



The Private Investment in Korean Ports

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Ministry of Land, Transport and Maritime Affairs

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1. History of Development Management System for Korean Ports

Private development, management, operational revitalization of port facilities with introduction of private investment system

Main System

Establishment of Korea Container Terminal Authority (1990)

Enactment of PPI Promotion Law (1994)

Introduction of Terminal Operating Company System (1996)

Asian Financial Crisis (1998)

Revision of PPI Law (1999)

Establishment of Busan Port Authority (2004)

Introduction of BTL Establishment of Incheon PA (2005)

Decasual-ization of Port Laborers (2006)

Establishment of Ulsan PA (2007)

Year

Before-1990s

Early & mid-1990s

Late-1990s

Early & mid-2000s

Late-2000s

Non profitable facilities

Basic port facility (breakwater, etc.)

National development, management

Functional port facility (ferry terminal, etc.)

National development, management

Marine Waterfront facility (Marine museum, etc)

Private development & Management (BTL)

Profitable facilities

Dock for public container

National development, management

Development by KCTA & private operation

Private development & management (PPI Law)

Dock for public

National development, management

National development & for exclusive private use

Private development & management (PPI Law)

Exclusive dock for shipper

Private development & management (Port Law)

Hinterland of Port

National development & PA management

Port re-development

Development by nation, PA, private sector

International cooperation for port development

Promotion of cooperation between nation & private sector

2. Development of Private Participation in Port Infrastructure

Introduction Stage

Facilitation Stage

Growth Stage

1. Introduction Stage of System (~1999)

- Enactment of the Private Participation in Infrastructure Law (PPI Law) (1994)
- Institutionalization of financial support for facilitation of private investment in public dock facility
- Revision of PPI Law in the process of overcoming Asian Financial Crisis (1999)
 - Provision of concept for investment profit for capital
 - Adoption of the MRG (Minimum revenue guarantee)
 - Offer of incentives for early completion
 - Preliminary conclusion of total business cost and limitation of modification during contract negotiation

2. Development of Private Participation in Port Infrastructure

Introduction Stage

Facilitation Stage

Growth Stage

2. Facilitation Stage(~2005)

- Flexible system application through establishment of master plan for private investment project every year
- Facilitation of PPP projects through preliminary feasibility study and master plan by government
 - Promotion of 12 PPP projects in Ports
 - Revitalization of equity financing and debt financing through the policy of investment capital pluralization
- Finding of PPP projects in ports for mid and long term and establishment of promotion plan
 - Maintaining balance for promotion of business and systematization of promotion procedure by selection of target company by the government

2. Development of Private Participation in Port Infrastructure

Introduction Stage

Facilitation Stage

Growth Stage

3. Stable Growth Stage(2006~) : Reinforcement of Management System

- Supplementation and reinforcement of preliminary feasibility study by government

Preliminary feasibility study('99)

- Economic analysis
- Policy Analysis
(Possibility of investment financing)

+

Feasibility study for PPP project('03)

- Economic Analysis
- Financial profitability analysis
- Analysis by procedure for Promotion of enforcement of project

+

Feasibility Study for Eligibility of PPP Project

Unsolicited Project ('03)
+
Solicited Project ('07)

2. Development of Private Participation in Port Infrastructure

Introduction Stage

Facilitation Stage

Growth Stage

3. Stable Growth Stage(2006~) : Reinforcement of Management System

- Systematization of operational risk management by minimization and abolition of MRG
 - Achievement of objective as incentive for facilitation of private investment
 - Rapid decrease of construction subsidies by the government and some projects to be promoted by only private capital
- Rational division of operational risk and deliberation of method to facilitate port-operation
 - Emphasis on responsibility of private sector for commercial risk within the framework of operation agreement

3. Feature of Private Participation in Port Infrastructure Project

Method of Private Participation in port Infrastructure (PPI Law / Port Law)

Name of Project	Private – Public Partnership project	Port construction work by the non-government
Concerned Law	Private Participation in Infrastructure Law	Port Law
Year of Introduction	1994	1967
Object of Project	Dock, Hinterland, etc.	Exclusive dolphin, Small port facility, Warehouse, Maintenance, etc.
Ownership	Up to Project method (BTO, BTL, BOT, etc.)	Reverted to the government (excepting exclusive port facility)
Period of free use	Preliminary conclusion during contract negotiation (Maximum 50years)	Until settling up
Retrieval of the investment	<ul style="list-style-type: none"> - Free right to use of project facility - Fare collection - Government subsidy 	<ul style="list-style-type: none"> - Free right to use of project facility - Fare collection - Free right to use of other facility

