the ship tax lease system can serve as an effective framework to reduce financing costs for domestic small and medium-sized shipping companies ordering low-carbon ships. Except for a few shipping companies, domestic small and medium-sized companies struggle to invest in low-carbon ships due to a lack of funding capabilities. While the government's 2024 subsidies for environment-friendly ship conversion have increased slightly to 14.3 billion KRW (a rise from 13 billion KRW in 2023), they are insufficient to meet the shipping industry's demand for carbon neutrality by 2050. Therefore, transferring the tax benefits of the ship tax lease system to domestic small and medium-sized shipping companies could help ease the financial burden of their low-carbon ship orders.

3. Korean-style Ship Tax Lease System Model

The Ministry of Oceans and Fisheries and the Korea Ocean Business Corporation (hereafter referred to as "KOBC") commissioned the Korea Institute of Public Finance (KIPF) and the Korea Maritime Institute (KMI) to study the introduction of a Korean-style ship tax lease system in 2022. However, during that time, the most pressing issue in the domestic shipping industry was the extension of the tonnage tax system. It was widely believed that pushing for both the extension of the tonnage tax system and the introduction of the ship tax lease system simultaneously would be challenging. Despite the efforts of the Ministry and KOBC, the introduction of the ship tax lease system was not realized, and as a result, only the tonnage tax system was extended until the end of 2029.

The model for the Korean-style ship tax lease system should be based on the French and Japanese systems, which are the most widely used in global ship finance markets. The Korean-style ship tax lease system should be designed comprehensively, considering Korea's accelerated depreciation system, investor status, methods of transferring tax benefits, corporate tax act, and the potential for utilizing tax-related legislation and systems.

The key factors to consider in designing the Korean-style ship tax lease system model include: ① Ship ownership, ② Accelerated depreciation of ships, ③ Transfer of tax benefits, ④ The role of ship investment companies, and ⑤ The exit process of ship tax lease transactions and others. Legal and accounting experts must carefully review any potential conflicts with domestic laws, such as the Corporate Tax Act and Ship Investment Company Act, business accounting standards, and explore the feasibility of legal reforms. The Japanese model primarily utilizes the loss-absorbing capabilities of small and medium-sized companies that have accumulated capital over time. In contrast, the French model uses commercial banks, which have led the global ship finance market, as Tax Capacity Providers (TCPs),

leveraging their substantial operating profits. Each model has its advantages and disadvantages; however, Korea's small and medium-sized companies possess fewer accumulated surplus funds compared to their Japanese counterparts. Given that Korea's financial institutions and large shippers generate substantial profits, and shipper giants could provide a foundation for mutual growth with shipping companies. The French model appears more suitable for Korea, especially as the relevant legislative issues are relatively straightforward to address. Legal and accounting experts believe that the French model is more feasible in the context of Korea's legal and accounting environment.

Korean-style Ship Tax Lease System Model Type

Category	French Model	Japanese Model
Benchmark Model Countries	France (French bank TCP type)	Japan (Anonymous Partnership type)
Tax Benefit Support Recipients	Shipping companies & investors (TCP)	Investors (small and medium-sized companies)
Tax Benefit Transfer Method	Transfer to both investors and shipping companies (allocation) to reduce the cost for vessels	Provide 100% of ship lease cost without any self-payment
Tax Benefits	10% of ship's cost	5% of ship's cost

However, in structuring and optimizing the Korean model, several legal conflicts and accounting challenges must be addressed as follows:

① The TCP provides tax capacity that generates stable annual operating income but does not assume transaction risks associated with tax lease transactions.

② A domestic SPC (a joint-stock company under the Ship Investment Company Act) is established as a conduit to transfer tax benefits to the parent company (investor).

③ To encourage participation from foreign financial institutions in the lending syndicate, the overseas flag-of-convenience (Legal Owner) system is utilized.

④ To designate the domestic pass-through corporation (SPC) as the party responsible for depreciation (asset recognition), the lease transaction is structured as an operating lease.

⑤ The ship investment company system is enhanced to activate the creation of public ship funds through structural improvements.

⑥ To ensure debt protection measures for the syndicated lenders, financial lease elements such as a Remarketing Agreement between the shipping company and the domestic pass-through corporation are added, within the scope of recognition as an operating lease.

⑦ Lastly, while adopting the French model as the baseline, the model is designed to incorporate public fund-type, loan-based, or hybrid options.

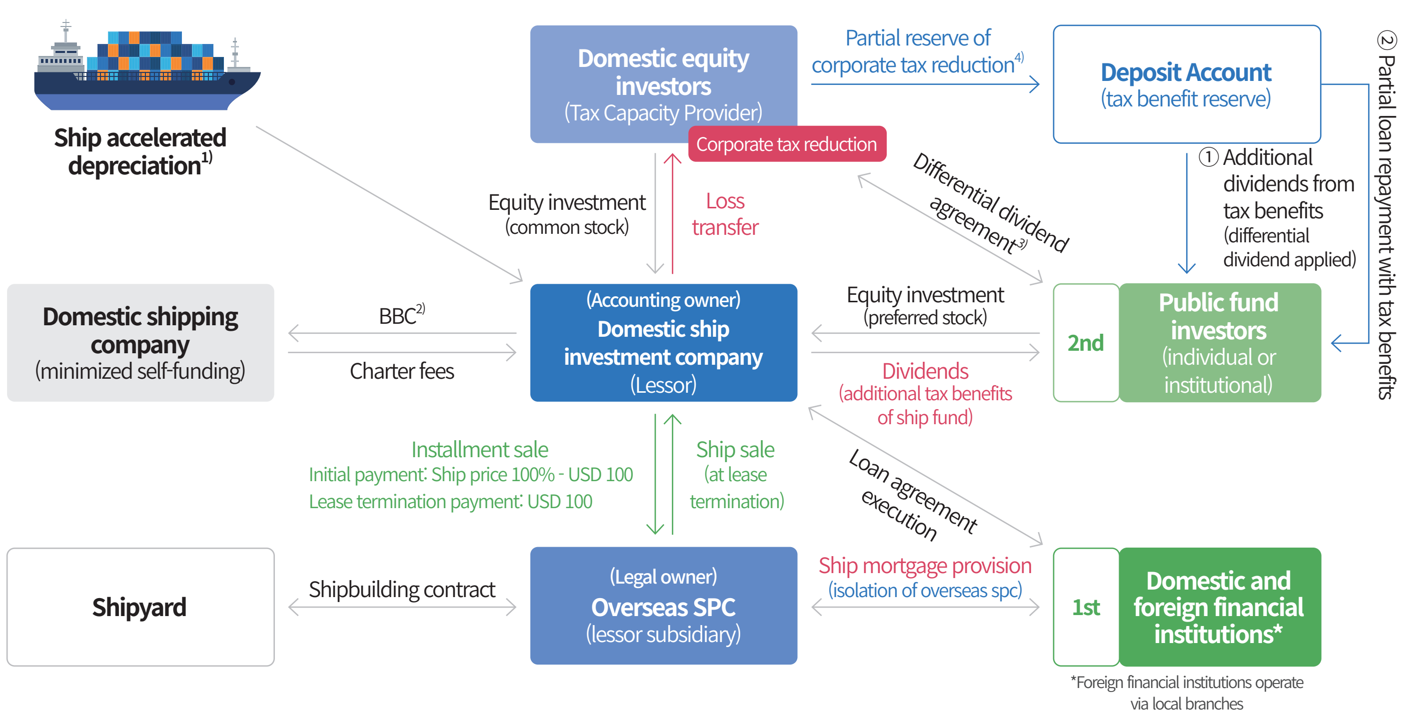
The public fund-type model is expected to demonstrate favorable project viability due to the creation of tax benefits, enabling the recruitment of general investors through a public offering and the potential use of flags of convenience in the Jeju Special Ship Registration Zone. The transfer of TCP's tax benefits to general investors may also resolve tax-related issues, as general investors, conceptually positioned similarly to the TCP, would not encounter tax conflicts arising from the transfer. Ultimately, introducing a Korean ship tax lease system could improve the ship investment company system under the Ship Investment Company Act, attract private domestic investors to the ship finance market, and support low-carbon ship orders for small and medium-sized shipping companies.

For the loan-based model, domestic and foreign financial institutions are familiar with overseas flags of convenience and mortgage systems of the flag country, but the acceptance of domestic Jeju flags of convenience remains low. Hence, to enhance bankability, the loan model may need to adopt a structure similar to Japan's JOLCO by utilizing overseas flags of convenience in conjunction with ship investment companies. In conclusion, the Korean model, by separating or combining the public fund-type and loan-based models, depending on project participants' preferences, could maximize the scope of application for the Korean ship tax lease system.

