

Revitalization of the ship finance in Korea by **Korean Tax Lease Scheme**



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I. Global and Korean market overview of the ship finance



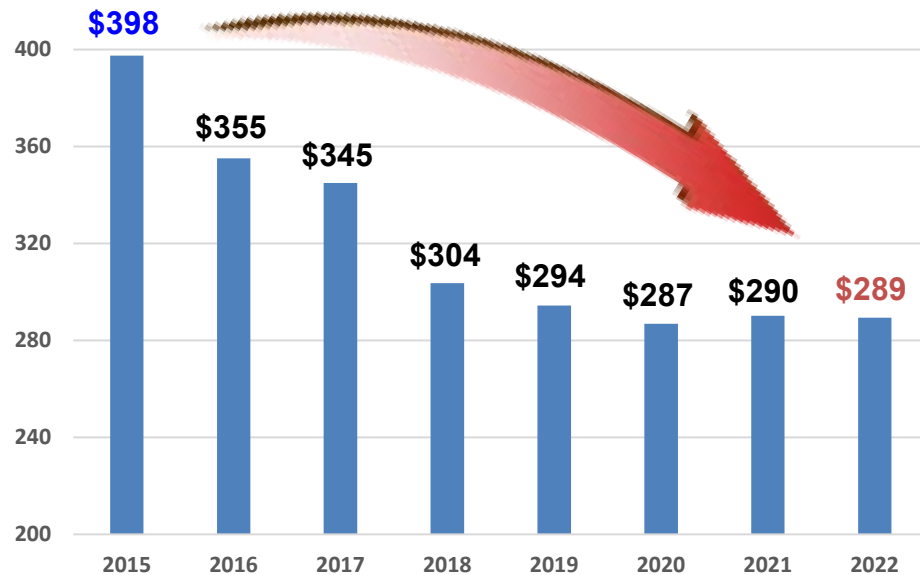
01 Global ship finance market overview

European bank **reduce Ship finance exposure** and **Chinese Lease financing grow rapidly**

- Ship finance investment of the Global Top 40 bank(End of 2022) : **USD 289bn**
→ **5 consecutive years of decline since 2015 (2015-2020)**
- European banks reduced ship finance exposure because of **Basel III** (Nord LB, DB etc.)
- **Growth of Chinese Lease company** (ICBC, Minsheng, Boccom etc.)

**Ship finance investment of
Global Top 40 bank**

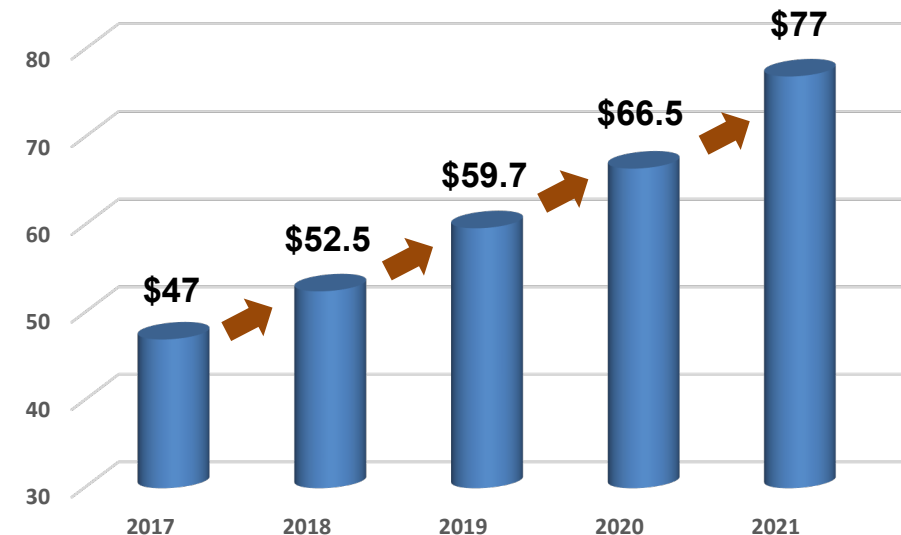
(Unit: U\$bn)



