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**University of Antwerp
Institute of Transport and Maritime Management Antwerp**

**A Comparative Study of Shipping Finance Systems between German KG,
Korean SIC and Belgian Shipping NV**

This thesis is submitted in partial of the requirements

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1 Introduction

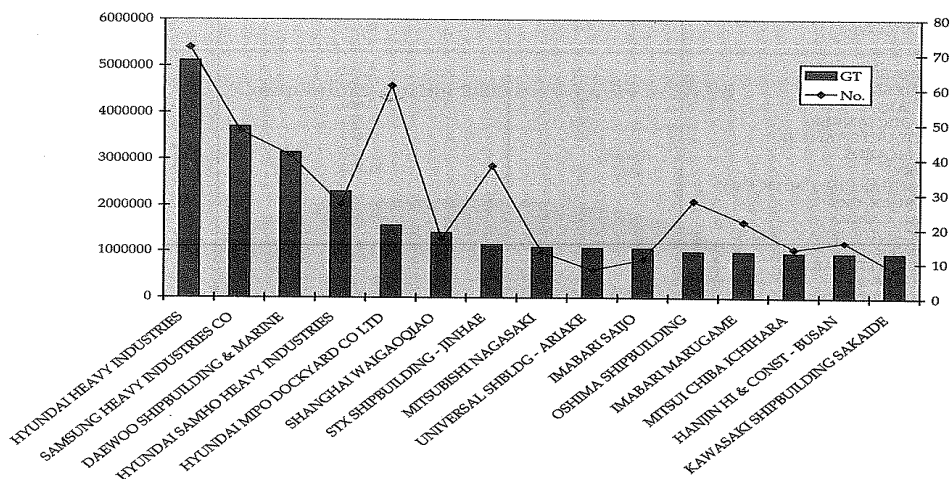
1.1 Purpose of the Study

The aim of this thesis is to compare the definition of three shipping financing systems-Korean SIC, German KG and Belgian Shipping NV, and see to the advantages and disadvantages of those systems and then find the alternatives for improving those systems for keeping or attracting investors.

Now days, German KG is one of the most important system in shipping financing area. According to Appencapital in 2007, the equity around EUR 3 billion was raised and then EUR 6.5 billion was invested in shipping in KG investment.

Commonly Korea is one of the famous shipbuilding countries. In the world fleet statistics 2006, six Korean shipbuilding yards – HHI(Hyundai Heavy Industries), SHI(Samsung Heavy Industries), DSME(Daewoo Shipbuilding & Marine Engineering), HMD(Hyundai Mipo Dockyard), STX Shipbuilding, and HSHI(Hyundai Samho Heavy Industries) are in top 15(see [Figure 1.1]).

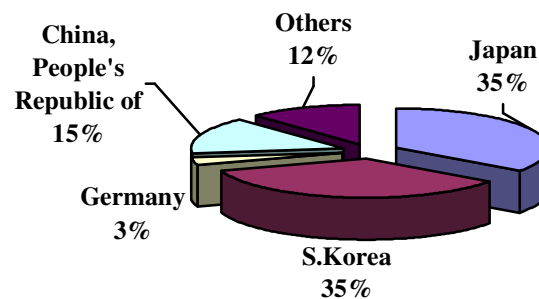
[Figure 1.1] Top 15 Builders by GT



SOURCE : The World Fleet Statistics 2006, p.18

However, the position of ship financing is so small although the share of shipbuilding accounts for 35% in the world. According to Dealogic's research in 2006 (see [Figure 1.2] and [Table 1.1]), the bank as mandated arrangers is only one – KDB(Korea Development Bank) in top 20 and its share is 1.2%. In contrast, in the case of Germany, the three banks-HSH Nordbank, Deutsche Bank AG, and Commerzbank Group are in the business and their shares are 4.7%, 1%, and 0.7% respectively although their shipbuilding account for 3%(Macqueen, 2007:33). In addition, the share of German shipping banks in global ship finance accounts for 60%(von oldershausen, 2005).It implies that, to enhance those situation, Korean shipping finance needs to benchmark against German shipping finance system.

[Figure 1.2] Shipbuilding Share in 2006



SOURCE : The World Fleet Statistics 2006, p.16

[Table 1.1] Mandated Arrangers Share in 2006

Rank	Mandated Arrangers	Share	Rank	Mandated Arrangers	Share
1	DnB NOR (Norway)	16.4 %	14	KDB(South Korea)	1.2 %
2	Nordea Bank(Sweden)	15.3 %	...		
...			17	Deutsche Bank (Germany)	1.0 %
6	HSH Nordbank(Germany)	4.7 %	...		
...			20	Commerzbank (Germany)	0.7 %

SOURCE: Lloyd's Shipping Economist, March 2007, p.33

Also, after 1970s and 1980s shipping crisis, many shipping corporations tend to raise capital and attract the investors through public. Because during that time, they have lost their private equity bases (Grammenos, 2005: 3). In addition, recent investment boom also have a similar effect on shipping area. It makes the public demand to increase in that area. It is a challenge to Belgian Shipping NV as well as Korean SIC and German KG because now the high shipping market has influenced many international investors. Especially, in the case of Belgian Shipping NV, it is the most recent system based on the public offering since 2006.

1.2 Structures of thesis

In chapter 2, to understand this article, it is necessary to think about basic conception of ship finance and three systems. Therefore, first of all, we will deal with fundamental definition about ship finance and the equity as a one kind of shipping finance tool. After describing about the tool, the main notion of three systems-German KG and Korean SIC and Belgian shipping NV will be explained briefly.

In chapter 3, to recognize what changes of shipping market situation have an effect on the systems, some historical aspects in shipping market will be illustrated. By following some years or periods, the historical factors will be described.

In chapter 4, the latest structures of the three systems will be described with some figures. The figures will reflect each country's situation and characteristics. Also, which kind of vessels has included in each system will be examined.

In chapter 5, it will be described, illustrated and compared the characteristics in the three systems. Through the special table that is comprised in whole systems, it is explained that the main conception of those systems.

In chapter 6, first, through some tables, each SWOT analysis is arranged. And then, each system's advantage and disadvantage will be explained.

In chapter 7, by being based on chapter 5 and chapter 6, first, the main characteristics of systems are summarized. And then, the alternatives for enhancing each system will be examined. Mainly, my own opinion concerning whole systems will be concluded in this chapter.

2 Definition

Commonly, the shape of ship finance is based on the assumption that combines between the ships as collateral and the loan advanced against those ships. It means that individual shipowners make the loan and mortgage agreement¹ with bank and lending institutions against the vessel as a security and future earning income of that when they decide to expand or maintain their fleet (Drewry, 2003: 187-202).

Basically, German KG is included in limited partnership and Korean SIC is involved in Ship fund. On the other hand, Belgian Shipping NV is based on public offering. However, all of these are part of equity that is the kind of ship finance from the public markets.

Through the equity, shipping companies can raise their capital from investors and share risks with them. On the other hand, investors are able to acquire the rewards. In equity, first, in the limited partnership, the ship funds are provided by partners. Second, ship fund means that individual investor can purchase shipping companies' share or

¹ The loan agreement which is based on sales and purchase market is consists of 'one ship' company in the flag state and detail's concerning lender's requirements – the loan application to due diligence: expert guidance, documentary evidence, etc.

In the aspects of jurisdiction, the lenders can not change a flag of the vessel without the approval of the financiers. In the case of the mortgage agreement, the role of lender is more active than that of the loan agreement. For meeting default, the lender can check whether the selection of flag registry will approve or not because the ship as collateral is the most important product to them.

shipping companies' one can list on stock exchange. In the case of public offering, it is more closed to public than ship fund. Investors can buy the shares from public stock exchange (Stopford, 1997:205-207).

2.1 German KG

The KG is an abbreviation of Kommandit Gesellschaft in German. It means a limited liability partnership under German Income Tax Act. The shareholders consist of a "general partners (Komplementär)" and "limited partners (Kommanditist)" (in 'Chaper4. An analysis of structures' will deal). Mainly, it is called a closed-end fund which owns one or more ships (Lloyd's shipping economist, 1st October 2005) – one ship fund is called "KG single ship fund" while multitude ship fund is called "KG fleet fund" (König, 2005: 25-30). It means that KG shares can be sold only during certain period of time. During that time, the fund can be liquidated and the profits can be allocated depending on each investment shares (Strothmann, 2005:14).

In KG shipping fund, the issuing companies as German KG arrangers have been played important role in collecting and structuring private equity. In the case of financial risk about operating a vessel, it is transferred to private investors under their management. Through KG fund, shipowners or ship companies can be financing almost 100 % without equity required. The financing is founded on tailor made time-charter contracts with re-purchase options (König, 2005:19).

For the private investors, KG shipping fund provides tax benefits. During a long term (commonly 10~12 years), they can get almost tax –free dividends from ship earnings based on tonnage tax system (Von Oldershausen, 2005: 8). Also for securing profit of investors, the ship should not be sold at least 8 years (Lloyd's shipping economist,

November 1991: 10).

Before 2007, the shipping companies as an equity holder have a selection right to tax whether tonnage tax or the general corporate income tax. Since 1999, KG fund has controlled by the tonnage tax under the German Income Tax Act § 5a. Tonnage tax is levied on net tonnage of the vessel while general corporate tax is based on the earning profit (see the [Table 2.1]).

[Table 2.1] A Tonnage Tax on Vessel in Germany (unit : per 100 net tons/ day)

Rate per tonne	Net tonne
EUR 0.92	100~1,000
EUR 0.69	1,000~10,000
EUR 0.46	10,000~25,000
EUR 0.23	Over 25,000

SOURCE : Sec.5a EStG(German Income Tax Act)²

For obtaining the benefit of tonnage tax, first, the chartering of the vessel is possible except bareboat charter. Also, the ships must be involved in transporting of passengers and cargo at least one port in overseas. Second, the flag of vessel must be registered in Germany. For registering ship in German, the captain must be German; other officers have to be EU nationality. Also, the vessel must be sustaining their German flag. However, basically, German allows acquiring the dual nationality of vessel. This second register is ISR, International Ship Register. Finally, the ship operators and shipping companies have to be positioned and located in Germany. If the shipping company selects the general corporate income tax, they can get the benefit from accelerated

² TOOT&PARTNER KG, 2006, Sec.5 a EStG (German Income Tax Act) Lump-sum determination of profits in the shipping sector (tonnage tax), p.1 (obtained from e-mail of Dr.Detlef Laub)

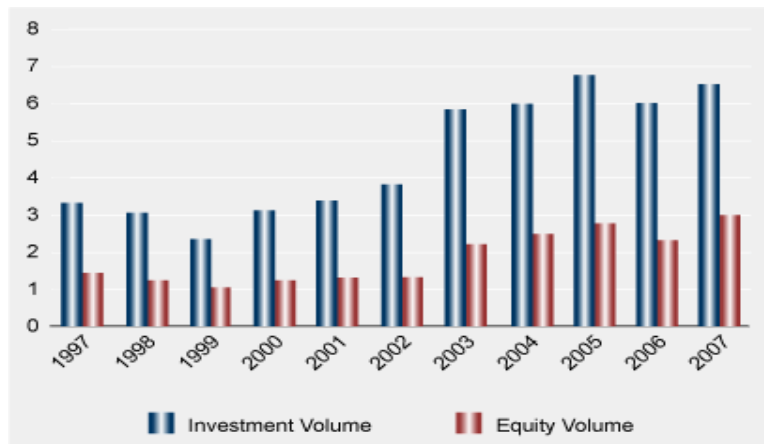
depreciation of 16.6%³ regularly per year. And then after three years (when the effect of depreciation rate is reduced), they can select tonnage tax to vessel (Matthew, 2004: 30). In addition, by using the allowed dual nationality, foreign investors can also take advantage of tax benefit maintaining their nationality.

However, new tax regime is adopted since 1st January 2007; KG investors have an option between tax allowance and tonnage tax. Investors must exercise their option in the first year the ship is delivered while the option could be opted their regime in three years after the first fiscal year before 2007. Once they choose one regime, it is hard to change at least during ten years. It means that their decision is binding during that time. For example, if the KG investors select tax allowance, they can select tonnage tax after ten years (Kim, TI., 2006: 21-24). After the new rule in 2007 is adopted, new tax regime has not a negative effect. In accordance with the [Figure 2.1], the investment volume and equity volume have increased in 2007 compared with both the volumes in 2006. Investment volume amounted to EUR 6.5 billion and equity volume has marked around EUR 3 billion in 2007 whereas there was investment volume of EUR 6.4 billion and raised equity of EUR 2.6 billion in 2006. Subsequently, it helps that KG shipping funds investment volume is increasing continually. For last decade, the amount of raised private equity was about EUR 21.7 billion.