See the Figure of The Korean Model of Ship Tax Lease System (draft)

To further maximize the tax benefit effect, additional measures should include designating ship investment companies as tax-exempt special-purpose entities and allowing equity sales of the ship investment company rather than ship sales at the transaction exit stage. The relevant ship could then be re-registered under the tonnage tax system. Numerous

Figure The Korean Model of Ship Tax Lease System (draft)



1) Maximize SPC operating losses (apply accelerated depreciation during the early stages). 2) Exercise purchase option at lease termination (e.g., Year 7 of Lease). 3) Ship investment company or management agency agreement may be considered. 4) The tax benefit reserve ratio is determined through individual agreements, considering the scale of tax benefits and TCP participation feasibility. 5) This draft structure is subject to modifications following reviews of accounting, tax, and legal considerations during the legislative process.

Points for System Structuring

Separation of accounting and legal ownership and allowance of accelerated depreciation for ships.

- Permit domestic equity investors (TCP) to transfer operating losses (losses) from the ship investment company (SIC), minimizing TCP's required equity in the SIC for loss transfers.
- Tax benefits are reserved in deposits, and at lease termination: ① Allow liquidation dividends to public investors, or ② Transfer to domestic and foreign financial institutions.

➡ Advantages of the Fund-type model ① Reduced ship financing costs for shipping companies. ② Minimized self-funding by shipping companies (100% financing possible). ③ Coupled with amendments to the Ship Investment Act (lowering dividend income tax), it could attract general investors to the ship finance market → playing a catalytic role in activating private investment.

additional issues require resolution; however, these can be addressed gradually through task force meetings and expert consultations.

4. Action Plan

We have already experienced firsthand how difficult it is to create a differentiated tax benefit system specifically for the shipping industry, separate from other industries, during the process of legislating the ship tax lease system around 2022. If we pursue the introduction of this system again in the future, we must use the lessons from the previous case to ensure that both the government and the shipping/financial sectors can come to a mutual understanding and prepare systematically. Below is a brief summary of the challenges we need to address when re-pushing for the introduction of the system.

First, we must secure sufficient physical and human resources in advance for the reintroduction of the system. The ship tax lease system is complex, involving various laws, accounting, finance, and shipping knowledge, and there are very few experts on the system. Additionally, since most countries' cases include subsidies, their regulations and practices are treated as confidential, making case analysis difficult. Therefore, the relevant industries must collaborate to split the cost. With this budget, we should thoroughly analyze international cases through foreign law firms and select favorable institutions to prepare an expected preliminary feasibility report. Furthermore, we need to appoint top experts in each field to ensure the system operates effectively in practice, offering high-quality services and due recognition for their expertise.

Second, pre-consultations must be conducted with relevant government agencies, shipping associations, cargo associations, and banking federations to share the understanding that they are beneficiaries of the system's introduction. Now that the tonnage tax system has been extended, the next task for the Ministry of Oceans and Fisheries or the Shipping Association is to firmly align their awareness with the introduction of the ship tax lease system. Broadly speaking, the unresolved issue in the domestic ship finance market, which has been discussed for a long time, is how to stimulate private investment. Private investment is the prerequisite for solving the problem by providing sufficient opportunities in the ship finance market. Therefore, the ship tax lease system will provide significant opportunities for the ship finance market, which will automatically lead to private investments aimed at securing these opportunities. The advancement of ship financing techniques will be a natural byproduct.

Third, during the process of structuring and legislating the system, rather than introducing new content into related laws like the corporate tax law, we should focus on modifying existing laws and consider exceptional applications when necessary. From the perspective of other industries, the ship tax lease system is a very altruistic and discriminatory system. For the relevant ministries, it is essential to be mindful of other industries' viewpoints, and it is natural for them to feel burdened by excessive preferential elements. For example, accelerated depreciation under the Act on Restriction on Special Cases concerning Taxation could include environment-friendly ships, and domestic pass-through companies could establish tax-exempt special-purpose ship investment entities (corporate or partnership types) under the Ship Investment Company Act. Additionally, the ship tax lease system requires that the lease company (ship investment company) be the subject of depreciation, so the law should be revised to allow the lease company to depreciate when the leased asset is a ship, regardless of whether it's a financial or operating lease.

Fourth, if we institutionalize the French model into a Korean-style system, large financial institutions and cargo owners (TCP) will enjoy some of the tax benefits. Therefore, significant effort should be placed on developing a rationale for the public benefits, such as job creation, exports, overseas chartering bid wins, expanded private investment, and the mutual growth effect with shippers. Moreover, TCP, being domestic top financial institutions and large corporations that generate enormous profits every year, requires incentives for their participation. Therefore, both the private sector's interests and public interest in redistributing these benefits should be considered in a balanced manner when addressing the issue of distributing tax benefits.

Fifth, the ship tax lease system should be advanced through legislation by engaging with members of the National Assembly's Agriculture, Food, Rural Affairs, Oceans and Fisheries Committee with decisive lawmakers interested in the system through public hearings and consultations. The legislation of tax laws in Korea requires fulfilling three conditions: ① economic feasibility, ② the willingness of relevant industries to adopt the system, and ③ political decisions. Therefore, even if conditions ① and ② are met, the absence of political will and decision-making can derail progress, so it is preferable to pursue legislation through parliamentary initiatives rather than government legislation.

The ship tax lease system is a global ship financing technique that benefits not only the domestic shipping industry but also the financial sector, cargo industry, shipbuilding sector, and general investors. Moreover, if the ship investment company system is enhanced alongside the introduction of this system, it will create a revolutionary framework for bringing private investments into the ship finance market via a public offering method. The Korean shipping industry must unite, with the Ministry of Oceans and Fisheries, the Maritime Promotion Corporation, and the Shipping Association at the forefront, to pool our wisdom and resources to ensure the successful early implementation of this system in Korea.

The Korea Ocean Business Corporation (KOBC) was established to enhance Korea's shipping competitiveness by supporting the stable acquisition of vessels, ensuring liquidity for shipping companies, and providing services essential for the growth of the shipping industry. Through these efforts, KOBC contributes to the development of the national economy.

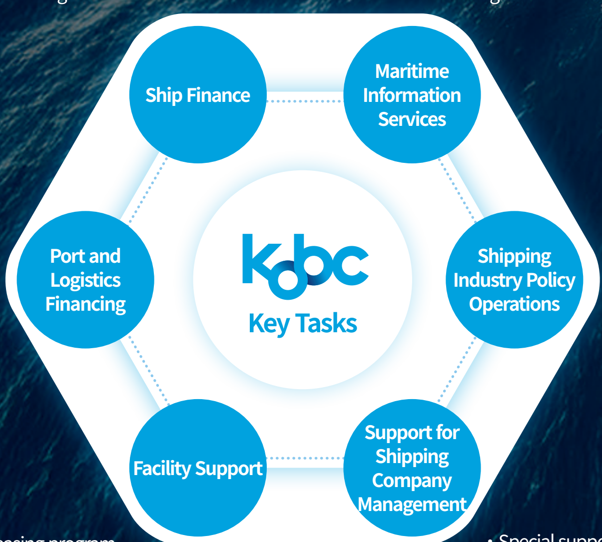
Korea Ocean Business Corporation: Leading Korea as a Shipping Powerhouse

Business Areas

KOBC offers services crucial for the growth of the shipping industry.

- Investments in ship acquisition financing
- Guarantees for ship acquisition financing
- Investments in financing for owned vessels
- Guarantees for financing owned vessels

- Provision of information on shipping, ports, and logistics
- Ship valuation services
- Operation of freight indices (KCCI, KDCI)
- Diagnostic and consulting services for the shipping industry



- Investments and guarantees for domestic and international port terminals
- Investments and guarantees for logistics facilities at home and abroad
- Financial support for domestic and international port handling facilities

- Support for global low-carbon ship initiatives
- Operation of the CESS (Certified Excellent Shipping Company and Shipper) Scheme
- Management of the National Essential Vessel Program
- Operation of Freight Tariff Publication
- Operation of a logistics data-sharing platform
- Training programs for experts in shipping, port, and logistics finance

- Container leasing program
- environment-friendly equipment upgrade programs (interest compensation, special guarantees)

- Special support programs for small shipping companies
- Shipping industry crisis response funds
- Credit guarantee support projects

01 —— Financial Support for Shipping, Port, and Logistics Companies

KOBC supports ship acquisition, liquidity, and structural improvements for shipping companies, which account for 99.7% of Korea's export-import cargo to respond to global supply chain challenges. The corporation also invests in and supports port terminals, handling facilities, and logistics infrastructure.

02 —— Support for environment-friendly and Digital Maritime Industries

KOBC implements various financial and non-financial support programs to help Korean companies maintain a competitive edge in global markets amidst stringent international environmental regulations including GHG limits from vessels and the accelerating digital transformation involving AI, IoT, and blockchain.

