# LIBERALIZATION OF THE CONTAINER HAULAGE INDUSTRY IN MALAYSIA

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***ABSTRACT***

*The increase in volumes of international trade using containerization led to the rapid growth of container traffic at Malaysian ports throughout the 1980s and 1990s, which in turn resulted in congestion at ports and delays in delivery of containers to their destinations. Operasi Cekap, a concerted effort by the Federation of Malaysian Manufacturer, Port Authorities and the Ministry of Transport, was undertaken to find a solution to the problems of delay in delivery and congestion at the ports. In line with the recommendations made by various studies sponsored by the industry and Government, measures have been taken to liberalize the road haulage industry by allowing a greater number of operators. Other steps have also been taken in order to ensure that the manufacturing operations can be run smoothly and Malaysian ports remain competitive. The liberalization of the haulage industry was seen as a necessity as the dramatically increasing number of containers arriving at national ports could not be handled effectively by the few existing operators.*

*This paper discusses various measures that have been taken by the Malaysian Government to liberalize the container haulage industry and also examines the rationale and implications of liberalizing the industry within a short span of time.*

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## INTRODUCTION

The advent of containerization has led to an efficient way of freight transport across the world. The safety, versatility and ease of handling features of container technology, as well as its suitability for multi-modal transportation have helped in the rapid and wide penetration of the technology in the freight industry. Encouraged by its efficiency and cost-effectiveness, the development of containerization in Malaysia has closely followed its advancement in the global shipping industry. However, the burgeoning demand for freight transport owing to the booming growth of the country's manufacturing and industrial sectors, has also significantly contributed to the fast growth of containerization in Malaysia.

The increase in volumes of international trade using containerization led to the rapid growth of container traffic at Malaysian ports throughout the 1980s and 1990s, which in turn resulted in congestion at ports and delays in delivery of containers to their destinations. The problem reached a level at which manufacturers and exporters had to incur excessive costs for storage and delays at the ports. Faced with this situation, the Government of Malaysia developed several policies aimed at increasing the efficiency of the container haulage industry in order to remain competitive in the global market.

*Operasi Cekap*, a concerted effort by the Federation of Malaysian Manufacturer (FMM), Port Authorities and the Ministry of Transport (MOT), was undertaken to find a solution to the problems of delay in delivery and congestion at ports that peak further during the festive periods. Several factors that contributed to the situation were identified. One of the main factors identified was that the number of container haulage operators was insufficient. In 1991, there were only four operators, which prompted the Government to consider policies to liberalize the haulage industry in the country. Chief among these policies was to allow multiple operators in this previously controlled market. It may be mentioned here that the industry, which began with a single operator in 1971, had 55 operators by 2001 thanks to the liberalization policy of the government.

The Government considered the liberalization of the haulage industry as a necessary move since the number of container movements at national ports had increased dramatically over the years. Furthermore, the Government was committed to attracting more main line shipping operators (MLOs) to Malaysian ports. The implication of this policy was that the number of containers arriving could reach 5-6 million boxes by 2004.

It was expected that the emergence of new hauliers would significantly increase the efficiency and capacity of the industry. The new hauliers would be providing services that used to be provided by the five main container haulage operators in the past. The resulting competition from a large number of hauliers in the market was expected to bring about service rationalization, reduction in delays and possibly rate adjustment, which could enhance the efficiency of the industry and thereby benefit the container users as well as encourage greater containerization in the future.

The liberalization of the haulage industry received overwhelming support from many sectors of the economy, especially from the manufacturing and the haulage industry itself. However, the existing haulage operators expressed their deep concern and were sceptical about the expected benefits of liberalization. While the manufacturing sector viewed the liberalization move as a vital step towards increasing the level of service of the haulage industry, the existing haulage operators felt that this move would create instability in the industry.

With this background in mind, the objective of the paper is to examine the rationale of the Government's move in allowing a large number of hauliers within a short period of time and its effect on the industry. The paper also discusses the effects of other steps that have been undertaken to liberalize the industry. Finally, some recommendations have been made based on the experience gained so far and conclusions are drawn.

# I. BACKGROUND OF THE CONTAINER HAULAGE INDUSTRY IN MALAYSIA

In Malaysia, containerization made its debut in 1971. It was the same year when the Government launched its second Malaysia Plan (2MP). In 2MP, the Government proposed the formation of a national haulage company to meet the inland transport requirements of the country. Subsequently, *Kontena Nasional Berhad* was established in August of the same year. Four months later, in December 1971, the first container vessel, *M.V. Benavon* on its maiden voyage called at North Terminal, Port Klang.

The rapid economic development experienced by Malaysia throughout the 1980s and early 1990s, especially the huge expansion of its industrial and manufacturing sector, led to massive demand for container haulage services. To meet this growth of demand and in response to increasing pressure for better services, four more operators were introduced between 1981 and 1991 (see table 1). These five operators carved up the container road haulage industry until 1997. They formed the Container Hauliers Association of Malaysia (CHAM). As of June 1999, CHAM represented the five operators and had a combined fleet of 2,131 prime movers and 10,701 trailers (see table 2).

