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## Lessons from the bankruptcy of HANJIN Shipping

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**SHANGHAI MARITIME UNIVERSITY**



**WORLD MARITIME UNIVERSIT**

Shanghai, China

**Lessons from the bankruptcy of  
HANJIN Shipping**

By

**Pan Yutong**

**China**

A research paper submitted to the World Maritime University in partial  
fulfillment of the requirements for the award of the degree of

**MASTER OF SCIENCE**

**In**

**INTERNATIOANL TRANSPORT AND LOGISTICS**

**2017**

## Declaration

I certify that all the material in this research paper that is not my own work has been identified, and that no materials are included for which a degree has previously been conferred on me.

The contents of this research paper reflect my own personal views, and are not necessarily endorsed by the University.

(Signature): 

(Date): 2017-07-07

Supervised by  
Professor Wang Xuefeng  
World Maritime University

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## Abstracts

In August 31, 2016, South Korea's largest shipping company, Hanjin Shipping filed a bankruptcy application to the court, to hearing about the news, the whole shipping industry shocked. ship belong to Hanjin cannot call the port normally to operate, a large number of goods stranded on the ship, the owner was busy recourse or change goods dynamic booking channels; part of the route suspended capacity shortage appears short because of Hanjin Shipping, shipping companies were busy dispensing extra shipping routes; major creditors like banks, ports, docks and so on ,busy detaining the ship in order to get ship arrest compensation. This paper focuses on the analysis of the reasons for the bankruptcy of Hanjin Shipping, lists the risks what suppliers may face, and analyzes the enlightenment brought by Hanjin Shipping from three aspects: government, ship owners and the damaged party<sup>[1]</sup>

**Key word:** bankruptcy protection effectiveness, government performance, risk, credit

[1]Definition for The damaged party:

suppliers and merchant

(includes the consignor, the shipper, the receiver, the consignee, the owner of the Goods, the lawful holder or endorsee of this Bill of Lading, or any other person having any present or future interest in the Goods or this Bill of Lading, or anyone authorized to act on behalf of any of the foregoing.)

## Content

Chapter 1. Introduction .....	8
1.1 Background.....	8
1.2 Objective .....	10
1.3 Methodology .....	10
1.4 Outlines of the dissertation .....	11
Chapter 2 Literature review .....	12
2.1 bankruptcy.....	12
2.1.1 The order of the claims in bankruptcy .....	12
2.1.2 Extraterritorial effects of bankruptcy declaration .....	13
2.2 Antitrust in shipping.....	14
2.3 credit modal .....	16
Chapter 3The bankruptcy of HANJIN SHIPPING.....	18
3.1 Market background Introduction. ....	18
3.2 The biggest bankruptcy in shipping industry.....	20
3.3 The association effect of the HANJIN SHIPPING bankruptcy .....	24
3.3.1Export trade of Korea showed a downward trend .....	24
3.3.2 The collapse of the shipping industry .....	25
3.3.3Hanjin bankruptcy protection effectiveness will be limited in China .....	26
3.3.4 The risk faced by the damaged parties.....	29
Chapter 4. Analysis Of Hanjin bankruptcy .....	32
4.1 External reasons .....	32
4.1.1 Low freight rate and high chartering hire. ....	32
4.1.2 Impact of financial crisis.....	33
4.1.3 The hasty government management .....	34

4.2 Internal Reasons.....	35
4.2.1 High debt ratio .....	35
4.2.2 The internal shareholders of the group are muddledness.....	36
4.2.3 Lack of core technology strategy .....	39
Chapter 5. The enlightenment of Hanjin Shipping’s Bankruptcy.....	41
5.1 Government performance .....	41
5.1.1The supervising authorities should make timely statement in response to the emergencies.....	41
5.1.2Using the justice to safeguard own interests.....	41
5.1.3 Protect the small and medium-sized cargo enterprises and balance the interests of all parties. ....	41
5.2 The enlightenment of Hanjin Shipping bankruptcy on the operation and management of China’s shipping and transportation industry.....	42
5.2.1 Establish a sound insurance feedback mechanism.....	42
5.2.2 Proceed with the implementation of new import credit.....	43
5.2.3 Cooperate with issuing bank and rating agency to innovate business model .....	44
5.2.4 Start the "Internet plus new import credit insurance" model .....	47
5.2.5 The implementation of strict insurance approval system.....	47
5.2.6 Expand diversified import insurance business.....	48
Chapter 6. Conclusion .....	49
References.....	51

# **Chapter 1. Introduction**

## **1.1 Background**

Hanjin Shipping filed for bankruptcy protection Aug. 31, 2016, after months of trying to raise liquidity and restructure its debt, triggering a mad scramble by shippers to locate and gain control of their containers.

Feb 17<sup>th</sup> 2017, Seoul Central District Court declared bankruptcy of Hanjin Shipping. It means the end of its 40 years' operation and reshuffle of Korean shipping industry. The fallout of this world leading shipping company, not only threat the shipping industry, but also will affect the world economy.

As the biggest Korea shipping company, Hanjin owned a container fleet over 100 vessels, container capacity over 620 thousand TEU. It also managed more than 60 liner routes and engaged in tramp shipping. Billions of cargos were carried out with destination worldwide by Hanjin shipping which occupied about 3% of world shipping marketing. Hanjin shipping play an important role in world economy, port operation and logistic systems.

Hanjin Shipping Co. Ltd is a South Korean integrated logistics and container transport company. Prior to its financial demise, Hanjin Shipping was South Korea's largest container line and one of the world's top ten container carriers in terms of capacity. In August 2016, the company applied for receivership. Hanjin shipping operates some 60 liner and tramper services around the globe transporting over 100 million tons of cargo annually. Its fleet consists of many container ships, bulk and LNG carriers. Hanjin Shipping has its own subsidiaries dedicated to ocean transportation and terminal operation and it has several branch offices in various countries. Due to its financial collapse, Hanjin has lost control and ownership over large portions of its fleet and the majority of its chartered assets have been confiscated by creditors

End Aug 2016, Korea Development Bank and other creditors reject Hanjin's self-



rescue plan. 31<sup>st</sup> Aug, Hanjin shipping filed for bankruptcy protection to Seoul Central District Court. 1<sup>st</sup> Sep, Hanjin Shipping went into court receivership. The news of its impending doom caused chaos in global shipping industry. Most of ports rejected Hanjin's vessels docking or required paying cash. Some partners terminated the business with Hanjin. More than one creditor filed to local court to arrest Hanjin's vessel. To avoid more vessel be arrested, Hanjin shipping filed bankruptcy protection to many countries and courts. Japan, US, UK, Canada, Belgium and Singapore successively accepted Hanjin's application. Until three months, Hanjin completed its 141 vessel's discharging operations. 2<sup>nd</sup> Feb 2017, as Hanjin's liquidation value stands at \$1.57 billion, but its going concern value could not be assessed, the court decided to end the company's receivership process. 17<sup>th</sup> Feb, after a two-week period for appeals, courts officially declared Hanjin Shipping bankrupt.

Worrying about whether Hanjin shipping can or not have abilities to pay their arrears of the various costs, some ports require the cargo owner to pay a deposit in order to take delivery of the containers. This raise a storm of objections from cargo owners. For the carrier of suppliers who chose Hanjin Shipping, on one hand, the bankruptcy will likely lead to a substantial increase in the cost, on the other hand, they also need to deal with the shortage of goods crisis. For the cargo owner, the current container has been in transit may suffer a risk of detention, so that the cargo cannot be delivered on time. The Seoul Central District Court said it would take steps to ensure that the debt was repaid to the maritime creditors through a fair liquidation procedure and that the insolvency representative had been appointed to sell the Hanjin Shipping maritime assets to repay the debt. Now Hanjin Shipping entered the bankruptcy liquidation stage, due to maritime enterprises cross-border bankruptcy with particularity, cross-border bankruptcy and maritime procedures between the conflict is difficult to achieve unity and coordination at the international level, the supplier will face a long wait and litigation.

## **1.2 Objective**

It is clear that Hanjin's sudden bankruptcy will cause the loss of these innocent third parties, however these should not be borne by themselves. So I think if I can find some solution, for reference, check erroneous ideas at the outset. This article will first analyze the extraterritorial effects of bankruptcy protection, and then from the government solution to the need to enter into an international convention, whether the antitrust in the premise of the government endorsement? Will also discuss the advantages and disadvantages of the establishment of third-party insurance companies and feasibility. Finally, a risk rating indicator for the liner company will be proposed to facilitate the damaged party to refer to the company's credit rating prior to cooperation to prevent sudden bankruptcy losses.

## **1.3 Methodology**

The main purpose of this research paper is to protect third-party.

The first five chapters of this paper are supported by theoretical research. The main research methods are literature research, case study, function analysis and comparative research.

In particular, the literature research method is through the collection, identification, finishing home and abroad literatures on bankruptcy and bankruptcy protection to form a scientific understanding of bankruptcy.

Case study method is through a certain phenomenon or case of material collection, recording to conduct the case summary report. In this paper, mainly refer to the "COSCO Shipping" self-insurance company to study the situation, and then analyze whether you can learn from experience.