03 —— A Hub for Marine Information and a Foundation for New Maritime Businesses

KOBC acts as a marine information think tank, providing accurate and timely data, such as global freight indices. It also supports the continued growth of new maritime businesses, including marine bio, energy, and tourism sectors facing challenges and innovations.

04 —— Corporation Fostering Communication and Co-Prosperity

KOBC strives to help large marine corporations expand globally while promoting the co-growth of small and medium-sized enterprises. The corporation emphasizes communication, mutual growth with local communities as well as the nation, and active participation in social contribution activities.

Mission	To support the growth of the maritime industry through financial services, strengthen industrial competitiveness, and contribute to the development of the national economy.			
Vision	A Global Leader in Maritime Finance			
Core Values	Innovative Growth	Collaborative Cooperation	Future Leadership	Sustainability
Five-Year Management Goals	Secure 15.4 million DWT of new national flag fleet capacity	Supply 40 low-carbon fuel vessels	Globalize KOBC's freight indices	Achieve the highest grade in ESG management indices
Strategic Objectives	❶ Finance Driving Future Maritime finance	❷ Policy Strengthening an environment-friendly and Cooperative Ecosystem	❸ Information Developing as a Marine Information Think Tank	❹ ESG Achieving Management Methods by People
Tasks	Expand maritime finance supply	Enhance responsiveness to marine environmental regulations	Expand the provision of maritime industry information	Internalize and expand ESG management
	Promote structural improvement in the shipping industry	Foster cooperative growth in shipping and logistics	Enhance crisis response capabilities for shipping companies	Strengthen organizational capabilities through management innovation
	Strengthen comprehensive financial capabilities	Solidify policy initiatives in shipping and logistics	Promote the digital transformation of the maritime industry	Establish public ethics and internal control systems

The Marine Finance Center was established in 2014 in the Munhyeon Finance Complex in Busan. It is a collaborative entity comprising KDB (Korea Development Bank), the Export-Import Bank of Korea (KEXIM), and Korea Trade Insurance Corporation (K-SURE). Located in Busan, a global maritime hub, the center provides comprehensive financial services for shipbuilding, shipping, and port infrastructure, contributing to the international competitiveness of the marine industry.

Marine Finance Center: A Total Solution Provider for the Shipping and Shipbuilding Industries

Support by Sector

- Shipbuilding: Financing for ship construction, issuance of refund guarantees (RG), export credit insurance
- Shipping: Ship finance (loans and debt guarantees), ship funds (investments), export base insurance and long-term export insurance
- Port Infrastructure: Loans for port companies, fund investments in large-scale port infrastructure projects
- Related Equipment: Facility funding for production equipment and operational capital support

Korea Development Bank (KDB)

01 Direction and Vision of KDB's Maritime Industry Finance Headquarters

- Providing comprehensive financial services to marine industries, including shipbuilding and shipping.
- Expanding growth engines for domestic marine industries and promoting international competitiveness.

02 Maritime Finance Types

• Corporate Finance

Targets	Shipbuilding companies, shipping lines, marine infrastructure firms, etc.
Details	Offering direct financial support through loans, guarantees, and other methods to ensure smooth business operations for marine enterprises.

• Ship Finance

Targets	Domestic and international shipping companies.
Details	Providing funds to Special Purpose Companies (SPCs) established for new ship acquisitions of shipping companies based in Korea and beyond, using asset value and future revenue as repayment sources.

• Ocean Funds

Targets	Shipping lines and marine infrastructure firms.
Details	Investing in ship financing and marine infrastructure projects to reduce the capital burden on marine companies and act as a catalyst for private financial institution participation.

Export–Import Bank of Korea (KEXIM)

01 Direction and Vision of KEXIM's Marine Finance Department

- Accelerating decarbonization by focusing on next-generation environment-friendly ships.
- Fostering a shipbuilding ecosystem through strengthened collaborative partnerships.
- Diversifying support methods by utilizing various financial instruments.

02 Maritime Finance Types

• Shipbuilder Finance

Targets	Domestic shipbuilding and marine companies, foreign companies with domestic ownership stakes (overseas subsidiaries).
Details	Supporting smooth order placement for shipbuilding companies and offering tailored financial support based on the creditworthiness of shipbuilders.

• Ship Finance (Loans)

Targets	Domestic and international shipping companies, limited to shipbuilding projects at domestic shipyards.
Details	Providing funds to SPCs established by shipping companies for new or used ship purchases or refinancing purposes.

• Ship Finance (Debt Guarantee)

Targets	Domestic and foreign financial institutions participating in ship financing projects supported by KEXIM.*
Details	Guaranteeing repayment to financial institutions lending to borrowers involved in transactions supported by KEXIM in case of borrower default.

*Debt guarantees are provided alongside ship financing (loans) but are not offered as standalone support.

Korea Trade Insurance Corporation (K-SURE)

01 Direction and Vision of K-SURE's Marine Finance Department

- Expanding green financing for environment-friendly ships to participate in decarbonization efforts.
- Promoting sustainable development between shipbuilding and shipping industries through competitive ship financing.

02 Maritime Finance Types

• Shipowner Finance (Domestic Shipping Companies)

Targets	Domestic shipping companies, including overseas subsidiaries established for ship purchases.
Details	Supporting fleet expansion for domestic shipping companies and order placements at domestic shipyards by insuring risks related to loans provided by financial institutions to these companies.

• Shipowner Finance (Foreign Shipping Companies)

Targets	Foreign shipping companies ordering ships at domestic shipyards.
Details	Enhancing the competitiveness of domestic shipyards by insuring risks on loans for the purchase of vessels from domestic shipbuilders provided to foreign shipowners by financial institutions.

• Construction Financing (Refund Guarantee, RG)

Targets	Domestic shipyards.
Details	Supporting smooth issuance of refund guarantees (RGs) by compensating losses incurred by financial institutions in issuing RGs as collateral for the export performance of domestic shipyards.

Japan Maritime Center Interview

Senior Researcher of Japan Maritime Center
Setsuo Nomura

Setsuo Nomura is a senior researcher of Japan Maritime Center and a lecturer in law at Meiji Gakuin University. His main research focuses on maritime industry law and policy, covering topics from tonnage tax to environmental issues, as well as maritime education and training. He has also served as a legal advisor to the Japanese delegation at International Labour Organization (ILO) conferences regarding seafarer issues. Born in 1974 in Japan, he holds a Bachelor of Laws (LL.B.) and Master of Laws (LL.M.) from Sophia University in Tokyo.

Q.1 Introduce the Japan Maritime Center to the readers of Inside Busan Finance in Korea.

Q. I would like to know about the history of the Japan Maritime Center.

A. The Japan Maritime Center is a foundation established in April 2007 through the merger of the Japan Maritime Foundation (founded in July 1964) and the Japan Shipowners' Association (founded in December 1964). In April 2011, it transitioned into a public-interest foundation under the Law for the Authorization of Public Interest Incorporated Associations and Public Interest Incorporated Foundations, and its name was changed to the Public Interest Incorporated Foundation Japan Maritime Center.

The Japan Maritime Center conducts research and investigations on various maritime topics, including maritime legislation, maritime economies, maritime industry, maritime labor, navigation safety, and marine environmental conservation. It also hosts maritime-related events, such as research meetings, lectures, and forums. Additionally, it supports the activities of entities involved in maritime public interest projects and provides consulting services to corporate bodies for implementing these projects.

Q. What are the core values and goals pursued by the Japan Maritime Center?

A. The Japan Maritime Center has the following objectives:

1. To serve as a central think tank for the maritime community, fostering cooperation between the maritime industry, administrative agencies, and research institutions.
2. To support the development of the maritime industry, which is essential for Japan's economic and social growth.
3. To promote public welfare through maritime public interest projects.
4. To ensure a safe and secure maritime society.
5. To contribute to a maritime society that harmonizes with environmental preservation.
6. To engage in international maritime activities.

To achieve these goals, the Japan Maritime Center focuses on: ① Keeping track of the latest global economic and social trends to promptly address issues within the maritime community; ② Providing multifaceted support, such as legal investigations and economic analyses, in collaboration with the maritime industry and government agencies; ③ Effectively disseminating domestic and international information using diverse communication tools; ④ Utilizing one of Asia's premier maritime libraries to support future leaders in the maritime community; ⑤ Actively supporting public welfare activities conducted by maritime organizations to ensure the continuous development of the sector.