**Table 1. New container haulage operators (1981-1991)**

| No. | Operators | Year |
|---|---|---|
| 1. | Shapadu Kontena (now Diperdana Kontena) | 1981 |
| 2. | Konsortium Perkapalan (now Konsortium Logistik Berhad) | 1983 |
| 3. | MISC Haulage Sdn Bhd | 1991 |
| 4. | Multimodal Freight Sdn Bhd | 1991 |

*Source*: Commercial Vehicle Licensing Board.

**Table 2. Container haulage operators and vehicles licensed, June 1999**

| No. | Company | Number of licences approved | | Number of vehicles licensed | | Balance unused | |
|---|---|---|---|---|---|---|---|
| | | Prime mover | Trailer | Prime mover | Trailer | Prime mover | Trailer |
| 1. | Kontena Nasional Sdn Bhd | 822 | 3 307 | 771 | 3 035 | 51 | 272 |
| 2. | Di Perdana Corporation Berhad | 350 | 1 626 | 325 | 1 417 | 25 | 261 |
| 3. | Konsortium Perkapalan Berhad | 464 | 2 627 | 422 | 2 336 | 42 | 291 |
| 4. | MISC Haulage Services Sdn Bhd | 400 | 2 800 | 400 | 2 607 | 0 | 193 |
| 5. | Multimodal Freight Sdn Bhd | 275 | 1 664 | 213 | 1 306 | 62 | 358 |
| **Total** | | **2 311** | **12 024** | **2 131** | **10 701** | **180** | **1 375** |

*Source*: Commercial Vehicle Licensing Board.

In 1997, the Government decided that it was necessary to increase the number of operators in the industry. The move was seen as an early attempt by the Government to increase efficiency in the industry following numerous complaints that it had received concerning the inefficiency of the industry and delays in providing services. Consequently, the Government approved seven new operators (see table 3). However, these new operators were allowed to haul containers only within a range of a 30-kilometre radius of the ports. This geographical restriction of operation was, however, lifted in 2000.

**Table 3. New container haulage operators (1997)**

| No. | Operators |
|---|---|
| 1. | Gerak Intensif Sdn Bhd |
| 2. | Taipan Connection Sdn Bhd |
| 3. | Sparkomatic Assemblers Sdn Bhd |
| 4. | Veteran Timur Sdn Bhd |
| 5. | Tripee Sdn Bhd |
| 6. | Siang Cemerlang Sdn Bhd |
| 7. | Halus Maju Sdn Bhd |

*Source*: Commercial Vehicle Licensing Board.

With these 7 new operators, the total number of players in the haulage industry was raised to 12. However, even after the introduction of the new operators and subsequent lifting of initial restriction on their area of operational coverage, the situation at the ports did not improve according to expectations. Delays in deliveries were still common, particularly during the festive seasons, and this modest increase in the number of operators also did not help much to alleviate the congestion problem at the ports.

By the middle of 1997, the Malaysian and other economies in the ASEAN region were badly hit by the Asian financial and economic crisis. National economic growth came down to far below its previously expected level of performance. As a consequence, the container haulage industry, which depended on the volume of production and domestic and international trading activities, was badly affected. Owing to the sudden fall in demand, the industry suffered from excessive capacity for some period after the crisis.

The unexpected downturn of the economy that followed the crisis however, did not distract the Government from its commitment to the liberalization of the industry. It continued to pursue its liberalization policies. The main reason for this was that the volume of containers arriving at the ports again started to increase with the gradual recovery of the economy.

The policy of issuance of permits to more operators was continued even though there was a view in the industry in support of stopping the issuance of new permits. Gradually more operators were permitted. As a result, 55 container haulage operators now operate in the country, which has resulted in a smaller share of the market for each operator (see table 4).