(http://www.appencapital.com/en/KG_finance/KG_market.html)

³ Von Kalkreuth and Schröder, June 2002, Monetary Transmission in the New Economy : Service Life of Capital, Transmission Channels and the Speed of Adjustment, p.9,

[Figure 2.1] Fund segments market share 2007 (unit: billion €)



SOURCE: Scope –Jahrbuch Geschlossene Fonds, Verschiedene Ausgaben /Graphic : AppenCapital

Originally, German KG scheme is perceived very attractive. During investment term, investors can receive their dividends which are normally around 8~9 % from chartering fees paid by customers. In addition, sometimes dividends are higher than that (Matthews, 2004: 30). It is very beneficial when we assume that commonly the returns of state bond, stock markets, and money fund are 2~10 % (Lloyd’s of London Press Ltd., 2003: 36). Also the ship is sold when term is end; investors can obtain final disbursement (Dougherty, 2006). By Strothmann, director at Ideenkapital of Hamburg, “Even without benefit from loss allocation, KG is an attractive investment”(Strothmann, 2005: 14). It reflects present trend. For example, by Lunde, D., Chairman and CEO, DVB bank N.V., in the case of a five old Panamax bulk carrier, worth USD 46 million and freight rate exceed USD 46,000 per day in 2004/2005 while the purchase value was USD 13.5 million and achieved freight rate was over USD 5,500 per day in 1999(Harwood, 2006: x). It means that only loss allocation is harder to meet highly increased income through freight rate. Therefore, investors tend to prefer direct tax-free about their income more than indirect tax allowance (Matthews, 2004: 30).

2.2 Korean SIC

Korean SIC means Korean Shipping Investment Company. Sometimes it is called KSIC. It means that this scheme and involved fund are only limited to the ship. Basically, Korean SIC is based on “Ship Investment Company Act” in Korean law. Under that law, first, the Shipping Investment Company is established by the capital which is raised by public investors and financial institutions. The capital is raised from ship fund. And then, after the acquired ship – newbuilding or secondhand vessel- is chartered out to a ship operating company, the ship’s earning income is allocated to investors and the financial institutions.

As mentioned above, the ship funds raise the capital from public investors and institutions. By article 17 in SIC Act, this fund can be listed and traded in Korean Stock Exchange and the secondary market, KOSDAQ (Korea Securities Dealers Automated Quotations system) if they meet the standard of Korean Stock Exchange. Also, principally, SIC was ‘one ship one company’ and ship fund also single ship fund. However, the funds after 27th December 2007, SIC is able to initiate the multiple ship if the company set up a lot of subsidiary companies (Article 3 § 3 of The Korean SIC Act). In addition, the minimum existing term of SIC is reduced from 5 years to 3 years (Article 6 § 1 of The Korean SIC Act). The general existing duration is 5~12 years. However, recently, it is shortened to around 5years.

In SIC, only four qualified shipping fund managers- Korea Marine Fund (KOMARF), Korea Ship Finance (KSF), Global Marine Finance (GMF) and C& Marine are in charge and control of the overall operational factor. Those managers are Ship Investment Management Company. All of them were approved by Korean government department - the Ministry of Maritime Affairs and Fisheries (Wong, 2007: 5). After

March 2008, the Ship Investment Management Companies are involved in The Ministry of Land, Transport and Maritime Affairs (MOCT).

In the case of public individual investors, they can get a return of 6~7%. When it is assumed that the interest of normal time deposit is around 4% (the base in October 2004), a return from ship fund is two times as large as that of normal time deposit (www.komarf.com). Also, a return is allocated to investors every quarter. It implies that actual dividends are higher. In addition, tax-exemption is applied to the dividends about KRW 0.3 billion of the principal an amount invested. And in the case of a surplus of over KRW 0.3 billion in the principal amount invested, the separate taxation of 15.4% is applicable (Sim, 5th December 2007). However, this tax benefit is only valid to the income from dividends which are obtained before 1st January 2009 (Article 87 § 5 of The Special Taxation Limitation Act). Also, in the case of Shipping Investment Company, if this company shares the profit over 90%, its corporation tax will be exempted. And then it has made the dividends of investors to increase (Article 51 § 2 of The Corporation Taxation Act)⁴.

In addition, the shipping company takes advantage of net tonnage tax regime by 2009. By using this regime, it can reduce the tax. Their tax is based on the net capacity of the company's fleet instead of the operational income (Marine Money Asia, 7th June 2007: 1). According to [Table 2.2], the basis of tonnage tax is flat rate depending on net tons per day.

⁴ It also referenced from "<http://www.koreashipfinance.com>."

[Table 2.2] A Tonnage Tax on Vessel in Korea (unit : per 100 net tons/ day)

Rate per tonne	Net tonne
KRW 14	100~1,000
KRW 11	1,000~10,000
KRW 7	10,000~25,000
KRW 4	Over 25,000

SOURCE: Article 104 § 10, 8° of The Special Taxation Limitation Act

For obtaining tonnage tax benefit, first, the shipping company should request to the Ministry of Maritime Affairs and Fisheries (After March 2008, MOCT which is in charge of that). Also their vessel should be involved in oversea cargo and passenger transportation. If the shipping companies get the approval from that government department, they can not change for 5 years. Also, the tonnage of operating chartered-in-vessel should not exceed five times of the owned ships and the long term chartered ship. When the below 2 year chartering ship is 5 times more than the own ships and the long term chartered ship, applying tonnage tax is impossible (Lee, 30th December 2004, In: Korea Maritime Press).

2.3 Belgian shipping NV

The NV is an acronym of naamloze vennotschap in Dutch. It means that the NV is a public limited liability company with a legal entity under Belgian law. In the case of Belgian Shipping NV, it is founded on the Act of 16 June 2006. Basically, the NV is involved in the SIC (Société d'investissement en Créances)/VBS (Vennootschap voor Belegging in Schuldvorderingen). The SIC/VBS has two types of capital (contractual securitization fund) - a fixed capital and a variable capital depending on subscription or redemption (open-ended fund) in SPV (Special Purpose Vehicles) under the Act of 12

December 1996 (PrincewaterhouseCooper, 2005: 12-14). In the case of Belgian shipping NV, it is just the start up phase. By Euronext, as the first shipping NV, the IPO date of Shipping NV-Hanaevast Crisbrooke Shipping I, NV is 15th May 2008.

(<http://www.euronext.com/news/ipos/detail/details.jsp?lan=EN&docid=516929&cha=2050>)

The NV consists of at least two partners as shareholders. For example, in the case of Hanzevast Carisbooke Shipping I, NV, the first ship's certificates of Hanzevast Capital, Carisbrooke Shipping (Belgium) Private Ltd, Co and Carisbrooke Shipping (the Netherlands) Ltd are attended. Also, it has 2 multipurpose ships- "Eileen-C," "Lisa-C." It means that the NV can own one or more ships.

(<http://www.hanzevastcapital.be/nl/531>)

The main purpose of the shipping NV is acquiring, operating, and selling the ship.⁵ Therefore, through public offering, it issues "the Ship's certificates (Het Sheeps-certificaat)" at the regulated market Euronext under article 5 § 4 of the Act of 16 June 2006. The certificate should be registered and approved by CBFA (Banking, Finance and Insurance Commission) before beginning any transaction. Also, its prospectus has to be approved by CBFA (KBRV(Ed.), 2008: 2). It means that only the eligible ship's certificates can attract the investors.

The investors of the NV are called the certificate holders. They have a right to claim about a share of the annual income and a proportional share of the net sales proceeds from the issuing company. For securing the benefit of the ship's certificates holders, the issuing company and the management controller take charge of whole ship management of the NV. The issuing company supplies the administrative and financial service to the certificate holders. On the other hand, the management controller as an auditor of the

⁵ KBRV(Ed.), 2008, Memo scheepscertificaten ENG p.1, Koninklijke Belgische Reders vereniging

issuing company, it takes charge of approving all transactions concerning the vessel (the detail of their role will be dealt in Chapter 4). Also, the management controller should be approved by a CBFA (ibid).

In an aspect of tax, the payment of the certificate holder is divided into three parts – Reimbursement of the invested capital, the interest on the capital invested, and a proportional part of the proceeds of the assets by the issuer. First, the Reimbursement of the invested capital is the repayment of invested principal. Therefore, it is tax-free. Second, in the interest on the capital invested, a tax rate depends on the certificate holder whether it is the private individual or the company. The private individual pays a withholding tax of 15% whereas the company pays the normal company tax rate of 33.99% unless the lowered rate applies. Finally, a proportional part of the proceeds of the assets by the issuer is separated into two cases. If the part of the invested capital remains as an outstanding yet, the withholding tax will not be charged. Next, if any balance of the sales price is assumed a surplus value, the withholding tax of 15% will be charged on income. Also, if a company is the beneficiary, a company tax of 33.99% will be charged unless the lowered rate applies (ibid: 5).

As the taxpayer -the owner, co-owner or bareboat charter of a sea-going vessel, the issuing company has the right to select the tonnage tax regime or not. If the companies choose the tonnage tax, it will be bound for 10 years. Also, its tax is based on the net tonnage of the sea going vessel. It means that it pays the flat tax rate according to [Table 2.3].

For obtaining the benefit of the tonnage tax, first, the flag of vessel should be involved in a Member or non- Member State of the European Union or Belgian. Also, the vessel should be involved in the transport of goods or persons, or other maritime

sector (Article 115 § 2, 1°, 119 § 1 of the Program Law of 2 August 2002). Second, a substantial part of its management should be performed in Belgium. However, the taxpayer has not assigned for bareboat chartering by them. Also its time-or voyage charter of a seagoing vessel and the commercial management should not exceed three times the annual total of the net day-tonnages in his substantial management extent (Article 115 § 2, 2° of the Program Law of 2 August 2002). Last, if the above two conditions are satisfied, the domestic companies and Belgian establishments of foreign companies can take advantage of the tonnage tax system (Article 116 of the Program Law of 2 August 2002).

[Table 2.3] A Tonnage Tax on Vessel in Belgium (unit : per 100 net tons/ day)

Rate per tonne	Net tonne
EUR 1.00	100~1,000
EUR 0.60	1,000~10,000
EUR 0.40	10,000~20,000
EUR 0.20	20,000~40,000
EUR 0.05	Over 40,000

SOURCE : Article 119 § 1 of the Program Law

If the issuing company did not select the tonnage tax, it can benefit from accelerated amortization, an investment deduction, and exoneration of excess values on seagoing vessels. First, a new vessel solely takes advantage of the accelerated amortization. According to each year, the rate of accelerated amortization is different; first financial year of putting into service amounts 20%; during two following years, the rate adds up to 15% per each year; and then, for remaining years, the rate amounts 10% per financial year (Article 121 §1, §2 of the Program Law of 2 August 2002). Next, an investment

deduction rate amounts to 30% of the purchase of new seagoing vessels or second-hand seagoing vessels which should be acquired by a Belgian tax payer for the first time (Article 123 §1 of the Program Law of 2 August 2002). Last, if the amount of the sales value is spent on the reinvestment, the excess value is exempted from capital gains tax on seagoing vessels. The range of reinvestment must be in new building vessels, dividends result from attending shipowning, and the company's shares or interests within 5 years (Article 122 § 1-3 of the Program Law of 2 August 2002). As well, after utilizing above three systems- accelerated amortization, an investment deduction, and exoneration of excess values on seagoing vessels, the issuing companies can renew their selection (ibid).

As already mentioned, Belgian shipping NV is really new. According to the information of the Hanzevast capital, the postulated annual output is 9.62% including the expected sale of the ships. Also the dividends will be allocated semi-annually. The duration of the NV is expected 12 years. However, by KBRV, it is necessary to be reminded that the actual period will be from 7 to 15 years. Also according to the Euronext, the ship's certificates of 6,700 are listed. Its coupon is EUR 1,000. Therefore, the amount of shipping NV is EUR 6,700,000.

3 The history of each ship financing methods

3.1 German KG : Steadily Keep Competitive Position since 1970s

The present KG fund tax regime is not earning income but based on net tonnage. Before that system was established, it experienced some changes which depend on the tax policy. However, as a matured international finance tool, KG has been funding ships by wealthy private investors during 30years, although some legal issues changed.

Therefore, in this part, the history of German KG will focus on ‘what tax regime is effected on?’

3.1.1 The Origin of German KG

After the end of the World War II, the German government have been attempting to support shipbuilding industry. They put the ‘aiding of a German merchant fleet’ to the 1965 merchant shipping act. This law is based on direct subsidies and tax incentives which purpose for expanding and modernizing the ships. Also the ships must be built and flagged in German (Lloyd’s shipping economist, November, 1991:9).

Actually, at this time, since 1960s, ship financing has shifted from self-financing to mortgage loan based on commercial banks, specialized in ship mortgage and government agencies. It means that accessing to the public and private equity market also already started. Also, that kind of market has often shaped tax driven partnership for distributing the investment fund in Germany, Norway, and Denmark (Lloyd’s shipping economist, January, 1992: 9).