Q. Could you introduce the core activities that the Japan Maritime Center is currently promoting?

A. The primary mission of the Japan Maritime Center is to contribute to public welfare in the maritime sector and to the development of Japan's economy and society, thereby enhancing the stability and quality of life for its citizens. To fulfill this mission, the Center continuously reviews its activities annually, which include: ① Conducting maritime-related research, proposing policies, and managing projects in areas such as maritime legislation, economies, industry, labor, navigation safety, environmental conservation, and sectoral awareness; ② Collecting and providing access to domestic and international maritime information and data; ③ Supporting public welfare activities in the maritime industry across topics like legislation, economies, industry, labor, navigation safety, environmental conservation, and sectoral awareness; ④ Participating in international maritime conferences; ⑤ Organizing research meetings, lectures, and forums on maritime topics; ⑥ Publishing maritime-related literature and materials.

All these activities are vital to the maritime community. From a researcher's perspective, I am particularly focused on establishing both the Japanese and international legal systems essential for the sustainable development of the maritime industry. This involves collaborating with Japan's government in international negotiations and contributing to improved global agreements as part of Japan's representative delegation to organizations such as the International Maritime Organization (IMO) and the International Labour Organization (ILO).

Q. 2 In May, you presented on Japan's maritime strengthening measures in Korea. Since the maritime industry is also crucial to Korea's economy, could you provide more details about Japan's maritime strengthening measures?

Q. You mentioned eight measures, and I would like to know more about the background and objectives of the detailed systems.

A. ① Tonnage Tax System

The tonnage tax system is a corporate tax applied to shipping operators, where the taxable base is determined by the ship's tonnage rather than actual income. Depending on the scheme design, such as the deemed profit and the range of included income, companies with good performance can significantly reduce their tax obligations. This system allows for more predictable tax payments, enabling shipping operators to make substantial investments in ships with financial stability despite market fluctuations.

The system, introduced by the Netherlands in 1998, was later adopted by several European countries, the United States (in 2004), and South Korea (in 2005), becoming a global standard for shipping operators. Japan introduced it in 2008, later than other nations. A few unique characteristics of Japan's system include:

1. It applies only to ocean-going operators (those providing international shipping services) and cannot be used by ship owners (who only own ships) or ship management companies.
2. The system applies to Japanese-flagged vessels and quasi-Japanese-flagged vessels. Quasi-Japanese-flagged vessels refer to foreign-flagged ships owned by overseas subsidiaries (formal owners) of Japanese operators or owners (substantial owners) meeting conditions such as: (1) Operation by a Japanese ocean-going operator; (2) Passing Japanese inspections required for reflagging to Japanese nationality; (3) An agreement between formal and substantial owners to quickly reflag the vessel to Japanese nationality under the directive of the Minister

of Land, Infrastructure, Transport, and Tourism (MLIT), if necessary (e.g., when the minister designates specific routes, vessels, or freight and directs operators to sail in response to a disaster). Additionally, the deemed profit for quasi-Japanese-flagged vessels is higher than for Japanese-flagged vessels (see Table 1).

Table 1 Deemed profit (per 100 Net Tons) (unit: JPY)

	Japanese-flagged vessels	Quasi-Japanese-flagged vessels
Up to 1,000 net tons	130	195
1,000-10,000 net tons	110	165
10,000-25,000 net tons	70	105
25,000 or more net tons	40	60

3. The unique character and condition of Japanese tonnage tax system is that operators must submit a plan to secure Japanese-flagged vessels and seafarers, approved by MLIT. The plan spans a duration of 3, 4, or 5 years (depending on when the tax system is applied) and requires operators to increase the number of Japanese-flagged vessels in their fleet by specific ratios based on their current share. For example, operators with 21% or more Japanese-flagged vessels must increase their count by 1.15 times, those with 19% to less than 21% must increase it by 1.2 times, and those with less than 19% must increase it by 1.4 times. Operators are required to train one Japanese seafarer per Japanese-flagged vessel annually. This training, necessary to qualify as a seafarer, can be conducted either directly by the operator or through a third party. Additionally, operators must ensure a crew of four Japanese seafarers per vessel (or two for quasi-Japanese-flagged vessels). Unlike the tonnage tax systems in the UK, Taiwan, and India, which include conditions for training and hiring seafarers, Japan's system uniquely mandates an increase in the number of domestic vessels while emphasizing seafarer training and employment.

② Special Depreciation System for Ships

The Special Depreciation System allows shipowners to apply an additional percentage (special depreciation rate) to the ship's purchase price, on top of the regular depreciation amount. This system enables shipowners to defer taxation, resulting in a tax-saving effect over the deferral period. Approximately 40% of Japan's ocean-going fleet consists of vessels owned by Japanese owners and leased to Japanese operators. Since they are able to lease the ships to foreign operators, Japanese owners play a crucial role in the global maritime industry, including within Japan. Although the system was introduced in 1951 with a temporary two-year limit, it has been extended multiple times and undergone several revisions.

See the current condition of the system in Table 2. The conditions for additional depreciation rates depend on the type of ship, its registration country, or whether it is leased to Japanese or foreign operators. Ships that meet environmental standards are those with a superior CO2 emission control index (EEDI). Advanced ships that contribute to economic security (as mentioned later), such as those equipped with IoT systems or made with new materials that enhance safety and environmental performance, are eligible for higher depreciation rates. The depreciation rate is determined based on whether these vessels are Japanese-flagged or foreign-flagged, or whether they are chartered by Japanese operators and operating as Japanese merchant vessels, or foreign operators

Table 2 Target Ships for Special Depreciation System

	Japanese-flagged ships	Foreign-flagged ships
Environmentally friendly ships	17%	15%
Environmentally friendly ships contributing to economic security	By Japanese opertors: 29% By foreign opertors: 27%	By Japanese opertors: 27% By foreign opertors: 25%
Advanced ships	20%	18%
Advanced ships contributing to economic security	By Japanese opertors: 32% By foreign opertors: 30%	By Japanese opertors: 30% By foreign opertors: 28%

③ Ship Reduced Value Entry System

The Ship Reduced Value Entry System, also known as the Special Provisions for Ship Transactions, is a tax regulation designed to reduce the tax burden on shipowners when selling a vessel. The sale of vessels often requires the owners to pay a substantial tax, depending on the circumstances. If the shipowner acquires a new vessel within the same year as the sale, the tax burden can be lowered. However, this is not a tax exemption. Instead, the tax amount is deferred and paid in installments beginning the following year.

④ Special Ship Repair Reserve System

Under Japanese law (specifically the Ship Safety Act), ships are required to undergo regular inspections every five years, with intermediate inspections in between. Since repairs are necessary for the critical assets in the shipping industry, the costs of future repairs can be treated as losses. Specifically, up to three-quarters of the costs for regular inspections can be accounted for as losses, with the reserved amounts deferred until the next inspection period.

⑤ Fixed Asset Tax Exception Scheme

In Japan, ships are classified as fixed assets and are subject to a fixed asset tax. This incurs a tax cost for ship ownership, unlike in countries that do not levy such taxes. To ease this burden, Japan offers an exception: For ocean-going ships, the tax base is reduced by one-sixth; for international ships (see point ⑦ below), it is reduced by one-eighteenth; and for specific ships (see point ⑧ below), it is reduced by one-thirty-sixth. The tax rate for fixed assets is 1.4%.

⑥ Registration License Tax Preferential System

The registration license tax is levied when registering ships, real estate, or companies. Typically, the registration fee for a ship is 0.4% of its value. However, this fee is reduced to 0.2% for newly built international ships (see point ⑦ below) with 10,000 gross tons or more (see point ⑧ below), and to 0.35% for existing ships that are not subject to detention under Port State Control (PSC).

⑦ International Ship System

The transition to a floating exchange rate system in 1973 and the Plaza Accord of 1985 led to a rapid appreciation of the Japanese yen. This made the operating costs of Japanese-flagged ships with only Japanese crew members much higher than those of foreign-flagged ships with foreign crew. As a result, the number of Japanese-flagged ships, already in decline, decreased further, while foreign-flagged vessels became more prevalent in Japan's merchant fleet. In response, Japan introduced the International Ship System in 1996, recognizing ships crucial to international maritime transport as international ships. Under this system, Japan offers tax benefits (initially, reductions in fixed asset and registration license taxes) and implements registration and cessation recommendation systems for the overseas transfer and leasing of ships.

In 1998, Japan introduced the foreign crew member approval system, allowing international ships to employ foreign crew members (approved seafarers) at lower wages compared to Japanese crews. This marked a significant turning point, enhancing the international competitiveness of Japanese-flagged vessels. It also led Japanese shipping companies to actively train foreign seafarers, with two major companies establishing maritime universities in the Philippines. The system was later expanded to include 19 countries, including South Korea, thereby strengthening the seafarer policy by diversifying approval methods.

To be recognized as an international ship, a vessel must meet the following criteria: (1) be at least 2,000 gross tons, (2) be an ocean-going vessel, and (3) either employ approved foreign seafarers or use alternative fuels.