## Table 4. Total number of container haulage operators in Malaysia, 2001

| No. | Operators | No. | Operators |
|---|---|---|---|
| 1. | Kontena Nasional Berhad | 29. | PMSAA Multimodal Sdn Bhd |
| 2. | Di Perdana Corporation Berhad | 30. | IPLO Logistics Services Sdn Bhd |
| 3. | Konsortium Logistik Berhad | 31. | Benua Haulage Sdn Bhd |
| 4. | MISC Haulage Sdn Bhd | 32. | Insure-Trade Sdn Bhd |
| 5. | Multimodal Freight Sdn Bhd | 33. | Zetavest Sdn Bhd |
| 6. | Century Logistics Sdn Bhd | 34. | Nilai Inland Port Sdn Bhd |
| 7. | Integrated Haulage Sdn Bhd | 35. | Northport Container Terminal Sdn Bhd |
| 8. | Star Logistik Sdn Bhd | 36. | Prompt Dynamics Sdn Bhd |
| 9. | Timur Permai Haulage Sdn Bhd | 37. | Auto Wealth Plus Sdn Bhd |
| 10. | Asas Kontena Sdn Bhd | 38. | Triumph Alliance Sdn Bhd |
| 11. | Perak Freight Services Sdn Bhd | 39. | Yinson Haulage Sdn Bhd |
| 12. | M. Zain Logistics Sdn Bhd | 40. | Dayang Mewah Sdn Bhd |
| 13. | Pelangi Forwarding Sdn Bhd | 41. | Peladang Angkut Sdn Bhd |
| 14. | Johan Laju Transport Sdn Bhd | 42. | ZLA Transport and Services Sdn Bhd |
| 15. | Airocenic Express Sdn Bhd | 43. | Planetwide Express Sdn Bhd |
| 16. | Pengangkutan Toh Eng Huat Sdn Bhd | 44. | Teguh Cemerlang Sdn Bhd |
| 17. | Utas Lagenda Sdn Bhd | 45. | Ibrahim Hashim Transport Sdn Bhd |
| 18. | H.R.H Logistics Sdn Bhd | 46. | Pelabuhan Tanjung Pelepas Sdn Bhd |
| 19. | JP Logistics Sdn Bhd | 47. | Sparkomatic Assemblers Sdn Bhd |
| 20. | Jangkauan Galaksi Sdn Bhd | 48. | Taipan Connection Sdn Bhd |
| 21. | Second Port Logistics Sdn Bhd | 49. | Pekembar Industries (M) Sdn Bhd |
| 22. | Gugusan Peremba Sdn Bhd | 50. | Veteran Timur Sdn Bhd |
| 23. | LTS Logistics Sdn Bhd | 51. | Gerak Intensif Sdn Bhd |
| 24. | Tanjung Express (M) Sdn Bhd | 52. | Siang Cemerlang Sdn Bhd |
| 25. | Transocean Haulage Services Sdn Bhd | 53. | Halus Maju Sdn Bhd |
| 26. | Kasawari Angkut Sdn Bhd | 54. | Agenda Wira Sdn Bhd |
| 27. | Pintaran Timur (M) Sdn Bhd | 55. | Koperasi Polis Di Raja Malaysia Berhad |
| 28. | Persila Sdn Bhd | | |

*Source*: Commercial Vehicle Licensing Board.

## II. JUSTIFICATION FOR LIBERALIZATION OF THE CONTAINER HAULAGE INDUSTRY

This section provides a summary of the reasons and justifications considered by the Government for the liberalization of the container haulage industry in Malaysia.

### A. Increasing efficiency of the container haulage industry

Before the liberalization moves, the shipping sector all over the world considered the ports in Malaysia as inefficient and unreliable. One of the factors that contributed to this bad reputation was the congestion level at ports. A key contributor to this situation was the insufficiency of container hauliers in the country. The situation was much worse during peak periods and festival seasons. It may be mentioned here that the container hauliers are one of the key players in the logistics chain, which include shipping agents; freight forwarders; warehouses, depots and ports operators; and shipping lines. However, because of its key role in the chain, inefficiency of the haulage industry leads to inevitable inefficiency of the whole chain which in turn affects competitiveness of the economy.

The Government recognized the importance of smooth logistics operation in this country. In order to ensure efficient logistics operations, it decided to allow greater numbers of operators in the container haulage industry, which used to be controlled by the five CHAM members. It was expected that this move would induce greater competition between the operators resulting in higher efficiency of the haulage industry and the logistics chain as a whole as well as encourage innovations in providing new and more efficient services.

### B. Delays in haulage

The manufacturers and freight forwarders are among the main parties who have long urged the government for the liberalization of the container haulage industry. These two groups are represented at the ports by the Federation of Malaysian Manufacturers (FMM) and the Association of Freight Forwarding Agents, respectively. The main issue that they brought to the notice of the government was the delays in

delivery of containers, which increased their total transportation and inventory costs and subsequently the financial losses that they had to inccur due to the increased cost of transactions.

The delays in land-side operations were attributed primarily to the inefficiency of the hauliers. These delays affected the delivery to and removal of containers from the consignee's premise. In a study conducted by FMM in September 1998 it was found that 52 per cent of respondents were of the opinion that delays by hauliers were the main factor causing the delay in their operation. Delays also imposed additional storage cost on them as the containers were removed later than the period allowed by the port operators.

Similar views were also expressed by the respondents in a survey conducted by the National Productivity Centre (NPC) in 1999. Fifty per cent of the respondents to this survey considered the impacts of delay in the delivery of containers on their businesses as severe. It was also found that delays in dispatching containers from exporters' premises to the ports created a chain of adverse effects to their businesses. About 41 per cent respondents claimed that delays caused them to miss shipping schedules of MLOs calling at local ports. Subsequently, it resulted in the loss of customers for about 16 per cent of respondents and cancellation of orders to another 14 per cent of respondents.

Such occurrences resulted in the decline of Malaysian export competitiveness, which otherwise could have been avoided if the efficiency of container haulage operation had been improved. The above-mentioned FMM survey found that 61 per cent of the respondents supported the view of increasing the number of hauliers.

It was reported that in order to enhance the efficiency of the industry, the Government was initially in favour of pursuing a policy for consolidation of the existing five hauliers and allowing additional smaller operators within a defined geographical region around the ports. However, the Government decided afterwards to allow a larger number of hauliers and lifted the initial restrictions on operations of small operators, which were permitted in 1997.