The “real” German KG fund is appeared in the mid-1970s; it is followed by Norwegian K/S fund. (Strothmann, 2005: 14). Since 1980s the tax law which encourages to investment in ships has passed, investors can take advantage of tax deduction because that scheme basically admits the losses concerning investment for acquiring the ships in start-up phase (Dougherty, 2006).

3.1.2 1990s I : 1990 ~ 1995

After established tax system in 1980s, KG scheme has been based on both the special or accelerated depreciation (Sonderzuschreibung) and tax loss allocation (Steuerverlustszuweisung) (Lloyd’s shipping economist, August 1996: 12). In the case

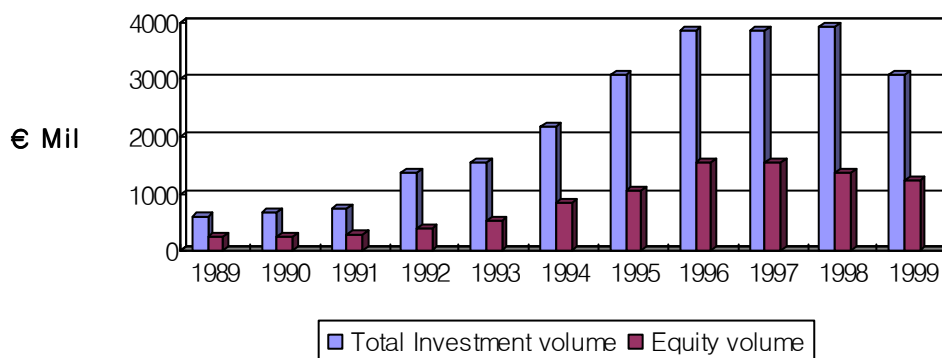
of special acceleration, 40% of new shipbuilding cost is depreciated during first five years. Commonly, this 40% special depreciation is adding up to the first or first two years, and during that time, the private investors can make tax losses set against income for obtaining tax returns. In addition it allows 8.33% of another linear depreciation written down per annum during that time, it is up to around 41.67% of original value. Subsequently, about 81.65% is depreciated during first five years. Moreover, the shareholders (or Kommanditisten) losses can offset against their other income and tax because their losses are perceived as shipowning companies. It means that investing in ship fund is useful as means of tax deduction for fiscally tax burdened wealthy people. And when it assumed that the contract term is usually 12years, remaining values are spread for 7 years. At least for 8 years vessel should not be sold when owner benefit from special depreciation. Also when ship is sold, the residual value is paid to investors, and then this disbursement is charged at 50% of tax rate (Lloyd's shipping economist, November 1991: 10). In the case of loss allocation, the maximum loss allowance has changed from 150% to 125% since 1st January 1995. A German tax payer can get a profit through tax loss by multiplying the loss allowance 125% of invested capital (Lloyd's shipping economist, May 1995: 15).

3.1.3 1990s II: 1996 ~ 1999

All ordered ships since 1st May 1996 should accept the amended regime. The loss allocation has deducted from 125% to 100%. Also the special depreciation of 40% abolished. Instead of that, from January 1999, a tonnage tax has been adopted (Lloyd's shipping economist, March 1999: 29). In addition, the charge at 50 % of sold ship's residual value has also been abolished when the KG contract term is finished.

Consequently, the scheme of 40% special depreciation and 125% allocation became old system. It was valid by 1st April 1999. And it has completely replaced by normal depreciation rate and 100% tax loss allocation, and tonnage tax regime since 5th March 1999. Also investors can not anymore take advantage of taxable offset about their other income (Lloyd’s shipping economist, July 2000: 18-19).

[Figure 3.1] KG Shipping Fund Investment volume 1989~1999



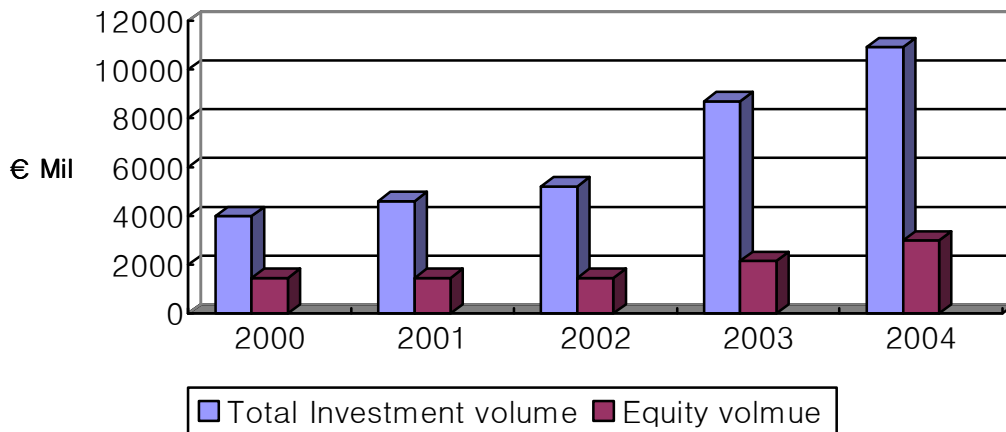
SOURCE: Von Oldershausen (HCI Capital), German KG financing,
Fourth City of London Biennial Meeting 6th-7th December, p.5

According to [Figure 3.1], the volume of investment and equity were decreased in 1999. However, it is not due to the amended scheme. For getting a profit from special depreciation, a large number of ships should be ordered in late 1995⁶, April 1996, and even early March 1999 (because old system’s deadline is accepted the contracts placed by 4th March 1999). As a result, during 1998 and 1999, charter rates have collapsed. Not only were many ships laid up, but also income from charter contract was diminished. In addition, the time-consuming collapse phase made the revenue term in 1999 rather worse (ibid.).

⁶ Especially, October 1995 was peak.

3.1.4 Since 2000s

[Figure 3.2] KG Shipping Fund Investment volume 2000~2004



SOURCE : Von Oldershausen (HCI Capital), German KG financing,
Fourth City of London Biennial Meeting 6th-7th December, p.5

Although the collapse was lasted by 2001, KG shipping fund volume has been raised (see the [Figure 3.2]). It means that downturn in 1999 was temporary. For the reason, the role of US dollar had an effect on DM. Basically the investment of German owners was based on DM. At this time, fortunately, US dollar was raised continually – DM 1.47 on first quarter in 1996, DM 1.74 in same period in 1999 and exceed DM 2.00 in early March 2000. This situation helped that German owners could come over crisis in 1999. Because raised DM resulted from recovered dollar relieved the shock of fallen revenue (ibid: 20).

After 2000s, both total investment volume and equity volume were soared steadily. By [Figure 3.2], in 2004, the amount of total volume was reached EUR 10 billion as well as the raised equity volume was approached EUR 3 billion. Also, 10th November 2006, the outset, the Marenave Shipping Corporations of König & Cie was successful to

issue stock-listed vehicles at Hamburg Stock Exchange⁷. It means that the possibility of participation for the institution investors has started (Berkernkopf, 2007).

Since 2007, attending institutional investor has been common in major KG companies. In addition, the shipping IPO has appeared as a complement alternative to KG fund because the accelerated expanding fleet and ship size need new source for financing (ibid). For example, HCI Capital AG is an asset manager for institutional property investor since 2006. They have attempted to open the container shipping market for institutional investors – insurance companies, retirement funds, foundations, and banks in Germany and Austria. The name of their product is HCI HAMMONIA Shipping AG which is the first customized one for those investors. The purpose of this is to place equity capital from minimum EUR 75million to EUR 250million and actually placed EUR 150 million⁸. After the subscription period (until latest 30th October 2007), it listed on the Hamburg Stock Exchange in 27th November 2007⁹. The issuing was supported by HSH Nordbank which is a shipping finance specialist bank cooperated with NordLB. This bank already has been issuing shipping IPO since 2004, the volume of IPO is cumulated at about USD 16.2 billion (HCI Hanseatische Capitalberatungsgesellschaft mbH, 2007).

It is impossible to ignore that the tax system is more weighted on tonnage tax regime. As it is mentioned in “2.1. German KG ”of “Chapter 2. Definition”, German shipping companies, KG investor, should opt whether Tonnage Tax system and the general tax system within the first year after the ship is delivered. Also it is unchangeable at least for 10 years¹⁰.

7 <http://www.marenave.com/eng/index.html>

8 HCI Capital, 10th March 2008, Analysis Conference Financial Year 2007, p.8

9 HCI Capital, December 2007, HCI Capital AG...Creating Value, p.14

10 http://www.appencapital.com/en/KG_finance/KG_market.html

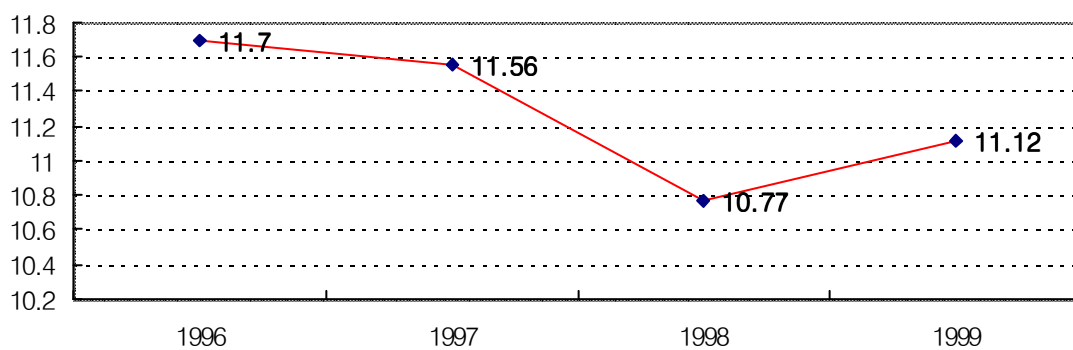
3.2 Korean SIC : The 1st Asian ship fund since 2002

In the view of the pace, Shipping finance area has very slowly perceived when comparing with shipbuilding area in Korea. In the case of shipbuilding domain, Korean government has been supported it since 1970s (Marine Money Asia, 7th June 2007: 1). On the other hand, assisting Ship financing scheme has started since 2000s.

3.2.1 The background of establishing Korean SIC

In 1970s, encouraging shipbuilding was the main strategy of Korean government. By employing a project shipbuilding capital of government, Korean shipping companies were able to acquire the ships. In 1980s and 1990s, the domestic and foreign finance market or leases were main resources as the interest of money was decreased. As a result of that, Korea has been positioned in top 10 shipbuilding countries in the world. However, the economic crisis in 1997, it had a bad influence on shipbuilding area. Legally, the debt ratio of company was limited 200%. It affected the Korean fleet to reduce (Moon, 2004).

[Figure 3.3] The fleet of ocean-going vessel for 1996-1999 in Korea (Unit: Mio/GT)



SOURCE: Lim, 2001, A study on alternative about adopting the ship investment company scheme, p.27

In the case of operating vessels, 53 operating vessels which amounted to 1.28 million GT have been sold in 1997. And in 1998, 50 vessels which added up to 1.66 million GT were reduced. The ocean-going vessel fleet was also influenced by that crisis. By [Figure 3.3], before the crisis, the overseas voyage was decreased from 11.70 million GT in 1996 into 10.77 million GT in 1997. After 1999, the fleet looked recovered. However, this recovery just resulted from delivered ships which were ordered before the crisis. In a newbuilding situation, the order of shipping companies hardly happened. Because, first, many shipping companies have already gone bankrupt. And then, the survived companies hard to obtain the capital for acquiring ship (Lim, 2001: p.27-28). It means that Korean maritime sector was collapsed.

Therefore May 2002, with concerning law-Korean Shipping Investment Act, Korean Shipping Investment Scheme is introduced the first in Asia. Also, it is based on the German KG scheme (Lloyd's shipping economist, January 2002).

3.2.2 The situation after adopted Korean SIC

Fortunately, after 2003, shipping market meets a boom period. Therefore, the shipping companies have been started concentrating on expanding their fleet. As well, the investment boom also has been started during that time. The public investors have been interested in investing the ship fund in SIC. For instance, in March 2004, the ship fund named the "Dongbuka No.1" of Korea Marine Fund's (Komarf) was successful. Through public offering at Korea Stock Exchange, the fund has raised the amount of KRW 130 billion. It was eight times as large as the first planned startup value (Lloyd's shipping economist, November 2004). Also, in January 2005, the first in Asia, the tonnage taxation system was introduced. Lowering the tax of shipping companies can

improve the investors' return.

By end of 2006, the ship fund which is established by SIC has raised about KRW 5200 million (about USD 520 million)¹¹ from public investors (See [Table 3.1]). As well, 52 ships were acquired through it (Kim, TI., 2006).