⑧ Specific Ship Introduction Plan Recognition System

In 2021, the Maritime Industry Strengthening Act was enacted, revising six existing maritime-related laws, including the Maritime Transport Law, Coastal Shipping Law, Shipbuilding Law, Ship Safety Law, Sailor Law, and Crew Employment Law. A key development in ocean shipping was the introduction of the Specific Ship Introduction Plan Recognition System under the amended Maritime Transport Law and the Business Foundation Strengthening Plan Recognition System under the amended Shipbuilding Law.

Under the Business Foundation Strengthening Plan, shipbuilding and marine equipment businesses (造船舶用事業者) that draft a plan to improve productivity through collaboration with other companies and obtain approval from MLIT are eligible for financial support. This support includes access to fiscal loans. Additionally, during business restructuring, these companies may receive benefits such as reduced registration license taxes for company registration and other related matters.

Furthermore, maritime operators planning to construct a specific ship at a shipyard of shipbuilding and marine equipment businesses approved under the Business Foundation Strengthening Plan can also qualify for the aforementioned tax benefits if they obtain recognition from MLIT. A 'specific ship' is defined as a vessel designed to reduce environmental impact or equipped with features that enhance navigation safety and reduce operational labor (e.g., sailing, loading, and unloading), based on its structure, facilities, and performance. The criteria for these ships include considerations such as whether the main engine is a low-NOx engine, whether low-friction paint is used, and the design of the ship's bow. Additionally, safety and labor reduction features include automatic steering systems, remote engine control systems, and automatic recording of engine operating conditions.

Q. Considering the comprehensive maritime strengthening measures in Japan, it seems the system is well-structured and has already shown results. Can you discuss the outcomes of these measures in detail?

A. While it is difficult to pinpoint specific outcomes, one clear result is that Japan's merchant fleet continues to play a significant role globally.

The tonnage tax system has led to an increase in the number of Japanese-flagged ships due to the requirements for securing more domestic-flagged vessels and seafarers. Among Japan's merchant fleet, Japanese-flagged vessels reached their peak in 1972, with 1,580 ships (with 655 foreign-flagged vessels). However, by 1978, this number had dropped to 1,204 ships (with 1,290 foreign vessels). In 2007, the fleet had further decreased to only 92 ships, while foreign-flagged vessels numbered 2,214. Since then, the tonnage tax system has driven a steady increase in the number of Japanese-flagged ships, which had risen to 311 by 2023 (with 1,900 foreign vessels). A significant contributing factor to this increase is the ability of Japanese-flagged ships to accommodate foreign crew members under the International Ship System. However, by 2022, only five major companies were utilizing the tonnage tax system, which has limited the significant growth of Japan's merchant fleet.

Regarding Japanese seafarers, their numbers declined dramatically from a peak of 56,833 in 1974 to 2,625 in 2005. Since then, the number has remained steady at around 2,000 (2,017 in 2023), partly due to the effects of the tonnage tax system. However, the overall number of Japanese seafarers has not increased, and given the challenges posed by Japan's aging population and low birthrate, similar to those in Korea, it is expected to become even more difficult to maintain or increase this number.

Q. Responding to IMO environmental regulations is a significant challenge in the maritime market. Are there any enhanced measures or future plans for supporting the transition to an environment-friendly fleet?

A. As previously mentioned, various measures, including the Special Depreciation System for Ships, the Fixed Asset Tax Exception Scheme, the Registration License Tax Preferential System, the International Ship System, and the Specific Ship Introduction Plan Recognition System, all contain provisions for environment-friendly ships. The aim is for Japanese shipowners to contribute to global environmental conservation by transitioning to environment-friendly ships, while Japan's shipyards continue to develop and implement green technologies.

Q.3 The Maritime Finance Center is currently researching ship financing solutions using local currencies instead of the U.S. dollar, which has traditionally been used in ship financing. I understand that Japan also uses the Japanese yen for ship financing. Could you elaborate on the current status of yen-denominated ship financing in Japan?

Q. Assuming the total amount of ship financing in Japan is 100, what proportion is financed in U.S. dollars versus yen?

A. Japan has a number of financial institutions and a well-established ship finance market. However, there is no centralized organization that tracks and publishes data on this, so no publicly available statistics exist. It is estimated that the total loan balance of ship financing by Japanese financial institutions is approximately 13 trillion yen, though the accuracy of this figure is uncertain.

For owners of ocean-going ships, income from charter fees is generally denominated in U.S. dollars, and both the sale and appraisal of ships are typically conducted in U.S. dollars. However, many of Japan's expenditures, including loans from Japanese banks, are denominated in yen. As a result, shipowners must carefully consider the exchange rate and interest rate burdens when choosing between U.S. dollar or yen financing. From a currency stability perspective, the Swiss franc is occasionally used, and multi-currency clauses are often incorporated into contracts. These clauses allow the loan to be adjusted between U.S. dollars, yen, Swiss francs, euros, and other currencies during the contract period. Additionally, shipowners manage exchange rate risks by entering into foreign exchange contracts based on the timing of charter fee receipts or shipbuilding contracts.

Q. Could you introduce the basic structure of yen-denominated ship financing?

A. A typical loan structure for Japanese shipowners is as follows: Panama is the country with the highest number of registered ships in Japan's merchant fleet. Using a Panama-flagged vessel as an example, a Special Purpose Company (SPC) is established in Panama to hold the ship, and this SPC becomes the borrower. The SPC is set up by a Japanese domestic shipowner, who acts as the parent company and jointly guarantees the loan. The financial institution signs a loan agreement with the SPC, and in cases involving large loan amounts (such as the value of the vessel), syndicated loans (loans from multiple financial institutions) are often used, rather than relying on a single lender.

When an SPC orders a new ship from a shipyard, it may either sign the shipbuilding contract directly with the yard or go through a trading company, which will then sign a sales contract. If the SPC contracts directly with the shipyard, it will sign an Advance Payment Refund Guarantee (APRG) with the shipyard's financing institution. This ensures that the costs paid prior to delivery, such as at the contract, keel-laying, launching, and completion stages, are secured.

When Japanese shipowners engage in loans, financial institutions typically assess the creditworthiness of the shipowner, the ship's operator (the charterer), and the value of the ship. Previously, the focus was mainly on the shipowner's credit (corporate finance). However, since shipowners' major income now comes from charterers—many of whom are foreign companies with different operational principles than Japanese firms—analyzing the charterer's credit has become increasingly important.

In contracts, the operator is often a company (SPC) set up specifically for this purpose, and the parent company of the SPC is required to act as the guarantor for the charter agreement. Unlike Japan, in other countries, parent companies can easily sell subsidiaries to third parties, making it useful to include provisions about limitations on shareholder changes in the lease contracts. To analyze the charterer's creditworthiness, financial institutions must review a variety of materials, such as company profiles, financial statements, business operations policies (either as a single company or as part of a group), industry positioning, competitiveness, fleet size, types of ships, shipbuilding contracts, the status of remaining shipbuilding orders, average charter revenues and paid charterages, major cargo owners and customers, and other business activities, along with the status of involved financial institutions and the company's financial standing. Furthermore, it is advisable for financial institutions to maintain direct contact with operators to stay informed of market trends.

Additionally, when granting loans, the financial institution establishes ship mortgages, assignments of receivables (such as charter hire income) as collateral, assignments of claims related to the shipowner's insurance contracts, or pledges on the shipowner's insurance claims. When contracting for the construction of a new ship, it is common for shipowners to make installment payments to shipyards, as mentioned earlier, and facility agreements are often utilized in this process. In Japan, facility agreements are governed by the provisions of the Act on Special Loan Framework Agreements (特定融資枠契約法). These agreements allow borrowers to repeatedly draw and repay loans within a set limit over a specified period based on their requests. While Japanese shipowners generally prefer newly constructed ships, facility agreements can also be applied to shipowners who frequently buy and sell used vessels.

The structure of ship financing is similar regardless of whether the loan is denominated in yen or U.S. dollars. The decision to borrow in yen is typically based on the shipowner's judgment, taking into account factors such as exchange rates and interest rates, as mentioned earlier.

Q. I understand that yen-denominated ship financing primarily uses yen-based contracts for refinancing. Could you provide an overview of the structure of refinancing in yen-denominated ship financing?

A. Refinancing is necessary when a loan includes a large balloon payment or a tail-heavy payment structure, where the final payment at the end of the loan term requires either taking out a new loan to cover the outstanding balance or refinancing with a different financial institution. The overall structure of refinancing is similar to the initial financing; however, when dealing with used ships, the assessment of the ship's value becomes particularly crucial. Currency risk is managed similarly to general finance.