## C. Commitment to globalization and ASEAN Free Trade Area (AFTA)

With the ongoing globalization of the world economy, the developed countries have urged the freeing and liberalization of domestic markets to allow a level playing field for all players. Pursuant to this call, one of the issues that was brought to the notice of the World Trade Organization (WTO) was the high degree of protection that many Governments in developing countries were providing to their transport sectors. Malaysia could not afford to distance herself from international business trends and it was also hard for her to get away from such external pressure.

With the implementation of AFTA by the year 2005, the national boundaries, from the trading perspective, will begin to fade away in the ASEAN region. Initiatives to secure the role of Malaysia as the regional distribution and consolidation centre requires her to develop efficient logistics operation in the country. This requires not just good physical facilities, but also comprehensive logistics-chain providers.

By liberalizing the container haulage industry, Malaysia would be in a favourable strategic position to meet the demand for the expected container movements in the region. The Government expects that the main container hauliers in CHAM would be able to provide a good and reliable service beyond the national borders and also could gradually venture into container haulage operations in Singapore, Thailand and other ASEAN countries. With the shift of the main hauliers to the regional market, the new hauliers then could play a bigger role in meeting the needs of domestic logistics operation left out by the bigger players.

The Government considered that the time left before the implementation AFTA could be used as a window of opportunity by the container haulage operators. During the intervening period, operational efficiency can be increased and planning can be made ahead of the expected changes in an increasingly complex and challenging regional market.

## D. Promotion of greater participation by the private sector

The five main container hauliers associated with CHAM are private entities. However, the Government has a direct stake in all of these five companies through holding of equity or through their status as sudsidiaries to a government owned company. For example, Permodalan Nasional Berhad, the investment wing of the Government, owns Kontena Nasional Berhad. MISC Haulage Sdn Bhd is indirectly owned by Petroliam Nasional Berhad (Petronas), the mother company for Malaysian International Shipping Corporation (MISC) and Multimodal Freight Sdn Bhd is a subsidiary of Keretapi Tanah Melayu Berhad (KTMB), which is a government-owned company.

However, unlike the big five companies in CHAM the Government does not have a direct stake in the new breed of container hauliers. They come from the private sector and most of them are related to and have a strong background in freight transport by land. With greater participation of the private sector in the industry, the Government hoped that it would be a in the right direction step towards reducing dependency of the industry on government whereby the private sector could develop and grow by itself.

## E. Growth of container traffic

There has been a phenomenal increase in the number of ship arrivals and container traffic at the ports in Malaysia throughout the 1990s with the exception in 1998, which was the year immediately after the financial crisis of 1997. For example, as can be seen from tables 5 and 6, the total number of ships calling at ports in the Peninsular Malaysia, as well as the container throughputs in 2000, recorded an increase of 10 per cent and 23 per cent, respectively over their corresponding figures in 1999.

Figure 1 shows the total number of TEUs (twenty feet unit) handled at Port Klang, Penang and Johor and the total number of prime movers and trailers available in the period 1995-2000. It shows that despite the total number of containers arriving at these ports having increased about 2.5 times in this 5-year period, the numbers of prime movers and trailers available for their inland transport have remained almost unchanged.

## Table 5. Ship arrivals by ports in Peninsular Malaysia, 1995-2000

| No. | PORT | | YEAR | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 1995 | percentage | 1996 | percentage | 1997 | percentage | 1998 | percentage | 1999 | percentage | 2000 |
| 1 | Kelang | Number | 7 870 | 21 | 9 533 | 15 | 10 984 | (2) | 10 764 | 6 | 11 439 | 9 | 12 416 |
| | | GRT (000) | 75 982 | 34 | 101 588 | 22 | 123 556 | 3 | 127 142 | 12 | 142 228 | 8 | 153 016 |
| 2 | Penang | Number | 6 465 | 1 | 6 556 | 8 | 7 071 | 15 | 8 166 | (10) | 7 341 | (1) | 7 263 |
| | | GRT (000) | 27 306 | 7 | 29 168 | 6 | 30 825 | 1 | 31 213 | 5 | 29 541 | (2) | 28 907 |
| 3 | Johor | Number | 5 481 | 7 | 5 887 | 3 | 6 089 | (1) | 6 051 | (1) | 6 001 | 8 | 6 485 |
| | | GRT (000) | 24 737 | 16 | 28 652 | 15 | 33 025 | 5 | 34 560 | 4 | 35 859 | _ | 40 737 695 |
| 4 | Kuantan | Number | 1 357 | 13 | 1 536 | 7 | 1 643 | (14) | 1 419 | 7 | 1 516 | 11 | 1 677 |
| | | GRT (000) | 7 978 | 19 | 9 454 | 17 | 11 098 | (2) | 10 849 | 23 | 13 357 | 7 | 14 307 |
| 5 | Tg. | Number | 0 | _ | 0 | _ | 0 | _ | 0 | _ | 0 | _ | 1 300 |
| | Pelepas | GRT (000) | 0 | _ | 0 | _ | 0 | _ | 0 | _ | 0 | _ | 0 |
| 6 | Others | Number | 6 740 | 32 | 8 915 | (2) | 6 895 | (67) | 2 257 | (17) | 1 870 | (2) | 1 826 |
| | | GRT (000) | 15 031 | (6) | 14 169 | 7 | 15 133 | (14) | 12 965 | (9) | 11 760 | (19) | 9 572 |
| **TOTAL** | | Number | **27 913** | **16** | **32 427** | **1** | **32 685** | **(12)** | **28 567** | **(1)** | **28 167** | **10** | **30 967** |
| | | GRT (000) | **151 034** | **21** | **183 031** | **7** | **213 637** | **1** | **216 729** | **7** | **232 745** | | **40 943 497** |