Source: Petrofin

**Ship finance of
Chinese lease company**

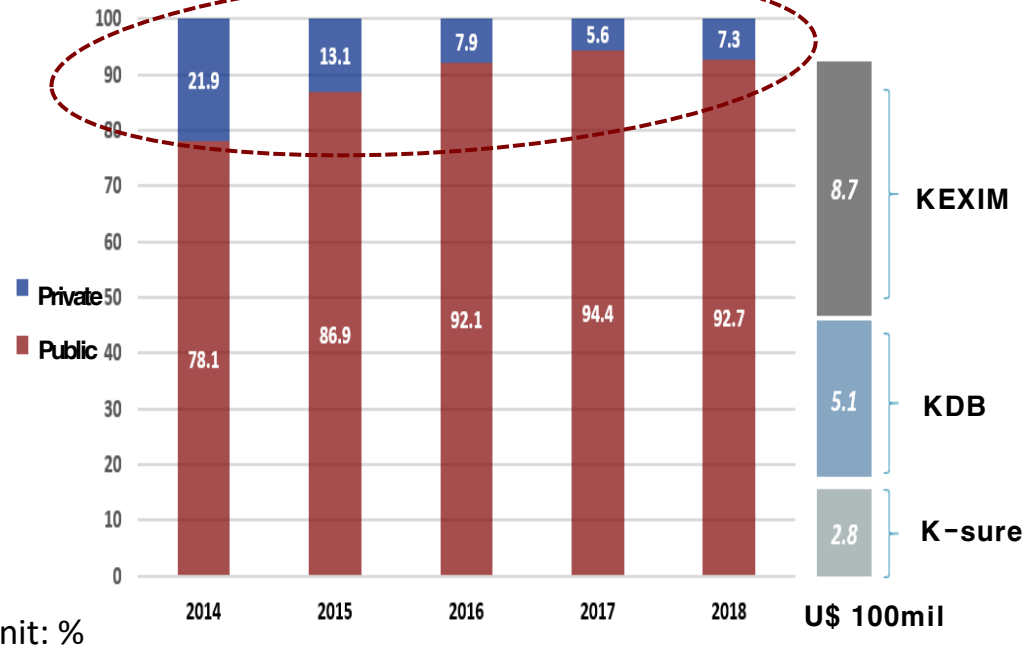
(Unit: U\$bn)



Source: Smarine

02 Korean ship finance market overview

Since the bankruptcy of Hanjin Shipping in 2016,
 Ship finance by Korean domestic commercial bank have been shrunk
 The withdrawal of the commercial bank has been replaced by Public ⇒ **Limitation**



End of 2021 (948 domestic vessels)

	Senior	Mezzanine	Junior	Total	Weight
Public	8,330	280	838	9,448	62.5%
Private	994	-	229	1,223	8.1%
Fund	2,618	-	1,829	4,447	29.4%
Total	11,943	280	2,896	15,118	100%

(Unit: U\$mil)