3. Feature of Private Participation in Port Infrastructure Project

PPI Law

- Partial support by the government for public dock investment with demand risk
 - Initial construction subsidies and MRG
 - Rapid decrease of government support through cost reduction with accumulation of investment know-how and inducement of competition
- In case the profitability is stable, there will be no firsthand government's support
 - Guarantee of free right to use facility for about 30 years

Port Law

- Guarantee of free right to use investment in shipper's particular dock
 - Retrieval of investment cost is allocated to investor`

Common Feature

- Commercial risk during facility operation is responsibility of private sector

4. Status of Private Participation in Port Infrastructure Project

19 projects, 56 ship berths, projects of about \$7 billion are in promotion for PPI in Korean Ports

Promotion Stage	Name of Project	Total Investment Cost & Operation size	Status	Features
Completion, Operation	Mokpo, Shin Oe Port Mokpo(1-1stage)	101.3 billion won, 30,000×2(multipurpose)	In operation	First PPP project in port, change of agreement
	Mokpo, Shin Oe Port (1-2stage)	26.6 billion won, 30,000×1 (multipurpose)	In operation	Same investor for adjacent project of 1-1stage
	Incheon North Port (1-1stage)	163.6 billion won, 50,000×3 (scrap iron)	In operation	Investor from 2 steel companies (2 projects)
	Gunsan, Bi Eung Port	123.8 billion won, lighter quay area 1,200m	In operation	First PPP project in fishing port
	Incheon North Port (2-1stage)	254.3 billion won, 50,000×3 (multipurpose)	In operation	Composite freight related business such as miscellaneous, oxidized substance, iron frames
Designation of Enforcement agency	Busan Port, New Port(1stage)	2,388.6 billion won, 50,000×9(container)	Partial completion, operation	Partial completion (6 ship berths) and in operation (first container dock PPP, change of agreement, participation by global company)
	Ulsan, New Port (1-1stage)	257.8 billion won, 20,000×6(container2, multipurpose2, mineral2)	Under construction	Partial operation, initial lease, Re-designation, promotion project for Re-notification
	Pohang, Youngilman New Port(1-1stage)	331.6 billion won, 20,000×4(container)	Under construction	Change of notice, local port
	Masan Port(1-1stage)	309.2billion won, 30,000×4(container2, multipurpose2)	Under construction	Re-designation project, local port

(As of Sep 2008)

4. Status of Private Participation in Port Infrastructure Project

19 projects, 56 ship berths, projects of about \$7 billion are in promotion for PPI in Korean Ports