*Source*: Transport Statistics 2000, Ministry of Transport Malaysia.

GRT = Gross registered tonnage.

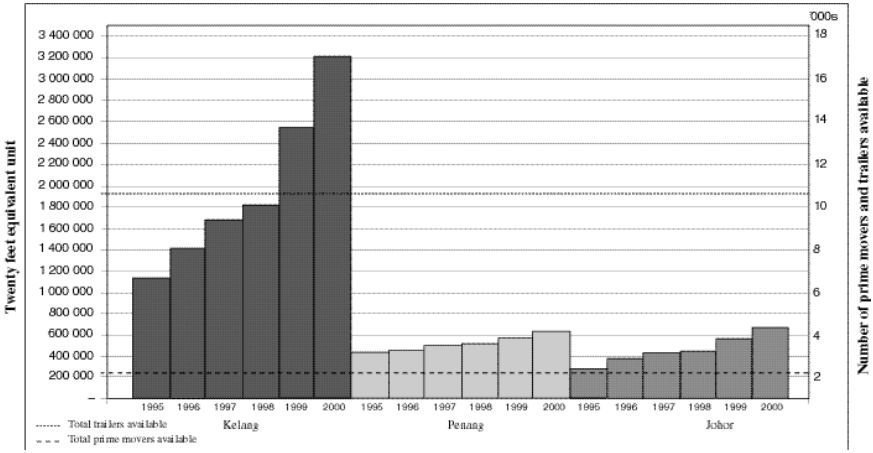
Percentage = Percentage change between the years in the adjoining columns. Numbers in brackets are negative.

## Table 6. Total container throughput by ports in Peninsular Malaysia, 1995-2000

| No. | PORT | TOTAL (TEUs) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1995 | percentage | 1996 | percentage | 1997 | percentage | 1998 | percentage | 1999 | percentage | 2000 |
| 1 | Kelang | 1 133 811 | 24 | 1 409 594 | 20 | 1 684 508 | 8 | 1 820 018 | 40 | 2 550 419 | 25 | 3 206 753 |
| 2 | Penang | 433 474 | 5 | 454 765 | 11 | 506 863 | 1 | 510 307 | 11 | 566 409 | 12 | 635 780 |
| 3 | Johor | 302 898 | 25 | 377 890 | 14 | 429 448 | 2 | 439 661 | 27 | 558 056 | 18 | 659 181 |
| 4 | Kuantan | 22 591 | 81 | 40 821 | 34 | 54 855 | (7) | 50 989 | 10 | 56 056 | 12 | 62 783 |
| 5 | Tg. Pelepas | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 37 539 |
| 6 | Others | 0 | 0 | 2 060 | 12 | 2 313 | (57) | 1 000 | 0 | 0 | 0 | 0 |
| **TOTAL** | | **1 892 774** | **21** | **2 285 130** | **17** | **2 677 987** | **5** | **2 821 975** | **32** | **3 730 940** | **23** | **4 602 036** |

*Source*: Transport Statistics 2000, Ministry of Transport Malaysia (2002).

Percentage = Percentage change between the years in the adjoining columns. Numbers in brackets are negative.




*Source*: Transport Statistics 2000, Ministry of Transport Malaysia.
Commercial Vehicle Licensing Board, Malaysia.

**Figure 1. Total TEU throughput, and prime movers and trailers available, 1995-2000**

The number of containers arriving at all ports in 2000 was 4,602,036 TEUs. Based on the movement efficiency ratio of 1 prime mover: 7 trailers: 182 movements a year, as provided by Commercial Vehicle Licensing Board (CVLB), the estimated requirements of prime movers and trailers for the transport of these containers were 3,612 and 25,286, respectively. When these figures are compared with the figures of actually available prime movers and trailers with the five major hauliers (see table 2), it is clear that the prime movers and trailers available to these companies were far short (only about 58 per cent prime movers and 42 per cent trailers) of their estimated requirements. There would been an insufficiency in supply of services if the capacity of the haulage industry had remained the same as that of the total capacity of the five major hauliers in 1999.

## III. CONTAINER HAULAGE OPERATION IN MALAYSIA

Road, rail and coastal shipping services are used for container haulage operation in Malaysia. This section provides a brief description of haulage operation by these three modes of transport.