The principle of functional analysis is to explain how the social phenomenon meet the needs of a social system, consequently to explain the causes of a social phenomenon. This article has used this method many times in each part, which provides a strong

logical basis for the analysis of the reasons for the bankruptcy of the fourth chapter.

Comparative research method is the most commonly used and most reliable research methods, this paper briefly compares the domestic and international bankruptcy protection system legislation, leading the subsequent explanation of insurance company's operations.

In the sixth chapter, we introduce the comparative analysis method and the model analysis method. The model elaborates the risk evaluation index of the liner company.

#### **1.4 Outlines of the dissertation**

The main objective of this dissertation is to protect the third-party.

To achieve this purpose, in the third chapter, I will review the event and what the associational effect of the HANJIN SHIPPING bankruptcy, which will be utilized to measure solution efficiency. And I will cover the bankruptcy protection of Hanjin and the restrictions on bankruptcy protection in different countries.

After talking about "what happened", I would like to analysis about the reasons which will divide into two parts: internal reasons and external reasons.

Next, how to solve the question. This part will according to the reason which mentioned in the chapter 4. For the external causes, I will argue whether the government can help to solve the problem. And whether to make the International Conventions. Then turn to the internal causes. Hanjin's bankruptcy brought one of the revelation is to combine the era of large data to speed up the new era of insurance construction. Insurance companies can be specialized, it can be set up by itself.

In the end, I will end this research with a conclusion in chapter 6.

## **Chapter 2 Literature review**

### **2.1 bankruptcy**

#### **2.1.1 The order of the claims in bankruptcy**

Analysis of the legal system of the two major legal systems abroad can be found in the bankruptcy of the priority of the rules. Most of them have to make a detailed distinction, with different values to give different creditors with priority distinction.

Enterprise Bankruptcy Law of our country has experienced two series of improvements. The current bankruptcy law is adopted from the 2006 National People's Congress, namely the "People's Republic of China Enterprise Bankruptcy Law." Compared with the old bankruptcy law, a new bankruptcy law in the settlement of claims overall institutional, labor claims, the secured creditor and the national debt are further divided. The discussion of the settlement of claims in the country mainly revolves around several types of bankruptcy claims in the existing bankruptcy law. In the case of ordinary claims, the priority of personal debt is the focus of controversy.

Overall, there are several views: Firstly, the debt of personal infringement based on respect for the right to life and health, should be finished full priority over the secured creditor's rights; the second is that should be recognized in the security rights on the basis of priority, Infringement of the debt limit priority, that part can take precedence over the secured claim; third is that the debt of personal infringement should take precedence over labor claims, but for the stability of the financial system and the credit system should be given to the security claims; four that labor claims and physical tort of the debt in the jurisprudence have the same personal nature, should not distinguish compensation should be preceded, but should be in the same position priority compensation; five is that the debt of personal infringement only priority over

ordinary claims can be achieved, cannot shake the existing other priority.

Professor Han Chang yin, a domestic scholar, is inclined to the second points of view, in his paper named "claims compensation in the way of thinking - based on bankruptcy law considerations," he mentioned that "People-oriented, comprehensive development" and "pay more attention to social equity" is the development of social science path and hair project objectives, emphasizing the different nature of the claims need to be done in different order to distinguish between claims, for secured claims, the particularity of tort creditor's rights and ordinary claims should be embodied in the legal system of bankruptcy, and personal degree of indebtedness of the debt also directly reflects the value orientation of our country's social and economic development. The debt of the personal infringing should also take into account the division of the debt and the unfavorable debt.

### **2.1.2 Extraterritorial effects of bankruptcy declaration**

Although cross-border trade existed between countries since ancient times, the cross-border insolvency regime was indeed a system that was created in modern times. Scholars generally believe that the cross-border insolvency regime came from England in the mid-17th century, the most representative case of "Solomon v. Ross" case, precisely because the British court in the case of the verdict, cross-border bankruptcy declared The principle of universalization of the principle of bankruptcy can be established, it can be said that the case laid a country for the declaration of bankruptcy in other countries recognized the basis.

Because of the interests of countries and the protection of their sovereignty, the legislative process of the cross-border insolvency system is not smooth, can be said to be twists and turns, and so far has not formed a unified law to solve cross-border insolvency cases.

Until 1997, the United Nations Commission on International Trade Law

introduced the Model Law on Cross-Border Insolvency, and it was surprising that the Model Law was endorsed by many countries and that the United States even incorporated the Model Law in 2005 Its bankruptcy law.

The regional norms of cross-border insolvency and the trend of global norms have led countries to revise the insolvency law to solve the problems in cross-border insolvency cases. China has also made changes to the bankruptcy law in 2006, and the amendment to Article 5 of the Bankruptcy Law of the People's Republic of China has had a significant impact on our judicial practice.

## **2.2 Antitrust in shipping**

According to the collected information, some of the Chinese books on the introduction of maritime law content of the study of the shipping antitrust exemption system and other maritime competition rules, but one of the few. For example, in the "American Shipping Management Law and Regulations" edited by Shi Cheng and the "American Shipping Management Policy, Law and Management System" co-authored by Yu Shicheng, Hu Zhengliang and Bing Binggu, the American shipping management laws, Wang Jie, Wang Qi compiled the "international shipping organization's monopoly and competition" focused on the shipping organization's competition and regulation issues, and the European and American maritime competition, the United States and the United States, The fourth chapter is about the new development of the legal system of shipping competition, but this chapter mainly elaborates the legal system of shipping competition in the form of paper. The first chapter is about the new development of maritime law. Development, although the shipping antitrust exemption system has been elaborated, although not very detailed, but still has a certain reference value.

Wang Qiuwen's "Reflection on the Antitrust Immunity Theory of International Shipping under the Coordination of Industrial Policy and Competition Regulation" analyzes the theoretical basis and challenges of the industry's overall exemption, and

finally draws the conclusion that the industry's overall exemption is united in the field of industrial policy and competition regulation, Of course, including the international shipping antitrust exemption of the negative; In addition, Cuiqi Fan wrote the "shipping antitrust exemption system theory analysis" through the shipping antitrust exemption object, the economic basis and the shipping antitrust exemption system pros and cons , In the "benefit outweigh the disadvantages" should be the conclusion of the application of the antitrust exemption system in the shipping industry.

Li Tiansheng wrote "international shipping industry antitrust exemption from the law and economics analysis - from the" THC "storm" to international shipping organizations since 2002, unified in China, a substantial collection of THC events, the use of macroeconomics, Coase theorem , The game theory, the theory of industrial organization and other economic theory on the shipping antitrust exemption system to study, and come to the negation of the liner to give antiques monopoly exemption conclusion; and as Li Sici, Zou Yingying wrote "on the marine joint venture antitrust regulations - from the perspective of the P3 Union is prohibited from the perspective of the P3 Union from the perspective of the ban on the case, the maritime consortium and the maritime consortium of competition law regulation was discussed, we should build a shipping antitrust exemption system in conclusion. Zhu Zuoxian's "Reflection on the Path of European and American Law of Contemporary International Shipping Antitrust Regulation - Also on the Construction of Chinese Characteristic Model" is that it is a wrong and outdated concept to protect China's shipping enterprises through monopoly exemption. The support of theoretical theory, nor the national interests of our country

On the shipping antitrust exemption system degree thesis has nearly ten, the number is still more. For example, 2012 East China University of Political Science and Law Liang Chunmei wrote the "international shipping industry antitrust exemption system research"; 2013 Northeast University of Finance Zhang Guodong wrote "maritime antitrust exemption implementation mechanism" and other articles. Although this kind of dissertation has already studied the anti-monopoly exemption

problem, it is still necessary to prove the comprehensiveness. In addition, in March 2014, the Federal Maritime Committee (FMC) of the United States maritime authorities approved the similar agreement "P3 Network Vessel Sharing Agreement" submitted by the above three companies. However, on June 17, 2014, the People's Republic of China Ministry of the promulgation of 46th Announcement in 2014: Maersk, Mediterranean shipping, up to three shipping companies set up a network center operators focus on antitrust review cases to prohibit the decision. China's decision to reverse Europe and the United States caused a new round of controversy over the construction of a shipping antitrust exemption system. Therefore, it is very important to clarify the relevant issues in theory. Thus, it is of academic and practical value to incorporate new shipping practices into the controversial, yet yet negotiated antitrust immunity issue.

### **2.3 credit modal**

In the early days of using the Logit regression model to study the probability of corporate default Ohlson (1980), the United States 1970-1976 analysis of enterprise data, that size, performance, capital structure and liquidity variables can predict the probability of default. Laitinen (1999) analyzed the 35 financial indicators of more than 3,200 enterprises in Finland, arguing that the Logit regression model and the linear probability model are uncertain when predicting the probability of default significant Differences Cramer (2004) argues that the Logit regression model is prone to bias when estimating the probability of extreme group defaults, And proposed a boundary Logit regression model for this problem. Campbell (2006) uses dynamic Logit regression model type study of the United States 1963-2003 years of business data, that the financial data and stock market data can effectively predict the probability of corporate credit degradation Sohn and Kim (2007) study the probability of default of small and medium enterprises in South Korea, that Logit regression model with random effects can better explain individual factors and their uncertainties to corporate credit. Frade (2008) examines the financial and market data of listed banks in the United States from



1996 to 2008, and argues that the Logit regression model can effectively predict the probability of defaults of bond issuers over the next year, Figby (2009) uses the random forest survival model (RSF) and the Logit regression model to study the 1003 SME data of the German Credit Reform Association. It is considered that the Logit regression model is better than the random forest survival model. In addition, Bartual (2012), Comelli (2014), etc. also consider Logit regression model can better predict the probability of default.