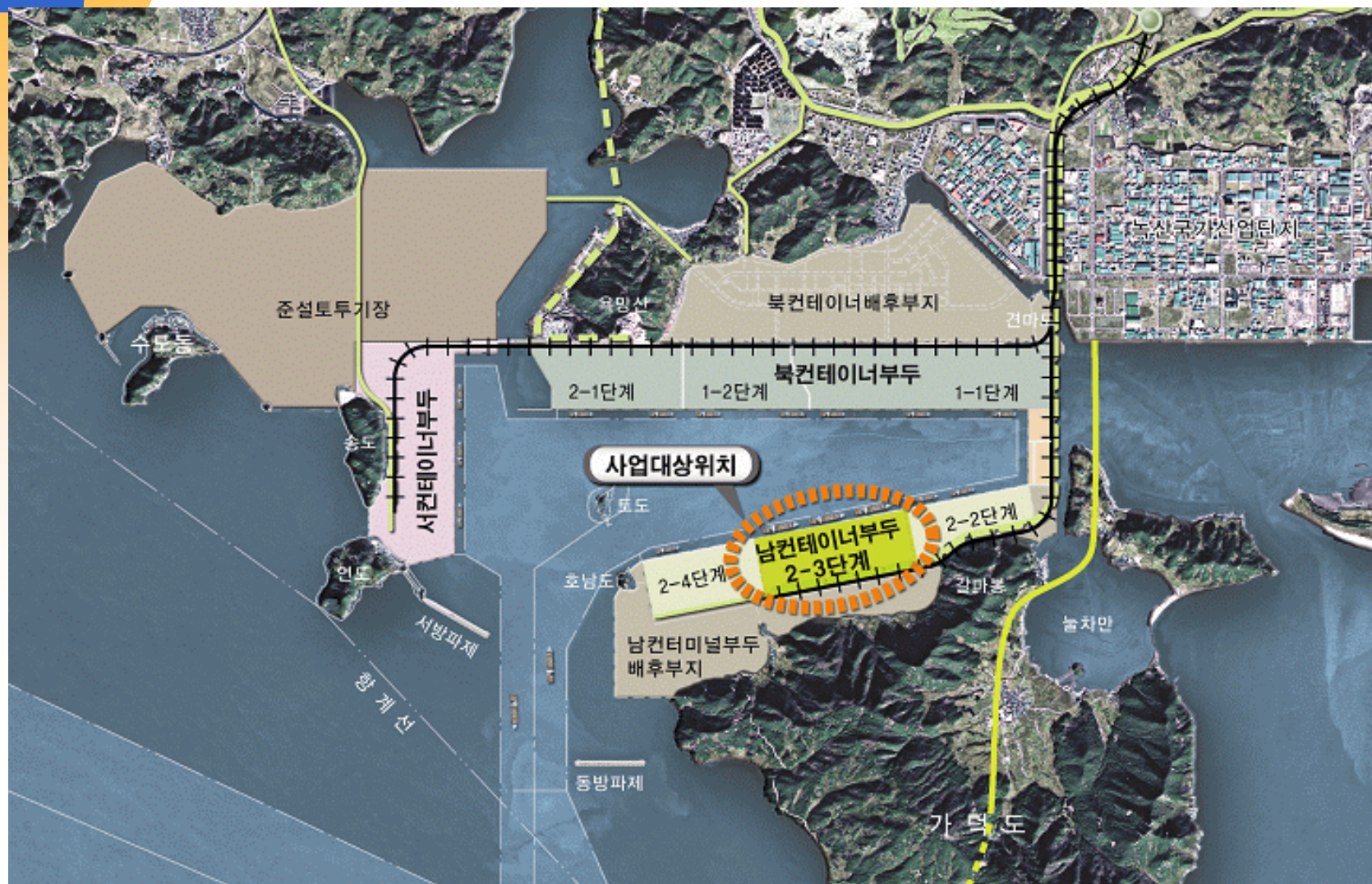
Promotion Stage	Name of Project	Total Investment Cost & Operation size	Status	Features
Designation of Enforcement agency	Incheon North Port (general cargo berth)	136.4billion won, 20,000×3 (general cargo berth)	Under construction	Project of preliminary review for feasibility and master plan, transfer of miscellaneous freight to inner port
	Pyeongtaek, Dangin Port(multi-purposed berth)	168.5billion won, 30,000×3 (multi-purposed berth)	Under construction	Preliminary review of feasibility of PPI and master plan
	Busan Port, New port (2-3stage)	685.9billion won, 50,000×4 (container berth)	Under construction	Participation by global shipping company, execution without government support such as construction subsidies, guarantee of revenue
	Gunsan Port (multi-purposed berth)	131.8billion won, 30,000×2 (general cargo berth)	Under construction	Promotion after reduction of size based on result of feasibility study
	Pyeongtaek, Dangjing Port (grain berth)	151.8billion won, 50,000×2(grain berth)	Under construction	Execution without government's financial support
	Gwang Yang Port(Yeoncheon general cargo berth)	71.1billion won, 20,000×2 (general berth)	Approval for operation plan	Dealing of local commercial traffic (general cargo)
	Gwang Yang Port (3-3stage)	786.6billion won, 50,000×5 (container berth)	Conclusion of agreement	Longer period need for operational negotiation due to slackness in demand
Designation of negotiating subject	Busan Port, rear road for New Port	535.3billion won, high way 15.26km	Agreement complete	First PPP project to connect ports
	Busan, New Port (2-4stage)	565.8billion won, 50,000×3(container berth)	In negotiation	Preliminarily concluded project for redemption of private sector's excessive profit by government

(As of Sep 2008)

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4. Status of Private Participation in Port Infrastructure Project

Busan Port New Port



4. Status of Private Participation in Port Infrastructure Project

Busan Port New Port 2-3 Phase



4. Status of Private Participation in Port Infrastructure Project

Re-development of Busan Port North Port



4. Status of Private Participation in Port Infrastructure Project

- Private investment in port facility is about 21.8% of Public investment, i.e., about 1.9 times the total 11.3% of SOC
- Investment in ports expands

Relative importance for port private investment

(unit:trillion KRW)