Busan Maritime Expert Club (BMEC, Busan Regional University Alliance Club), Maritime Finance Idea Contest Award-Winning Presentations

The Busan Finance Center is supporting the activities of university clubs related to maritime and specialized finance in the Busan area to cultivate next-generation financial talent. Through initiatives such as the Maritime Finance Research Contest, Shipping Market Analysis Contest, and the Maritime Finance Idea Contest, the center is working to lay the foundation for the local maritime and financial industries. This is part of creating a sustainable financial center ecosystem to develop the next generation of financial talent. Below are the award-winning presentations from the Maritime Finance Idea Contest.

Event	2024 2nd Busan Maritime Expert Club (BMEC) Maritime Finance Idea Contest	**Participants**	Around 70 BMEC members *Open to visitors of Busan Financial Week
Date	Friday, October 4, 2024 10:00 - 17:30	**Host/Organizer**	Busan Maritime Expert Club (BMEC)
Venue	BEXCO Convention Hall 109-110 (Busan Finance Week)	**Sponsor**	Busan Finance Center

Enhancing Social Responsibility (S) through Financial Support for Small and Medium Shipping Companies

Grand Prize

Team C (Jeong Ye-jin, Kim Ji-min, Kim Jeong-woo, Lee Jeong-min, Lee Dong-jun)

Research Background and Purpose

Globally, ESG (Environmental, Social, Governance) management is gaining importance in the shipping industry. While environmental responsibility is emphasized by initiatives like the UN Sustainable Development Goals (UN SDGs) and the Task Force on Climate-related Financial Disclosures (TCFD), discussions on social responsibility, including improving crew safety and working conditions, are relatively lacking. Particularly, small and medium-sized shipping companies face challenges in fulfilling social responsibility due to limited human and material resources. In this context, we propose a financial product, the "Crew Liability Guarantee Bond (CLB)," to address crew safety issues for small and medium-sized shipping companies.

The Concept and Structure of CLB

The CLB is a financial product inspired by the structure of CAT Bonds (catastrophe bonds). CAT Bonds are a risk management technique where insurance companies transfer natural disaster risks to the capital market via bonds. CLB applies this concept to crew safety accidents, where crews receive principal and interest if they work without incidents for a set period, but risk losing part or all of their principal or interest if accidents occur. This structure encourages crews to take responsibility for their safety.

CLBs are structured as follows:

- Issuers: an insurance company or trust company
- Investors: general investors and crews
- Product structure: crews recover principal and interest if they prevent accidents, and lose some or all of it if an accident occurs.
- Risks: potential loss of principal for the public, potential loss of interest for the crew

Expected Benefits of CLB

1. Enhanced Crew Safety Management: It motivates crews to prevent safety accidents and provides accident-prevention effects through investor oversight.
2. Encouragement of Economic Participation: Crews of small and medium-sized shipping companies can earn additional income through this financial product, which can act as an alternative to salary increases.
3. Post-Retirement Security: CLB's flexible maturity allows it to be tailored to provide additional income alongside retirement benefits, contributing to a stable future for crews.

Limitations and Future Challenges of CLB

1. Stigmatization from Accidents: When accidents occur, responsibility may be attributed to specific companies or individuals, leading to social stigma.
2. Investor Risks: Investors face the risk of principal loss in case of accidents, and other risks such as company bankruptcy or bond price fluctuations may arise.
3. To ensure the successful introduction of CLB, further research is needed to address these potential risks and develop solutions that balance investor protection with social responsibility.

Activating the Used Ship Market through Retrofit Funds

Best Prize

Team D (Kim Na-hyun, Kim Ye-ji, Park Ji-won, Yang Jin-il, Cho Mi-so)

Research Background and Purpose

In recent years, the used ship market has contracted due to stricter environmental regulations and an increase in new ship orders. Used ships offer economic advantages over new vessels, but the activation of the new ship market has reduced demand, and the volume of used ship transactions has decreased. In particular, the volume of used ships traded in 2023 decreased by 28% compared to the previous year. This situation suggests that strategic approaches are needed to enhance the economic value of used ships.

Definition and Necessity of Retrofit

Retrofit involves upgrading existing used ships to environment-friendly vessels that comply with environmental regulations. The International Maritime Organization (IMO) aims to reduce ship emissions by 40% by 2030, and many shipping companies are improving their ship performance through retrofitting. Retrofit allows used ships to improve operational efficiency while maintaining the economic advantages compared to new ships.

Retrofit Fund Platform (RFS)

The Retrofit Fund Platform (RFS) is a financial platform supporting the purchase and retrofitting of used ships. This platform raises funds from investors to convert used ships into environment-friendly vessels, monitors the process, and offers services that reduce risks for shipowners.

The RFS manages the entire process from used ship purchases to retrofitting, allowing shipowners to complete environment-friendly vessel conversions at lower costs. Investors share the economic benefits generated through retrofitting, while shipowners can expect additional income from reduced operating costs and emission credit acquisition.

Retrofit Technologies and Application Cases

Retrofit technologies include the following environment-friendly solutions:

1. Scrubber Installation: Reduces sulfur oxide (SOx) emissions and lowers exhaust gases.
2. High Manganese Steel LNG Fuel Tanks: LNG fuel tanks that reduce CO_2 emissions by 20-30% compared to fossil fuels.
3. Air Lubrication System: Injects air under the ship's hull to reduce friction with water.
4. High-Efficiency Propellers: Improve fuel efficiency and enhance operational performance.

These retrofit technologies can significantly improve the operational efficiency of existing vessels, particularly in terms of compliance with emission regulations and fuel cost savings. For example, applying LNG fuel propulsion systems can improve fuel efficiency by 5-10% and reduce greenhouse gas emissions by up to 26%.

Expected Benefits of the Retrofit Fund

The Retrofit Fund is expected to play a significant role in revitalizing the used ship market. Firstly, by retrofitting environment-friendly ships, the value of used ships will rise, encouraging shipowners to choose retrofitting over scrapping. Secondly, securing carbon credits generates additional economic benefits. Thirdly, shipowners can more easily transition to environment-friendly vessels, promoting sustainable growth in the shipping industry.

Limitations of the Retrofit Fund

There are several limitations to the Retrofit Fund:

1. Retrofit work may be delayed due to insufficient facilities and manpower at shipyards.
2. Unexpected costs may arise during the retrofitting process.

To address these issues, government support and further research are necessary. By monitoring problems in real-time through the RFS platform and enhancing post-management, these risks can be minimized.

APPENDIX Info

General Status of Busan

	Standard	Unit	Figure	Proportion to whole country(%)
GRDP size				
Busan	December 2023 Gross Regional Product	Billion won	104,297	4.8
Busan·Ulsan·Gyeongnam		Billion won	310,612	14.3
National total		Billion won	2,165,717	100
GRDP by industry in Busan				
Agriculture, forestry and fishery	December 2023 Gross Regional Value Added	%	0.3	0.9
Mining and manufacturing		%	17.0	2.9
Construction		%	5.1	4.3
Services (finance and insurance)		%	76.9(7.3)	5.8(5.1)
Electricity, gas and steam industries		%	0.7	16.2
GRDP by industry in Busan·Ulsan·Gyeongnam				
Agriculture, forestry and fishery	December 2023 Gross Regional Value Added	%	1.6	12.8
Mining and manufacturing		%	38	19.1
Construction		%	4.7	11.7
Services (finance and insurance)		%	55.2(4.9)	12.2(10.1)
Electricity, gas and steam industries		%	0.5	32.6
Container throughput				
Busan	April 2024	1000 TEU	23,154	76.8
National total			30,147	100
Living environment(Busan)				
Area	August 2023	㎢	771.3	0.8
Population	July 2024	Number of people	3,278,280	6.4
Temperature	Average in 2023	°C	16	
Rainfall	Average of 2023	mm	2,191.4	
Foreigners-related (Busan)				
Foreign residents	2023	Number of people	49,090	
Foreign School	June 2024	Number of unit	6	
International school	2024	Number of unit	7	
Multicultural school	2024	Number of unit	2	
Foreign tourists	August 2024	Number of people	1,900,632	

Sources: Korean Statistical Information Service(KOSIS), Busan Metropolitan City website, Ministry of Oceans and Fisheries

General Status of Financial Institutions Located in Busan

(Unit: Number of Institutions)