Chinese scholars later study related issues. Xie Chunyan (2004) used Logit regression model to evaluate the credit risk of listed companies earlier, and achieved 89.8% forecast accuracy. Yu Liyong and Zhanjiehui (2004) adopted the Logit regression model to analyze the data of 40 default loan enterprises and 11 normal loan enterprises, and think that the model has better forecasting ability.

## **Chapter 3 The bankruptcy of HANJIN SHIPPING**

### **3.1 Market background Introduction.**

Container shipping market conditions have remained very difficult in 2016. The build up of overcapacity, stemming from a slowdown in box trade growth and rapid expansion in containership supply in recent years, has exerted severe pressure on both the containership charter market and box freight market. Charter earnings have remained at bottom of the cycle levels, with particular pressure evident in the 'old Panamax' sector and at the larger end of the charter market. Timecharter rates for many traditional charter market types have remained at historically low levels in the \$5,000-7,000/day range throughout 2016 so far. There remains a significant volume of idle capacity, and while the proportion of the fleet idle has reduced slightly from more than 8% in March 2016 to around 5% in August, this has not been sufficient to reduce pressure on the charter market. Slow steaming has also remained prevalent despite the low bunker price environment. Meanwhile, box freight rates have remained at historically depressed levels, with recent improvements on some routes only limited in scope. This has continued to impact liner company performance, and in late August 2016, Hanjin Shipping, the eighth largest boxship operator, collapsed causing significant disruption.


Global container trade growth appears to have accelerated in 2016 so far, following limited growth of only 2.2% in 2015 (with expansion in terms of TEU-miles slowing to just 1.5%). Mainlane trade growth is expected to improve compared to last year, with volumes on the peak leg Asia-Europe route registering an increase in the year to date following a contraction in 2015. Intra-regional trade growth is also expected to accelerate significantly in 2016. However, volumes on key North-South routes remain under considerable pressure. Overall, box trade is projected to grow by a still historically subdued 3.8% to reach 182m TEU in 2016.

Growth in the containership fleet has slowed significantly so far in 2016, following very strong expansion of 8.1% in 2015. In the first eight months of 2016, boxship fleet capacity has increased by just 1.3%, a result of a much slower pace of deliveries and very firm scrapping volumes. Contracting activity has been very subdued so far this year following high levels of investment in 2015. However, the orderbook continues to be dominated by the very large vessel sizes. Against a backdrop of continued challenging market conditions, co-operation and consolidation amongst major operators is expected to remain a key theme. Overall, further significant changes to the containership market balance will still be necessary before market conditions can improve.

### 3.2 The biggest bankruptcy in shipping industry

On the afternoon of August 31st, Hanjin Shipping, the largest shipping company in South Korea, filed an application for bankruptcy protection at the central court in Seoul, South Korea, ending its 40 years run and heralding a fundamental change in the country's shipping landscape. When the news came out, The global shipping market is shaking, and the affecting diffusion rapidly.

In order to show the bankruptcy of HANJIN SHIPPING in a clear way, I made a timeline below.

- 
- 16<sup>th</sup> May 2016**  
Hanjin Shipping shows first quarter data: \$222 million loss.
  - 27<sup>th</sup> July 2016**  
Ship owner Seaspan said he would not reduce the price of the chartering, Hanjin's plans for reconstruction were beset with difficulties.
  - 11<sup>th</sup> August 2016**  
The government stopped giving subsidies.
  - 16<sup>th</sup> August 2016**  
In the second quarter, Hanjin's losses continued to accumulate
  - 30<sup>th</sup> August 2016**  
The group of creditors, including the Korean Industrial Bank, held a meeting about additional funds for the continued shipment of Hanjin has refused to continue providing additional financial support to Hanjin, which will begin to accept bankruptcy management, and this afternoon it will suspend trading and prohibit stock trading.
  - 31<sup>st</sup> August 2016**  
Hanjin submitted to the Seoul Central District Court for legal management (seeking bankruptcy protection) and asked the court to freeze its assets.

## **2<sup>nd</sup> September 2016**

HYUNDAI MERCHANT MARINE CO.,LTD, the second largest shipping company in South Korea, has expressed interest in the acquisition of assets by Hanjin. A HMM spokesman said HMM had decided to acquire potential assets of Hanjin Shipping and will negotiate with Korean Industrial Bank, the biggest creditor for Hanjin. At present, HMM are also in the process of debt restructuring.

The central court in Seoul, South Korea, said it would never let it go bankrupt. The government, the bank and the Hanjin group will inject capital together, among them the Hanjin group will inject 700 billion won (\$630 million). Remove lines, retain boutique routes, replace CEO.

## **5<sup>th</sup> September 2016**

Hanjin Shipping shares resume trading, shares fell 30%. Stock of Hanjin was suspended in August the 30th. Previously, Hanjin's share price had dropped to 870 won, to the lowest price since December 2009.

## **6<sup>th</sup> September 2016**

The South Korean government said that it would provide more than 100 billion won guaranteed loans to HANJIN SHIPPING. On the same day, the Hanjin group also announced that it would raise 100 billion won (about \$91 million) on its own, to provide assistance to Hanjin's inbound and discharging cargo, in order to minimizing the loss of importers and exporters.

## **10<sup>th</sup> September 2016**

Korean Airlines provided \$54 million in financial aid to Hanjin Shipping. Hanjin Shipping have to take ownership of the port of Long Beach as collateral in order to exchange for financial support from Korean air

Korean Airlines, as a subsidiary of Hanjin group, the board has a 33.2% stake in Hanjin.

### **11<sup>th</sup> September 2016**

The South Korean government has decided to provide an emergency financial support of 400 billion won (about \$348□341), for the small and medium sized transport agency that suffered losses due to the signing of the contract with Hanjin Shipping, in order to help the relevant enterprises tide over the storm.

### **12<sup>th</sup> September 2016**

The United States became the ‘savior’ of Hanjin's breakthrough in the global port blockade. After the first ship of Hanjin called ‘Hanjin Greece’ began to discharge the cargo, three container ships of Hanjin Shipping will be discharged the cargo in Los Angeles Long Beach port. This has made great progress for both the receiver and the owner after the crisis of Hanjin.

### **14<sup>th</sup> September 2016**

One of the spokesmen of Hanjin Group said, the Chairman of Hanjin Group, Zhao Lianghao, has transferred 40 billion won to Hanjin Shipping's bank account, to help the beleaguered company pay the unloading port fees and port fees.

Cui Enying, former chairman of Hanjin Shipping, also promised on Monday that in a few days, he will provide 10 billion won private funds to Hanjin Shipping.

### **15<sup>th</sup> September 2016**

According to the Wall Street Journal, Hanjin Shipping, which ran into financial difficulties, has sold 3 cargo ships because the owners are in a hurry to sell, and 37 cargo ships are expected to slip out of the hand in the coming weeks.

### **16<sup>th</sup> September 2016**

According to the Wall Street Journal, after the Hanjin Shipping filed for bankruptcy, the victims were not only the whole shipping industry with excess capacity and its

global customers, but also a lot of German investors. BSI, the German closed-end fund association, said that in last year, \$17 billion 500 million worth of money was injected into marine assets.



### **9<sup>th</sup> October 2016**

After obtaining the fund support of the shareholder, the major ports among the world have begin to permit the ship which belong to Hanjin Shipping to enter the harbor continuously. In October the 3rd and October the 8th,2016, vessel‘Hanjin oasis’ and ‘Hanjin Czech’ belong to Hanjin Shipping docked in Shanghai Yangshan Port, which is the first ship allowed to dock ship China port since August 31st, Hanjin Shipping that filed for bankruptcy protection.

Hanjin Shipping, the nation’s largest firm and the world’s seventh largest, was put under court receivership in September last year, as its creditors, led by the state-run Korea Development Bank, rejected its self-rescue plan.

"No sign, you know, today everyone shocked when we heard about the news of bankruptcy, we thought that the company can submit restructuring plans in the final deadline to avoid bankruptcy." An interior worker of Hanjin Shipping told reporters, 'At present, all ships have been suspended, and no longer receive goods and booking, we all don't know how long the state will continue to be.' Another staff of Hanjin Shipping told reporters that the chairman of the company sent an internal e-mail to employees today (August 31st), the main idea is to accept the reality of bankruptcy and let employees wait patiently for the company to be taken over by Hyundai

Merchant Marine. HMM is the second largest shipping company in South Korea, just next to Hanjin Shipping. Over the past two years, Hanjin Shipping has been heavily in debt and has been operating from bad to worse. By the end of last year, Hanjin Shipping had more than 6 trillion and 600 billion won (about 40 billion yuan, 5.9 billion dollars) in debt, with a debt ratio of nearly 850%; 2016 semi-annual report shows that Hanjin Shipping losses 473 billion 100 million won (about 2 billion 800 million yuan) in the first half of the year. At present, Hanjin is facing a shortage of more than \$1 billion in floating capital.