[Table 3.1] The raised capital through Ship fund from Korean SIC

(Base: December 2006/Unit: KRW/ 0.1 billion)

The ship investment management company	The number of Ship fund	Public Investor (A)	Senior Debt (B)	Prepayment Charterage (C)	Amount Raised Capital (A)+(B)+(C)
Korea Marine Fund (KOMARF)	25	2,809	9,351	1,029	13,189
Korea Ship Finance (KSF)	19	2,221	8,687	1,073	11,981
Global Marine Financing (GMF)	2	133	487	70	690
C & Marine	1	-	-	-	-
The amount	47	5,163 (20%)	18,525 (70%)	2,172 (10%)	25,860 (100%)

SOURCE: Kim, TI., 2006, A Study on alternatives for developing Korean SIC in domestic and international changed situation

Also, since 2006, foreign shipping company and bank has been started to attend in SIC while only Korean shipping companies and bank attended until 2005. Top Tankers Inc, Greek shipping company with Dutch Fortis Bank attended in SIC through KOMARF (Marine Money Asia, 28th July 2006:.1). Additionally, French bank Natixis with Gulmar Offshore, UAE shipping company attended through Hong Kong branch since 2007 (Stephan, 2007: 28). In the case of latter, it has a good influence on Korean Shipbuilding area. Because the Gulmar offshore ordered the diving support vessel as

¹¹ This exchange rate is based on USD 1 = KRW 1000. It may be different from present rate. However, it is closed to common exchange rate between USD and KRW. For example, 28th March 2008, USD 1 is KRW 987.

high added value vessel to Hanjin Heavy Industries. It is a good chance that Korean shipbuilding area can access to high-value-vessel building area (Kim, IT., 20th June 2007).

From 27th December 2007, as it is mentioned in “2.2. Korean SIC” of “Chapter 2. Definition,” the multiple fund can be set up through the subsidiary companies of SIC under Article 3 § 3 of The Korean SIC Act. Also, under Article 6 § 1 of the Korean SIC Act, SIC can be maintained minimum over 3 years.

In 2008, SIC scheme face the new situation. First, as a result of Government reorganization, SIC system has been involved in The Ministry of Land, Transport and Maritime Affairs (MOCT). No one can predict how it will be managed by new government department. Second, in the aspects of taxation in public investor, the tax-exemption which is benefited from the dividends that is below KRW 0.3 billion of the principal amount invested in expected to be valid by 31st December in 2008. It means that the decision of Korean policy makers is important in the future of SIC. The deduction of tax plays important role to attract investors. Finally, the sunset law is applied to the tonnage tax regime by the Ministry of Finance and Economy. The applied term is from 1st January 2007 to 31st December 2009. Therefore it is not easy to predict whether the regime will exist or not after 2010.

3.3 Belgian Shipping NV: the first IPO is started in 2008

Belgian Shipping NV is really in the beginning step. However, the basic shape of NV is already made since 1992. To deal the history of Belgian shipping NV, it is necessary to give paragraph below explanations.

3.3.1 The Origin of Belgian NV

Actually, Belgian law did not make a definition of securitization. However, Belgian securitization system has been advanced continuously.

At the beginning, by the Act of 5 August 1992 (as modified by Markets Act of 4 December 1990), a fundamental structure of the securitization was suggested. Through this regulatory, the foundation for the investment was made (PricewaterhouseCoopers, 2005: p.12-13). And then, the Royal Decree of 29 November 1993 has added "all necessary aspects of securitization." Later, this added thing has widened in 1995. In addition, concerning devolving of debt, the Belgian Civil Code was modified to simplify the securitization transactions (ibid: 12).

Finally, as a result of above two developments on Belgian law, the present system regarding NV has appeared. By the Act of 12 December 1996 which was executed by Royal Decree of 8 July 1997, the SPV (Special Purpose Vehicles) was divided into two types - the SIC (Société d'investissement en Créances)/VBS (Vennootschap voor Belegging in Schuldvorderingen) and the FPC(Fonds de placement en Créances")/FBS ("Fonds voor Belegging in Schuldvorderingen). The former is a contractual securitization fund and the latter is a corporate entity. Both types are operated by a management company under Belgian law. The SIC/VBS include SA (société anonyme) and NV (naamloze vennootschap) which are the public limited liability companies. As an investment company, it has a contractual securitization fund with legal entity. On the other hand, the FPC/FBS is an investment fund which contains a mutual fund or pool of assets. Therefore, the individual owner and unit-holders hold its portfolio with limited liability. Also, they are involved in the management company which operates the FPC/FBS (ibid: 13-14).

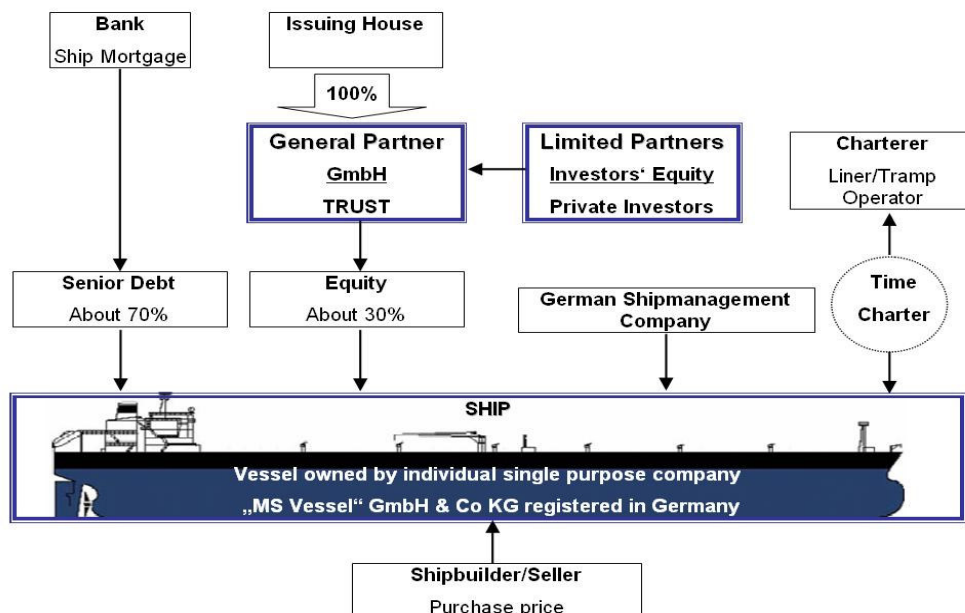
3.3.2 The appearance of Belgian Shipping NV

In the case of the SIC/VBS, it is possible to diversify. Because it is based on various types of assets (ibid: 14). As a result of, the “shipping NV” can be appeared in Belgium. Under article 5 § 4 of the Act of 16 June 2006, the public offering of shipping investment has been admitted as an appropriate financial tool in Belgium. From 15th May 2008, the IPO of the Hanzecapital shipping I , NV will be started at Euronext of Brussels. It is the first event that the ship’s certificate is publicly offered in Belgian stock exchange.

4 An analysis of structures

4.1 German KG

[Figure 4.1] KG Shipping Fund Structure



SOURCE : Von Oldershausen (HCI Capital), German KG financing,
Fourth City of London Biennial Meeting 6th-7th December, p.9

4.1.1 The basic legal structure element in German KG

Fundamentally, according to [Figure 4.1], KG shipping fund scheme use both the senior debt¹² which involved in the bank's ship mortgage and the equity from the private investors. The senior debt from bank accounts for 70% whereas the equity from the private investor is about 30%.

To begin with understanding the structure of German KG, it is necessary to comprehend three conceptions in the legal structure- GmbH (Gesellschaft mit beschränkter Haftung), KG (Kommanditgesellschaft), and GmbH & Co. KG.

First, a GmbH is a private limited company as a general partner with legal entity. It also possesses a limited liability with legal entity. At least, it must prove its minimum capital is EUR 25,000 as well as the sum of maximum ceiling of liability (Prinz, 2007: 2). Also, in addition, at least one managing director has to be attended (http://www.appencapital.com/en/KG_finance/KG_market.html).

Second, KG (Kommanditgesellschaft) is a limited partnership which is formed by two type of shareholders-a single responsible general partner (Komplementär) and a plenty number of private investors as a limited partners (Kommanditist) (Drewry shipping consultant., ltd, October 2003, p.207). The general partners take a responsibility for management with unlimited liability about the action of KG. On the other hand, the liability of the limited partners is restricted to the amount of their share. Unlike general partner, minimum capital is not required to them (ibid).

Finally, the GmbH & Co. KG is a form of combining a private limited company as general partner and limited partnership. As above [Figure 4.1] mentioned, GmbH & Co. KG stands for individual single purpose company which is registered in Germany. Thus,

¹² By Stopford(1997), bond issue, commercial loan, shipyard credit and private placement composed senior debt.

the GmbH & Co. KG is the KG fund that is a single purpose KG ship company (König, 2005: 13).

4.1.2 The process of structure in German KG

Through above mentioned three legal structure conception – GmbH, KG and GmbH & Co. KG, the KG fund as the limited partnership fund performs ship financing. Basically it is collecting interest and dividends and then distribute to general partner and limited partners (ibid).

At the beginning, the issuing house that is so-called KG house (or emission house) initiated KG shipping fund (Lloyd's shipping economist, October 2005, p.207). This finance company must have at least one person who has a shipping background¹³ so that organizes the financial and legal frameworks. In addition it is in charge of issuing and marketing of the fund. Also, as a parent company, the issuing house is only one shareholder which holds 100% of shares in GmbH (Amann(Ed.), 2007 : 186-188). It means that the issuing house is directly in charge of the fund management. In the investment phase, it performs raising the partners' finance, arranging the bank loan, and establishing the individual partnership company. As well, in the operational phase, it manages the financial performance of the fund for the limited partner (Drewry shipping consultant, Ltd, October 2003: 207).

As a limited partner, investors can attend in KG direct or indirect. The risk of the commercial success of the venture is imposed to them. On the other hand, as an unlimited partner (general partner), a GmbH is the form of trust company. It is supported by investors. The function of this company is equity administration and

¹³ Strothmann, M., 2005, The KG way, In: Surveyor, Fall, p.17

regulating the results of ship management (Von Oldershausen: 2005, 10). It means that sometimes the trust company performs the role of Ship Management Company¹⁴ in the business practice (Lim, 2001: 45).

Ship managers are in charge of overall managing shipowners. Basically, they deal with the commercial management and operation of the vessel. First of all, they are involved in the ship contract. In the case of newbuilding, the party takes responsibility for negotiation and finalizing in the contract. Also they manage the detail process range from the start-up phase of ship construction to final delivery via sea trial. If the contract is related to secondhand vessel, it consists of negotiation, inspection, delivery process, etc. After the contract is finished, ship managers participate in the technical and commercial management such as crewing, insurance, maintenance, and repairs, etc. As well, in commercial management area concerning vessel, their main work is chartering and performance monitoring (Drewry shipping consultant, Ltd, October 2003, p.207).

In short, once the capital for newbuilding or secondhand vessel is raised from private investors, ship managers make a contract about it. And then when ship is delivered, ship managers begin operating vessel and related administration. In that process, chartering is important. About that kind of work, ship managers can get the reward through to a ship management fee (Drewry shipping consultant, Ltd, October 2003, p.207). Commonly, KG shipping fund collect charterage or lease fee from shipping company and then allocate the dividend to shareholders. At that time, the interest of payment and working expenses are deducted from dividend (Ahn, 2005: 52). In the case of management fee, it is in proportion to the influence of management decision. In practical management area, one or more individual limited partners or another GmbH &

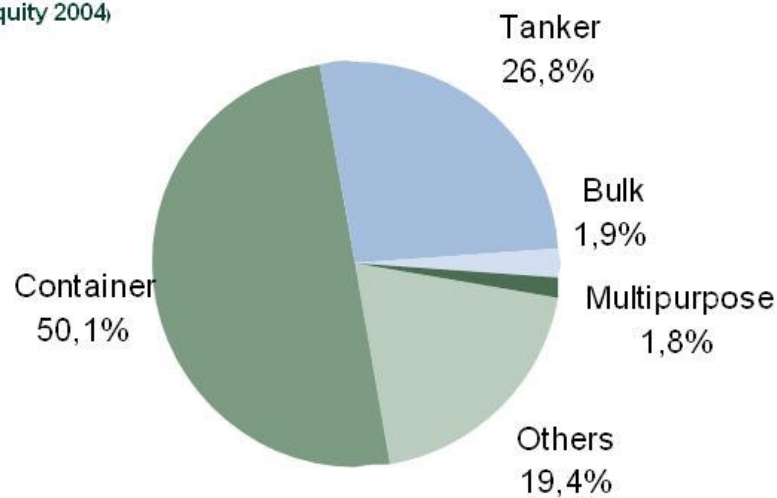
¹⁴ Above mentioned in Chapter 2, managing ship is must be conducted in Germany. So, in the case of management company, it is expressed "German shipmanagement company" in [figure 8].

Co. KG make the important business management decisions about whether invest or not. On the other hand, the trust company as the general partner operates the day-to-day activity that is straightforward business management. Therefore, the managing limited partners are bear a fee around 20% of the operating results before executing the significant important management while the general partner is paid a fee range from 1.5 to 2.5% of subscribed capital of the fund (GSK STOCKMANN & KOLLEGEN, 2001: 2).

