INDEPENDENT MARKET RESEARCH REPORT

Executive Summary

This summary provides an overview of the shipping industry in which Swee Joo Berhad and its subsidiary companies operates, namely the provision of scheduled container shipping services (or liner services) in the domestic waters of Malaysia and to selected ports in the region.

The scope of this summary covers an overview of the Malaysian shipping industry, the industry structure, with particular emphasis on domestic container shipping sector that involves the sea transportation of goods (by containers) between ports in Peninsular Malaysia and Sabah and Sarawak. The summary includes an insight into the performance, trend and the market dynamics of the domestic container shipping sector.

1. World Seaborne Trade and World Merchant Fleet

1.1 Trade is the driver of growth for the shipping industry. In 2005, global seaborne trade went up by 4.73 per cent to 7.08 billion tons from 6.76 billion tons in 2004. According to the United Nations Conference on Trade and Development ("UNCTAD") Maritime Review 2005, the growth in the world seaborne trade is expected to be sustained and this is supported by positive prognosis of the world economy by the World Bank that has forecast a growth of 3.7 per cent for 2006.

1.2 In line with the growth in the world seaborne trade, world merchant fleet strength expanded to 895.84 million dwt in 2004 from 856.97 million dwt in 2003 (see Table 1). According to Clarkson, a UK-based shipbroking firm, world fleet strength of the merchant fleet would reach one billion DWT by 2007. Much of the growth will be contributed by the increase in the container ships, followed by tankers.

Table 1: World Fleet Size by Principal Types of Vessel, 2000-2004 (percentage share)

Type of ship	2000	2003	2004
Oil Tankers	35.3	37.0	37.5
Bulk Carriers	34.8	35.9	35.8
General Cargo	12.7	11.1	10.3
Container Ship	8.6	10.6	10.9
Other Ships	8.6	5.4	5.5
Total (%)	100	100	100
Total Million dwt	808.4	857.0	895.8

Source: Review of Maritime Transport 2005, UNCTAD

2. Malaysia Trade and Shipping

2.1 Malaysia is a major exporter-nation accounting for 2.5 per cent of the global share of the world merchandise trade. Ranked 18th exporter-nation and 20th importer nation in the world according to WTO International Trade Statistics 2005, Malaysia's total external trade increased to RM967.80 billion in 2005 from RM880.82 billion in 2004. In the first five months of 2006, total external trade reached RM420.94 billion (see Table 2).

Table 2: Malaysia: External Trade, (RM billion), 1995-2005

Year	Export	Import	Total
1995	184.99	194.34	379.33
2000	373.27	311.46	684.73
2001	334.28	280.23	614.51
2002	357.43	303.09	660.52
2003	397.88	316.54	714.42
2004	480.74	400.08	880.82
2005	533.80	434.00	967.80
2006*	230.70	190.24	420.94
Global Ranking in merchandise trade in 2004	18th exporter		
	20th importer		

** January- May 2006*
Source: International Trade Statistics 2005, WTO & Malaysia External Trade Development Corporation

2.2 The size of the trade, in volume terms, according to the Ninth Malaysia Plan (2006-2010), totaled 369.4 million tonnes in 2005. A large volume of the cargo handled by the local ports was made up of non-containerised cargo bulk cargoes and related commodities (see Table 3).

Table 3: Volume of Cargo Handled at Malaysian Ports (Million MT), 2000-2005

Year	2000	2005
Total (A+B)	223.9	369.4
A.Non Containerised Cargo	139.4	186.7
• General	23.3	44.7
• Liquid Bulk	87.5	103.8
• Dry Bulk	28.6	38.2
B.Containerised Cargo	84.5	182.7
Container (Million TEUs)	4.9	12.1

Source: Ninth Malaysia Plan, Malaysia (2006-2010)

According to database compiled by PortsWorld, container volumes handled by principal container ports in 2005 totalled 12.04 million TEUs (Twenty-foot Equivalent Units). In the first five months of 2006, total cargo volumes at the local ports reached 134.30 million tonnes and containers, 4.58 million TEUs (see Table 4).