Attracting Senior
Financial Investors



Need for New Source of
Ship Finance

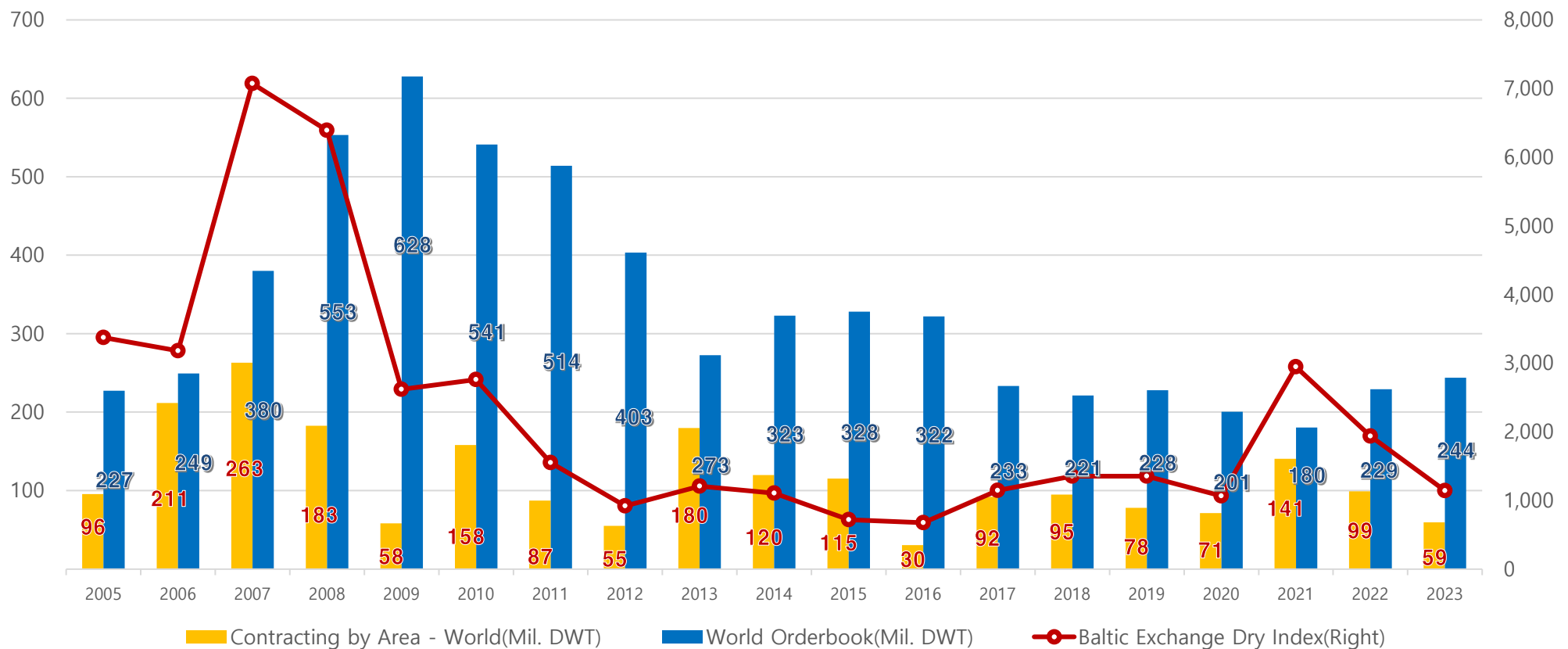


Development of Shipping
& Shipbuilding Industry

Global ship supply trend

- (**Contracting**) 263million DWT in 2007 → decreased to 99million DWT in 2022
- (**Order book**) 628million DWT in 2009 → decreased to 229million DWT in 2022

Global Ship order and order book(2005–2023.8)

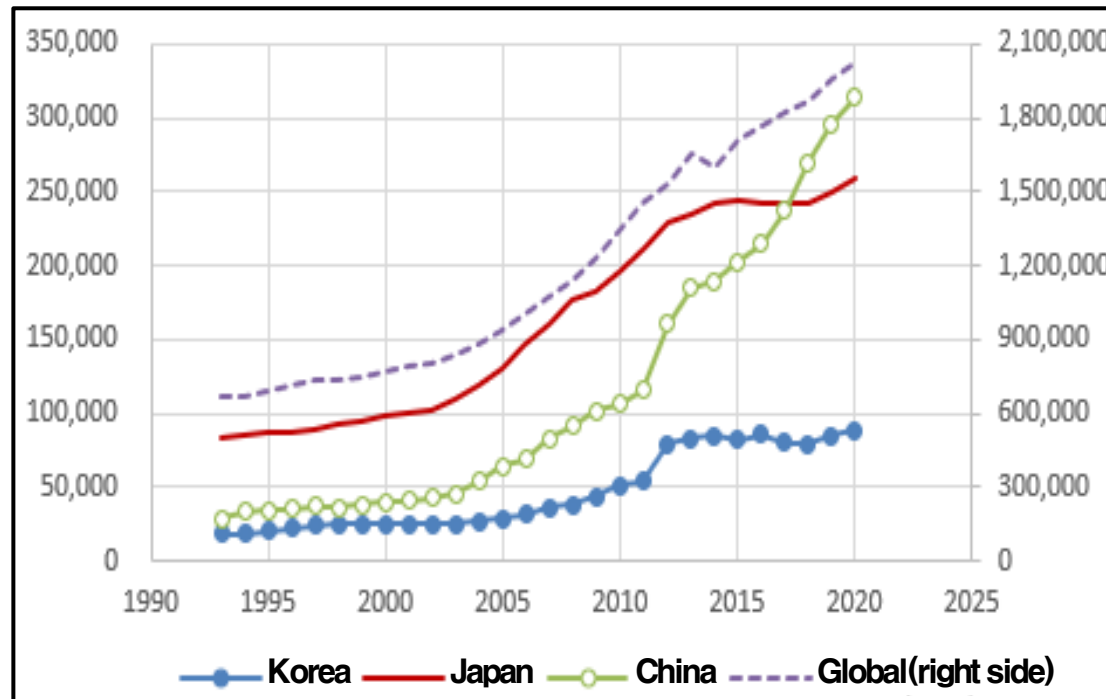


Comparison of shipping (Korea, China and Japan)