4.1.3 The kinds of vessel in German KG

[Figure 4.2] Assets of German Ship Fund Arrangers (2004)

(based on placed equity 2004)



SOURCE : Die Scope Jahresstudie 2004/2005

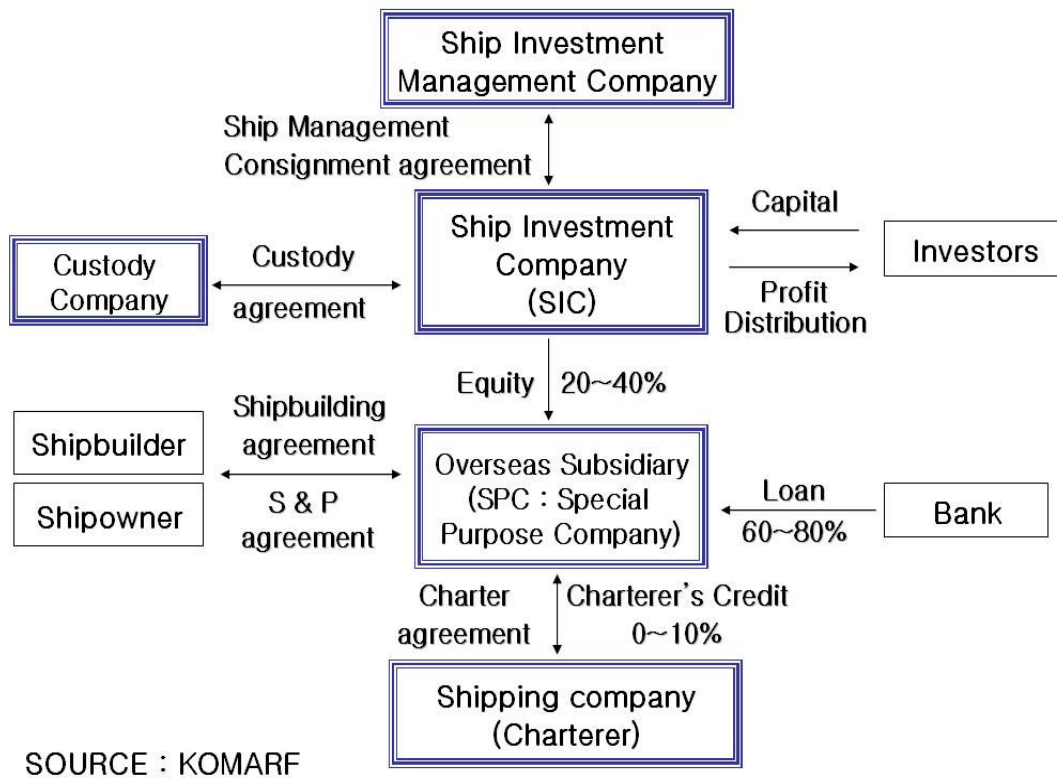
Obtained from Von Oldershausen (HCI Capital), German KG financing,
Fourth City of London Biennial Meeting 6th-7th December, p.6

By Ms Foster, vessel is divided into three sectors- container ships, tankers, and bulkers (Greene, 2008). According to [Figure 4.2], container vessel occupied 50.1%. Next, tanker is account for 26.8%. It is implied that German KG fund is more

concentrated on the container vessel. Actually, by Dobert- the German Ship finance specialist, German KG shared 60~80% in the world container charter market (Fromme, 2001). Now days, KG funds have started to attempt to expand to various vessels such as bulkers, tankers, and gas carriers (König, 2005: 16). Especially, in the case of tankers, KG fund have raised equity almost a third in 2003 (Matthew, 2004:29).

4.2 Korean SIC

[Figure 4.3] Korean SIC (Ship Investment Company) Structure



4.2.1 The legal participating parties in Korean SIC

By [Figure 4.3], in Korean SIC, the capital for acquiring ship consists of three parts- 60~80% of the loan from bank, 20~40% of public and institution investors from ship

fund, and 0~10% of prepayment charterage from shipping company (charterer).

Especially, the parties who attend in SIC and the chartering as main business are specified in Ship Investment Company Act article as following:

Article 2 (Definition of Terms)

The definition of terms used in the Act is in the following.

- 1. "Ship investment company" means the party that is involved in ship investment business with the approval of the Minister of Maritime Affairs and Fisheries under the Act.*
- 2. "Ship investment management company" refers to the party whose main business is to operate and manage the vessel with the commission of the ship investment company, and refers to the party that is registered to the Minister of Maritime Affairs and Fisheries under the provision of Article 38.*
- 3. "Custody company" means the trust company based on Trust Law (including financial institutions which operates trust business such as bank on the regulation section 28 in the Banking Law) which take commission from ship investment company , custody its assets and operating its business.*
- 4. "Chartering" means that the hiring out and chartering the vessel between ship investment company and ship operating company.*
- 5. (In 27th December 2007, All of Article 2 amended)*

SOURCE: <http://www.komarf.co.kr/>

Also, it is necessary to remind that the controlling SIC Government department has shifted from the Minister of Maritime Affairs and Fisheries into The Ministry of Land,

Transport and Maritime Affairs after March 2008.

Based on above law, first, “Ship Investment Company” (SIC) is the ship-owned paper company with legal entity under Act in Korea. It is established by ship fund which raise the capital from individual and institutional investors. Commonly, this paper company is maintained over 5 years (at the present amended law, it can be sustained over 3 years) and then, after ship is sold, it is wound up. Mainly, its purpose is for securing a return of investors through the investment on ships. In the case of the ship which is involved in SIC, it should be taken out mandatory insurance such as Hull & Machinery Insurance, War Risk Insurance, and P& I club. In addition, the vessel should be chartered out over 2 years. In the case of charter, time charter, bareboat charter, bareboat charter with hire purchase etc. are allowed. From acquiring ship to chartering, those kinds of business are performed in Special Purpose Company (SPC). For obtaining tax benefit, SIC establish the 100%-owned SPC in tax-heaven region such as Panama (www.komarf.co.kr).

Second, “Ship Investment Management Company” (SIMC) takes responsibility for actual operating factor of SIC. Under the commission with SIC, SIMC should manage ship fund as well as concerning contracts between SIC and Ship Operating Company, Ship management Company, Ship Yard, Financial Institution, and Custody Company, etc. Therefore, the act about SIMC is stricter. The SIMC should be approved by Korean Government. For getting qualification, it must be corporation under Korean commercial law. In addition, it must have minimum paid-in capital over KRW 5 billion and more than specified under the Presidential Decree(Ship Investment Act 31 § 1,2). Now, the eligible companies are only four- Korea Marine Fund (KOMARF), Korea Ship Finance (KSF), Global Marine Finance (GMF) and C& Marine (ibid).

Finally, “The Custody Company” is licensed trust company under Korean trust

business law. It performs managing SIC's asset such as cash, securities, and legal documents. Also, it has independent relationship with SIMC. It means that, for sustaining objectivity and transparency in operational factor, the asset management of SIC is separated from the business area of SIMC (ibid).

4.2.2 The process of structure in Korean SIC

By previous sub-chapter (4.2.1.The legal participating parties in Korean SIC), the core legal elements of Korean SIC are Ship Investment Company (SIC), Ship Investment Management Company (SIMC) and Custody Company.

First, once the shipping company decides to acquire the ship, SIC make the commission contract with Custody Company and SIMC for overall management. And then, after listed on the Korean Stock Exchange, the SIC start raising capital by means of ship fund. The investors who attracted through ship fund provide the SIC with an equity of 20~30% of value of vessel. By using that equity, the SIC can set up the SPC in a flag of convenience country such as Panama, Liberia. (Marine Money Asia, 28th July 2006).

Second, once SPC was established by SIC, it makes arrangement with bank, shipbuilder or owner. From a bank, the SPC have the loan of 60~80% within the value of vessel. And then, it makes the charter agreement between the vessel of SPC and the shipping company as a charterer. In a flag of convenience country, the business concerning vessel takes place. Through the charter agreement, the shipping company prepaid a charterage of 0~10%. From the obtained charter income, SPC remunerate an interest to the investors every quarter which is the end of the charter term (ibid).

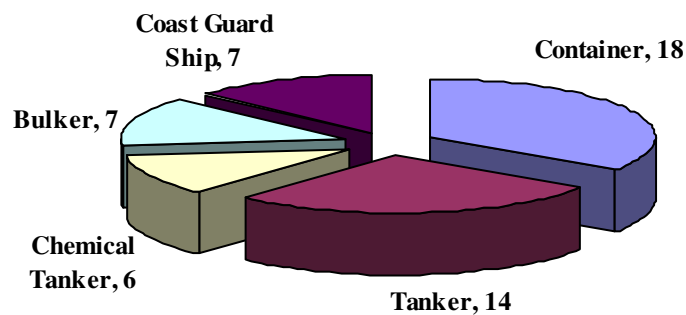
Finally, generally, in the case of the shipping company as a charter, it has a purchase

obligation for being repaid outstanding debt at the end of charter agreement (www.komarf.co.kr). Through the obligation, the investors are secured their invested principal.

4.2.3 The kinds of vessel in Korean SIC

[Figure 4.4] Assets of Korean SIC Arrangers (2006)

The Amount of 52 Ship fund Vessel in Korean SIC



SOURCE: Kim, TI., 2006, A Study on alternatives for developing Korean SIC in domestic and international changed situation

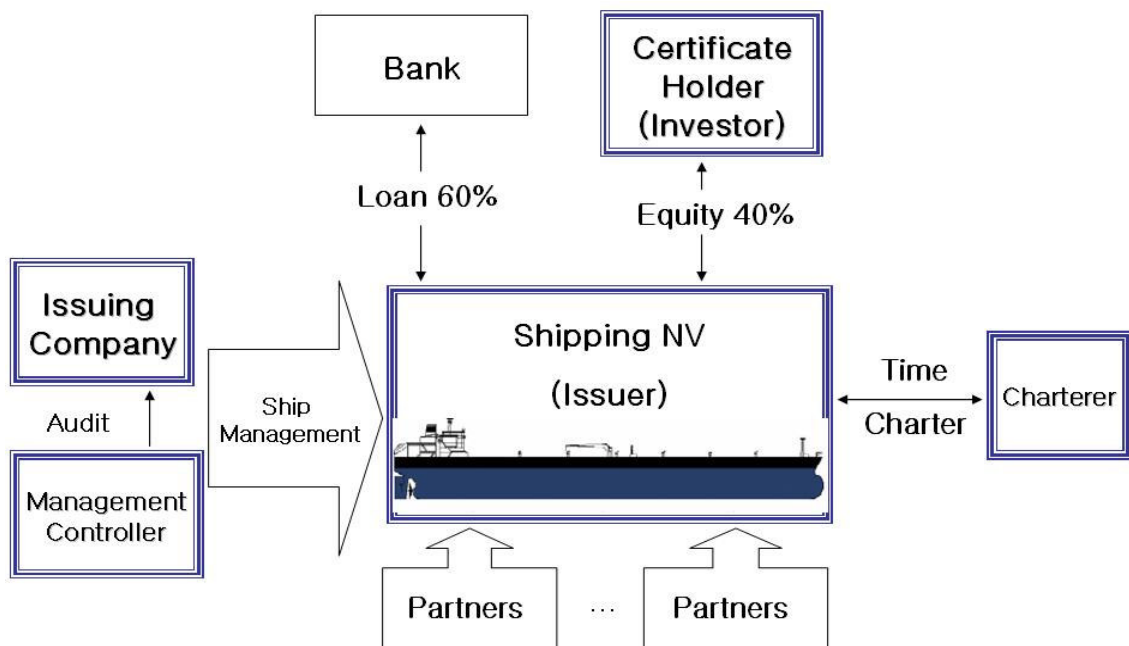
Until 2006, Korean SIC has acquired 52 vessels through the ship fund. Each vessel kinds are almost similar. It means that the definition of fund was even among the various vessel types. According to [Figure 4.4], 18 of container vessel, 14 of tanker, 6 of chemical tanker, 7 of bulker, and 7 of coast guard ship are included in Korean SIC.

Especially, in the case of 7 coast guard ship, it is involved in one ship fund which is named "Turtle No.1" with KOMARF. It is exceptional case. Because, before 27th December 2007, one ship fund (SIC) should own only one ship (Kim, TI., 2006). In

addition, it was required by The National Maritime Police Agency in Korea not the ship company. It implies that Korean government ship has already attended in SIC.

4.3 Belgian Shipping NV

[Figure 4.5] Belgian Shipping NV Structure



4.3.1 The main participants in Belgian Shipping NV

In Belgian shipping NV, 100% financing is possible. By [Figure 4.5], the loan of 60% from the bank and the equity of 40% from the ship's certificates holder as an investor are basic financial area in the structure of Belgian shipping NV (<http://www.hanzevastcapital.be/nl/57#faq521>).

