



SEA VIEWS

MIMA'S ONLINE COMMENTARY ON MARITIME ISSUES

No. 7/2011

30 November 2011

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The cabotage conundrum

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The Cabotage Policy has been intensely debated by shippers/consumers in the Malaysian states of Sabah and Sarawak and local shipping companies. Nazery Khalid ponders the way forward on this divisive issue.

To liberalize or not to liberalize

In June 2009, the Ministry of Transport Malaysia (MOT) announced the partial liberalization of the Cabotage Policy by opening up the domestic container trade between three ports in Peninsular Malaysia and three ports in Sabah and Sarawak. Cabotage Policy reserves the carriage of cargo from one domestic port of a country to another domestic port to ships registered under the flag of that country.

This decision was made partly in reaction to the complaints made by shippers and consumers in Sabah and Sarawak that the Cabotage Policy impeded the competitiveness of exports from those two states and also contributed to the high prices of goods and services there. They blamed the lack of competition in the trade and the high freight rates between Peninsular Malaysia and the two states as the principal reason behind the lack of competitiveness of their exports and the high prices of goods and services in the two states. They maintained that opening up the trade would lure foreign shipping lines to serve Sabah/Sarawak ports and create competition with domestic players leading to better services, lower freight rates and lower prices of goods and services.

Two and a half years after the partial liberalization of the Cabotage Policy, the situations mentioned have not changed much. Shippers and consumers in Sabah and Sarawak blame this on the Cabotage Policy and continue to demand that Malaysia does away with the policy, or at the very least opening the entire domestic trade in Malaysia for a few years to assess its effectiveness.

This is against the stand of local shipping companies which want to see no further erosion of the protection accorded to the domestic shipping trade. They were unhappy that the Cabotage Policy was even liberalized in the first place, contending that the target of developing national shipping tonnage and certain strategic interests would be compromised with the further liberalization or abolishment of the Cabotage Policy. The chorus of protest is led by Malaysian Shipowners Association (MASA) which stressed that many other reasons contribute to the high freight rates between Peninsular Malaysia and the Sabah/Sarawak, including trade imbalance and poor port and landside infrastructures in the two states. MASA pointed out that even after the partial liberalization, the situation of high freight rates and high prices of goods and services in the two states have yet to change, vindicating its assessment that Cabotage Policy is not the culprit to the problems claimed by shippers and consumers in Sabah/Sarawak to have been caused by the policy.

Former Minister of Transport Datuk Seri Ong Tee Keat said in July 2009 that the Cabotage Policy and shipping costs were not the main cause of the high prices of goods in the two states. Other factors contributing to this include weak distribution channels, high handling charges and inefficient inland transportation. In July 2010, Prime Minister Dato' Seri Najib Tun Razak said that the Government was willing to review the Cabotage Policy to enable Sabahan manufacturers to export directly without going through Port Klang as the National Load Centre. However, he said that the Government would have to study carefully if there would be any implications from liberalizing the policy further.

Moving the Cabotage agenda forward

Proponents of full liberalization or abolishment of the Cabotage Policy argued that doing away with the policy would make Malaysia an open and free market for shipping players and would

lead to more participation of foreign shipping lines, greater competition and better services. Shippers in Sabah/Sarawak believe that opening up the domestic trade would lead to more foreign lines coming to ports in the two states, hence would increase the prospect of exports from the two states reaching to other markets through greater connectivity at ports in the two states. They also argued that without the policy, throughput volume of ports would grow and prospects of maritime industry players in the two states would brighten with the arrival of more shipping lines and the increase in port throughput. These, they believe, would ultimately lead to the lowering of the cost of goods and services in Sabah/Sarawak and would generate a virtuous cycle throughout the economies of the two states.

On the other hand, those against the idea to further open up the domestic trade expressed fear that opening up the trade to foreign players would put Malaysian shippers at the mercy of foreign shipping lines and create adverse implication to the nation's economy if foreign shipping lines were to pull out from domestic trade and leave a capacity vacuum in the trade. They cautioned that further liberalizing the policy would cause negative effects to the nation's shipping sector and maritime industry, potentially resulting in loss of revenues, unrealized return on investment, opportunity loss, unemployment and erosion of the nation's competitiveness as a maritime nation. Without adequate local tonnage, Malaysia could also find itself in a vulnerable position should there be a need to mobilize locally-flagged ships during times of distress and emergencies.