Table 4: Container Traffic at Malaysian Ports (TEUs)

	1995	2000	2005	2006*
Port Klang	1,133,811	3,206,753	5,543,527	2,246,069
Penang	433,474	635,780	794,513	322,152
Pasir Gudang	302,898	659,181	836,744	336,631
Kuantan	22,591	62,783	119,075	49,826
Bintulu	24,511	47,607	147,902	57,165
Kuching	70,609	110,474	143,116	57,434
Miri	1,395	5,531	14,739	5,242
Rajang	31,472	36,998	54,381	22,327
Sabah	114,723	148,581	208,391	83,972
PTP	-	418,218	4,177,121	1,726,220
Total	**2,135,484**	**5,331,906**	**12,039,509**	**4,907,038**

** January- May 2006*
Note: PTP- Pelabuhan Tanjung Pelepas
Source: Compiled by PortsWorld from Various Malaysian Ports

2.3 In view of the size of trade, the demand for shipping in Malaysia has been equally high. In line with this demand, the Malaysian shipping industry has continued to grow in tandem with the expansion of the economy and trade. At the end of 2005, the size of the national merchant fleet, according to the Malaysian Marine Department, was estimated at 9.6 million dwt, maintaining a steady growth over more than a decade (see Table 5).

Table 5 : Growth of Malaysian Merchant Fleet, 2000-2004

Type of Ships	2000		2001		2002		2003		2004	
	No of ships	DWT (`000)	No of ships	DWT (`000)	No of ships	DWT (`000)	No of ships.	DWT (`000)	No of ships	DWT (`000)
Oil Tanker	143	1,243	154	1,258	158	1,268	162	1,573	175	2,934
LNG, LPG Carrier	38	586	39	586	40	662	43	817	45	969
Chemical/Petroleum Tanker	19	563	23	674	24	682	29	721	32	745
Bulk, Grain, Ore, Log Carrier	45	1,981	50	2,136	55	2,188	54	2,238	56	2,341
General Cargo, Semi Container	449	224	468	253	478	288	485	290	492	295
Passenger, General/Passenger Ship	245	2	272	2	280	3	306	23	327	23
Ro-Ro	11	15	11	15	12	19	14	19	14	19
Full Container	51	771	55	776	65	863	66	870	67	874
Anchor Handling, Standby Supply	102	16	111	16	117	19	126	144	144	91
Barge	1,110	176	1152	214	1,183	261	1,228	264	1,285	407
Others	788	201	836	201	890	212	1,018	169	1,145	268
Total	**3,001**	**5,778**	**3,171**	**6,131**	**3,302**	**6,465**	**3,531**	**7,128**	**3,782**	**8,966**

Source: Compiled by PortsWorld

2.4 According to the database compiled by PortsWorld, the national merchant fleet strength is expected to expand by a further 1.9 million dwt 2006/07, as a result of deliveries of several newbuildings ordered by Malaysian shipowners, including new Very Large Crude Carriers (VLCCs), product tankers, chemical tankers and Liquefied Natural Gas Carriers.

2.5 In view of the high demand for shipping, the annual payment for freight has been also high and has been increasing at a rapid rate. Much of this demand for shipping, however, is largely met by foreign shipping lines. It is estimated that about 90 per cent of the country's exports and imports are carried by foreign shipping lines. The outflow of payments for freight to foreign shipping lines is a major constituent of the huge deficits in the services account of the Balance of Payments (see Table 6).

Table 6: Transportation Account of the Balance of Payments (RM Million)

Year	Inflow	Outflow	Net
1999	9,471	17,935	- 8,464
2000	10,646	22,382	- 11,736
2001	10,443	21,795	- 11,352
2002	10,847	22,419	- 11,572
2003	10,615	24,101	- 13,486
2004	12,018	29,801	- 17,783
2005	16,169	31,876	- 15,707

Source: Various Bank Negara Annual Reports, Malaysia

2.6 In order to stem the outflow of the payments to foreign shipping lines and increase self sufficiency in shipping, the Government has initiated a series of measures to expand the national merchant fleet and to mitigate the outflow of payments to foreigners. The importance attached by the Government to foster the development of the national merchant fleet is also reflected from the fact that the shipping industry is the only sector in the country that enjoys a total blanket tax exemption on incomes derived from owning and operating ships (See Table 7)