First of all, one of the main parties in Belgian shipping NV is the issuer. As already mentioned of '2.3 Belgian shipping NV' in 'Chapter 2. Definition', the issuer is only aim to the acquiring, managing, and selling the vessels. Basically, the issuer should be

consisted of two or more partners who are shareholders. Also, it is a limited liability company. In the case of this shipping NV, it issues the ship's certificates publicly. Therefore, it can be assumed that a public limited liability company.¹⁵ Next, for establishing the issuer as the company, a minimum capital amount to EUR 61,500 is required. Also, depending on the kinds of the vessel and the situation of the shipping market, the company can exist for about 7 to 15 years (KBRV (Ed.), 2008: 1).

Second, before listed on stock exchange for public offering, the ship's certificates should be ratified by CFBA. Once the investors obtain the approved ship's certificates, they called the certificate holder. To secure the transparency for the certificate holders, the reporting assembly takes place regularly (<http://www.hanzevastcapital.be/nl/9>). The assembly consists of the annual information meetings and the extraordinary general assemblies (KBRV (Ed.), 2008:3).

Last, in an aspect of operating shipping NV, the issuing company takes charge of a ship management in Belgium. In ship management area, the company takes responsibility for crew & technical management, full management of the sea-going vessel. Also, from the owner, it accepts all duties and responsibilities (Article 115 § 2 4° of the programme law). For proving further explanation of the ship management, the issuing company uses the self-assessment matrix which is developed by KBRV (Koninklijke Belgische Reders vereniging, Royal Belgian Shipowners' Association). The qualified management controller also takes part in the management of the shipping NV. As an auditor of the issuing company, it is responsible for managing all transactions concerning vessel and commanding the books and the accounts of the issuing company (KBRV (Ed.), 2008: 2-3).

¹⁵ Originally, the type of NV is a public limited liability company in an SIC/VBS (PricewaterhouseCoopers, 2005: 13-14)

4.3.2 The process of structure & possible vessel types in Belgian shipping NV

By the three main parties-the issuer, the ship's certificates holders, and the issuing company with the management controller, Belgian shipping NV is operated.

At the beginning, once the two terms that two or more partners and their amount capital is EUR 61,500 at least are satisfied, the issuer as the company can be founded. After establishment, the issuer attracts the investors through the ship's certificates at the stock exchange.

Second, in the management domain of shipping NV, the issuing company and its auditor who is the management controller are involved. Under the approval of the management controller, the issuing company makes a time charter contract with the leading charter company. In addition, this company uses a long-term ship mortgage with fixed interest rate from the bank. Through operating the seagoing vessel, the issuing company can obtain the income. And then, it allocates their income to the ship's certificates holders (ibid: 3-4).

Finally, the certificate holders can get a share of the annual income and a proportional share of the net sales proceeds from the issuing company (ibid: 5). However, depending on the shipping NV, they can get the income semi-annually. For example, the ship's certificates holders of Hazevast Carisbrooke Shipping I , NV will receive their share semi-annually (<http://www.hanzevastcapital.be/nl/>).

Concerning the vessel types in shipping NV, most category of ship can be included – container ships, bulker, tankers, tug, multipurpose ship, etc.

(<http://www.hanzevastcapital.be/nl/57#faq521>)

5 The comparison of the three systems

To compare the three systems, [Table 5.1] shows the characteristics of each system. This table is based on the already mentioned fundamental concepts of the three systems.

[Table 5.1] Comparison of the three systems

	German KG	Korean SIC	Belgian Shipping NV
Type	Limited Liability partnership	Ship Investment Company	Public Limited Liability Company
	KG shipping fund	SIC ship fund	Ship's Certificate
	One fund (or certificate) One or More Ship		
Law	German Income Tax Act	SIC Act	The Act of 16 June 2006
Origin	Overcome the situation after World War II	Expanding the fleet after economic crisis in 1997	Upgraded Belgian securitization regulatory
History	Since 1970s	Since 2002	Since 2008
100% Financing	Bank Loan 70% Equity 30%	Bank Loan 60~80% Equity 20~40% Prepayment Charterage 0~10%	Bank Loan 60% Equity 40%
Investor type	Fiscally burdened wealthy people	rentier	Interested investors
Return	8~9%	6~7%	9.62% (Including the sale results of ships)
Minimum Existence Term	8 years	3 years	7years
Tradable Market	German Secondary Market	KSE, KOSDAQ	Euronext of Brussels
Management	Issuing House GmbH	Approved SIMC Custody Company	Issuing Company Management Controller

Minimum required capital for attending		GmbH, EUR 25,000	SIMC, EUR 323, 355 ¹⁶ (KRW 5 billion)	Partners, EUR 61,500
Ship Management Place		Germany	Korea, FOC	Belgium
Tonnage Tax	Binding	10 years	5 years	10 years
	Flag	Germany ISR	FOC	Belgium, EU member, Non-EU member
Non-Tonnage		High accelerate depreciate rate of 16.6% Loss allocation of 100%	Normal depreciate rate & amount	Amortization for new vessel (first year: 20%, two following year: 15%, remained years: 10%) Investment deduction 30% Exoneration of excess value on the vessel

First of all, in the basic type in ship financing, the three systems are different. German KG is the Limited Liability Partnership. It attracts the investors through the KG shipping fund. On the one hand, Korean SIC is shaped on the Ship Investment Company. It also raise the capital through SIC ship fund. On the other hand, Belgian Shipping NV is involved in the Public Limited Liability Company. By obtaining the ship's certificate, the investors can attend the shipping NV. The Law regarding their establishment is also different. German KG is under German Income Tax Act. Korean SIC is based on Ship Investment Company Act. And, Belgian Shipping NV is founded on the Act of 16 June 2006. Especially, in the case of Korean SIC Act, the purpose is only for covering the Korean SIC. Although the fundamental type and basic establishment law of each system

¹⁶ The exchange rate of 12th April 14, 2008 is adopted.

is different, their one ship fund (or ship's certificate) has one or more ship.

Second, in an historic aspect, German KG has the longest history. The German system is originated from the support of German government. After World War II, for recovering economy, German government has assisted the shipbuilding industry. As a result, in mid-1970s, actual KG appeared. This system succeeded Norwegian K/S. In the case of Korean SIC, Korean economic crisis in 1997 affected the establishment of this scheme. Although Korean economy has already overcome the crisis, the recovery speed of the fleet expanding rate was not fast. Therefore, Korean government established Korean SIC Act in 2002. Also, this system is founded on German KG. In the situation of Belgian Shipping NV, it resulted from the practical application of the upgraded Belgian securitization regulatory. On article 5 § 4 of the Act of 16 June 2006, the public offering of shipping investment is admitted. In short, German KG and Korean SIC is aimed at controlling the situation after the event regarding an economic crisis while Belgian shipping NV was resulted from the continuous process of advancing securitization regulatory.

Third, 100% financing is possible to all systems. However, the rate of elements is little different. In German KG and Belgian Shipping NV, both bank loan and equity are involved. Their rate is similar. In German KG, the bank loan accounts for 70% and the equity amounts to 30%. On the one hand, in Belgian Shipping NV, the bank loan adds up to 60% and the equity comes to 40%. Korean SIC is little different. It consists of the bank loan of 60~80%, the equity of 20~40% and the prepayment charterage of 0~10%. However, the weight of the prepayment charterage is small. And also, it can be 0%. Therefore, the factors and their rate are similar within three systems.

Fourth, in an aspect of investment, it is necessary to compare the type of investors

and return in three systems. In the case of the rate of return, it has not big different. The return rate of German KG is about 8~9%, then that of Korean SIC is around 6~7%. The return rate of both can be higher than each rate. In Belgian Shipping NV, the present postulated annual output is about 9.62%.¹⁷ However, it includes the result of an expected ship's sale. Therefore, the return rate of the three systems is also similar. However, the type of main investors is not same. In German KG, fiscally burdened wealthy people are mainly interested in that scheme. In Korean situation, many rentiers have been investing to Korean SIC. However, in the case of Belgian Shipping NV, it is hard to expect 'what type of investors will be investing' yet. At the present, the first IPO of Belgian Shipping NV is at the preparation phase in Euronext of Brussels.

Fifth, during the minimum existing term, the sale of vessel is impossible. In the case of German KG and Belgian Shipping NV, that period is similar-8 years, 7 years. On the other hand, the period of Korean SIC is shorter – 3 years. However, each system's maximum existing term is almost same. The general duration of ship fund or ship's certificate is for 12~15 years. However, in the case of Korean SIC, for enhancing the liquidity, it tends to be shorter by at least 5 years. Ordinary, especially in the case of German KG and Korean SIC, the investors are bound by the existing duration of the ship fund. However, in the case of German KG, the re-purchase option is negotiable. Moreover trading in secondary market is possible. The ship fund in Korean SIC also can be traded in KSE (Korean Stock Exchange), KOSDAQ (Korea Securities Dealers Automated Quotations system). On the other hand, in the case of the ship's certificate in Belgian Shipping fund, it is more liquid because it is listed on the stock exchange – Euronext of Brussels. In short, the minimum existing term of Korean SIC is the shortest

¹⁷ This annual out rate is based on Hanzevast Carisbrooke Shipping I, NV. At the present, it is the only and the first Belgian Shipping NV.

(3year). And, in the liquidity aspects, Belgian Shipping NV is the most flexible.

Sixth, in the shipping management area of the systems, each system has a difference. In German KG, the issuing house and GmbH as a trust company are in charge of operating KG shipping fund. The issuing house is directly attended in the fund management which is divided into two parts – the investment phase, the operational phase. The former includes raising finance of the partners, arranging the bank loan, and the establishment of the individual partnership company. The latter contains the fund's financial performance for the private investors as a private investor. A GmbH as general partner also participate in the managing of the KG. By the investor's supporting, it formed the trust company which takes responsibility for the administrating equity and the regulating the ship management's results. Essentially, for attending, the capital of a GmbH should amount to a minimum of EUR 25,000. Also, this general partner should have at least one managing director. In an aspect of management location, the ship managers and shipping companies should be seated in Germany. On the one hand, in Korean SIC the eligible SIMC (Ship Investment Management Company) and Custody Company take responsibility for shipping management in that system. The approved SIMC is only four- KOMARF (Korea Marine Fund), KSF (Korea Ship Finance), GMF (Global Marine Finance) and C & Marine. They take charge of overall managing fund, the contract between SIC and Ship Operating Company. For establishing SIMC, minimum around EUR 323,355 (KRW 5 billion) is required. As a licensed trust company, the Custody Company mainly takes charge of the financial area such as cash, securities and concerning legal documents. By the Custody Company, the asset management is operated independently. The main shipping management place is Korea. However, within the management of vessel, the business takes place in the FOC (the

Flag Of Convenience country). On the other hand, in Belgian Shipping NV, the issuing company and the management controller participate in the operational area. Before everything, for establishing the Shipping NV, the capital of two or more partners should amount to at least EUR 61,500. After the shipping NV is made, for the certificate holders, the issuing company takes charge of providing the administrative and financial service. Also, in the case of management controller, it audits the issuing company. For managing whole control of the shipping NV, both companies should be based in Belgium.

Finally, in an aspects of tax, all system have the option about whether the tonnage tax or not. Once the tonnage regime is selected, it is bound in during the certain time. In the case of both German KG and Belgian Shipping NV, the binding term of the tonnage tax is 10 years. Only the tonnage tax of Korean SIC is bound in 5 years. In Germany, the option about the tonnage tax is stricter. Regardless of selecting the tonnage tax or normal tax system, it is valid for 10 years and unchangeable during that period. In Belgium, the tax system is more flexible. Only the tonnage tax is bound for 10 years after selected. However, if the normal tax is selected the first, it is not bound for long time. After obtaining other tax benefit, the tonnage tax can be opted. In Korea, after allowed by the Korean government department-MOCT (The Ministry of Land, Transport and Maritime Affairs), the shipping company can utilize the tonnage tax system for 5 years. However, applying the tonnage tax regime in Korea is only possible by 2009. For obtaining the tonnage tax benefit, the registry of flag should be in Germany. However, ISR (International Ship Register) as a second register is also allowed. On the one hand, the flag of Belgium, EU member, non-EU member are allowed to Belgian Shipping NV. On the other hand, especially, the vessel of Korean

SIC is registered in FOC. In the case of a normal tax regime, there is other tax benefit in Germany and Belgium. In the case of German KG, utilizing the 16.6% of high acceleration rate and the 100 % of loss allocation are possible. Also both benefits are bound for 10 years. In the case of Belgian Shipping NV, using the tax amortization for new vessels, the 30% of investment deduction, and the exoneration of excess values is possible. The tax amortization is only valid for 3 years and the amortization rate is different in each year – first financial year 20%, second year 15%, and third year 10%. Then, the investment deduction is amount to 30%. And then, when the sum of the sales value of ship is used for reinvestment within 5 years, the excess value can be exempted from the capital gains tax on seagoing vessels. In short, under the normal tax system, German KG and Belgian Shipping NV can get other benefit. However, Korean SIC is exceptional. Commonly, it just follows the normal tax depreciation rate and amount. Consequently, German and Belgian tax system is more beneficial than that of Korean.

