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Economic woes force many forwarding firms to merge

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AN INCREASING number of companies involved in the forwarding business are being forced to merge as a result of having to face the reality of the current economic environment.

For example, German based DanzasMal Sdn Bhd recently acquired Allied Link Sdn Bhd as more and more freight forwarders realise that with the dwindling economic pie, the room for smaller players is limited.

Association Forwarding Agents Port Klang's (AFAPK) president Shamsuddin Abdul Rahman told Business Times, more mergers and acquisitions within the industry should be expected in 1999.

"The industry has been suffering this year, hence merging and being acquired by larger companies seems to be the only alternative left for them."

For this year, he said business has dropped due to a 20 per cent to 25 per cent drop in imports compared with just five per cent to 10 per cent increase in exports.

"Next year we expect things to be slightly better with exports poised to increase by 15 per cent" Shamsuddin said, adding that the smaller players in the industry are likely to join forces and form consortiums to safeguard their market share.

At the same time, forwarding agents will continue to promote the national agenda to improve the economy which took a beating in the first half of the year, he said.

Shamsuddin also said that AFAPK is committed to the recommendations of the National Economic Recovery Plan (NERP)'s policy of selling cost-insurance-freight (CIF) and buying free-on-board (FOB).

He added that forwarding agents are willing to play their part to ensure a censure of an outflow of ringgit from Malaysia but this effort will also require assistance from manufacturers and shippers alike.

Currently freight rates are charged in green back, while 60 per cent of products is imported on FOB terms while 70 per cent of goods is exported on CIF terms.

With times not being as rosy as before and the industry facing many challenges, Shamsuddin said that AFAPK will continue to strive to lessen the burden of the industry players.

Among the issues that AFAPK is taking head on are the bank guarantee and service tax issues which according to Shamsuddin was brought to the attention of Prime Minister Datuk Seri Dr Mahathir Mohamad at a recent dialogue with the shipping community.

He said bank guarantees are currently needed for forwarding agents to pay Customs and clear the goods, but this practice is burdensome to them.

Hence on the basis of their input to the Prime Minister, it is now being studied by the various authorities, including the Association of Banks in Malaysia.

The association is also calling for the abolition of the service tax of five per cent imposed on forwarding agents to clear goods from local ports.

The tax which is paid by customers to the forwarding agents should be done away with since it is not being charged by ports outside Malaysia.

"Abolishing this tax will not only help forwarding agents but it will also help the country to establish Port Klang as a transshipment point in the region".

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