Table 7: Range of Incentives for the Shipping Industry

i	Creation of state-owned shipping companies, namely MISC Berhad (formerly known as Malaysia International Shipping Corporation) and the now defunct Perbadanan Nasional Shipping Line.
ii	Granting of blanket tax exemption to Malaysian shipping companies on shipping incomes earned from operating national flag vessels. Any dividend paid out of such an exempt account is also tax exempt.
iii.	Fiscal incentives - accelerated depreciation allowance on ships is allowed with an initial first year capital allowance of 20 per cent and a further 6-10 per cent.
iv	Exemption from income tax for Malaysian crew serving onboard Malaysian flag vessels.
v	Exemption of import duty on vessels above 4000 GRT. (An import duty is imposed on vessels more than 26 GRT but less than 4000 GRT and 30 per cent import duty is imposed on vessels less than 26 GRT).
vi	Creation of Bank Industri & Teknologi with a view to providing funds for the maritime sector. (Now known as Bank Pembangunan dan Infrastruktur Malaysia Bhd)
vii	Creation of Shipping Fund to finance acquisition of ships as well as venture capital for equity participation in local companies.
viii	Implementation of the Cabotage policy in 1980 to reserve the domestic shipping trade to national flag vessels and local companies.

Source: Compiled by PortsWorld from Various Sources

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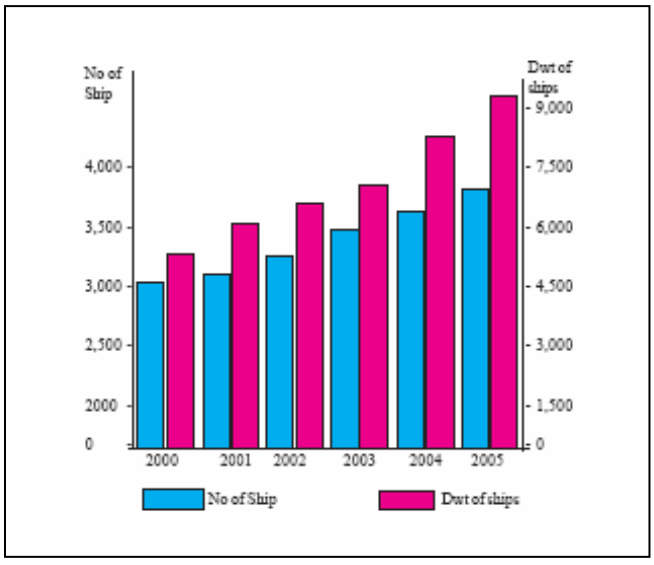
2.7 Policy measures initiated to foster the development of the shipping capacity have borne satisfactory results.

Chart 1: Growth of National Merchant Fleet, 2000-2005



Source: Compiled by PortsWorld

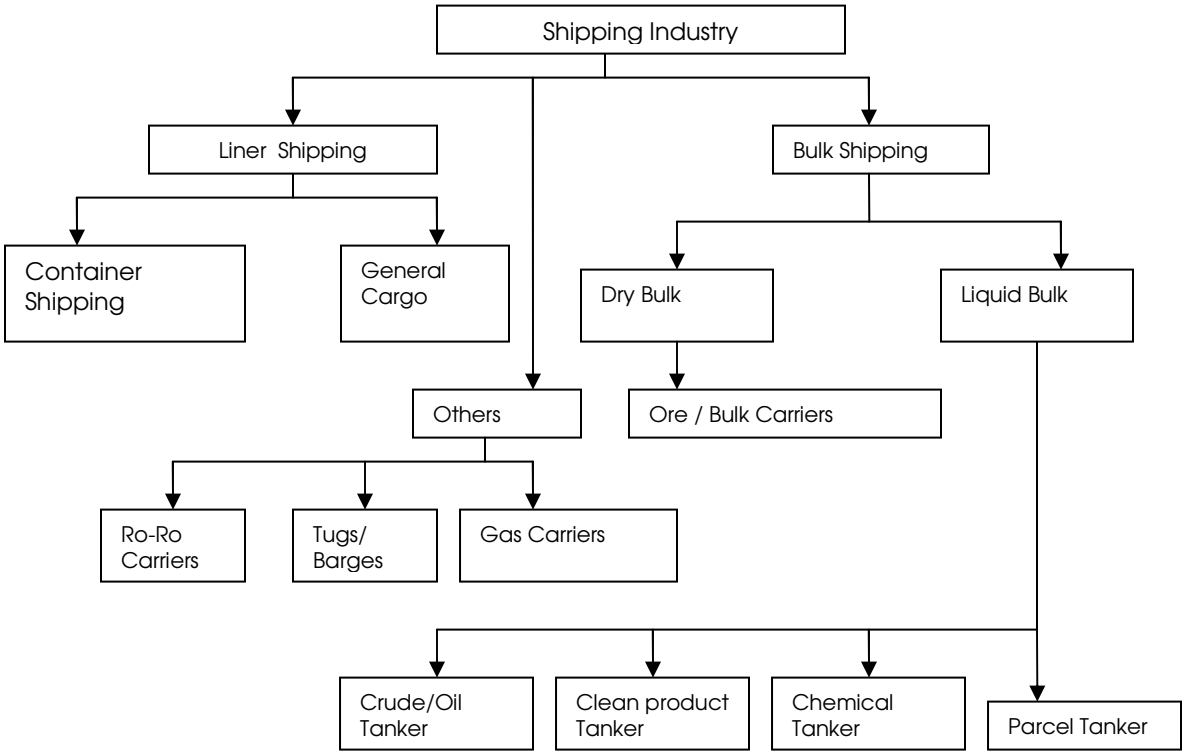
2.8 However, despite the growth, the national shipping capacity is still grossly inadequate to meet domestic demand and thus the opportunities for expansion of the national shipping capacity to fulfill the demand are indeed immense.