YEAR		'00~ '03	'04	'05	'06	'07	'08	Total
Total SOC	Private Finance(A)	4.0	1.7	2.6	3.0	3.1	3.3	17.7
	Public Finance(B)	65.6	17.4	18.3	18.4	18.4	19.2	157.3
	A/B(%)	6.1	9.8	14.2	17.4	16.8	17.2	11.3
Port Facility	Private finance(a)	0.8	0.2	0.6	0.5	0.4	0.6	3.1
	Public Finance(b)	4.6	1.7	1.9	1.9	2.1	2.0	14.2
	a/b(%)	17.4	11.8	31.6	26.3	19.0	30.0	21.8

5. Future Direction of Private Participation in Port Infrastructure Project

Expansion of PPI project for ports

- Review of method to finance PPP Projects for re-development of port and development of port hinterland
 - Review of composition of appropriate ratio for non-profitable public facility and profitable facility
 - Review of system for rational allotment for public agency and private sector such as PA and municipality
- Revitalization method for leased type BTL
 - Finding of waterfront facility project such as marine museum and revitalization of participation of private financing (BTL type)

5. Future Direction of Private Participation in Port Infrastructure Project



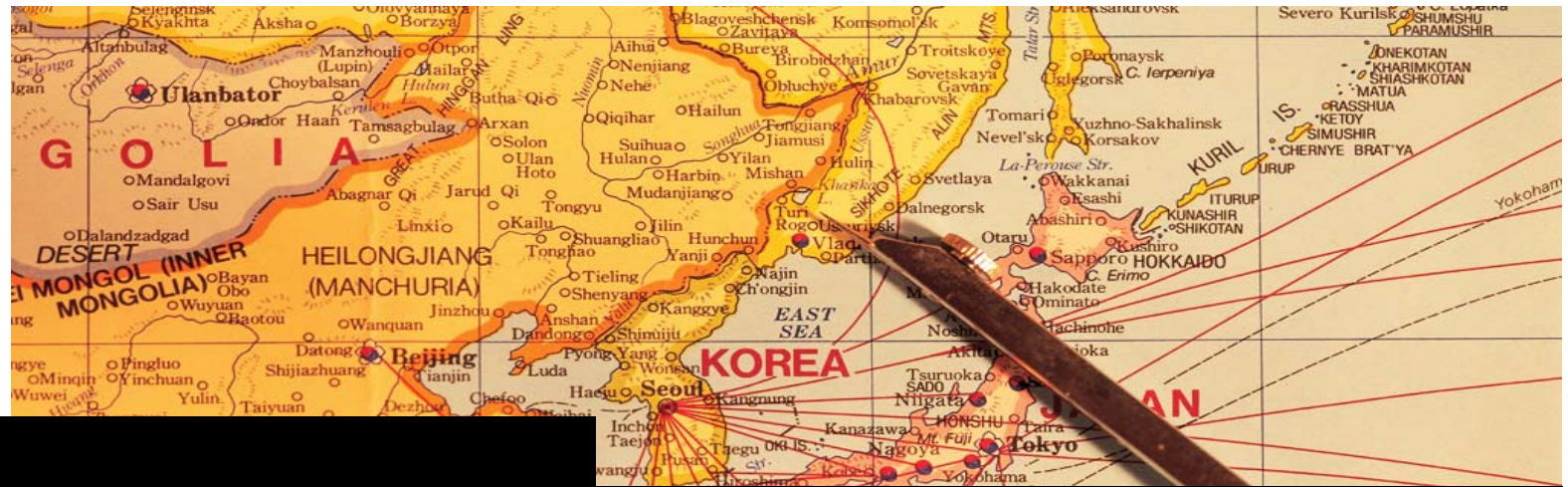
Systematization & Streamlining of management & operation

- Promotion of international cooperation for port development
 - Sharing of experience in port development and private financing in Korea
 - Modeling of experience of port development management to Korean style and research in development cooperation program
- Systematization of management operation system
 - Construction of rational risk allotment system of private sector by government
 - Improvement of facility use as part of promoting operational revitalization

5. Future Direction of Private Participation in Port Infrastructure Project

Feasibility Study and Reinforcement of flexible arbitration function of promotion period for operation

- Review of value for money (eligibility) and method of promoting efficient system
 - Decision for eligibility standard for PPI for ports
 - Application of the result of eligibility review and improvement of operational feasibility
- Introduction of Trigger Rule system
 - Introduction of interlocking port development system for commercial traffic and flexible arbitration of construction stage
 - Plan to minimize operational risk
 - Establishment of appropriate standard to promote project by stage
 - Tune in suggestions with enforcement company for existing project



Thank You !



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