### A. Container haulage by road

The container haulage operation by road is a dedicated form of transport, which is designed to haul only containers. It consists of a prime mover or a traction unit and a trailer unit upon which a container is loaded. The traction unit can be attached to or detached from the trailer unit. The trailer unit is designed to take two 20-feet containers or a single 40-foot container.

In Malaysia, a drop-trailer method of operation is generally used in the industry, whereby a container that needs to be stuffed or unstuffed is left mounted on its trailer at its origin or final destination. It is often the case that a container is left at a site for days together with its trailer and is used as a buffer warehouse by manufacturers. Apart from that, trailers are also used at ports for pre-mounting of boxes and then they are left for customs inspection and clearance, which also takes days to complete. (MDS Trans Asia and Economic Planning Unit, PM's Department, 1995).

The availability of trailers for container haulage is greatly affected by their long turnaround time owing to the drop-trailer method of operation. Idle trailers left at the premises of shippers or at ports affect the movement of containers, as they cannot be used for the actual haulage operation. A prime mover, however, can be detached from the trailer and can be used for another operation.

The turnaround time of trailers is also affected by length of haulage. The industrial and manufacturing firms, which represent a large part of container haulage customers, are located over a widely spread geographical area in Malaysia. As such, deliveries and picking up of containers can be a time consuming process, which in turn directly affects the turnaround time and availability of both prime movers and trailers. It may be mentioned here that the industrial ratio for container haulage in Malaysia (prime mover to trailer) is typically 1:6 or 1:7, which is considered to be quite high compared with the ratio of many other regional countries.

Malaysia practices a *merchant haulier* system whereby the importers or exporters are responsible to arrange for the delivery and picking-up of their containers. This is done either by themselves or they use the services of independent freight forwarders.

Bhupinder Singh (2001) states that before liberalization of the Malaysian haulage industry, it was considered to be an oligopolistic cartel, which consisted of five leading haulage firms, namely Kontena Nasional Bhd, Konsortium Logistik Berhad, Diperdana Corporation Berhad, MISC Haulage Services Sdn Bhd and Multimodal Freight Transportation Sdn Bhd. An oligopolistic industry is typically characterised by high barriers to entry that could be due to substantial capital requirements, need for the technical know-how, control of rights to entry and so forth. These characteristics applied to the haulage industry in Malaysia. Apart from the requirement to obtain an operating license through a lengthy process and government control of the number of licence, entry into the container haulage business required large investments in equipment, setting up of an establishment, and sophisticated management and technical know-how to run the business.

## B. Container haulage by rail: KTMB container and landbridge services

The container haulage operation by rail is carried out by Keretapi Tanah Melayu Berhad (KTMB), the Malaysian State Railway Authority. KTMB's Freight Service Division is the sole provider of container haulage operation in the country. Apart from container movement from Port Klang, Penang and until recently the Port of Tanjung Pelepas, its rail connection also links to Inland Clearance Depots (ICDs) such as Ipoh Cargo Terminal, Sg Way ICD, Nilai Inland Port and Segamat Inland Port.

KTMB also operates a landbridge service in cooperation with the State Railway of Thailand (SRT) providing cross border movement of containers between Malaysia and Thailand. This landbridge service links the Malaysian ports having railheads with the Lat Krabang ICD in Thailand. The service is currently run by four operators, namely T.S. Transrail (M) Sdn Bhd, Freight Management (M) Sdn Bhd, TS Allied Solution Sdn Bhd and PTP Landbridge Services Sdn Bhd.

Container haulage by rail was developed as one of the means to reduce congestion and improve efficiency of the ports. In 2000, KTMB carried a total of 255,312 TEUs, which represented an increase of almost 200 per cent over the previous year. In order to provide a door-to-door service and improve the quality of service, KTMB has introduced the concept of multi-modal transport in its container haulage operation. It has formed a subsidiary road haulage company called Multimodal Freight Sdn Bhd to facilitate its multi-modal haulage operation.

In order to enhance the capacity of container haulage by rail, the Government has allocated RM 4.5 billion in the Eighth Malaysia Plan (8MP) for double tracking of the main railway line that will eventually connect Padang Besar at the Malaysia-Thai border with Johor Bahru at the Malaysia-Singapore border. Apart from this, the Government is also contemplating a railway link connecting the city of Kunming in China with Singapore via Malaysia, which would further boost the role of railway in container haulage operation.

### C. Container haulage by feeder vessels

Feeder vessels and coastal vessels also play an important role in the Malaysian container haulage industry. These vessels are used for the trans-shipment of containers from smaller ports to main ports in Peninsular Malaysia and from the main ports to other ports in the ASEAN region.

The present feeder services that operate from various ports in Malaysia, however, are mostly carried out by Singapore-based companies. According to the statistics obtained from the Maritime Department, Ministry of Transport, a total of 5,220 container feeder vessels and 2,275 coastal vessels called at different ports in Malaysia in 2000.

