The Private Investment in Korean Ports

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Ministry of Land, Transport and Maritime Affairs
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

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.) | National development, management

Profitable facilities
- Dock for public container | National development, management
- Dock for public | National development, management
- Exclusive dock for shipper | Private development, management (Port Law)

Other developments
- 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)
- Decasualization of Port Laborers (2006)
- Establishment of Ulsan PA (2007)

Development by nation, PA, private sector
- Promotion of cooperation between nation, private sector
- National development & PA management
- Development by nation, PA, private sector

Revitalization of port facilities with introduction of private investment system
- Private development & management (PPI Law)
- Private development & management (BTL)
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

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


- 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)

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

<table>
<thead>
<tr>
<th>Name of Project</th>
<th>Private – Public Partnership project</th>
<th>Port construction work by the non-government</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concerned Law</td>
<td>Private Participation in Infrastructure Law</td>
<td>Port Law</td>
</tr>
<tr>
<td>Year of Introduction</td>
<td>1994</td>
<td>1967</td>
</tr>
<tr>
<td>Object of Project</td>
<td>Dock, Hinterland, etc.</td>
<td>Exclusive dolphin, Small port facility, Warehouse, Maintenance, etc.</td>
</tr>
<tr>
<td>Ownership</td>
<td>Up to Project method (BTO, BTL, BOT, etc.)</td>
<td>Reverted to the government (excepting exclusive port facility)</td>
</tr>
<tr>
<td>Period of free use</td>
<td>Preliminary conclusion during contract negotiation (Maximum 50 years)</td>
<td>Until settling up</td>
</tr>
</tbody>
</table>
| Retrieval of the investment | - Free right to use of project facility  
                        | - Fare collection                         | - Free right to use of project facility |
|                          | - Government subsidy                   | - 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

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

(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

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

(As of Sep 2008)
4. Status of Private Participation in Port Infrastructure Project

Busan Port development Plan
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)

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

- 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!