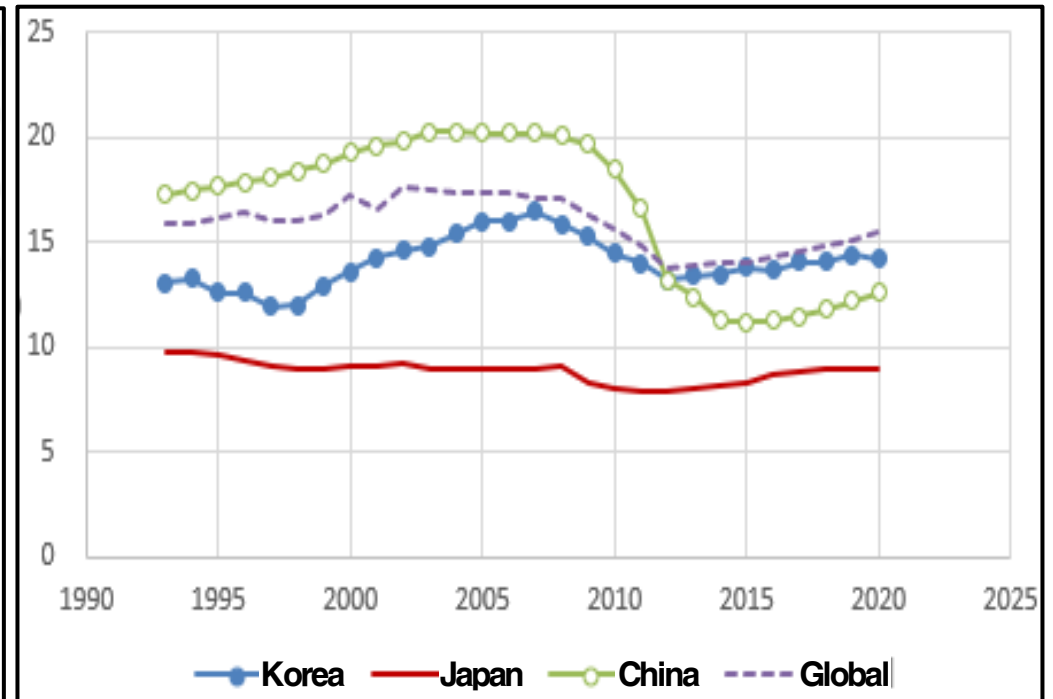
- Growth of Tonnage fleet in Korea is **slowing compare with other East Asia Countries**
- Average age of ship is also inferiority in competition



➡ **Tonnage of Fleet (Unit: 1,000 DWT)**



➡ **Average age of Vessel (Unit: Year)**



Source: ISL, Over 1,000GT

Needs for new scheme of ship finance

Government Policy Goal

- ✓ **2030 Shipping Industry Strategy Goal**
 - ➔ Demand for ship finance about US\$ 7bn
- ✓ **Increase the Scale of Ship Finance**
 - ➔ Need to Incentives for Investors

IMO regulation

- ✓ **IMO Environmental Regulations**
 - ➔ EEXI, CII for existing ships
- ✓ **Need for preemptive preparation**
 - ➔ Securing Eco-Friendly Ships

Global Market Competiveness

- ✓ **Tax Lease in Maritime Power Country**
 - ➔ France, Japan, Spain, Hong Kong etc.
- ✓ **Equal competition with global shipping company**
 - ➔ Cost competitiveness improvement

Ship finance from private sector

- ✓ **Increase in Risk equivalent Return**
 - ➔ Attracting Financial Investors
- ✓ **Securing stable revenue structure**
 - ➔ Tax benefits provided