3. Domestic Shipping Industry

3.1 A cornerstone of the Government's policy to increase self sufficiency in shipping and reduce the country's dependence on foreign shipping lines is the introduction of the universally-accepted "Cabotage" policy. The "Cabotage" policy aims to reserve the domestic shipping sector to national flag vessels owned and operated by national companies. The domestic shipping industry is composed of various type of ships engaged in the carriage of a wide range of cargoes, or commodities within Malaysian waters.

The structure of the domestic shipping industry (see Chart 2) may be represented as follows:

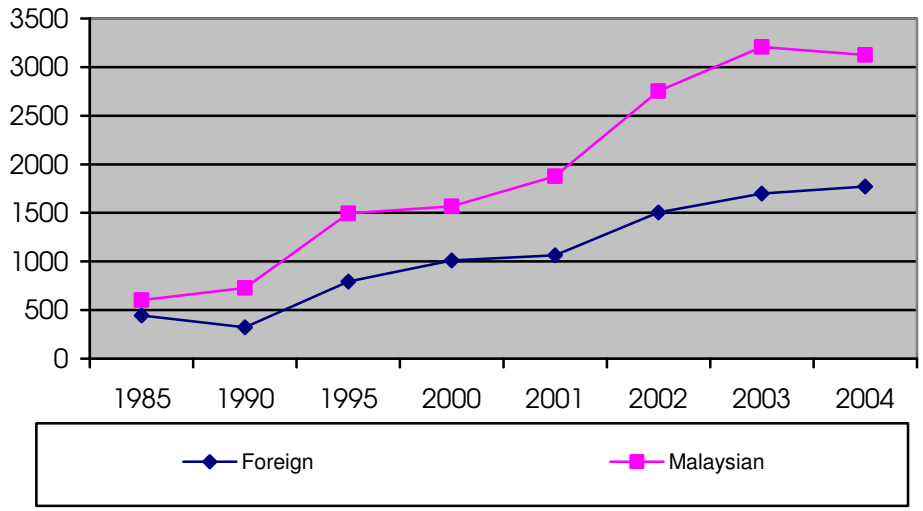
Chart 2: Structure of Shipping Industry



3.2 All ships engaged in providing shipping services in the domestic shipping sector must be licensed by the Domestic Shipping Licensing Board ("DSLB") under the Ministry of Transport. Although the domestic shipping sector is reserved for only Malaysian-owned companies and Malaysian-flagged ships, as result of amendments to the Merchant Shipping Act 1952 in 1980, foreign-registered ships may apply for dispensation (to the DSLB) to operate in the domestic shipping sector to meet the shortfalls in the supply of locally-flagged ships, or lack of specialized tonnages, or ship type. The number of licenses issued to foreign flag ships clearly reflects the shortage of national-flag ships in

specific sub sectors of the domestic shipping sector. As of end of December 2004, a total of 3,125 licenses were issued by the DSLB to ships, including foreign-owned, to trade in Malaysian domestic waters (see Chart 3).