6 The competitive factors of each ship fund

To clearly comprehend the competitive factors of each ship fund, it is necessary to perform the SWOT analysis. Also, through this analysis, advantage and disadvantage of each system will be examined.

6.1 German KG

During 30 years, the system has been developed. As an outcome of that, its competitive factors will be dealt with through an SWOT analysis (see [Table 6.1]).

[Table 6.1] An analysis of SWOT in German KG

Strength	Weakness
<ul style="list-style-type: none"> ● Reasonable Cost for securing return ● Off-balancing sheet with 100% financing ● Re-purchase option negotiable 	<ul style="list-style-type: none"> ● Not competitive cost ● Main focus on the containership
Opportunity	Threat
<ul style="list-style-type: none"> ● Investor's interest high ● Tonnage tax regime ● Double taxation treaty 	<ul style="list-style-type: none"> ● Oversupply of container ● Threats of Singapore MFI

SOURCE: Mcqueen, April 2006, Lloyd's Shipping Economist, p.27-29

König, 15th September 2005, German KG financing 2005, p.19-24

6.1.1 The Strength of German KG

In the aspect of strength, first of all, the cost that shipowners and shipmanagers should pay is reasonable. Commonly, this extra cost is so-called "soft cost." It contains various commercial management cost such as high commissions, bank fees, legal fees, etc (Elliot Bulk Shipping LLC Anderson, 20th June 2006:p.1). This cost plays major role to protect an 8~9% return of investors. For allocating good dividends to investors, this extra cost have been positioned above adequately covered range (Lloyd's shipping economist, October 2006: 20).

Next, shipowners and shipping companies can take advantage of off-balance sheet with 100% financing-the bank mortgage of 70%, the equity of 30%. It implies that their

burden of debt is reduced on balance sheet. In addition, they can lower bank debt as well as gearing ratio (König: 2005: 19-20).

Finally, through re-purchase option, the liquidity of fund is enhanced. Moreover, trading KG funds is possible in secondary market (Macqueen, 2006: 27). It means that KG fund already have been beat the limitation of close-end fund.

6.1.2 The Weakness of German KG

Although the extra cost is essential for maintaining returns of investors and German shipowners and ship managers are willing to pay about it, it is so expensive. The amount of cost is around 20% but sometimes account for 36%. In addition, it has been steadily boosted for 20 years (Elliot Bulk Shipping LLC Anderson, 20th June 2006: 1). It is almost doubled to that of Korean SIC and Singapore MFI (Maritime Finance Incentive). The costs of them are around 8~10% (The Shipping Air News, 26th November 2006). Also, the cost of German KG is likely to disturb the agreement between shipowner and issuing house. In business area, shipowners tend to finance the ship based on the German tax-driven system while the issuing house is likely to hunt for shipowners to make deals for time charter and for developing project management considering investors. However, in the position of shipowners, they should pay excessively high upfront cost. It is a burden to them (Elliot Bulk Shipping LLC Anderson, 20th June 2006:4-5). And then, the KG funds are too focused on the containership. It means that the supply of vessel not follow the demand of the market yet (ibid). If container ship market collapses, it will be easy to expose the risk.

6.1.3 The Opportunity of German KG

The main characteristic of German KG tends to benefit from the tax-driven system of German government. As well, the no default record is very attractive to investors (Macqueen, 2006: 29). Therefore, investors have interested in investing KG ship fund continually. The [Figure 2.1] in chapter 2, the constant investment growth has proved that. Eventually, KG has unchanged popularity of the investors.

In an aspect of German political system, tonnage tax regime is very helpful to attract the investors. In the position of ship takers and managers, they can get advantage of reducing tax. Because they just pay the flat-rate tax which is based on net tonnage of vessel. Also, it helps that investors can get a nearly tax-free income which is the return at 8% or sometimes more (ibid: 27-29).

A double taxation treaty is also good point of the political tax-driven system (General Rule Art.8). Because it makes that even non-German investor can attend the KG fund. Through this treaty, foreign investor takes advantage of tonnage tax with their home countries' tax rate (Laub, 2005: 22).

6.1.4 The Threat of German KG

The oversupply of worldwide container ship indicates that their future is not optimistic. By AXS – Alphaliner, French maritime specialist researcher, the vessel tonnage of container broke through 10million TEU in 2007. It recorded 10,922,710 TEU (Gwak, 11th January 2008). However, the container vessel market already arrived at a slack season. The main shipping lines have already started reducing the service of container ship for preparing the collapse of freight rate. For example, Maersk line stopped providing LACAS service- nine of 3,000 TEU grade container ships supplied in

the rout from Asia to American west coast (KMI, 20th November 2006 Global Maritime Affairs & Fisheries Weekly) . In addition, recent iron and coal volume have been increased and it will last after 2011 and 2012. Actually, from July in 2006 to December in 2007, it amounts 65,000 TEU which is converted from over 600 TEU semi-container ship and multipurpose vessel into bulker (Gwak, 2008). It implies that bulker market is more promising than container. Therefore, this worldwide situation-the future of bulker is brighter than container – is unfavorable to container-focused German KG.

Next, Singapore MFI (Maritime Finance Incentives) scheme is threatened to German KG. Fundamentally, full management fee in Singapore is cheaper than that of German KG. In addition, if the vessel is acquired through MFI, shipowners can obtain ‘tax benefit package’ for 10 years (Kim, TI., 2007). It is a main reason that many financiers are rush into Singapore these days (Wong, 2007: 18). So, this revitalized Singapore scheme is so dangerous to German KG. Because the traditional German KG investors- especially foreign investors- can escape for obtaining benefit from MFI scheme with cheaper cost in Singapore.

6.2 Korean SIC

After adopted in 2002, Korean SIC has been accepting the requirements of the investors continuously. However, in an aspect of the system, it is less mature than that of German. Through [Table 6.2], a SWOT analysis of Korean SIC will be explained.

[Table 6.2] An analysis of SWOT in Korean SIC

Strength	Weakness
<ul style="list-style-type: none"> ● Securing stable income in every quarter ● 100% financing possible ● Trade possible in KSE, KOSDAQ 	<ul style="list-style-type: none"> ● The possibility of principal loss ● The access of Small Shipping Company is hard
Opportunity	Threat
<ul style="list-style-type: none"> ● Tax benefit ● Investent boom ● Strong shipbuilding base 	<ul style="list-style-type: none"> ● Not stable concerning policy ● Threats of Singapore MFI

SOURCE: Kim, TI., 2006, A Study on alternatives for developing Korean SIC in domestic and international changed situation/ www.koramf.co.kr

6.2.1 The Strength of Korean SIC

First, the one of the best attractive elements of Korean SIC is securing a return of 6~7% to investors. In addition, the dividends are paid every quarter during chartering period. It means that actual return is higher. Also, this return is secured by the SIC. For preparing the negative situation that the shipbuilding contract can not be executed due to the bankruptcy, strike, etc, the shipbuilder or the ship yard issue the “Refund Guarantee” whenever the shipbuilding agreement is signed. The refund guarantee is issued by first credit bank such as Korean Development Bank (KDB), Export-Import Bank of Korea (KEXIM). As well, if the owned vessel sustains an accident, the return is safe. The vessel has already taken out the insurances of obligation – Hull & Machinery Insurance, War Risk Insurance, and P&I club Insurance (www.komarf.co.kr). Also, the

insurance payment of the shipping insurance is always over 120% against the sum of the residual invested value and the residual debt value. At that time the beneficiary is SPC (Kim, KY., 2005: 77).

Second, in the case of the shipowner, in other words, the shipping company, they can acquire the ship with reducing their own debt. Because financing resource is separated – bank, individual public investors, and prepayment charterage. Also, through those three parts, the 100% financing of shipowner and the shipping company is possible.

Finally, once the eligible ship fund of SIC is listed on KSE (Korean Stock Exchange Korean), KOSDAQ (Korea Securities Dealers Automated Quotations System), its trade is possible. In principle, the invested principal is irrecoverable. However, through dealing in KSE or KOSDAQ, the liquidity of ship fund has become flexible.

6.2.2 The Weakness of Korean SIC

On the start up phase, the ship fund has secured the invested principal through a purchase obligation of the shipping company at the end of contract. However, recently, some ship funds can not secure a principal with the higher rate of return. For example, in the case of “Dongbuka No.27, 28, 29, 30”, the shipping company, Top Tankers Inc. is not in charge of a purchase obligation. It means that if they bought the deal, Korean equity investor have a burden of the residual value risk (<http://dart.fss.or.kr/>). However, its return is higher - around 9.75% (www.komarf.co.kr). It means that the ship fund also goes up “the high risk, high return.”

Next, the small shipping company is hard to take advantage of the ship fund. For utilizing the ship fund they should get “the Refund Guarantee (RG)” from the bank. Actually, the fact that received the RG is very important to shipbuilders. Because,

generally, the shipowner pay the shipbuilding price through 5 installment after shipbuilder submit the RG. However, the issuing of the RG is biased to the only big shipping company. In other words, the banks are willing to issue the RG only for the big shipping corporation. In the case of small shipbuilder, it is hard to obtain the RG. Because of that situation, recent many Korean small shipbuilders are fallen in “the vicious capital circle” although they have already received many shipbuilding orders during this shipbuilding boom. Without payment of shipowners, they should make the vessel. As a result of, some small shipping corporations have gone bankrupt from the lack of the financial resource or the cancellation of the orders.

6.2.3 The Opportunity of Korean SIC

Originally, the Korean SIC is popular due to the tax benefit. By KRW 0.3 billion of the invested money, the obtained dividends can take advantage of the tax-exemption (by 2008). Also, even the invested money is over KRW 0.3 billion, the separated taxation of 15.4% is levied. Therefore, many wealthy people has been participated since the SIC has introduced in 2002. Also, in the position of shipowners, they can take advantage of the tonnage tax system by 2009. If they allow applying the tonnage tax, their tax will not be based on real income from operating the vessel but net-tonnage of the vessel.

Now, the interest about the investment has been increasing. Therefore, it has been received the good evaluation from the rentiers as well as the wealthy people. Because its return also higher than other investment products. In SIC, a return is commonly around 6~7%, but sometimes it is over 9%. In addition, its higher return is tax-free unless the invested money is within KRW 0.3 billion.

The title of the strong shipbuilding country is also good opportunity for the SIC.

Korea is one of the strong shipbuilding countries in the world. In addition, its position is firm. Every year, many worldwide shipping companies have been ordered the vessel in Korea. Also, the quantity of order is steadily increasing. It implies that the SIC has already got a good position for attracting foreign shipowners and bankers. Actually, in 2006, with ordering the Suezmax tanker to Hyundai Heavy Industries, Greek shipping company named Top Tankers Inc with Dutch Fortis bank have attended in the SIC. In addition, in 2007, UAE Gulmar Offshore with French Natixis bank also have participated in the SIC. Also their Diving Supported Vessel has ordered to Hanjin Heavy Industries.

6.2.4 The Threat of Korean SIC

The one of main threat of the SIC is that the political system is not stable, although the scheme is supported by Korean Government. For example, securing non-taxable income within KRW 0.3 billion and the separate-taxation of 15.4% over KRW 0.3 billion is valid by the end of 2008. In addition, in the case of the tonnage tax regime, the sunset law is adopted. If this regime fails to prove their efficiency, the shipping companies will not utilize this system after 2009. Consequently, both tax benefits are not completely fixed system in the SIC.

Next, in an aspect of the same Asian region, Singapore MFI is strong competitor. Especially, the financial base is advanced in Singapore while the shipbuilding area is powerful in Korea. Basically, the purpose of MFI is focused on attracting the foreign shipping industries. Therefore, the MFI scheme is flexible. Even the ship is not ordered to Singapore, the shipowners can take advantage of the tax benefit in the MFI scheme. In addition, the tax system has not deadline unlike that of Korean SIC yet. Its benefit is

longer. If the vessel is acquired through the MFI, the shipowner can utilize the tax benefit package during 10 years. As well, in the case of the ASIV (Approved Ship Investment Vehicles), the earning income of the vessel can get a benefit from the tax exemption during the whole vessel's life period (Kim, TL., 2007). In the position of the shipowners, regardless of nationality, they may have the selection right about whether the Korean SIC or Singapore MFI. Therefore, Korean SIC can not ignore the threat of Singapore MFI.

6.3 Belgian Shipping NV

Analyzing SWOT about Belgian shipping NV may be premature to be explained. The first IPO is not started yet whereas other two systems have already started. However, relying on the basic information about shipping NV, the program law of 2 August 2002, and a theory of ship public offering, etc, can be examined (see [Table 6.3]).