**Needs for
new scheme of
ship finance**



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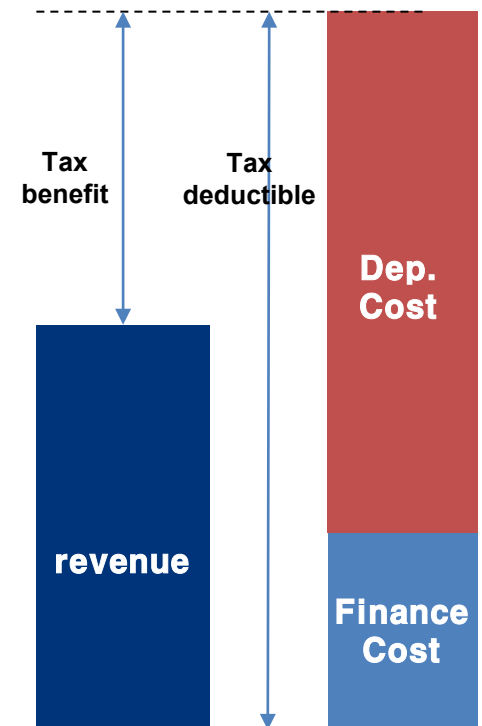
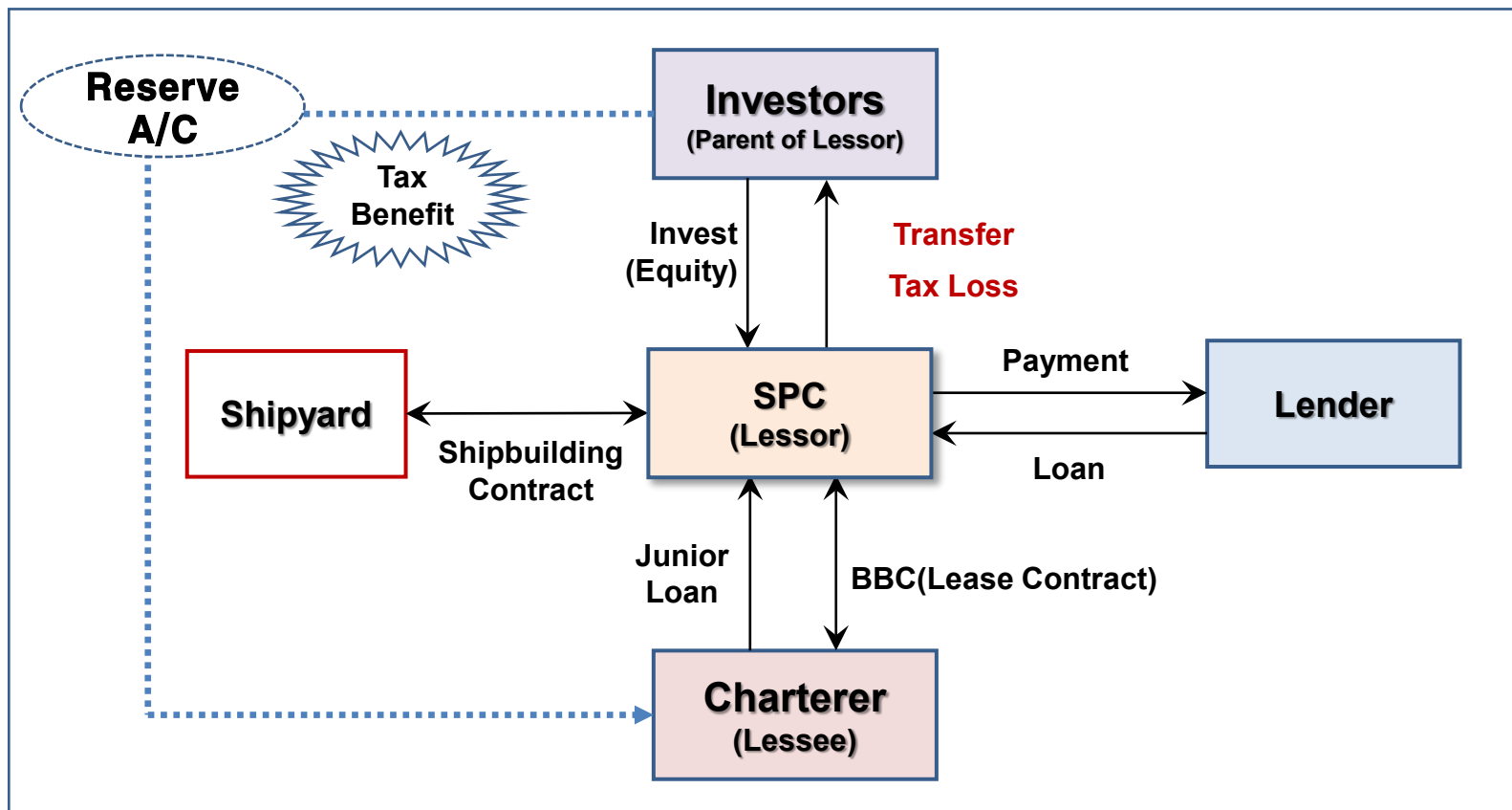
II. New tool of ship finance scheme in Korean



01 Tax Lease scheme in Ship Finance

- ✓ **(Basic Concept)** Generates Tax Benefits through accelerated depreciation(**Tax Deferred**) and share the benefit with Investors and shipping companies
- ✓ **(Purpose)** To Provide investment opportunities for **Ship finance investors**

