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In for the long haul?

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ALTHOUGH it has been a year since liberalisation began for the local haulage industry, more needs to be done.

The Federation of Malaysian Manufacturers (FMM), the representative of the manufacturing sector, perceives the haulage situation as 'frustratingly slow in improving' since 50 new licences were issued in late 1999 to complement the existing five.

'The government hasn't provided us with adequate information on the new hauliers. I don't know how to get in touch with some of them as I don't have their telephone or fax numbers,' says Manuel AP Gomez, chairman of FMM's Logistics Committee.

In a survey by the federation, a majority of respondents - consisting of shippers, exporters and importers - were not aware of the new hauliers' operational status as they had not been informed or approached by them.

Gomez says some of the new licencees do not appear to have the ability or capacity to purchase required equipment to be operational. 'Apparently, licences were given to some companies which were new to the logistics business.'

The Entrepreneur Development Ministry awarded the new licences to a mixed group. They included freight forwarders, depot operators and transporters that had been in the business for some time, and newcomers like Trenergy (M) Bhd, an oil-and-gas services-related company.

The development and aggressive promotion by the government of ports in the country have been the catalyst to the issuance of the 50 new haulier licences. The ports handled a total of five million TEUs (20-foot equivalent units) last year.

Efficiency and productivity is the key to a successful port but this was something that became obvious to the port authorities and government only after years of complaints by manufacturers and logistics companies.

President of the Association of Forwarding Agents of Port Klang, Datuk Jason Goh, says, 'In the past, when you talked about logistics, you only heard the bad things such as congestion at ports or slow customs clearance - more than seven days - because the logistics-chain providers were not systematic. People needed cargo out fast. Hauliers are the key players in the logistics chain that includes shipping agents, warehouses and depots, terminal operators and customs. During festivals, the ports were jammed. Every party blamed the other for the problem.'

'A solution had to be found,' adds Goh. 'We, together with the Port Authority and Ministry of Transport, launched Operasi Cekap involving the logistics-chain providers. We found that the number of hauliers was insufficient. We submitted a memorandum to the government on the pressing need for more licences and it duly issued more.'

The haulier business had up till then been an oligopolistic cartel of five leading firms - Kontena Nasional Bhd, MISC Haulage Services Sdn Bhd, Konsortium Logistik Bhd (formerly Konsortium Perkapalan Bhd), Diperdana Corporation Bhd (formerly Shapadu) and Multimodal Freight Transportation Sdn Bhd.

The Big Five formed the Container Hauliers Association of Malaysia (CHAM) to monitor the inland container haulage business and advise the government.

In 1995, the then Entrepreneur Development Minister Datuk Mustapha Mohamed, asked by industry participants to deregulate the industry and

issue licences to smaller operators, had said, 'There are five operators and we consider that to be sufficient'. Though the government realised that there was a shortage of capacity in the container haulage industry brought about by strong growth in exports and imports, it favoured increasing efficiency by way of the Big Five buying up the smaller operators.

Prime Minister Datuk Seri Dr Mahathir Mohamad too had called for a consolidation of the industry as it was then not meeting the country's haulage needs.

Five years down the road, the government has made a complete about-turn and liberalised the industry, allowing smaller hauliers to operate. Current Minister Datuk Seri Nazri Abdul Aziz says the government wants the haulage industry to meet the demands of the growing containerised trade.

CHAM was not available for comment but it is believed the association is planning to meet the government to discuss issues relating to the industry.

The new haulier licences have limitations on geographical coverage and number of prime movers and trailers allowed. New licencees can own between 10 and 50 prime movers (trucks) and 70 to 350 trailers (seven trailers for every one prime mover). Some licences even limit the prime mover-trailer ratio to 1:3 or 4. CHAM members had a total of 2,212 prime movers and 11,318 trailers at the beginning of last year. The government generally wants the number of such equipment to be apportioned on a 60:40 ratio respectively between CHAM and non-CHAM members.

The FMM says the limitations would restrict the choice of hauliers available to shippers and render ineffective the government's goal to increase efficiency and reduce costs.

Has increased competition led to lower haulage rates? Unfortunately, no. The government determines the rates and a check with CHAM shows that the authorities have not changed them. On the other hand, CHAM members in Penang, Perak and Kuantan have increased rates by 45 per cent. CHAM says the rise is within that allowed by the government as the previous rate was subsidised by the CHAM hauliers. The FMM would have preferred an increase of not more than 10 per cent under the current situation.

How are manufacturers expected to benefit from the liberalisation exercise?

One way would be to improve service, which Goh says has improved at the ports. There were no problems of jams during festive periods and peak months, though at least one port authority is reported to have space problems for hauliers, leading to delays.

What will happen to the market share for containers with the entry of new players? With the 60:40 ratio equipment ownership plan, CHAM may lose out to the newcomers but not immediately.

For now, non-CHAM members have taken about 10 per cent share of the boxes but an analyst at a local brokerage says competition is slowly intensifying. However, CHAM members will be able to sleep easy for the moment as only about 12 new hauliers have started operations and the conditions set out in their licences put a constraint on their capability.

S Manimaran, director of Timuran Permai Holdings Sdn Bhd, one of the new licencees, says his company has yet to begin operations as it is arranging for financing to buy equipment. In the meantime, it is still hauling empty boxes for repairs and repainting, as in the old days.

The haulage business requires big money with a new prime mover costing some RM250,000-RM300,000, while the trailer costs between RM20,000-RM30,000 each.

A 10-prime mover 70-trailer licence would need an investment of at least RM5 million and this does not include other fixed and variable costs.

Prospects for the haulage business are good. Containerised transportation has been growing at above 20 per cent per year over the past few years. Goh believes the expected increase in container business will keep everyone contented.

`The government is committed to improving the haulage industry by bringing in main line operators that could see 5-6 million boxes by 2004. All this will benefit logistics operators. There will be enough business for everybody,' says Goh.

`Smaller hauliers can survive by servicing two or three big clients. Clients will also look at quality of service. CHAM members have better cash flows, manpower, equipment and offer credit terms, which mean they can service the big clients that smaller hauliers can't.'

The new hauliers are likely to pinch some of the dissatisfied smaller clients from CHAM members but the expected increase in total box volume should keep the big players from flexing their muscles for now, adds Goh.

Some of the new hauliers, meanwhile, have a major problem to contend with - reconditioned vehicles which they had purchased in the belief that the last Budget had removed duties on haulage trucks. The government, though, says the benefit was for new trucks only.

`They have applied for exemption and a few applications have been rejected. We are not clear about the ruling and are asking the government to provide guidelines. The exemption should have been given for both types of vehicles. We are newcomers constrained by tight budgets and need help,' explains Goh.

The new hauliers are given a year to start operations or have their haulier licence withdrawn.

All in all, manufacturers welcome liberalisation of the haulage industry. The full benefits are expected to filter through the economy in due time. For now, there are calls to limit further issuance of haulage licences to avoid unhealthy competition.

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