### **3.3 The association effect of the HANJIN SHIPPING bankruptcy**

#### **3.3.1 Export trade of Korea showed a downward trend**

After the bankruptcy of HANJIN, there will no longer have such a large-scale maritime enterprises as Hanjin shipping in Korea even if in 20 years. The bankruptcy of Hanjin will lead to a decline in the volume of trading in major ports in South Korea, the shipyard of Korea may withdraw the order and so on. The export trade in Korea showed a downward trend.

In the short term in the future, the Korean Institute of Oceanography estimates that freight rates for Busan to America routes will rise by 27%, while Busan to European routes will rise 47% in a short period of time, which may cause an increase of about 4407 billion won in annual of Korean exporters' transportation costs. What's more, the lack of the transport brought by Hanjin cannot be filled in a short time, freight rates on Hanjin's transportation lines have soared. Freight for the 40 inch container on the Busan-Los Angeles route have jumped about 55 percent from \$ 1,100 to about \$ 1,700. From South Korea to the United States which through Panama's shipping costs rose about 50% to 2,400 US dollars. The transport gap is difficult to be filled in a short time.

Korea's net export trade accounts for about 50% of GDP, so the increase in



transport costs will be a huge blow for economics. The bank of Korea's forecast that the GDP growth outlook of Korea in the year 2016 is likely to further decline.

### **3.3.2 The collapse of the shipping industry**

At present, the bankruptcy of Hanjin crisis has already have the impact on the import and export trade, and logistics and some other industries in Korea. After Hanjin shipping filed for bankruptcy protection, the world's major ports refuse the ship of Hanjin call the port because they are afraid of the lack of funds , while the enterprises also refused to discharge the goods. Up to now, Hanjin has 145 vessels, among them, there are 87 vessels are still face difficult calling the port. It is estimated that the value of Korean exports of goods loaded on board at a total of about 1.26 trillion won.

The impact of this event will affect all aspects of the relevant parties, such as: ship owners, seafarers, other members of the Union, ports, pilot ships, tugs, cargo owners, refiners, seafarers recruitment companies, port trailers, container leasing companies, freight forwarding, and of course factories, retailers, and ultimately consumers.

Take Samsung Electronics, the largest multinational group in Korea as an example, Samsung Electronics said that there are about 38 million US dollars value of goods and spare parts in the two vessels belong to Hanjin Shipping. The company's visual display business unit value of 24.4 million US dollars of products installed in the 304 containers, ready to send to the Mexican factory. In addition, Samsung's home appliance department refrigerators, washing machines and other products installed in 312 containers, valued at 13 million and 500 thousand USD. Samsung said that if the goods cannot be immediately unloaded, the company will be forced to replace alternative parts of the air to fulfill the contractual obligations, and they will face the huge cost. For example, in order to carry those goods I have mentioned before, Samsung at least need to package 16 aircraft to transport 1469 tons of goods, the cost will be high as 8.8

million US dollars. Samsung said in a court document Tuesday that the company supports Hanjin Shipping to apply for bankruptcy protection to the bankruptcy court in accordance with Chapter 15 of the US Bankruptcy Code. If there is no law to protect the Hanjin shipping assets to be detained by the creditors, then Hanjin shipping cargo ship can not dock. As long as the Samsung's goods continue to stay in the Hanjin shipping's ship, then the loss of Samsung may increase.

According to the reports, the bankruptcy also spread the bad influence to the United states. As the Christmas shopping season approaching, U.S. retailers are stepping up to hoard goods, such as many Korean LG TV, which will be hitting the shelves of Christmas this year, they are all on the vessels on the sea belong to Hanjin Shipping. The creditor seized the Hanjin Shipping's vessel, while the wharf operator refused to handle its cargo, leaving the company unable to dock with a container ship with there household appliances, electronics and other consumer goods inside. The bankruptcy of Hanjin Shipping may affect their stocking. They already asked the government of the U.S. to do something in order to help them to get through this crisis. The chairman of the Korea Financial Supervisory Commission held talks with the Industrial Bank of Korea and the Hyundai Merchant Marine Shipping Company, to discuss the solution which can help Hanjin Shipping to solve the current difficulties. As a result, Hyundai Merchant Marine plans to send 13 ships to the United States and Europe.

"All of these costs and delay will not only let Samsung suffered losses, major retailers in the U.S. will also suffer the losses, and eventually losses to American consumers," Samsung said in a document, "to avoid major production interruption to Samsung and American retailers benefit is crucial, especially the holiday shopping season is coming."

### **3.3.3 Hanjin bankruptcy protection effectiveness will be limited in China**

In the "Lloyd's List" reported, 2016 the world container ports top 100 list, Chinese

occupy seven seats in the top ten. Since 2013, China has become the world's largest commodity trading power. In China's import and export trade, more than 90% of the goods are transport by sea. Hanjin Shipping file for bankruptcy protection will certainly hit Chinese shipping industry, including ship owners, ports, freight forwarding, trailer companies, insurance companies, and other related subjects will face economic risks and legal disputes due to the incident. On September the 7th, at the national maritime court's court and information construction conference, He Rong, the vice president of Supreme People's court, pointed out in particular that he should pay close attention to the development of the Hanjin incident.

In accordance with Article 5 (2) of the 'Bankruptcy Law', the judgment and ruling of a bankruptcy case in force in a foreign court shall be subject to the recognition and execution of the property of the debtor in the territory of the People's Republic of China or the request of the people's court, The people's court may determine the recognition and enforcement, but need to meet certain conditions, that is, "in accordance with the People's Republic of China concluded or participated in international treaties, or in accordance with the principle of reciprocity review, that does not violate the basic principles of the laws of the People's Republic of China, without prejudice to national sovereignty , Security and social public interests, without prejudice to the legitimate rights and interests of creditors in the territory of the People's Republic of China. "

There are "treaties on civil and commercial judicial assistance" between China and Korea, but the scope of judicial assistance in the treaty includes only judicial documents, investigation and evidence collection, recognition and enforcement of arbitral awards, provision of legal information or judicial records Including the recognition and enforcement of mutual court decisions.

China is not a recipient of the 'United Nations International Trade Law Commission Model Law on cross border insolvency'. 'The Supreme People's Court on the people's court for" The Belt and Road construction provides some opinions of Judicial Services and security' shows that: "In some countries which not yet get along

with China's judicial assistance agreements concluded under the condition, according to the international judicial cooperation intention of communication and other countries promised to give our judicial benefit and so on, can be considered by the court of our country to give other countries parties judicial assistance, actively contribute to the formation of mutual relations, actively advocated and gradually expand the international the scope of judicial assistance". So under the present condition, unless Korea promises to give us some judicial reciprocity, or the effectiveness of the Korean bankruptcy protection will still be limited in china.

There is no bilateral agreement between Hongkong(China) and Korea, so HongKong has it rights do not recognize the Korean regeneration process. This means that creditors may also apply for the seizure of Han Jin assets and claims in Hongkong.

In view of the complexity of maritime cross-border insolvency, the International Maritime Committee (CMI) has organized a specialised working group devoted to the study of cross-border bankruptcies in the marine industry. From the feedback problem and the existing research results, even if under the same law, its domestic legislation were also adopted the "United Nations Commission on International Trade Law transnational bankruptcy law" in the relationship between the demonstration, bankruptcy law and maritime law, international practice and there are great differences.

The arrest and auction of a ship is a special property preservation system in maritime litigation. China is one of the countries with the largest number of maritime claims preservation measures by way of arresting ships internationally. Although there are many uncertainties factors in the arrest of the ship, but the arrest of the ship can still be regarded as one of the options for the rights protection of Chinese enterprises. Chinese enterprises should try their best to arrest ships in China, and secondly, to select the countries or regions that have the most favorable realization of their own claims.

Chinese enterprises should also entrust professional institutions to inquire the actual assets and equity investments of the ports belong to Hanjin Shipping, such as docks, logistics and stacking yards outside Korea, and be prepared to take property

preservation measures. In addition to taking into account the property preservation measures in Korea overseas, Chinese enterprises should also consider the role of trade associations and foreign institutions, according to Korea's bankruptcy procedure requirements, do a good job in the Korean court for registration of claims and the right .

### **3.3.4 The risk faced by the damaged parties**

The bankruptcy of Hanjin has affected on all the parties under the import and export supply chain. As the largest trading partner of Korea, China is taken by surprise, it is impossible to make a adequately preparation, so because of the huge number of the trade, the impact for China was great, all the parties (for the party who loss in this kind of event, I call them damaged parties) damaged seriously, what is more, they are facing many risks.