## IV. REGULATORY CONTROL OF THE CONTAINER HAULAGE INDUSTRY

Generally, transport operations in Malaysia are subject to a high degree of regulatory control by the Government. This is particularly so in the case of the container haulage industry, which is regulated by two acts, namely:

(a) Road Transport (RT) Act, 1987;

(b) Commercial Vehicle Licensing Board (CVLB) Act, 1987.

These two Acts are enforced by the Ministry of Transport (MOT) and the Ministry of Entrepreneur Development (MED). All matters concerning the technical and safety aspects of the road transport industry are regulated under the RT Act of 1987. On the other hand, the CVLB Act of 1987 is concerned with licensing of operators and their management. It may be mentioned that an operator who wants to enter into the haulage industry must first apply for a licence from the CVLB.

### A. Licensing of commercial vehicles

The CVLB Act of 1987 has empowered the Commercial Vehicle Licensing Board in matters pertaining to licensing of commercial road vehicles and their operation. The regulatory authority exercised by the

Board has important implications in the context of liberalization of the haulage industry.

Without a licence or 'permit' as it is commonly referred to in Malaysia, an operator cannot operate even if a vehicle is to be used for carrying his own goods. There are two types of permits. The first type is a 'C' Licence, which is issued to an operator who is allowed to carry his own goods. The second type is an 'A' Licence, which applies to commercial hauliers. This licence is issued to operators who are allowed to carry goods by using road vehicles for hire or reward.

Both categories of licence are issued to an individual or company and cannot be transferred or assigned to another party without prior notice to the Board. Section 19 (1) of the CVLB Act provides authority to the Board concerning imposition of a wide range of licensing conditions on the operator and his business operations. The Board may at its discretion impose, add, cancel or vary at any time, any of the following conditions:

(a) The specific area, times, and places between which the vehicle shall operate;

(b) The class or description of goods that can be carried;

(c) Individuals/firms for whom goods can be carried;

(d) Imposition of charges and demurrage as specified;

(e) The maximum laden weight that shall not be exceeded;

(f) The information, accounts, documents and records that are to be kept in order and produced on demand.

In order to ensure that new container haulage operators were qualified to get permits to start haulage operation, the Board set several additional qualification requirements. These requirements were considered necessary in order to ensure that the prime objective of liberalization to increase the efficiency of the industry could be achieved and that the new operators were able to provide services that were of the industry standard.

The additional requirements that must be fulfilled by the operators include:

(a) The management and operation of business by the operator himself and prohibition from leasing or renting out the permits;

(b) Running of a 24-hours office by operator;

(c) Having a depot and a vehicle storage centre that have been approved by the local authority;

(d) The obligation to operate at all times and that the haulage operation cannot be stopped during festive seasons;

(e) Employment of trained and licensed drivers;

(f) Equipping with a reliable communication system;

(g) Capacity of vehicles used must be 20 tonne trailers;

(h) The information, accounts, documents and records that are to be kept in order and produced on demand.

Before March 2001 an operator was allowed to operate only in a defined area under the provisions of the CVLB Act. The Board however abolished this provision upon numerous requests from the container haulage operators. However, as mentioned below, a new system of four operational zones has been introduced. An operator is not restricted by geographical operational boundaries within a zone.

The setting of tariff rates is also under the administrative control of the Board. The Board set a minimum charge of RM 174.00 for the first 32 kilometres. The rate however has remained the same over the past 30 years despite calls for its increase by the container haulage operators. According to the operators, operating costs in the industry have increased considerably over the past 30 years. As a result, the profit margin has greatly declined. Apart from that, the cost of purchasing new prime movers and trailers has increased significantly. To provide some relief to the operators, the Government has announced tax incentives in the budget of 2000 for the purchase of new prime

movers. However, this incentive applies only for the purchase of brand new prime movers but not for reconditioned ones.

As mentioned earlier, the licence or 'permit', acts as the main barrier to a new operator who wants to enter the industry. Without the 'permit', an individual or organization interested in the haulage industry cannot purchase, register and operate a container truck, even for moving his own goods.

### B. Other means of regulatory control

Besides licensing, there are several other control measures provided by the CVLB Act 1987 and RTA 1987 which are also used to control the road haulage industry. For example, the number of operators is controlled by the Act. Formerly, only 5 container haulage companies were allowed and the number has been allowed to increase to 55 operators in the recent years.

As the Board controls the number of licences issued, it also determines the number of vehicles in the market, which the operators could operate. For example, an operator must maintain a ratio of one prime mover for every seven trailers in his fleet. This ratio represents the container movement efficiency ratio that was set by the Board as a guideline for the industry.

Regulatory control is also applied to the size and capacity of the haulage vehicles. The maximum vehicle dimensions and mandatory technical requirements are specified in the Acts.

For the purpose of fixing tariff rates for container haulage operation, a system of four zones has been introduced as shown in table 7. This zoning system, however, does not restict the movement of hauliers. It merely acts as a guidance to fix haulage rates. The rates are calculated based on the distance travelled from the haulage base (ports) to the premises of the customer. It accounts that for the first 32 kilometres from the haulage base, a minimum of RM 174.00 should be applied. The rates also differ from every haulage base to the final destination. For example, the rates from Penang Port and Johor Port to Kuala Lumpur differ according to the distance.