Chart 3 : Number of Licences Issued by Domestic Shipping Licensing Board in the Domestic Trade, 1985-2004



Source: Domestic Shipping Licensing Board, Ministry of Transport

4. Industry Dynamics:

Domestic Container Shipping Sector

Market Performance and Trend

4.1 The shipping market is generally a cyclical one. The market is dynamic and the performance of shipping companies may depend on a number of external market factors as well as internal operations and management and approaches taken by respective companies.

4.2 At macro level, the freight rate (charges paid by owners of cargo to shipping lines for the carriage of the cargo) and trade growth are two important considerations that impact on market performance.

4.3 Although the basic freight rate in the domestic market had declined over a period of 10 years, the level has been sufficiently attractive to shipping lines and for companies to remain profitable. This has been partly due to the nature of assets deployed by companies. By injecting bigger capacity ships with lower unit cost, some of the companies continue to remain viable with lower average cost.

4.4 It is evident that from data gathered by PortsWorld that the average size of container ship in the domestic trade grew from 150 TEU size capacity ship in 1995 to 300 TEU capacity ship in 2004. Although the basic freight rates over the same period recorded a decline, total freight rate, inclusive of various surcharges, remains satisfactory at levels above the 1995 basic freight rate.

4.5 The performance of the industry has also been influenced by the growth in trade and the cargo volumes between ports in Peninsular Malaysia and Sabah/Sarawak. The volume of trade between the two geographical and inter-regions of the country rose from RM21,853 million 1990 to RM30,745 million in 2004. The growth in containerisation has been strong due to demand for the transportation of manufactured goods and deeper penetration of containerization in the states of Sabah and Sarawak.

4.6 Prevailing level of freight rates has been sufficient to attract players of or foster continued expansion of shipping capacity, both with the entry of new operators, or expansion of capacity by existing operators deploying more or larger capacity ships over the years.

5. Market Demand and Supply

5.1 In view of the nature or character of the trade, it is inevitable that there is inherent surplus shipping capacity in the domestic shipping market. Besides, surplus capacity in the liner trade, as in most transport sectors, is inevitable and indeed necessary to ensure operation flexibility to meet peak demand condition or peculiarity of the trade flows.

5.2 The surplus capacity in the domestic trade is also generated by the imbalanced nature of the two-way trade. The eastbound trade (from Peninsular Malaysia to Sabah/Sarawak) generally has higher load factor as high as 90 per cent (for certain operators) but on the backhaul westbound trade to Peninsular Malaysia, the load factor may drop as low as 20-30 per cent. Average overall surplus capacity may thus be inevitable.

5.3 However, the surplus capacity in the trade does not represent a loss of revenue opportunity. This is because the pricing of the freight charges for the eastbound takes into account the empty, or near empty westbound return leg. In a strict sense therefore the cost of maintaining of surplus capacity does not arise. In any case, some shipping lines, which have a higher eastbound load factor, have gained in the form of "bonus" freight for cargoes carried on the return leg to ports in Peninsular Malaysia, or to Singapore.

5.4 The performance of the ships in the trade is also influenced by port conditions and price of bunker fuel, both of which shipping lines have been able to insulate themselves against such avoidable costs by imposing surcharges. Lines in the domestic trade therefore apply Terminal Handling Charge, Port Congestion Surcharge (for ports in Sabah only currently) and Emergency Bunker Surcharge to avoid cost fluctuation. Introduction of the surcharges have given a measure of stability and predictability in the earnings of the shipping lines.

6. Competition

6.1 There is strong competition in the container shipping sub sector of the domestic shipping industry. Although there are a number of players in the industry, the sizes of the operators vary, sometime quite wide with some operators with only two or three vessels while others as many as a dozen (See Table 8).