There are merits in the arguments put forth by both sides, and they should rightfully be taken into account in analyzing the situation and in coming up with recommendations to move the Cabotage agenda in Malaysia forward. However, the greater interests of the nation must reign supreme over vested, short-term interests of certain parties. Any policy recommendation to be made with regard to the Cabotage Policy has to be mindful of the fact that the policy is not the only culprit causing the undesired situation of high freight rates, poor shipping services, high prices of goods and services, and uncompetitiveness of exports from Sabah and Sarawak.

As such, remedies made to solve the issues and problems related thereto should be mindful of the peripheral contribution of the policy to those issues and problems. In recommending the way forward, policy options related to the Cabotage Policy should be made based on sound economics reason backed by exhaustive analysis of the multitude of factors involved, not merely based on pressure from individual parties and hearsay attributes blaming the Cabotage Policy for causing the undesirable situations pointed out by consumers and shippers in Sabah/Sarawak.

The following cause of actions is recommended to ensure that the Cabotage Policy attains its intended objectives and serves the national interests, and also to prevent the debate over the issue, which at times borders on the emotional, from dragging further :

- i) Extend the status quo of partial liberalization of the Cabotage Policy on containerized transshipment cargos between the designated ports in Peninsular Malaysia and

- Sabah/Sarawak for at least another three years to be able to see the effectiveness of the relaxation.
- ii) Monitor the trends in the implementation of Cabotage Policy in other countries to gauge the direction of governments in developing policies related to their domestic shipping trade and adapt whatever that is practical that serves Malaysia's interests.
 - iii) Assess the trends of seaborne transport, trade and economic development to decide on the next course of action after the partial liberalization of the policy has run its due course, with a view to make the most appropriate decisions that suit national interests and safeguard the interests of the parties involved under the prevailing circumstances of the time.
 - iv) Evaluate the current and future economic development in Sabah/Sarawak and distributive trade infrastructures in the two states, the nation and the region as a prelude to closing the gap between the economic disparity and trade imbalance between the two states and Peninsular Malaysia, and to project the direction and pattern of seaborne trade involving the two areas of the country.
 - v) Develop a tracking mechanism to monitor capacity of tonnage and freight rates of domestic shipping, for example in the form of a weighted-average index. This would enable the parties involved to gauge the demand-supply situation and pricing of the services according to capacity available, and would be helpful for the Government in deciding the appropriate change in policies.
 - vi) Address problems relating to poor infrastructures, port inefficiency and lack of productivity, poor modal connectivity, limited modal options, lack of manufacturing activities and alleged excessive profiteering among traders that contribute to the high prices of goods in Sabah/Sarawak and the lack of competitiveness of their exports.
 - vii) Put in place plans and measures to mitigate potential adverse effects of whatever policy decision(s) to be made. For example, the concern of non-availability of local tonnage to support shipping operations in the event of emergencies should be addressed by having a contingency plan to prepare and designate suitable vessels for back up.
 - viii) Monitor the performance of shipping lines servicing the domestic trade with a view to ensure that there is adequate capacity dedicated to the trade and services are provided at a satisfactory level and manner.
 - ix) Hold continuous dialogues among the key stakeholders, namely the local shipping community and the consumers, industries and shippers in Sabah/Sarawak

Conclusion

It is too early to tell if the liberalization of the Cabotage Policy has been effective or otherwise as it has only been liberalized for over two years. In addition, the volume of the seaborne trade between Peninsular Malaysia and Sabah/Sarawak is small to begin with. As such, it would not be realistic to expect dramatic changes to the volume of this small trade only two years after the liberalization of the Cabotage Policy affecting this trade. Hence, a longer period is needed to ascertain the impact of the liberalization of the policy on freight rates for the transportation of containers between Sabah/Sarawak and Peninsular Malaysia and on the prices of goods and services in those two states. In the meantime, other factors contributing to the higher prices of freight between Peninsular Malaysia and Sabah/Sarawak and the higher prices of goods in the two states compared to the Peninsular must be identified, addressed and resolved.

Further policy decisions on Cabotage Policy must not compromise on safeguarding the need for Malaysian exports to be competitive, for the promotion of socio-economic development and for the development of the local shipping sector. This being the case, there cannot be a winner takes all solution to the issue. On the other hand, under no circumstances should any policy recommendations made related to Cabotage result in the protection of inefficiency and tolerance of poor performance and service delivery. In the final analysis, the greater national interests must prevail in moving the Cabotage agenda forward.