**Table 7. Zone system**

| No. | Zone | Haulage base |
|---|---|---|
| 1 | Northern | Penang Port and Ipoh Cargo Terminal |
| 2 | Central | Port Klang |
| 3 | Southern | Johor Port – Pasir Gudang and Tanjung Pelepas Port |
| 4 | Eastern | Kuantan Port |

## V. IMPORTANT ISSUES

The liberalization of the container haulage industry in Malaysia has achieved its main objective of increasing the efficiency in the industry in general. The manufacturers and customers of the container haulage industry have been benefited in controlling their total transport costs. They can clear their containers from the ports in a much shorter time period of three to five days and thus avoid storage charges at the ports.

However, it has also led to some unintended results. The move to allow 50 new operators within a period of 5 years has created an excess supply of services in the midst of a shrinking market. This has created some instability in the market. In view of this and other problems faced by the haulage industry, the following two major issues have been identified which require attention of the concerned authorities. Given the complexity of the issues and their possible far-reaching effects on the road haulage industry, it is recommended that further studies need to be undertaken to examine their effects both in the short- and long-term as well as to find their appropriate solutions.

### A. Excess capacity and efficient utilization of resources

It is understood that applications of 10 more new operators are being processed by CVLB who are expected to join the industry by the end of the year 2002 or early 2003. This would raise the total number of operators from the current 55 to 65. As of now, there is no indication as to whether the Government would stop issuing licenses to any more new operators.

While numerical proliferation of operators in the past has certainly helped to improve the overall efficiency of the industry to some extent, any further improvement would greatly depend on increasing the operational and organizational efficiency of the operators and not so much on their sheer numbers. Given the existing excess capacity, which may further be increased through institutional changes and improvement of logistics, greater considerations should now be made on the improvement of quality of services through better utilization of existing resources and changes in management and operational practices in the industry. Higher efficiency in resource utilization would reduce the necessity of new investments. This shift of focus would help to maintain stability in the container haulage industry and prepare it better to take the new challenges from the external environment, as well as capture new business opportunities that would be created through opening up of the regional market.

There are many different ways to improve the quality of services and increase the efficiency of resource utilization. For example, "Shippers' Charters" and the ISO 9000 have specific recommendations for these purposes. As suggested above, these recommendations need to be investigated in the Malaysian context through an in-depth study with wide participation of all parties involved with the industry. The results of such a study would help the Government and the industry to scrutinize the real ability of the operators and identify the root causes of the problem and their solutions through specific actions by each of the parties involved.

The study may consider both regulatory and non-regulatory measures. While the regulatory measures on qualitative aspects of service and operations could be incorporated as conditions of licensing, the non-regulatory measures, depending on their nature, could be implemented by the Government or the industry. It needs to be emphasized here that further improvement in efficiency of the industry through better utilization of resources and improvement of service quality would be much needed to ensure the viability of the industry in the face of forthcoming challenges after the implementation of the ASEAN Free Trade Area (AFTA).

### B. Reviewing the container haulage rates and tariffs

There is a need for a review of the current tariff rates in the container haulage industry. The rates have remained fixed for 30 years. Over the years, the costs of container haulage have increased considerably. As a result, the profit margin of the operators has been greatly reduced. To look into the problem, the in-depth study suggested in section V.A may also consider how much reduction in costs could be possible through efficiency gains in the industry. A separate study may also be considered to examine the current cost structure of the industry and review the existing tariff rates. However, interests of all stakeholders, not just the haulage operators, should be taken into account in any review of the tariff rates.

## CONCLUSION

The liberalization of an industry may have both positive and negative effects. However, their relative magnitudes depend on how the liberalization measures were implemented. A detailed study is required to know all the pros and cons of the intended liberalization measures before the moves should be taken. The experiences of liberalization of the road container haulage industry in Malaysia is a good example that shows the necessity of such a prior study to reap the full benefits of liberalization.

With the increase in capacity of the haulage industry, the overall efficiency of the logistics chain in Malaysia has greatly improved. Malaysian ports have experienced greater efficiency by reducing the congestion level at the ports tremendoulsy. This has allowed greater movement of containers at the ports. Haulage customers are now enjoying better services owing mainly to reduction of delays in delivery, avoidance of storage and detention charges at the ports and better terms of service offered by the hauliers.

However, this does not mean that the move to liberalize the industry has been a complete success. The rapid increase in the number of operators has created excess capacity, which has given rise to an unhealthy trend in the industry and the financial sustainability of the operators is at risk. With the implementation of AFTA, the industry

will be exposed to a greater level of uncertainty in the face of competition from foreign operators. In this condition, leaving the matter in the hands of the market alone may not result in a desired situation and could give rise to more complex problems in the future.

The industry at the moment faces an uphill task of reorganizing itself and shaping up for the future challenges. The prospect of the industry however looks bright if all parties are willing to provide cooperation and join hands to face future challenges. For now, the anticipated economic recovery has shed some light for the future that looked dim two years ago.

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