➡ Tax Lease scheme for Ship

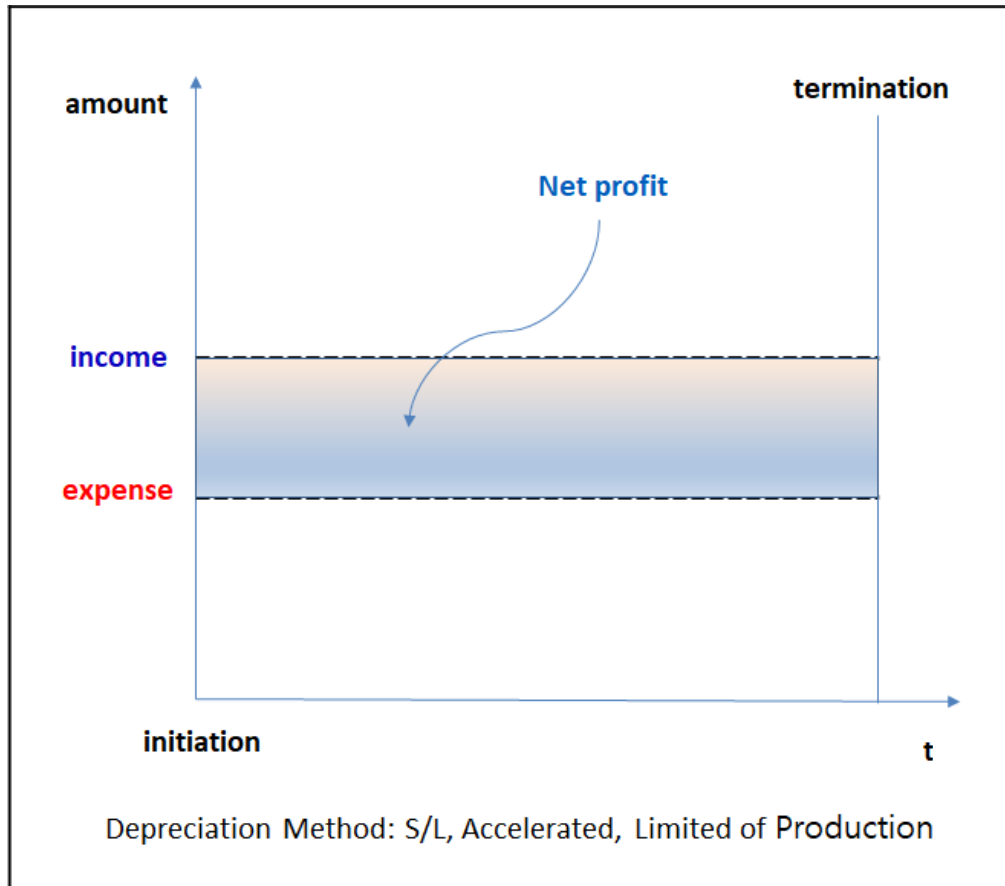


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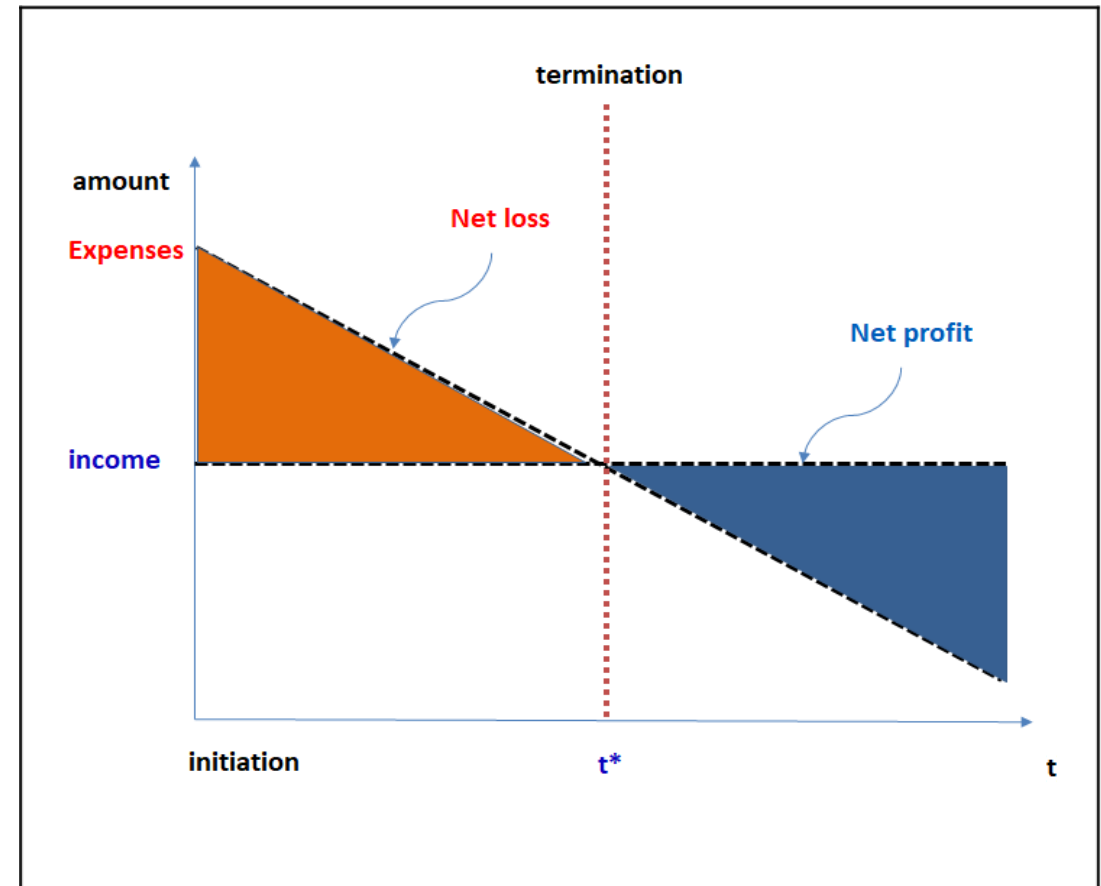
Tax Lease structure

- ✓ (Regular Financing) Constant profits based on fixed Income and expenses
- ✓ (Tax Lease) **Initial Loss through accelerated depreciation** and then tax benefit

➡ Regular ship finance structure



➡ Tax Lease structure



03

Case of Tax Lease in Shipping Finance

Back ground



France(FTL)

To supporting domestic Shipping and Aviation Industry
(CMA-CGM etc.)