Name of institutions	End of 2023
Total	**1,304**
Commercial Banks	**172**
Woori Bank	42
Standard Chartered Bank Korea	12
KB Kookmin Bank	49
Citibank Korea	1
Shinhan Bank	31
KEB Hana Bank	37
Regional Banks	**189**
iM Bank	6
BNK Busan Bank	174
Jeju Bank	1
BNK Kyongnam Bank	8
Specific-purpose Banks	**121**
Industrial Bank of Korea (IBK)	41
Export-Import Bank of Korea	1
Korea Development Bank (KDB)	8
NH Nonghyup Bank	59
SH Suhyup Bank	12
Foreign Bank Branches	**1**
Bank of China	1
Securities Firms	**56**
Kyobo Securities	1
Sangsangin Investment & Securities	1
Yuanta Securities Korea	2
Hana Financial Investment	3
IBK Investment & Securities	2
BNK Securities	2
Mirae Asset Securities	4
Meritz Securities	1
Standard Chartered Securities Korea Limited	1
Daishin Securities	3
Eugene Investment & Securities	1
DB Financial Investment	3
Korea Investment & Securities	6
Hyundai Motor Securities	1
NH Investment & Securities	3
Shinhan Securities	3
KB Securities	4
Hanwha Investment & Securities Co.	2
Samsung Securities	3
Shinyoung Securities	3
SK Securities	3
iM Securities	4
Real Estate Trust Companies	**3**
KB Real Estate Trust	1
Mugunghwa Real Estate Trust	1
Woori Asset Trust	1
Investment Advisory Firms	**2**
Orient Investment Advisory	1
Value Eye Investment Advisory	1
Asset Management Firms	**5**
Hediv Asset Management Co., Ltd.	1
Dandy Asset Management Co., Ltd.	1
IGIS Asset Management	1
Hana Alternative Investment Asset Management	1
Eutem Asset Management Co., Ltd.	1
Online Micro Investment Brokerage Firms	**2**
Open Trade	1
Titan Invest Co., Ltd.	1
Life Insurance Companies	**146**
ABL Life Insurance	3
KB Life Insurance	1
Samsung Life Insurance	39
AIA Life Insurance	5
Kyobo Life Insurance	36
Shinhan Life Insurance	13
KDB Life Insurance	10
DB Life Insurance	6
MetLife Life Insurance	12
Tong Yang Life Insurance	7
BNP Paribas Cardif Life Insurance	1
NH Nonghyup Life Insurance	5
Heungkuk Life	6
Fubon Hyundai Life Insurance	2
Non-Life Insurance Companies	**223**
Carrot General Insurance	1
Hanwha General Insurance	11
Hyundai Marine & Fire Insurance	30
Samsung Fire & Marine Insurance	30
SGI Seoul Guarantee Insurance	6
AXA Korea	2
Hana Insurance	2
KB Insurance	37
DB Insurance	45
MG Insurance	7
Lotte Insurance	8
NH Property and Casualty Insurance	4
Heungkuk Fire & Marine Insurance Co., Ltd.	9
Meritz Fire & Marine Insurance	31
Credit Card Companies	**39**
Woori Card	1
BC Card	1
Hyundai Card	1
Lotte Card	7
Samsung Card	12
KB Kookmin Card	2
Hana Card	1
Shinhan Card	14
Leasing and Installment Finance Companies	**43**
ORIX Capital korea Corp	1
Meritz Capital Co., Ltd.	2
Intops Investment	1
Acuon Capital Corporation	1
Lotte Capital	4
JB Woori Capital Co., Ltd.	1
Toyota Financial Services Korea	1
JM Capital Co., Ltd.	1
KDB Capital	1
Hyundai Commercial	1
KB Capital Co., Ltd.	1
Hyundai Capital	5
M Capital	1
RCI Financial Services Korea	1
Mercedes-Benz Financial Services Korea	1
NH Nonghyup Capital	1
Lotte Autolease Co., Ltd.	1
Hankook Capital	1
Woori Finance Capital	5
BMW Group Financial Services Korea	1
OK Capital Co., Ltd.	1
BNK Capital Co., Ltd.	6
iM Capital Co., Ltd.	1
Porsche Financial Services Korea	1
Volkswagen Financial Services Korea	1
Hana Capital Co., Ltd.	1
New Technology Finance	**3**
SB Partners Co., Ltd.	1
Lotte Ventures	1
Nongshim Capital	1
Credit Information Companies	**32**
F&U Credit Information Co., Ltd.	1
IBK Credit Information Co., Ltd.	1
Agricultural Cooperative Asset Management Co., Ltd.	1
SGI Credit Information Company Limited	2
Saeil Credit Information Inc.	7
Core Credit Information	1
Shinhan Credit Information Co., Ltd.	1
SaeHan Credit Information Co., Ltd.	5
Koryo Credit Information	3
Mirae Credit Information	3
SM Credit Information	2
BNK Credit Information	1
A&D Credit Information	1
OkCredit	1
E Credible Co Ltd	1
KB Credit Information	1
Savings Banks	**28**
Acuon Savings Bank	1
Soulbrain Savings Bank	1
Welcome Savings Bank	1
Heungkuk Savings Bank	1
DH Savings Bank	2
Woori Savings Bank	2
DongwonJeil Savings Bank	2
OSB Savings Bank	2
Daishin Savings Bank	2
IBK Savings Bank Co., Ltd.	5
Kukje Savings Bank	1
Goryo Savings Bank	3
BNK Savings Bank	4
Jinju Savings Bank	1
Credit Union	**76**
Local Agricultural Cooperatives	**118**
Local Fisheries Cooperatives	**43**
National Foresty Cooperative Federation	**2**

Sources: Financial Supervisory Service

Institutions Residing in BIFC

63 Story Complex Building As of January 2024

63	Citibank Korea	2
	BMI Group	2
	UIB Korea	2
	LINA One	2
50~51, 55, 56~62	KOREA EXCHANGE	496
55	IBK Changgong	20
53	KAMCO Ship Investment Management	15
	Financial Action Task Force	10
52	Busan Finance Center Shinhan Bank	5
	Busan International Finance Institute	2
	Busan Center of Koscom	2
	Korea Financial Investment Association	7
	Busan Finance Center	17
	Korean Commercial Arbitration Board, Asia-Pacific Maritime Arbitration Center	2
3, 40~47	Korea Asset Management Corporation	610
5, 36~39, 54, 63	Korea Securities Depository	395
4, 30~35	Korea Southern Power	489
7, 12~13, 23~27	Korea Housing Finance Corporation	685
22	Korea Development Bank	23
9, 21~22	Busan Techno Park	32
21	Korea Trade Insurance Corporation	13
20	Korea Exim Bank	40
6, 10~11, 19	Korea Housing & Urban Guarantee Corporation	449
14	Korea Credit Guarantee Fund	50
9	BNK Busan Bank	6
	Korea Securities Finance Corp.	6
	International Plant-quarantine Accreditation Board	20
8	B-SPACE	80
2	HF Bogeumjari Daycare Center	
	NongHyup Bank	10
	Woori Bank	12
	Blue Sea Daycare Center	
1	BIFC Daycare Center	

IFC BUSAN

11	Global FinTech Industry Promotion Center	5
7~10	Korea Asset Management Corporation	145

Independent Premises

15 floors above ground and 2 floors below ground	Korea Technology Finance Corporation	327
4 floors above ground and 1 floor below ground	The Bank of Korea Busan Branch	70
23 floors above ground and 3 floors below ground	BNK Busan Bank	942

General Status of Busan Financial Hub

The designation proceeding of Busan Financial Hub

· December 2007 : Establishment of the law and its implementing ordinances about the construction and development of financial hubs
· April 2008 : Composition of the Financial Hubs Establishment Committee
· November 2008 : Application for designation as a financial hub (Seoul, Busan, Incheon, Jeju and Gyeonggi)
· In January 2009, Busan was designated as a financial hub specialized in marine and derivative finance, and Seoul as a comprehensive financial hub.

Busan International Finance Center (BIFC)

· Location : 40 Munhyeongeumyung-ro, Namgu, Busan, Korea
· Land Space : 102,352㎡
· Complex development

	Phase 1	Phase 2	Phase 3
Land size	24,856㎡	12,276㎡	10,293m^2
Usage	Business facility, Commercial facility	Offices, studio apartments, hotels, concert hall, and commercial facility	Business facility, Commercial facility
Construction size	197,169㎡, 63 stories above ground and 4 below	183,132㎡, 49 stories · 36 stories above ground and 7 below (2 buildings shaped of letter U)	147,000㎡ 45F
Business period	April 2008~June 2014	August 2015~October 2018	2020~2025 (Expected)
Development status	Completion of moving-in in December 2014	Completed moving in BIFC in December 2018	-

· Individual premises development

	Korea Technology Finance Corporation	Bank of Korea Busan Branch	BNK Busan Bank
Size	15 stories above ground and 2 below	4 stories above ground and 1 below	23 stories above ground and 3 below
Groundbreaking / Completion	February 2009/ May 2011	January 2011/ June 2013	December 2011/ July 2014

Fostering and supporting map for Busan Finance Center

The Financial Hub Promotion Committee (Chair: Chairman of the Financial Services Commission)
Establishes major policies related to financial centers, reviews policy progress status, and deliberates on matters requiring coordination of opinions among related agencies (or organizations)

Busan Metropolitan City (Financial Blockchain Officer)
Establishes and implements plans to develop the financial industry for the creation and development of Busan as a global financial city

Fn Hub Korea (Financial Supervisory Service)
Assists attracting overseas financial companies to Korea, creating financial hubs center, and supporting the advancement of domestic financial companies into overseas markets

Busan Finance Center (BFC)
Establishes and implements strategies for Busan to become a global financial city, and contributes to developing Busan financial hub and vitalizing the financial industry through mid- and long-term financial-related research and study.