#### **3.3.4.1 Delivery risk**

The bankruptcy of Hanjin Shipping makes some major ports and terminals to worry about their port fees and landing charges would be behind in payment, so the ports detain vessels belong to Hanjin Shipping, it may cause the receiver cannot take delivery at time. The bill of lading cannot help them to get there cargo, bills of lading they held almost like the waste paper. The receiver must pay high surcharges to the ports if they are required to take delivery of the goods. But they still have some risks that they cannot get the goods because the goods have been auctioned at the port. Shenzhen Yantian port and Tianjin port have seized a number of vessels belong to Hanjin. As part of Hanjin's logistics base, Shanghai port and Shandong Qingdao port have also detained some inbound vessels and cargos. If the cargo receiver wants to take delivery, then he must pay 80 thousand yuan for the deposit and 300 yuan for the document change, and the container delivery in Ningbo should also pay 775 yuan for the storage yard fee. Some of receivers want to take delivery of the goods immediately so that they have to endure the "price fraud", which directly leads to an increase in the cost of imports. In November 21, 2016, 484 containers with the goods inside belong to

Hanjin Shipping which placed in Shenzhen Yantian port has been auctioned, about more than 10000 owners face loss, including the electronics industry, the retail industry and so on. There has been serious stock in some retail businesses including the Wine industry, the fact will inevitably lead to the lack of cash flow, capital chain rupture, the supplier will face one disaster after another.

#### **3.3.4.2 Cost risk**

The bankruptcy of Hanjin Shipping has directly led to the rise in international shipping charges, not only increasing the cost of suppliers, but also affecting the import trade. The bankruptcy of Hanjin led to a transport gap in the shipping industry, the dominant Asian line is the main route which Hanjin was operating. The container rates rising sharply on the day after its bankruptcy. Among them, Losangeles to Shanghai line, container rates rose by 42%, a single 40F t container rate is as high as 1164 U.S. dollars (equivalent to about 11542.7322 yuan) ; container rates for Rotterdam to Shanghai rose by 39%,1826 U.S. dollars rate (equivalent to about 12592.4612 yuan)for a single 40Ft container. To be surprised that it isn't the worst news, even worse, Wenzhou Shipping declared bankruptcy on October the 10th. At the same time, another major shipping company in Zhejiang, called Zhejiang Ocean Shipping Co., Ltd. (Zhejiang Ocean) operating conditions deteriorating, its owner's equity was as low as 33 billion yuan until July 28th, 2016, so finally, in October the 25th, Zhejiang Ocean Shipping Co., Ltd. declared a formal bankruptcy. Wenzhou Shipping has owned 21 ships, a total capacity for 200,000 dwt, and the Zhejiang Ocean has a total capacity of 1 million 100 thousand dwt. The bankruptcy of the two shipping companies have further increased the current transport gap, there is a possibility of further increase in freight rate.

#### **3.3.4.3 Letter Of Credit Risk**

If the trade want to use the letter of credit as the settlement method, then the issuing bank shall perform the payment commitment to the consignment in accordance with

the international practice such as "UCP600" and the laws of different countries, unless there is conclusive evidence shows that the beneficiary is suspected of fraud. However, some of the issuing banks are in consideration of the supplier may be unable to repay the money, as a result they have issued a notice of dishonor to the exporter. This phenomenon not only violates the provisions of the UCP600, but also worsens the relationship between the issuing bank and other banks (such as negotiating bank and so on), which makes the issuing bank's reputation greatly reduced, and may have a serious impact on the re trade of suppliers. According to an expert at China Merchants Bank says, in a trade between a Chinese supplier and a foreign company, the goods could not be delivered on time due to the ship loaded on Hanjin, it instructed the issuing bank to suspend payment to foreign exporters. and the issuing bank realized that the account may become a bad debt, refused to pay the corresponding payment to the exporter, which undoubtedly hindered the supplier's subsequent trade.

#### **3.3.4.4 out of stock risk**

For the logistics enterprises, the goods supply time is very sensitive, to ensure timely supply of goods suppliers is very important, once out of stock, it will cause the economic loss and reputation loss. Take the wine import industry as an example. Xi Kang, one of the Chinese wine import company stakeholders, according to what he said, some enterprises which imported wine from Hanjin ships have not been able to take delivery of the goods since they were detained at the Chinese ports. If the receiver must pick it, the cargo owner needs to share the losses, even so, it will takes many months or even longer. In addition, because the main business of Hanjin Shipping is among Asia as the center, Hanjin Is the cheapest freight shipping company through Europe to Asia, so some cheap wine importers prefer use Hanjin Shipping to do the transport, but Hanjin transportation time is long, and the number of intermediate transshipment is more, part of the company's low-end wine will be affected by short-term. There has been serious stock. One ship of Hanjin Shipping with 12containers which carrying there wine were still cannot arrive at ports so far, the out of stock is very serious. What is more, because

of the rose international freight rate, shipping costs for each bottle of wine rose from \$3 to \$5. A general manager of a freight forwarding company in Shanghai called Wan pointed out that assist clients with Hanjin transportation of goods has become the most difficult problem, they have been thinking about the countermeasures, in order to get installed on the Hanjin container Wine, each container must pay another twenty thousand yuan.

## **Chapter 4. Analysis Of Hanjin bankruptcy**

### **4.1 External reasons**

#### **4.1.1 Low freight rate and high chartering hire.**

In shipping industry, the main operation income is ocean freight. It is the low freight that directly caused the big losses of Hanjin Shipping. Before 2008, the shipping industry entered a golden period. Many shipping company expanded their operation scales in order to secure the market shares, which consequently led the oversupply in capacities after 2008. This situation incurred several shipping companies merged to enhance competitiveness. In the other hand, the development of technology further reduced the cost of shipping. The ocean freight did not rise by the inflation, and on the contrary, it was down significantly.

Refer to SCFI index (Shanghai export container freight index), it was 1376 points in 2010 then down to 1072 points in 2014. When time come to January 2016, the index fell to 591 points. Another major shipping benchmark BDI (Baltic Dry Cargo Index) indicated the down trends more clearly. The Index went down from 2758 points in 2010 to only 317 points in 2016. Lower ocean freight rate did have an impact on the profit of Hanjin shipping, what's more, the high chartering hire made Hanjin Shipping's condition worse.

Owned fleets number is an important performing indicator of a shipping



company's transportation capacity. More than 100 vessels in various types consisted Hanjin Shipping's fleet, about 90 vessels of which were chartered-in from other shipowners.

When shipping industry is thriving, the market is at a high level and chartering hire is pretty high, especially in 2008 and 2009. During the period which the Hanjin Shipping under the leadership of chairman Choi Eun-yeong, the company signed lots of long period time charter party, some of which can last 10 years. The hire rate was much high than current market level. For example, Seaspan shipping, which is a shipowner chartered their vessel to Hanjin Shipper. This company held a 10 years period charter party with Hanjin shipping, provided in which Hanjin should pay 43,000 US Dollars per day as hire, while on the spot market, the daily hire for the same size and same particulars vessel is around 25,000 US Dollars per day.

#### **4.1.2 Impact of financial crisis**

In 2008, the financial crisis hit the world. It was also become a turning point of Hanjin Shipping, from where the Korean biggest shipping company went down gradually. Hanjin has also been very brilliant. Built in 1977, it become the first shipping company whose total sales earnings exceed 1 trillion won in South Korea. In 2000, it became one of Korean representative enterprises. There are few companies can become a representative enterprise in Korea as the whole Korean business is supported by few giant family group. In 2005, Hanjin shipping was listed on Forbes the most valuable 400 public listed company. The company never stopped their steps on expansion. It established their owner shipping management company in 2006 and found a ship building and repairing yard at Qushan Island, China, which was the biggest yard in the world at that time.

The shipping industry is an industry derived from international trade. It provides the transportation service for the global trading. The rapid growth in the quantities of export goods was a great support to the Hanjin Shipping's expansion. In 1977, the total

value of export goods of Korea was only 10 billion US Dollars. 18 years later, the figure increase by 10 times at 100 billion US Dollars in 1995. In 2008, the figure reached astonishing 400 billion US Dollars. The expansion path moved so fast may be a good thing, however, this also buried the curse for the future. After the financial crisis in 2008, the global trading shrank and fell to a trough in 2009. However, thanks to the firm development of China economy, the global trading gradually recovered in 2010. Unfortunately, in 2015, the world economy and global trading appeared the biggest decline again. And till today, no sign of recovery.

The shrank of the global trading had a profound impact on Hanjin Shipping. According to the third quarter 2008 financial report of Hanjin Shipping, the company revenue began to decline. The company had been in a huge loss status from the first quarter of 2009. In second quarter, the company net profit loss 417.49 billion Korean Won and third quarter loss 420.9 billion Korean Won. The company stock devalued from 39 thousand Korean Won per share in mid-April 2008 to 15 thousand Korean Won per share in mid-October.

#### **4.1.3 The hasty government management**

Before Hanjin Shipping filed for bankruptcy, Hanjin Shipping and the South Korean government should predict the development of the situation. The emergency plan should be made in advance to develop a loading and unloading support program to avoid chaos. Hanjin Shipping is Korea's largest liner company. South Korea's import and export trade is highly dependent on ocean shipping. The market did not expect that the South Korean government would refuse to rescue and support Hanjin Shipping. Just let Hanjin shipping collapse. In hindsight, Hanjin shipping filed for bankruptcy protection not slowly. The speed of response of the courts in various countries can be described as timely. However, obtaining bankruptcy protection can only solve few problems. To ease the crisis, Hanjin Shipping should also let the market believe that it can pay all the cost and disbursement in full and timely. After all, most terminals and

service providers are private companies, and where the costs are not guaranteed, terminals and service providers can deny service and the crisis will continue to spread. In the declaration of bankruptcy protection 48 hours later, due to see no effective response to the program, the market confidence is lost, the situation deteriorated, the logistics stagnated, Hanjin shipping bankruptcy fate has been difficult to restore. Ultimately, the South Korean government still had to find a way to raise money. The money paid in fact would be much higher than the original cost for rescuing Hanjin Shipping.