Introduction : '98th ~ '06th



Development : '07th ~ Existing

Japan(JOLCO)

To Provide investment opportunities for Ship investors

Introduction : '78th
JLL(Japan Leverage Lease)



Development : '99th ~ Existing
(JOL/JOLCO)

Investors



Single Investor

CA-CIB, BNP Paribas etc.

Establishment of

Investor to Investor Association

Effect

Save about 12~15% of Ship price

Save about 5% of Ship price



III. Proposed Korean tax lease model



01

Tax Lease structure

- ✓ (**Depreciation**) Method and useful life on tax system
- ✓ (**Consolidation**) **Consolidated Gross income and tax benefit**

➡ The way to make Tax Loss

Depreciation Method: Fixed percentage method
 Useful life: 10y
 Annual depreciation: 25.9%
 Residual Value: 5%

Consolidation

Domestic SPC
(Tax Loss)

Transfer Loss

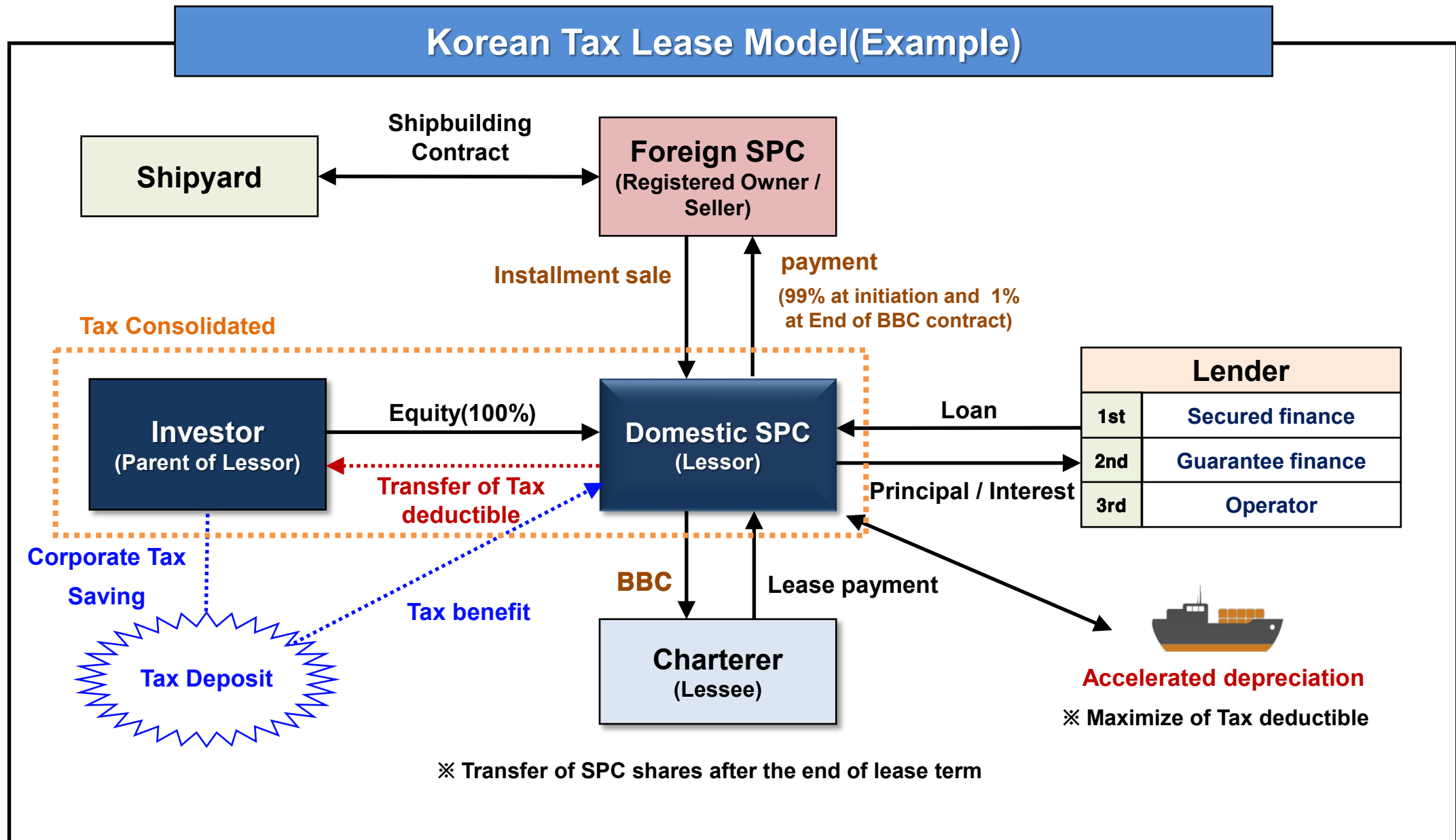
Parent Investor
(Tax Gross income)