Table 8: Key Players in the Domestic Container Shipping Sector

Lines	No of Vessels	TEUs
Chong Fui Shipping	3	600
Geniki Lines	2	558
Swee Joo Berhad	12	3,450
Habour Link Group Berhad	2	560
Hubline Berhad	2	520
Malaysia Shipping Corporation Sdn Bhd	3	1,050
MISC Berhad	2	1,360
PDZ Holdings Berhad	4	1,320
Shin Yang Shipping Sdn Bhd	6	1,030
Transwest Shipping Sdn Bhd	2	558
Total	38	11,006

Source: Compiled by PortsWorld from Various Ports as at June 2006

6.2 The market shares of the shipping lines vary from port to port, depending on the extent of port coverage, number of calls, size of ships and related factors (See Table 9). Based on data gathered by PortsWorld, under the current market condition, Swee Joo Berhad has the largest market share as a single operator (See Table 10)

Table 9: Geographical Spread Coverage of Ports by Players in the Domestic Container Shipping Sector as at June 2006

	Bintulu	Kuching	Kota Kinabalu	Labuan	Limbang	Miri	Muara	Pasir Gudang	Port Klang	Sandakan	Sibu	Sipitang	Tawau
Swee Joo Berhad	x	x	x	x	x	#	x	x	x	x	x	x	x
New Perdana Service*	x	x	x	x	-	-	x	x	x	x	x	-	x
Hub Line Berhad	x	x	x	-	-	-	x	-	-	-	x	-	-
Habour Link Group Berhad	x	x	x	-	-	x	x	x	x	-	-	-	-
Shin Yang Shipping	x	x	x	-	-	x	-	-	x	-	-	-	-
Geniki Shipping	x	x	X	-	-	-	-	x	x	-	-	-	-
Chong Fui Shipping	-	x	x	x	-	-	-	-	-	x	-	-	-

Perdana Service is joint service mounted by MISC Bhd, Malaysia Shipping Corporation Sdn Bhd and PDZ Holdings Bhd.

SJB no longer calls at this port with effect from July 2006.

Source: PortsWorld

Table 10: Market Share of Principal Players at Selected Ports in the Domestic Container Shipping Sector

Ports	Swee Joo Berhad	Perdana Service	Others
Bintulu**	39.5	20.6	39.9
Kota Kinabalu+	35.0	50	15.0
Kuching Port*	24.0	n.a	76.0
Port Klang*	23.00	45.0	32.0
Pasir Gudang**	51.11	n.a	48.89
Sandakan+	53.71	38.0	8.3
Tawau+	41.0	54.0	5.00

Note: * January-August 2005, ** January – July 2005, + 2004

These figures are obtained from various ports. The computing of the containers handled by each port may vary according to establish practices of each port. Due to this there may be difficulties in reconciling the data obtained from the port and the volume of containers carried by the respective shipping lines.
Source: Compiled by PortsWorld from Various Malaysian Ports

6.3 The extent or the intensity of competition in the marketplace is determined by a number factors, such as the number, type, age and mix of ships deployed by each player; pricing strategies; type and quality of services, including the extent of "value-adding" that it offers as vertically and horizontally integrated services; the geographical range and frequency of ports of call by an operator.

6.4 In addition, capacity management strategies adopted by certain domestic shipping lines that have strong network with main line operators, that link to global markets and provide transshipment service, have an added advantage over others in competition. In the approach towards capacity management, there is also a tendency to limit competition by forming consortium or "alliances" among some operators (although they still maintain "intra" competition within the alliances that allocates pre-determined market share).

6.5 Based on the fore-going factors, it is quite evident that in a market where all the players seem to offer a "homogeneous" type of service, only those who demonstrate the ability to offer a service different from the rest are able to stay ahead of competition. Only some companies are able to achieve this. This also serves to explain also the ability of some operators who have not only survived the trade profitably for nearly two decades but even continued to expand while the industry has seen shake-out affecting other operators from time to time.

6.6. There are entry barriers that minimize or deter competition in the form of mandatory licensing requirements of ships to trade in the domestic waters as well as the cost of acquiring ships to mount a service that provides an acceptable level of service to shippers. Ships engaged in the trade must also comply with several other rules and regulations, including on safety and standards as required by ship classification societies, the Marine Department as well as the International Maritime Organisation.