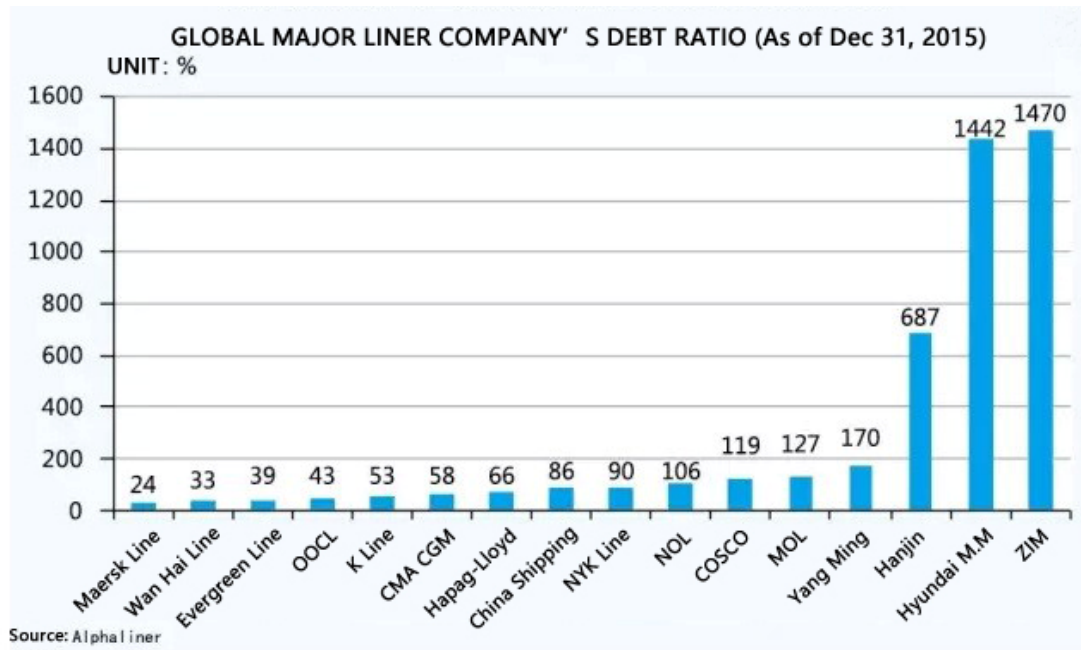
## **4.2 Internal Reasons**

### **4.2.1 High debt ratio**

The direct reason led Hanjin Shipping announce bankruptcy protection, is the Korea Industrial Bank (KDB) creditors group no longer agreed to provide more support. Their cash flow cannot continue and Hanjin shipping must make the choice. Although KDB and some non-operating shipowners who chartered their vessels to Hanjin shipping, such as Danaos, Seaspam, etc. jointly agreed to support the Hanjin shipping, grant some grace period for debt extension and restructuring. But helplessly, KDB, a policy bank, must face the financial fraud, such as Daewoo Shipbuilding, and other South Korean companies that also need support to solve the financial difficulties.

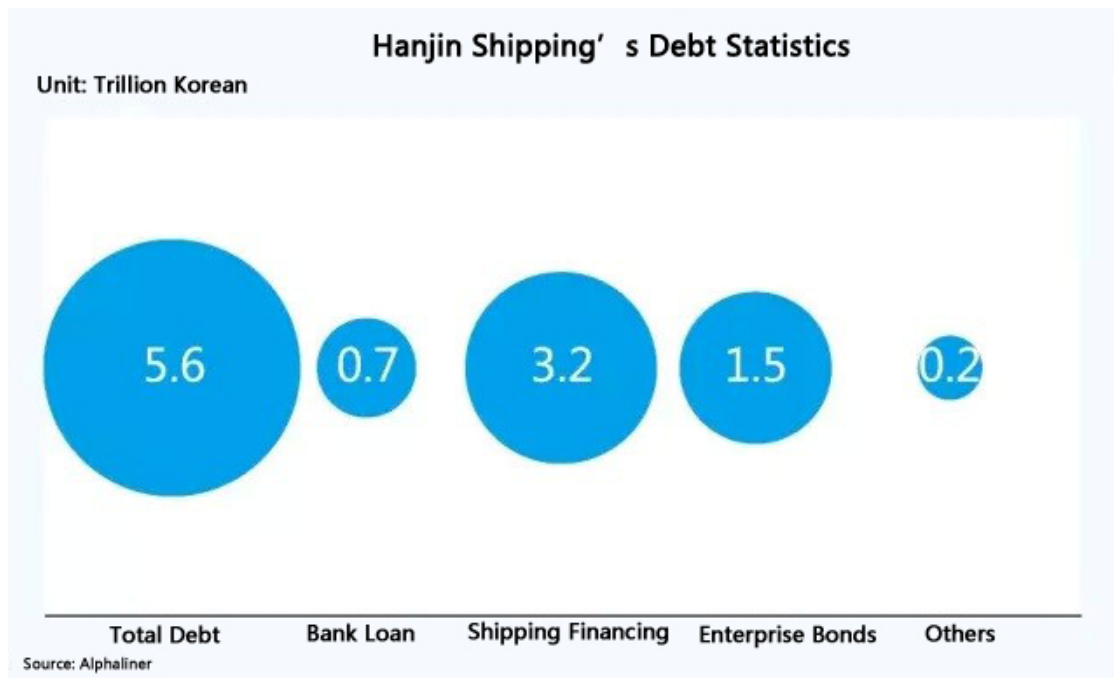
Therefore, those liner companies whose debt ratio is too high should take practical action to reduce the debt ratio. Global banks, especially Europe and the United States, which have a large number of shipping assets, are trying to reduce the proportion of this part. Once these banks decide to suspend loan, such a typical "zombie enterprise", which is financed by banks like Hanjin Shipping, is inevitably going bankrupt. According to Alphaliner's data at the end of last year (see Figure 1), the best liner company is Maersk Line, with a minimum debt ratio of 24%. And the liner companies

with a debt ratio of more than 100% are COSCO Container Lines, Merchant Shipping Mitsui, Yang Ming Shipping, Hanjin Shipping, Hyundai Merchant Shipping and ZIM Shipping. Among them, the declared bankruptcy protection of Hanjin shipping debt ratio of 687%. Hyundai Merchant and ZIM Shipping debt ratio is as high as 1442% and 1470%, are in a very dangerous state.



#### 4.2.2 The internal shareholders of the group are muddledness

Since Zhao Xiuhao, the former Hanjin Shipping chief, died in 2006, Cui Enying, his widow, assume the office of the president of Hanjin shipping until 2014. In the year 2014, Cui Enying was unable to provide more financial support to Hanjin Shipping, so she decided to turn over the corporate control to the South Korea Airline. In recent years, the global transport industry is in the doldrums, as a result Hanjin Shipping suffered the heavy losses and high debt ratio, share stock prices have gone down all the way.



After the Korean Airlines took over the unstable financial situation of Hanjin Shipping, although the Korean Airlines provided the financial support to Hanjin, but the situation has gotten worse. The South Korean media (including South Korea's financial regulator) has criticized that neither Cui Enying nor Hanjin Group has provided sufficient support for the difficult of the Hanjin Shipping, they didn't spare no effort to support Hanjin Shipping. And this is the last reason why the creditor group,

represented by KDB, is unwilling to continue the financial support for Hanjin Shipping. To talk about the attitude which the Hanjin Group shows to Hanjin Shipping, I have to refer to the family disputes of Hanjin group. Hanjin Group founder and one of the most important founding member Zhao Zhongxun left the world in the year 2002. Zhao Lianghao, the eldest son, inherited the "Pearl" of Hanjin group - Korean Air. Their second-born son Zhao Nanhao inherited Hanjin heavy industry; third-born son Zhao Xiuhao took over Hanjin Shipping; the fourth-born son Zhao Zhenghao can only inherit insurance and securities business of Hanjin Group(now known as Meritz). The plan of how to divide up Hanjin's family property had lift a legal disputes, although Zhao Zhongxun has a careful division of everything and wrote the plan down in the will. However, the three brothers consider that their eldest brother Zhao Lianghao gained excess property by his trick, and it is unfair.

The dispute among family members reached a culminate in 2005, when the second-born son Zhao Nanhao and fourth-born son Zhao Zhenghao has been out of the Hanjin group, live in a separate house and built their own business, it finally cause the Hanjin group broke up in 2006. After the third-born son Zhao Xiuhao died in 2006, his widow Cui Enying became president of Hanjin Shipping, and Hanjin Shipping was also divorced from Hanjin group in the year 2009. The financial difficulties of Hanjin Shipping began in 2009, and Cui Enying was criticized for not making any contribution through the personal assets to Hanjin shipping.