[Table 6.3] An analysis of SWOT in Belgian Shipping NV

Strength	Weakness
<ul style="list-style-type: none"> ● 100% financing ● Financial risk dispersion ● More flexible liquidity 	<ul style="list-style-type: none"> ● Just start up phase ● Lose control possibility of the issuing company
Opportunity	Threat
<ul style="list-style-type: none"> ● The 1st Shipping IPO in Belgium ● Tonnage tax system 	<ul style="list-style-type: none"> ● Influenced on external factors

SOURCE: <http://www.hanzevastcapital.be/nl/>,

KBRV(Ed.), 2008, Memo scheepscertificaten ENG, p.1-6

6.3.1 The Strength of Belgian Shipping NV

First of all, with lowering their gearing ratio level, Belgian Shipping NV is also possible to 100% financing. It consists of the equity amount to 40% and mortgage of bank about 60%. Moreover, if the IPO of May is successful, the gearing ratio will be lowered by the raised equity.

Second, by attracting a lot of individual investors, the financial risk is dispersed. In short, the more pooling, the lesser financial risk. Also, the regular annual reporting assembly results in enhancing transparency as well as lowering that risk. In addition, the experienced shipping companies attend the operation of shipping NV. For example, in the case of Hanzevaste Carisbrooke Shipping I, NV, Hanzevast Shipping Ltd of Hanzevast Capital takes responsibility of the operational factor. For past 10 years, Hanzevast Capital has been initiated the shipping funds in the Netherlands. Also, the managing company takes charge of managing risks.

(<http://www.hanzevastcapital.be/nl/10>).

Finally, in public offering, the liquidity is more flexible (Grammenos, 2005:8). If many investors obtain the ship's certificate, Belgian shipping NV can attract a lot of capital during short period. That raised capital helps enhancing the liquidity of the shipping company.

6.3.2 The Weakness of Belgian Shipping NV

First, it is the most serious problem that Belgian Shipping NV is at the just start up phase. It means that the lack of experience is hard to meet the various situations in Belgium. Also, it is hard to predict how many investors will be participating.

Next, in the case of the issuing company, it has possibility to lose control. For

instance, in an annual information meeting, the issuing company's annual accounts, the ship-related account, the general situation should be revealed (KRBV(Ed), 2008: 3). However, sometimes that information is connected to a sensitive area such as a contract term of vessel, remuneration and so on (Grammenos, 2005:8).

6.3.3 The Opportunity of Belgian Shipping NV

First, as already mentioned, the shipping IPO in Belgium is just at the first attempt. Therefore, it can be perceived as a new investment instrument to the potential investors. Also, through IPO, the issuer and the issuing company can receive high appreciation. When the shipping IPO raise considerable capital, it will get a good reputation and then get a chance to attract more investors in the future.

Next, utilizing the tonnage tax regime is possible. In this regime, the taxable profit is based on the net daily tonnage of the seagoing vessel in Belgium (KRBV(Ed), 2008: 4). It also effects on deduction of tax burden. In addition, when the tonnage tax regime is not allowed or selected to the issuing company, the cost regarding payment to certificate holders is ex-deducted with reducing the normal tax base (ibid: 5).

6.3.4 The Threat of Belgian Shipping NV

Theoretically, IPO is easy to expose to the risk from the external factors (Grammenos, 2005:8). It means that it is sensitive to the fluctuation of the market. For example, if the market is turn to the downturn, many investors will leave out. The worse thing is that the external factor is out of the issuing company's control basically.

7 Conclusion

7.1 Overview of Three Systems

In this article, the three ship financing systems are arranged in the various perspectives such as the fundamental conception, the concerning legal system, the origin or background based on the related history, the profit of investor, and the tax benefit, etc.

First, in an aspect of the basic conception and regarding legal system, the type and basic law are different in each ship financing. German KG is a limited liability partnership under German Income Tax Act. However, the method of attracting investors is almost same. Through the ship fund or ship's certificate, the capital for acquiring ship is raised. In addition, all of them are possible to 100% financing which consists of the bank loan and equity (Sometimes, the prepayment chaterage is added in Korean SIC). In a legal aspect, only Korean SIC based on its own law the named of Korean SIC Act.

Second, within the history, the reason of establishing system is similar in German KG and Korean SIC. For overcoming the negative economic situation, both are established. However, with Belgian Shipping NV, Korean SIC has been managed since 2000s while German KG has already been established since 1970s.

Third, in an aspect of obtaining profit, the rate of return is around 6~9% in the three systems. The return can be higher. In addition, if the tonnage tax is selected, their income is almost tax- free. For securing the profit of investors, the ship can not be sold for the minimum existing terms. In the case of that period, the case of Korean SIC is the shortest. The minimum existence period of Korean SIC is 3 years whereas that of German KG and Belgian NV is 8 years, 7 years respectively.

Finally, in respect of the tax benefit, utilizing tonnage tax is possible in all systems.

However, in the case of Korean SIC, using this regime has the limitation. Because the tonnage tax system is temporary in Korean tax system. By 2009, the shipping company can apply the tonnage tax. In addition, binding term is the shortest in Korea. In the tonnage tax scheme, the binding term of Korean SIC is 5 years while that of German KG and Belgian Shipping NV is 10 years. In other tax benefit, German KG and Belgian NV can take advantage of other benefit such as the accelerated depreciation or amortization under the normal income tax.

In short, through the three ship financing systems, the ship owners can reduce their debt of burden by 100% financing. In addition, if they choose the tax system, their tax will be diminished. Fundamentally, the tonnage tax is based on the net tonnage of vessels. This tax benefit also has an influence on the profit of investors. It helps that the investors can get nearly tax-free return. However, in respect of the tax benefit, German KG and Belgian Shipping NV are more advanced than Korean SIC. In Korean SIC, the tonnage tax system will only be valid by 2009. In addition, if the ship company can not take advantage of the tax system, they can not obtain other tax benefit.

7.2 The Alternative for enhancing the three systems

Under the above mentioned main characteristics and SWOT analysis of the three systems, the alternatives for the three systems are examined in this sub-chapter. After the present situation is described, the appropriate alternatives will be examined.

7.2.1 The Alternative for German KG

German KG has been the solid position as the advanced shipping finance tool for about 30 years. Although the extra cost is not cheap and has been increased

continuously, many ship managers pay it for securing the revenue of investors. Because attracting more investors is the main purpose of German KG financing. However, that situation will not be maintained.

First of all, as a strong competitor, Singapore MFI has been threatening the position of German KG. Because, the extra cost of Singapore MFI adds up to 8~10% while German KG amounts to 20% ~36% (Kim, TI., 2007). In addition, the full management cost is cheaper in Singapore. The tax benefit in Singapore MFI is also a big threat to German KG although the tax system of KG is already advanced. Singapore MFI provides the 'tax benefit package' for 10 years as well as the tax exemption during whole life of the vessel in the case of ASIV (Approved Ship Investment Vehicles).

Next, in respect of vessel types in German KG, there is one worse situation. The container vessels are biased in German KG yet. It implies that the vessel in this system do not follow the present market trend; the reduction of the container vessels in the main world wide shipping line as well as the increase in iron or coal volume.

In short, the threat of Singapore MFI and the container vessel-biased structure are big problems to German KG.

However, the alternatives for those negative situations exist. Fortunately, many investors are interested in attending this system due to the no default record based on long history. In addition, this ship financing system has been up-graded continuously. For instance, the shipping IPO has been complemented for attracting the institutional investors since the late 2006. At the present (April 2008), the case of shipping IPO is only two- Marenave Shipshaft AG of König and HCI HAMMONIA Shipping AG of HCI capital in German KG.

Therefore, first, combining both the shipping IPO for the institutional investors and

the traditional closed-end for the private investors will be a good solution. It helps to attract the more diversified investors. Also, if that new type of KG shipping fund is listed on the stock exchange, the investors can get a benefit from the enhanced liquidity.

Second, through the branch, establishing KG fund in Singapore will be more helpful. Actually by providing tax benefit, Singapore MFI is purpose for attracting the various maritime industries. As it is already mentioned, the total management cost and the extra cost of German KG is more expensive than that of Singapore MFI. Therefore, when managing KG shipping fund is performed in Singapore, the reduced cost will affect the improvement of the return of investors.

Finally, to meet the trend and change of the market, KG system should diversify the kinds of vessels. Therefore, collaborating Korean SIC may become a good alternative. Korea has already got a good position as the advanced shipbuilding nation. Accordingly, if German KG with the experienced German bank is forayed into Korea, it will also attract more investors and lower the managing cost. The level of operating cost in Korea is also cheaper than that of Germany.

Thus, in German KG, only traditional shape such as closed-end fund is hard to meet the demands of investors and shipowners. Therefore, it needs to be more public. In addition, utilizing or collaborating Asian shipping financing scheme like as Singapore MFI and Korean SIC also will also be a good solution.

7.2.2 The Alternative for Korean SIC

Korean SIC is the 1st ship fund system in Asia. In Korea, with the recent investment boom, this system got a stable position. Especially, in the case of rich rentiers, it perceived the good investment tool. However, although the position of this system is

stable, the policy related tax benefit is not favourable.

Because, first, both the tax-exemption for the income of investors and the tonnage tax for the eligible ship companies have the term of validity. The former will be available by the end of 2008 and the latter will be valid by 2009. Although both systems have the possibility to be amended, it is hard to expect for how long the tax benefits will be sustained.

Second, in respect of same Asian region, Singapore MFI is the powerful competitor. The financial area of Singapore is more advanced than that of Korea. Especially, in the case of tax system in MFI scheme, it is more favourable. The tax benefit concerning MFI is sustaining for 10 years or the whole life of vessel while that of Korean SIC is only valid by after one or two years.

Third, although Korea is one of the strongest shipbuilding nations, Korean SIC is not profitable for small shipbuilding companies. In the case of small shipbuilders, it is hard to take advantage of this scheme. Because obtaining R/G is hard from the bank. Therefore, in the long term perspective, the alternative for supporting various shipbuilding companies or ship yard should be developed.

In short, the main problem of Korean SIC is the internal tax or policy system. It means that developing and finding alternatives should be concentrated on improving the related regulatory system.

Therefore, first, the tax benefit for the SIC attending parties should be reformed. It means that applying period of the present tonnage tax system and tax-exemption must be extended and improved. Also, the improved system should be sustained as permanently as possible.

Second, for surviving in the competition, Korean SIC needs to attract more ship

companies. With utilizing the position of the most powerful shipbuilding country, if Korean SIC evolves the enthusiastic marketing for attracting foreign parties, more global ship companies will be attended.

Finally, to deal with the demand of a number of attending parties in the future, the special regulatory for small Korean shipbuilders should be established. If small shipbuilders were collapsed, the position of the strongest shipbuilding position will be threatened and then it will also become the obstacle of maintaining SIC.

Thus, in respect of regulatory, overall systems should be amended. Especially, in the case of tax system, it must be enhanced by establishing the permanent firm system. Also, the special regulatory for small shipbuilders should be enacted. If Korean SIC attempt to attract the worldwide ship companies under the position of the powerful shipbuilding country, the strong shipbuilding base is also basically essential.

7.2.3 The Alternative for Belgian Shipping NV

Belgian Shipping NV is the first shipping IPO which is attempted in Belgium. In theoretical aspect, the shipping IPO can raise a plenty of capital during the short time. Especially, in the case of Belgian Shipping NV, it has a potential possibility that many investors will be participating. In addition, the already established tax system such as tonnage tax system and high accelerated amortization, etc also profitable to the related parties.

However, it is non-experienced system because it is tried for the first time. Basically, in IPO, controlling the certificate holders is difficult. In addition, it is sensitive to the external market situation. Actually, the present issuing company – Hanzevast Capital has an experience in the Netherlands. However, it is hard to expect the market situation

in Belgium.

For obtaining the stable position, first of all, the rapid appreciation should be performed for investors. By providing immediate profit and adding limited value to the offer, the rapid appreciation makes that attending more investors is possible (Grammenos, 2005: 18). Next, establishing strategy for attracting more foreign investors or shipping companies is considerable. Therefore, after the first IPO is finished, the logical and strict evaluation should be performed. This evaluation about the first IPO will be a good guideline for next Belgian Shipping NV.

In short, Belgian Shipping NV is the first attempted IPO in Belgium. It means that there is the lack of experience. Therefore, the accurate evaluation regarding the first Belgian Shipping NV is so important. Because it will be affects on other shipping NV in Belgium. Also, for sustaining the stable position, settling the plan for world wide attending parties is important.

7.3 Overall Conclusion

In respect of all three systems, the alternatives for enhancing each system have some common features. First, the tax system or other related policy should be stable and favourable for related parties such as shipping companies or investors. Next, it is necessary that the plan should be established and performed within the worldwide unit because the maritime industries are based on the whole world. Therefore, within the global unit, making strategy regarding the improvement of shipping finance system is not unusual.

In conclusion, to cope with any maritime industry situation, the shipping finance system should secure the return of investors and reducing debt burden of ship owners.

Therefore, the systems have to deal with the changeable and unstable market situation more flexibly. Thus, the planning strategy in each ship financing system should be performed in long term and global perspectives.

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