Records of Fostering Busan Financial Hub

· **Establishment of basis for Busan Financial Hub**
- July 2009, Outsourced master plan for fostering Busan Financial Hub
- August 2010, Established basic plan for fostering Busan Financial Hub in to a finance center specialized in maritime and derivatives
- June 2014, Completed Phase 1 of integrated development project (63rd floor) for Busan International Finance Center
  ※ Completion ceremony: 22 August, 2014
- End of 2014, public financial institutions and regional financial institutions moved in
  ※ Transferred public institutions (5), regional institutions (3), maritime finance institutions(4), individual institutions (3)
- April 2015, Conducted 12 projects in 4* sectors until 2020
  (*Establishment of financial hub specialized in maritime-derivatives, establishment of world-class infrastructure for finance, vitalization of regional finance industry, establishment of basic environment for financial hub)
- August 2015, Began construction of 2nd phase of Busan International Finance Center
- November 2018, Completed BIFC Phase 2 construction
- July 2020, Launched Busan Finance Center
- In May 2021, BFC joined as an official member of the international network of the Financial Centres for Sustainability "FC4S".
- In March 2022, construction of the third phase of the Busan International Finance Center began.
- Designated as the Opportunity Development Special Zone in June 2024

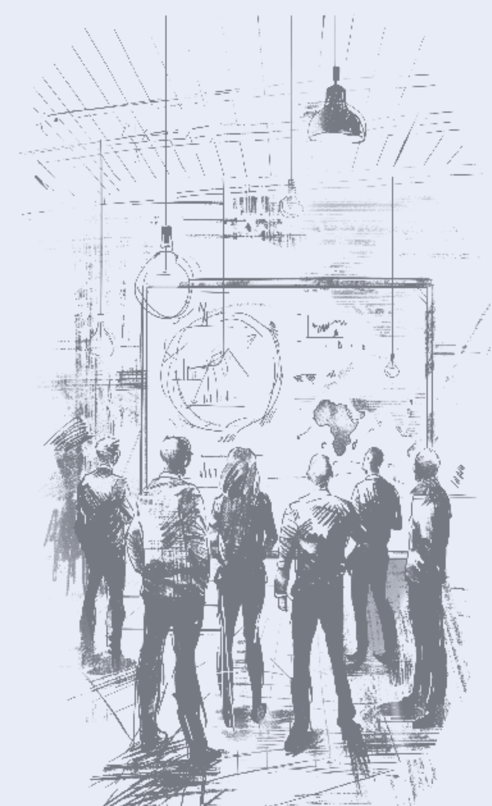
· **Result of fostering policy for financial hub specialized in maritime finance and derivatives**
< Maritime finance sector >
- Opened the BIFC branch of Korea Marine Finance Cooperation (October 2014)
- Opened the BIFC HQ of KSF Shipping Finance (November 2014)
- Opened Marine Finance Center (November 2014)
- Korea Maritime Guarantee Insurance Inc. is authorized as insurance business (June 2015)
- KAMCO Ship Investment Management moved to Busan (June 2015)
- Established Korea Ocean Business Corporation (July 2018)
< Derivatives sector >
- Established Derivatives R&D Center in Korea Exchange (February 2012)
- Initiated interest rate swap settling (CCP) (March 2014)
- Opened gold exchange (March 2014)
- The ETS Exchange opened (January 2015)
- Launched Korea Exchange's Clearing Division (May 2021)

· **Securing regional manpower specialized in finance**
- Established Busan International Finance Institute (September 2014)

· **Expansion of educational and research functions related to international finance**
- Opened Financial Action Task Force Training and Research Institute (September 2016)

· **Promotion of Busan Financial Hub and international and domestic reputation**
- Held overseas IR more than twice every year in Europe, North America and Asia
- Hosted international conference including Korea Ship Finance Forum and Busan International Finance Conference since 2011
  · General meeting of IOMA (International Option Market Association): 5 May ~ 7 May, 2013, Paradise Hotel
  · Conference of FIA (International Futures Industry Association): 12 Jun. ~ 13 Jun., 2013, Paradise Hotel
  · General meeting of ACSIC (Asian Credit Appendixation Institution Confederation): 12 Nov. ~ 14 Nov., 2013, Chosun Hotel
  · General meeting of IDB (Inter-American Development Bank): 26 Mar. ~ 29 Mar., 2015, Bexco
  · FATF/APG(International conference of money laundering): 18 Jun. ~ 24 Jun., 2016, Paradise Hotel
  · General meeting of AfDB(African Development Bank): 21 May ~ 25 May, 2018, Bexco
  · KOAFEC (Korea-Africa Ministerial Economic Cooperation Conference): September 12-15, 2023, Busan Ananti Hilton

· **Establishment of institutional basis for establishing and developing financial hub**
- Extension of Tax Support Sunset Deadline for Domestic and International Financial Institutions Launching Startups in Financial Hubs*
  * Corporate or individual income tax: Extended until December 31, 2025 (Article 121-21, paragraphs 1 and 2 of the Restriction of Special Taxation Act); acquisition tax: extended until December 31, 2026 (Busan Metropolitan City Tax Reduction Ordinance Article 14-1)



Setting up Business in Busan : BIFC & Opportunity Development Zone Incentive

BIFC Incentive

Category	Eligible Entities		Detailed Information			
			New Establishment in Head Office/ Regional Office	New Establishment in Branch Office	Relocation of headquarters/ regional headquarters within South Korea	Relocation of branches within South Korea
			(Overseas → Busan)		(Other regions in South Korea → Busan)	
Corporate tax or income tax[1]	Investment of 2 billion KRW or more, Companies that hire more than 10 full-time employees		Full exemption for the first 3 years, 50% reduction for the following 2 years		Not applicable	
Acquisition tax[2]			Exemption on property acquired through startup (or new establishment) until December 31, 2026			
Property tax[3]			Exemption from property tax on real estate used directly until December 31, 2026			
Site subsidy[4]	Foreign financial institutions	A regional headquarters or Korean headquarters overseeing more than three countries	50% reduction on land/building purchase costs or rental fees (up to 5 billion KRW per company)	Not applicable	50% reduction on land/building purchase costs or rental fees (up to 5 billion KRW per institution)	Not applicable
	domestic financial institutions	A headquarters with more than 10 full-time employees				
Employment subsidy[4]	Foreign and domestic financial institutions with more than 10 full-time employees over the past three months		Up to 600,000 KRW per new hire after relocation (for up to 6 months, with a maximum limit of 200 million KRW per institution)			
Training subsidy[4]	Regional headquarters or branches of foreign and domestic financial institutions that employ more than 10 Korean nationals on a full-time basis		Up to 600,000 KRW per person for training of new employees after relocation (for up to 6 months, with a maximum limit of 200 million KRW per institution)			
Business equipment installation subsidy[4]			Up to 10% of the funds required for the installation of business equipment (with a maximum limit of 1 billion KRW per company)			

1) Article 121-21 of the Restriction of Special Taxation Act and Article 116-26 of the Enforcement Decree of the same Act
2) Article 7, Paragraph 1 of the Nam-gu, Busan Metropolitan City Tax Reduction Ordinance (pursuant to Article 121-21, Paragraph 3 of the Restriction of Special Taxation Act)
3) Article 14 of the Busan Metropolitan City Local Tax Reduction Ordinance (pursuant to Article 121-21, Paragraph 3 of the Restriction of Special Taxation Act)
4) Articles 5, 6, 7, 8, and 12 of the Busan Metropolitan City Ordinance on the Promotion of the Financial Industry

Opportunity Development Zone Incentive

- When a company in the capital area disposes of real estate and relocates to Busan, the capital gains tax on income and corporate tax will be deferred until the newly acquired real estate in Busan is sold.
- In cases of business inheritance in Busan, the 'restriction on industry change' and the 'requirement for the heir to serve as the CEO' will be abolished, thereby easing the post-management conditions.
- When purchasing business real estate for relocation to Busan or starting a new business in Busan, and during the expansion or construction of a new factory, the acquisition and property taxes will be reduced.
- When establishing a new business site or starting a business in Busan, corporate tax will be reduced.
- When investing in Busan, the support ratio for "local investment promotion subsidies" will be increased.

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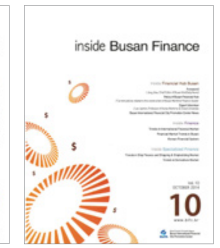
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