In the year 2014, Cui enying was unable to provide more financial support to Hanjin Shipping, so she decided to turn over the corporate control to the South Korea Airline. At present, Korean air has 33.2% of Hanjin Shipping shares. According to Hanjin Group's description, since they taking over Hanjin Shipping, the company has raised a total of 1 trillion and 700 billion won fluid capita.. Cui Enying is also facing an investigation about the internal transaction, because she sold the stake she hold of Hanjin Shipping in April this year before she made a voluntary debt restructuring arrangement with the creditor bank.

Hanjin Shipping has always been work hard to struggle in the past few years, but the business is not much improvement, service coverage and update for all the necessary ships can not keep up with the pace of development of the industry, this is related to confusion and abstain from an act at the shareholder level. As a relatively heavy asset, liner companies rely solely on the fluidity provided by their creditors or banks, and it is clearly unlikely to develop well in the extremely difficult shipping markets in recent years.

#### **4.2.3 Lack of core technology strategy**

A traditional business portfolio with a variety of surface-related diversification will eventually fail because of the lack of core technology strategies for emerging industries. After the acquisition of the hotel, if Hanjin Group manage the business in good state, also can bring a lot of cash flow which is inversely proportional to the decline in shipping demand brought by the economic downturn. However, why Hanjin Shipping failed to get the favor of creditors? The fundamental reason is that Hanjin did not reach the leading status in the whole industrial chain of maritime. The leader of the industrial chain need to master the core technology in the industrial chain, but also need to grasp the supply chain upstream and downstream customers all the operational processes, as well as customers' needs.

Maersk has a research and development department of more than 100 people. The research and development department is the only remaining core sector after Maersk sold the shipyard sector. They study the main engine, paintings, special containers, ballast water processor and so on with the ship, low-carbon, efficiency and other related latest technology. Therefore, Maersk in the industrial chain has led the direction of industrial development, affecting the activities of other participants in the industry chain capacity. They go deep into the customer operations site, tap the needs of customers' demands, and thus customize the development of a variety of integrated

transport solutions. To the contrary, Hanjin Shipping did not do so. Hanjin Group has Hanjin Heavy Industries, but with Hanjin Shipping belong to two different companies. It is difficult to integrate advantages. In other words, only the shipbuilding and research and development technology used by the shipping companies, shipping companies can become the backbone of the chain to lay a solid foundation.

Hanjin Group lacked the supply side reform. It didn't take the product development, manufacturing industry's core technology research and development, into the grand map for development of shipping companies. They only kept their eyes on the existing information network applications. In layman's terms, Hanjin Group is keen on the network transformation in the field of circulation, and does not go to the core of the supply side reform - the customization of manufacturing technology research and development in shipping.

The fact that the world's Internet companies are in the manufacturing core technology research and development in depth. Google is the first one who research and development of unmanned vehicles, unmanned aircraft, and now engage in global hot air balloon and rocket technology. Facebook announced in August 2016 to enter the manufacturing industry. The company is equipped with the most advanced machine devices. Uber acquired an unmanned truck company, Otto officially tested unmanned taxi. These are the leaders of the deep supply side reform, rather than simply off, stop and turn. The core technology strategy is the real test of the enterprise in accordance with the inherent relevance of the ability of cross-border innovation.



## **Chapter 5. The enlightenment of Hanjin Shipping's Bankruptcy**

### **5.1 Government performance**

#### **5.1.1 The supervising authorities should make timely statement in response to the emergencies**

Shortly after filing bankruptcy protection, FMC issued a statement on the submission of bankruptcy protection to Hanjin Shipping, paying close attention to the future development of the incident and its impact on the international shipping market. Terminal operators, NVOCCs and freight forwarders once take the illegal action, the US Federal Maritime Commission will take prompt action. The US Department of Agriculture and the Ministry of Commerce have also vocalized. Taiwan "Ministry of Communications" said that they had set up a special group to maintain the shipping order and the interests of the industry.

#### **5.1.2 Using the justice to safeguard own interests**

In the Hanjin incident, the United States court in accordance with its domestic law, to give Hanjin bankruptcy protection, so that creditors cannot detain Hanjin shipping's assets or goods in the United States. At the same time, the United States court requested Hanjin shipping must reach a financial agreement with port operators, cargo holders, dock workers, shippers and other relevant parties before their vessels berthed and commenced discharging. This prompt action had mitigated the trading crisis, protected the interests of their own enterprises, and benefited consumers from delivery of goods.

#### **5.1.3 Protect the small and medium-sized cargo enterprises and balance the interests of all parties.**

Small and medium-sized enterprises are the source of economic vitality. Pay

attention to the protection of small and medium-sized enterprises is the common practice of all countries. In the Hanjin Shipping incident, the Korean government provided 400 billion Korean Won of emergency financial support to small and medium-sized forwarding agents who suffered great losses from contracting with Hanjin Shipping. This supporting action not only helped the relevant enterprises to weather the storm but also avoided the further spread of the crisis. This is undoubtedly worthy of our reference.

## **5.2 The enlightenment of Hanjin Shipping bankruptcy on the operation and management of China's shipping and transportation industry.**

Hanjin bankruptcy told us that even if the large shipping company, there still have the possibility of bankruptcy. And once the bankruptcy occurred, it will bring great losses to suppliers. What happened to our suppliers in the Hanjin bankruptcy incident was an indisputable fact. Therefore, the supplier to fundamentally solve this risk problem, in addition to carefully selected shipping companies, the most fundamental is the innovative insurance mechanism, and guide the corresponding insurance companies to create import credit insurance business. At present, China's import credit insurance business in an initial starting stage. In 2007, with the introduction of new policy released by the Central Foreign Trade and Economic Cooperation, to expand imports and reduce the trade surplus, the first trial of import credit insurance business was launched in Ningbo. Up to now, China's import credit insurance is still in its infancy. To develop a mature mechanism, it needs all relevant parties to cooperate, which can be summed us as the following measures:

### **5.2.1 Establish a sound insurance feedback mechanism**

The insurance companies should establish a sound feedback mechanism. First, the specialist should be assigned to pay local visits to the grassroots level regularly. By

talking with the suppliers, they can get the feedback practically and timely. The suggestions from the suppliers could make the insurance company recognize the strength and weakness of their business. Second, with the development of the Internet, insurance company can take advantage of this innovative technology. They could do satisfaction survey online in the form of distributing questionnaire. This can help the insurance company understand the current application of new import credit insurance better. Third, study on the typical case of suppliers' credit insurance business is necessary. The unreasonable practices or mechanisms can be improved by carefully analyzation and new features can be created. Last but not the least, to deal with the deficiencies in the insurance regulatory system, all the relevant parties' proposals should be adopted with the insurance company's actual situation taken into the consideration. The more improvement the insurance company made, the better services can be provided to the suppliers.

### **5.2.2 Proceed with the implementation of new import credit**

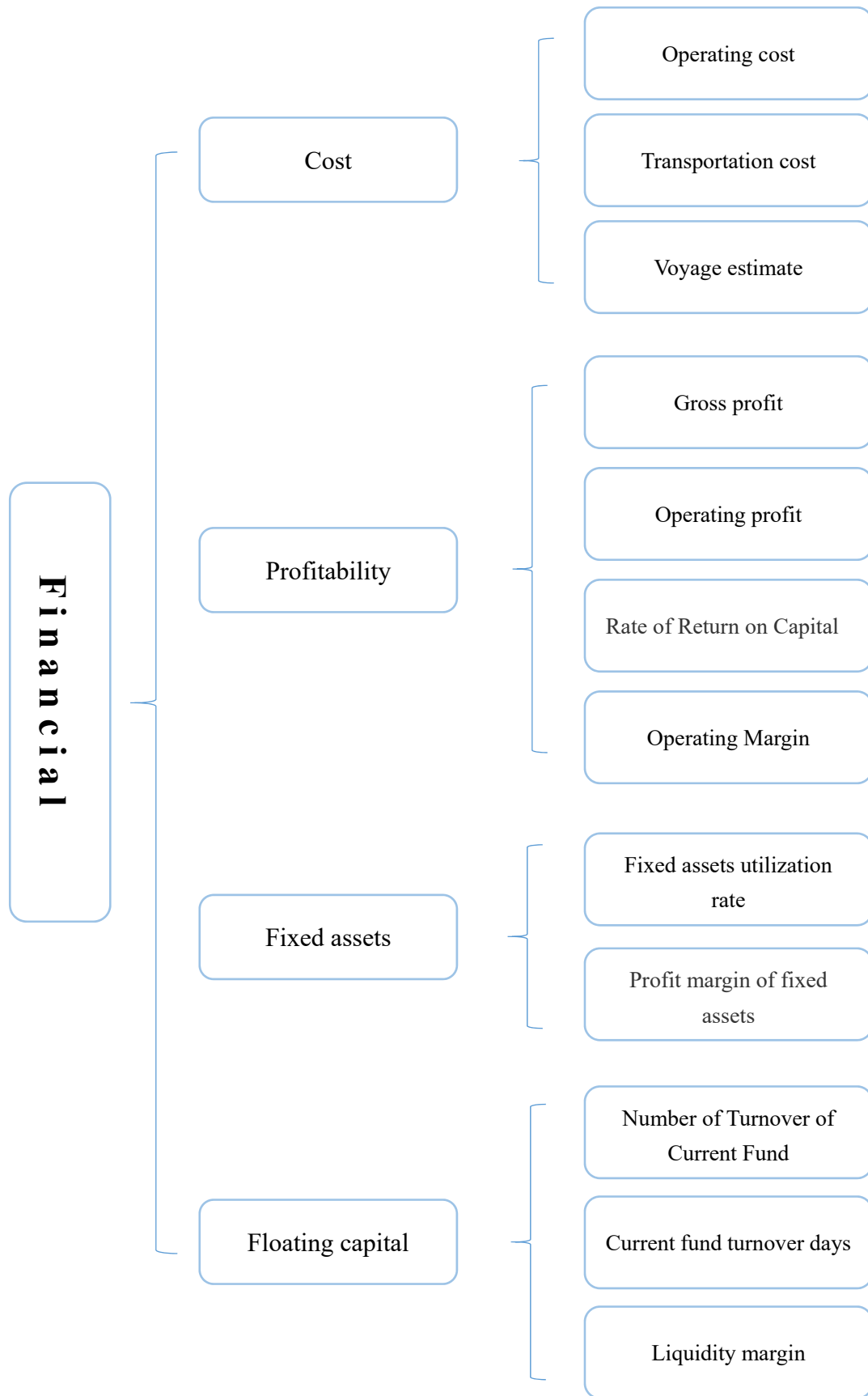
The establishment of Insurance legislation can refer to China's current "Foreign Trade Law" and "Insurance Law" and the actual domestic situation. In the meantime, drawing on the experience of other countries in this side can improve the insurance business scope, mode of operation and the rights and obligations of both the insurer and insured. The clear legal provisions should be made to ensure there is a law or regulation can be referred to in the event of a dispute. On the other hand, a sound legal supervision mechanism should also be built. The relevant government departments should cooperate with the China Insurance Regulatory Commission to carry out the field business visits to insurance companies on a regular basis, or through the online questionnaire to understand whether the insurance companies have illegal violations, and whether the illegal acts were dealt with in accordance with the relevant laws and regulations.