Consolidated gross Income

Taxable Income

Tax Benefit

Korean Tax Lease Model

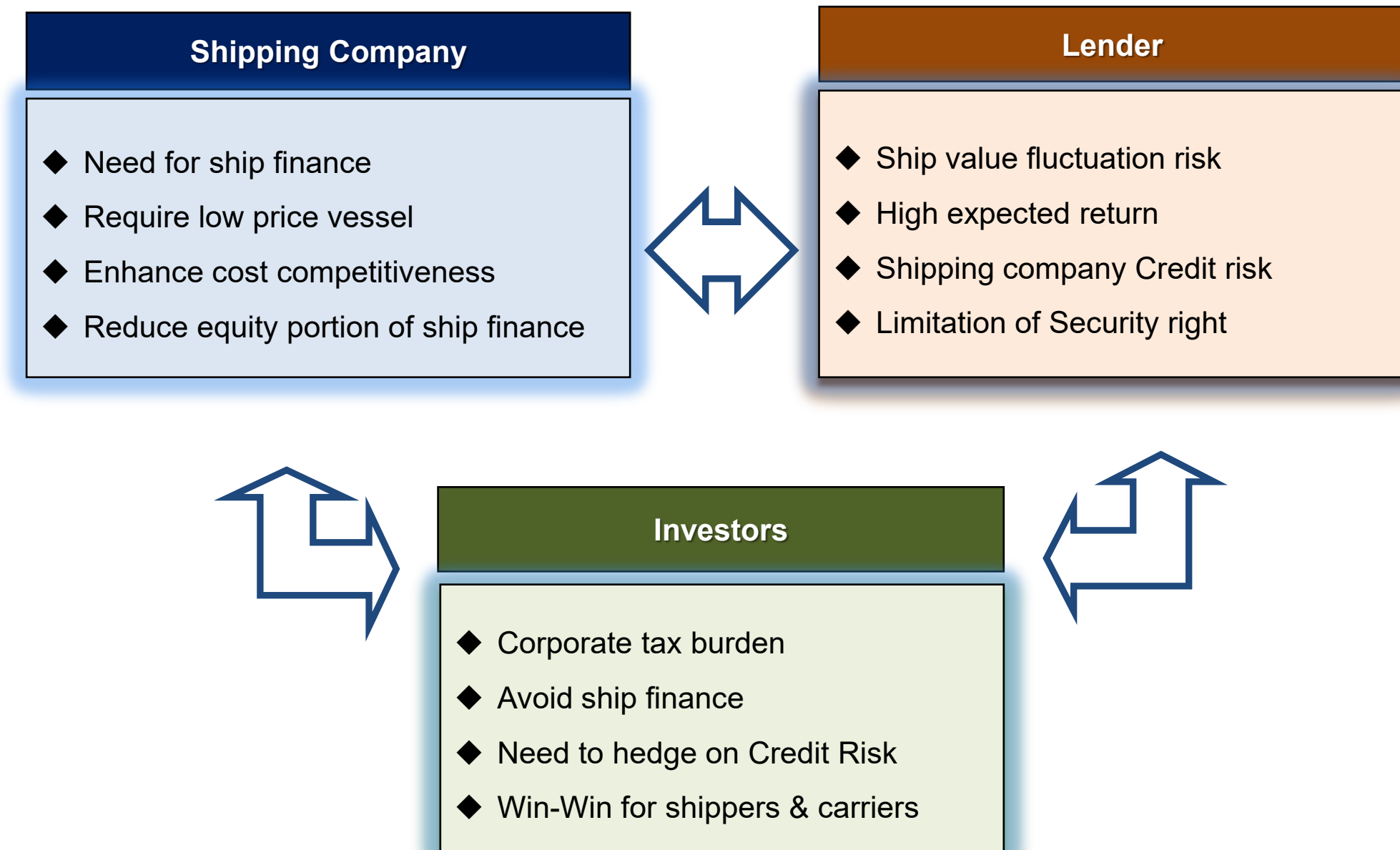




IV. Closing remarks



Need for Korean Tax Lease Scheme



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Thank You

