

International Conference on Contemporary Issues of Shipping and Ports in Korea

**Korea's Coastal Shipping:
Present Problems and Policy Paradigm Shift**

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On August 8-9, 2006

At the International Conventional Hall, Inha University.

Korea Port Economic Association

I. Coastal Shipping in the Korean Economy

- Strategic contribution to the national economic development
 - Coastal shipping's share: 60% of domestic freight traffic
 - * Provision of port facilities between coastal shipping operators and shippers
 - * Short supply of dedicated coastal shipping terminals
 - Obstacle to modernization of coastal shipping
 - * Low priority given to coastal shipping policy compared to trucking and ocean-going shipping
 - Small scale operation with a few old-aged vessels

- Institutional re-arrangement and side effects
 - Lift of foreign second-hand vessels without ship age regulation
 - Free registration of coastal shipping business
 - Over-tonnage and rate competition, lower profitability
 - No capital accumulation for new ship replacement

II. Present Problems of Coastal Shipping

- 1st Problem: Short Supply of Dedicated Port Facilities
 - Port berthing facilities for coastal cargo ships
 - Container yard and equipment
 - Specialized port transfer equipment in the port
 - No tax incentives for modernizing port handling equipment

- 2nd Problem: Inefficient Operation of Coastal Shipping

- Short supply of high speed Ro-Ro cargo vessels
- Avoidance of Ro-Ro cargoes by port workers
- High cargo handling charges compared to service quality
- Low work conditions of coastal sailors

3rd Problem: Lagged Development of Coastal Shipping

- Less than logistics standards compared to ocean going shipping
- Partial domestic cargo information technology system support
- Some coastal cargoes carried by ocean-going vessels
- Various unnecessary regulations

4th Problem: Low Coastal Shipping Service Quality

- Short supply of container port facilities
- Unavoidable use of off-dock CY and additional costs
- Longer total transport time compared to trucking
- Inefficient operation of old-aged coastal shipping fleet

5th Problem: Low Coastal Shipping Service Quality(continued)

- Complicated steps of coastal shipping
- Low popular image of coastal shipping service
- Unbalanced transport infrastructure provision between modes
- No commitment of entrepreneurs in coastal shipping business

Major Problems to Coastal Shipping Operators

- No provision of tax-free fuel to coastal cargo ships
- Less than logistical standards and partial cargo IT system
- Various unnecessary regulations
- Short supply of port transport equipment and facilities
- Short supply of high-speed Ro-Ro cargo vessels

Major Problems to Large Users(Shippers)

- Weak sea worthiness of coastal shipping fleet

- Various unnecessary regulations
- Longer total service time than trucking and railways
- Short supply of dedicated port facilities
- Less than logistical standards and partial cargo IT system

III. Priority Setting for Paradigm Shift

^ Major Determining Factors for Paradigm Shift

- Support measures and incentives
- Cost reduction
- Improvement of port logistics facilities
- Balanced growth between coastal and ocean-going shipping
- Profitability of coastal shipping business
- Adequate infrastructure for coastal shipping

Support Measures and Incentives

- Establishing logistics standards and cargo traffic IT system
- Generous tax incentives for carriers and shippers
- Modernization of coastal shipping fleet with cheap loans
- No value-added taxes for coastal freight revenue

Cost Reduction

- Provision of tax-free fuel to coastal cargo ships
- Rationalization of cargo handling charges
- Employment of foreign seamen
- Allowing of coastal container vessels to berth main container terminals

Improvement of Port Logistics Facilities

- Construction of dedicated coastal shipping freight terminals
- Provision of efficient port equipment and facilities
- Rail services between production places and ports

- Common use of general cargo terminals among carriers

Balanced Growth between Coastal and Ocean-going Shipping

- Provision of tax-free fuel to coastal ships
- Lift of coastal ships' calling regulations to North East Asian ports
- Allowing of coastal container ships to directly berth main container terminals
- Domestic cargo information linked between coastal and ocean-going carriers and port operators

Improving Profitability

- Domestic coastal cargo market to coastal ships policy
- Regulation of ocean-going ships to carry coastal cargoes
- Radical improvement of coastal shipping operation and management
- Normalization of coastal freight rates by agreeing cost-plus principle between shippers and operators

Adequate infrastructure for coastal shipping

- Construction of more dedicated domestic cargo terminals
- Establishment of multimodal transport system
- Adoption and promotion of modal shift policy
- Common acceptance of domestic cargoes by coastal carriers
- Joint ship sailings among coastal carriers
- Domestic cargo information sharing among related carriers

Summary of Major Determining Factors for Paradigm Shift

- Adoption of support measures and incentives
- Measures to reduce coastal shipping costs
- Improvement of coastal shipping infrastructure
- Balanced growth between coastal and ocean-going shipping

- Institutional arrangement to enhance profitability
- Drastic change of container port operation practices

IV. Focused Paradigm Shift

Four Basic Areas for Paradigm Shift

- Coastal shipping infrastructure
- Coastal shipping operation and management
- Coastal shipping market
- North-South Korean shipping cooperation

Paradigm Shift of Coastal Shipping Infrastructure

- Modernization of coastal shipping fleet
- Re-establishment of efficient ship financing institution
- Construction of comprehensive coastal cargo terminals
- Establishment of domestic cargo information system
- Enactment of coastal shipping promotion act
- Every 5-year coastal shipping promotion plan

Paradigm Shift of Coastal Shipping Operation and Management

- Provision of multimodal transport services
- Tailored through transport services to major shippers
- Value-added logistics services when required
- Scale economy realization of coastal shipping operations by merger and acquisition led by major operators
- Strategic alliances among interested operators
- Joint operation of coastal ships by cargo and/or route

Paradigm Shift of Coastal Shipping Market

- Modal shift of ship construction materials from road to coastal shipping

- Participation in near sea shipping market in North East Asia
- Strategic alliances between road and coastal shipping operators
- Strategic alliances may include warehousing and cargo handling operators in the logistics chain

Paradigm Shift of North-South Korean Shipping Cooperation

- Opening of North-South shipping market
- Joint operating companies to be established by North and South ship-owners
- Key role to be played by South counterparts
- North-South Korean shipping support center to be upgraded
- Coastal shipping and road transport networks to be connected with North and South Korean ports
- South Korean participation essential in building North Korean major commercial ports

V. 2015 Vision for Korean Coastal Shipping

Coastal shipping's emerging new role

- Leading provider of comprehensive value-added logistics services to major shippers
- Most environment-friendly and economic transport system

Efficient large scale operation by M&A and strategic alliances

- Specialization, national coverage and multimodal operation

Key player in the North-South Korean freight market

- Joint participation into North East shipping market
- Strategic alliances with Chinese and Japanese operators
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THANK YOU VERY MUCH