

## War in Korea: A Cause for Shipbuilding Frustration'

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May 2, 2017 Simon Curtis

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**PRACTICES** Ship Construction and Conversion, Shipping

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The risk of military conflict is of grave concern to the global maritime community as a whole.

As tensions rise on the Korean peninsula, what impact might any conflict have on commercial shipbuilding?

GLOBAL headlines are currently dominated by news of a substantial escalation in tension on the Korean peninsula.

The US Government has warned that all options, including a pre-emptive military strike, are on the table to prevent North Korea from developing an intercontinental nuclear missile capability. President Trump has directed a US Navy group to the area and has said a “major, major conflict” with North Korea is possible.

The other major military power directly involved, China, has said publicly the situation could “escalate or slip out of control”.

A war between the two Koreas would have a devastating effect on the whole peninsula — indeed, for northern Asia generally. In economic terms, it would generate very serious consequences for South Korea’s ailing shipbuilding sector, already in crisis and facing significant financial challenges.

But the risk of military conflict is of grave concern to the global maritime community as a whole. South Korea’s shipyards currently build approximately one-quarter of the world’s newbuilding tonnage and the level of global investment made in vessels under construction in Korea represents a substantial financial exposure for the ship owning and ship financing sectors.

The legal issues raised by a possible war in Korea have, however, been little discussed. These are essentially issues of English law because the overwhelming proportion of South Korean export new buildings are constructed under shipbuilding contracts and secured by refund guarantees, which are expressly governed by English law. These agreements also typically provide for arbitration or High Court jurisdiction in London.

From the perspective of the newbuilding purchaser and its bankers, there are a number of issues to consider.

Firstly, a war in Korea could lead to significant disruption to the newbuilding programme of local shipyards and to substantial delays in delivery of ships under design or construction.

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