### **5.2.3 Cooperate with issuing bank and rating agency to innovate business model**

Letter of credit is an instrument used in international settlement. The insurance company should work with issuing bank to manage the potential risks. Prior to the cargo on board, the insurance company and the issuing bank should at any time communicate and assess the shipping company's operating conditions and credit status. The assessment should be comprehensive. Including but not limited to the following aspects: the enterprise risk, competitive advantage, enterprise diversification, enterprise size and market share, management team, potential problems within the enterprise, measurement of business conditions, quality of accounting statements, financial policy, profitability, capital structure and asset guarantee coefficient, asset evaluation, off-balance sheet financing, cash flow analysis, financial mobility. After reviewing all the aspects of the enterprise, corresponding credit can be given to the enterprise. Monitoring the performance is also of vital important. If found abnormal, the insurance company should immediately notify the supplier and trigger the emergency plan mechanism. In addition, an international risk assessment system cannot meet the requirements of each country or region. Therefore, when carry out the risk assessment of different countries or regions' enterprises or multinational enterprise group, local policy, culture and other factors should also be taken into consideration. The methods of risk assessment are basically the same between an international operation enterprise and a domestic operation enterprise in the conduct of credit analysis. Only the policies and regulations in respective countries and regions would be the key factors which affect the analyzation. After the shipment of goods on board, the insurance company should keep in touch with the issuing bank and monitor the movements of the shipping company. This "double-edged sword" action not only can make the insurance company feel ease, but also can provide the reliable guarantee to the issuing bank in which case the original bills of lading was signed and released under the title of issuing bank. In

the non-letter of credit settlement, the insurance company can reach a higher level of credibility of the rating agencies for helping. Through the real-time investigation conducted by the rating agencies, the insurance company can grab a fully understand of the shipping company's business condition.

Here, I assume that if you combine KPI to evaluate it, the effect will be more intuitive and clear. Take the shipping company as an example, although the content of performance evaluation may be similar, almost the same, but for different companies, his evaluation results must be different, the use of these different evaluation results of the data, the credit rating can be different for the company more objective. Normally, the credit rating will include: debt paying ability, profitability, operation ability and growth ability are four aspects. However, for the liner shipping company, also can balance the KPI indication. there is an example below:



#### **5.2.4 Start the "Internet plus new import credit insurance" model**

The insurance company should make full use of the advantages of big Internet data technology, to create a special insurance company information collection system. The designated staff should be allocated in charge of this system. Import the shipping company's information to the specialized data collection system and keep the data updated. By regular updates, real-time monitor these shipping companies' operation performance, the insurance company can carry out accurate risk assessment at any time to reduce the re-underwriting workload. At the same time, this system can also carry out the necessary guidance for suppliers in selecting shipping company. The determination of underwriting period can be made by the insurance company according to the real-time information of shipping company which can easy checking in this system. If the shipping companies' operating and credit in good condition, the insurance company can consider cover their vessel on world-wide ocean-going. Otherwise, the short-sea limited should apply or recommend other good shipping companies to the supplier. In addition, the insurance premium should be adjustable according to the assessment of each shipping company. Giving the favorable premium rate to the shipping company whose operation and credit in good condition. To the contrary, higher premium should apply to those operation and credit not so good companies.

#### **5.2.5 The implementation of strict insurance approval system**

It is necessary to do a good job pre-investigation. Each time before the insurance company underwriting, they have to search the Internet to collect information or consult the brothers to understand the shipping companies and suppliers' operation situation. To avoid the situation where suppliers and shipping company jointly cheat the insurance company occur, the insurance company must double check the information through the established risk assessment mechanism and the messages provided by the issuing bank.

At the same time, a strict examination and approval system has to be implemented. When the supplier apply for insurance business, in addition to review the information provided by the supplier, the insurance company also need obtain the shipping company's relevant materials who will co-operate with the supplier to prove the operating status of the shipping company (such as the balance sheet in recent 3 years, copies of profit statement and cash flow statement and a credit rating certificate, etc.). In addition, in order to ensure the smooth conduct of the next business, after the end of the insurance liability, the insurance company cannot take it lightly. Sum up the business in a timely manner, carry forward the advantages and correct the shortcomings, the company will develop in a good path.

#### **5.2.6 Expand diversified import insurance business**

The insurance companies should expand the scope of the current insurance business to set up a special shipping company bankruptcy insurance, to promote the formation of new import credit insurance business. In the specific establishment of the insurance process, according to the different circumstances of the supplier is divided into different risks: according to different management status of the shipping company's business and credit, insurer can set up the supplier full insurance (insurance amount equal to the insured value) and non-full insurance (insurance amount lower than the insured value). If the shipping company operating and credit in good condition, suppliers can choose non-full insurance, it also saves the insurance cost. If the shipping company operating and credit status uncertainty, the supplier can choose the full amount of insurance in order to minimize the risk. Depending on whether the supplier's cargo is transported for the whole vessel, the supplier's collective insurance and individual insurance may be established. If the supplier's goods are shipped together with other cargo, the supplier and other suppliers who ship together with the ship can choose collective insurance, each other can also spread the risk, to share premiums. If the supplier's goods shipped in the whole ship transport, the supplier has to choose the



individual insurance. In addition, during the implementation of insurance, the insurance company also according to the actual situation of the specific insurance risks continue to make adjustments to the import credit insurance. This will lead the import insurance industry to a diversified development pattern and provide better services to the suppliers.

In short, the establishment and implementation of new import credit insurance business would be a long road. A lot of problems would show up in the course of its operation. So, we have to sum up the experience constantly. To make continuous innovation and provide the suppliers with better business services, the insurance companies, commercial banks and suppliers should share the same goal and work together closely. Only in this way the China's import trading can be prompted and develop in a rapid and healthy path.

## **Chapter 6. Conclusion**

Hanjin is one of the world's shipping giant once. Its bankruptcy caused the shipping industry panic, also let the global shipping industry to accept the lesson to reshuffle. This is definitely a great lesson for suppliers. Both suppliers and ship owners can get a lot of inspiration from them.

In order to survive, many shipping companies have launched large-scale mergers and acquisitions or collaborated with their competitors. For example, recently, Japan's three largest shipping companies announced last week that their respective container shipping operations would be one, and that the combined transport capacity would be sixth of the industry. Maersk, which accounts for about 15.5% of the world's transport capacity, has said it is prepared to take advantage of the company's strong financial strength to acquire rival competitors.

Officers of the world's leading shipping companies say the risks of shippers are becoming stronger after the Korean Hanjin Shipping crisis, and shippers are looking

for shipping companies that appear to be more fiscally sound. New import insurance should be implement in order to control the credit risks of shipowners and suppliers.

In the face of so many difficulties, it may be necessary for all parties in the supply chain to rethink and seek a new environment for win-win cooperation. Sustained loss of a format on the industry chain will hurt the relevant parties on the chain. To create a good business relationship, the government must establish a harmonious symbiotic business circle for banks, insurance, shipowners, carriers, suppliers and consumers. It needs joint efforts of all parties concerned

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