7. Trade Growth & Market Outlook

7.1 The scope for sustained growth and expansion of the domestic container shipping sector will be determined to a large extent by the growth in cargo volumes. In this regard, the growth in cargo volumes (see Table 11) will come from two main sources, namely:

- intra trade between Peninsular Malaysia and Sabah/Sarawak
- increasing cargo volumes generated by industries in Sabah/Sarawak for global markets

Table 11: Domestic Trade between Peninsular Malaysia and Sabah/Sarawak (RM Million), 1999-2004

	Year		1999	2000	2001	2002	2003	2004
Export	Sabah with	P' Malaysia	2,047.89	1,998.14	2,030.34	2,389.64	2,643.75	3,079.59
		Sarawak	1,446.13	599.42	837.27	1,126.93	1,202.67	1,380.93
		Total	3,494.02	2,595.56	2,867.61	3,516.57	3,846.42	4,460.52
	Sarawak With	P' Msia	2,081.21	3,993.63	3,943.59	4,847.05	6,229.83	6,878.10
		Sabah	1,306.32	833.54	777.71	491.72	411.96	349.77
		Total	3,387.53	4,827.17	4,721.3	5,338.77	6,641.79	7,227.87
Import	Sabah	P' M'sia	5,707.91	6,295.98	6,854.86	7,220.82	8,641.94	7,083.38
		Sarawak	1,368.59	994.59	898.27	716.24	639.02	419.73
		Total	7,076.5	7,290.57	7,753.13	7,937.06	9,280.96	7,503.11
	Sarawak	P' Msia	6,280.49	7,214.85	7,818.63	8,934.42	10,236.80	9,755.44
		Sabah	1,614.86	645.46	890.80	1,029.76	1,123.90	1,798.29
		Total	7,895.35	7,860.31	8,709.43	9,964.18	11,360.7	11,553.73
Total			**21,853.34**	**22,573.61**	**24,051.47**	**26,756.58**	**31,129.87**	**30,745.23**

Source: Department of Statistics, Malaysia

7.2 It is to be noted that with improving transport infrastructure, including better port handling facilities, development of inland or interior cargo terminals, road haulage services and better road accessibility has resulted in a deeper market outreach in containerization in Sabah and Sarawak. More cargoes are being containerized deeper inland than before.

7.3 In addition, more and more commodities are becoming "containerized". Such cargoes include sawn timber, plywood, veneer, wood mouldings and others that were previously "palletized" but are now better suited for containerization. There is generally a greater rate, or propensity for containerization of the cargo base in Sabah and Sarawak than in Peninsular Malaysia boosting the prospects for container shipping in the trade.

7.4 The maturing and deeper penetration of containerization has also increased the "backhaul" volume of cargo for shipping lines. Overall average vessel utilization has also increased from about 40 per cent in 2000 to about 65 per cent in 2005.

7.5 An important trend that opens new prospects in the trade for the domestic shipping lines is the growing demand for "feeder" connections. In view of the lack of direct mainline services linking ports in Sabah and Sarawak to global markets, there is a

demand for feedering services for the international leg of the cargo from the two states to be transshipped via Port Klang, or Pasir Gudang.
7.6 In order to further exploit the opportunities in fostering feeder link to global markets, proposal has been made by the Government to develop Bintulu Port as a Regional Load Centre. A study commissioned by the Ministry of Transport in April 2006 was asked to look into the prospects of fostering such a cargo base that will take into account the cargo hinterland comprising the Brunei-Indonesia-Malaysia-Philippines East Asia Growth Area. Swee Joo Berhad is the only company which has already designated Bintulu Port as its base port from which it provides global connectivity to exporters and importers in Sabah/Sarawak via its dedicated link with a mainline operator.

7.7 Cargo volumes from Sabah and Sarawak are also expected to be boosted by the continued industrialization and development of manufacturing industries in the two states. Apart from the emphasis on regional development projects identified for the two states under the Ninth Malaysia Plan (2006-2010), the two states are designated as "Promoted Areas" and industries located in the two states will be granted exemption of income tax on 85 per cent of the statutory income for five years. *(Economic Report 2002/03, Ministry of Finance, Malaysia).*

7.8 The single largest source of cargo generation in Sabah and Sarawak that is expected to increase the demand for shipping, ports and transportation services is expected to come from the focus on the cultivation of oil palm in the two states under the Ninth Malaysian Plan (2006-2010). Overall, the volume of national production of palm oil is expected to increase from 14.96 million tonnes at the end of the Eighth Malaysian Plan (2000-2005) to 19.56 million tonnes at the end of the Ninth Malaysian Plan with much of the new acreage to come from the states of Sabah and Sarawak, which alone has targeted an additional 1 million hectares by 2010.

7.9 In this regard it should be noted that the Federal Government has allocated RM1 billion for the development of transport infrastructure, including tank farms, port and cargo handling facilities to foster the development of the palm oil industry under the "Palm Oil Industries Cluster" (POIC) approach. The cluster approach to the development of the palm oil industry in the two states has already identified areas for cultivation of the crop as well as ports and cargo handling facilities along the coast of Sabah and Sarawak.

7.10 In view of the limited overland transportation facilities and accessibility, there is expected to be a surge in demand for coastal movement of the crude palm oil to refineries located in Sabah to centres like Lahad Datu and Bintulu, Sarawak as well as to Pasir Gudang in Johor, Peninsular Malaysia. Some of the resourceful coastal shipping companies have drawn up advanced plans to deploy "tanker-barge" concept to meet the transportation demand of crude palm oil to local refineries. These versatile "tanker-barges" are not only able to carry about 5,000 tonnes of crude palm oil below deck but also take on deck about 250 TEUs of containerized cargo, thus giving considerable flexibility to carry a variety of cargo but also enhance the prospects for return-leg cargo.

8. CONCLUSION

The demand for domestic shipping in Malaysia has been expanding, both in size and in scope over the years. Aside from the expanding volume of trade between Peninsular

Malaysia and Sabah and Sarawak, comprising both containerized and non-containerized cargoes, there has also been an increase in the trade between ports in Sabah and Sarawak.

The expansion of trade is expected to continue, due to maturing of the container markets fostered by greater industrialization of manufacturing industries which display stronger propensity towards containerization. Thus, not only is greater volume of cargoes expected to be generated but also more new cargoes will be containerized that require transportation between ports. One major new source of cargo that is expected to be generated that will increase the demand for domestic shipping services is the expansion of the palm oil industry in Sabah and Sarawak during the Ninth Malaysia Plan (2006-2010), particularly in the form of coastal movement of crude palm oil to local refineries in Sabah and Sarawak, as well as to Pasir Gudang in Peninsular Malaysia.

The demand for shipping services has also increased on account of the increasing cargo volumes generated by industries in Sabah/Sarawak seeking global markets. In the absence of direct shipping services linking ports in Sabah and Sarawak, there is a need to transport the cargoes from these ports in the two states to ports in Peninsular Malaysia for transshipment at Port Klang, Johor Port and Port of Tanjung Pelepas, which offer direct or mainline services to global ports. The demand to transport such containerized cargo from ports in the two East Malaysian states to mainline ports in Peninsular Malaysia, as part of the international leg, offers domestic shipping lines an additional source of traffic for growth.

A study commissioned by the Ministry of Transport in April 2006 to pave the way for the designation of a port in Sabah or Sarawak as Regional Load Centre including serving the trade in the Brunei-Indonesia-Malaysia-Philippines East Asia Growth Area ("BIMP-EAGA") would boost the development of shipping in the region. Domestic shipping lines would be able to benefit from such a development as it would widen the geographical outreach of ports served by the operators.

Improving transport infrastructure facilities and greater accessibility or outreach is also expected to boost the development of the domestic shipping sector. More inland or interior cargo terminals are being established including transborder cargo centres in Sabah and Sarawak that are further strengthening and expanding the cargo base.

Port cargo handling facilities for containerized cargo are also improving especially in Sabah where, since the privatization of eight ports in the state to Sabah Port Sdn Bhd, RM200 million have been allocated to reduce congestion and waiting time of ships by acquiring more modern equipment and related facilities. In Sarawak, the Sarawak Ports Competitiveness Committee, under the Ministry of Transport, is closely monitoring the productivity and efficiency of the ports in the state. Greater efficiency of ports will benefit shipping lines by improving ship turnaround time and expedite the cargo flow.

The domestic shipping sector is a regulated industry and only ships owned by Malaysian shipping companies are allowed to trade with licenses issued by the DSLB under the Ministry of Transport. Being an industry that derives its demand for services from the expansion of trade, the domestic shipping sector will continue to grow and serve the critical trade link between Peninsular Malaysia and the two states of Sabah and Sarawak.