REDUCING UNNECESSARY REGULATORY BURDENS ON BUSINESS: WAREHOUSING SERVICES

January 2017

Draft Report

Malaysia Productivity Corporation
PRODUCTIVITY AND REGULATION

Productivity is the only driver of income growth that is unlimited, as opposed to resource exploitation or increase in population and labour force participation, each of which faces natural limits. The potential for productivity growth to generate higher income for Malaysians makes it a natural and important consideration for decision makers. As such the continuing need to stimulate productivity rightly remains at the forefront of government policies.

Regulation is the lifeblood of a modern, well-functioning economy. Almost all regulations have the potential to impact on productivity, either through the incentives which they provide to businesses to change operating and investment decisions, or more directly through their impacts on compliance costs. It is inconceivable to think of a modern economy functioning without regulation. However, poor regulation can cause frustration and unintended consequences, or simply add red tape that adds nothing useful to the economy, society or the environment.
Terms of Reference

Reducing Unnecessary Regulatory Burdens on Business: Warehousing Services

1. What the MPC has been asked to do

The Eleventh Malaysia Plan, 2016-2020, emphasises on creating seamless connectivity for people and goods. Within the logistics industry, focus will be given to developing integrated logistics and enhancing trade facilitation mechanisms. Strategies that will be undertaken include strengthening institutional and regulatory framework, enhancing trade facilitation mechanism, building freight infrastructure efficiency and capacity, deploying technology in the logistics chain and strengthening capabilities of logistics service providers.

The Services Sector Blueprint (2015-2020) mandated Malaysia Productivity Corporation (MPC) to undertake initiative on sectoral governance reform to remove structural barriers and outdated regulations through accelerating and increasing the efficiency of sectoral governance reform.

These will draw on the expertise and perspectives of the public and private sectors to help identify key issues and develop appropriate solutions.

2. Conduct of the review

The study will emulate the approach used by the Australian Government Productivity Commission (AGPC) and the team will be guided by a regulatory expert Ms. Sue Holmes. The team will select a sample of businesses from the Logistics, Freight forwarders and warehousing operators across the country and at state and national borders. The team will interview the senior management personnel to identify the regulatory issues of concern. Based on the principles of good regulatory practices, the team will formulate feasible options for further deliberation. These issues and options will be subject to further consultation with relevant stakeholders in order to develop concrete recommendations that will reduce unnecessary regulatory burdens. The figure 1 summarises the study process for this review.

The outcomes of the review on each of the sectoral study are to arrive at a set of regulations which will reduce the regulatory cost of doing business, help improve the business climate and support the private sector to expand economic activities. In working towards these outcomes, regulations that efficiently contribute to national objectives will be retained, while redundant, unnecessarily burdensome and outdated regulations will be eliminated. The coverage of regulations includes their administration and enforcement as well as their content and effectiveness.
3. Timing

This review commenced in April 2016 and has started with canvasing interested parties about concerns with written regulation and its administration.
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<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AEC</td>
<td>ASEAN Economic Community</td>
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<tr>
<td>AELB</td>
<td>Atomic Energy Licensing Board</td>
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<td>AFAM</td>
<td>Airfreight Forwarders association</td>
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<tr>
<td>AFFA</td>
<td>Asean Freight Forwarders Association</td>
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<td>AHN</td>
<td>ASEAN Highway Networks</td>
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<td>BAM</td>
<td>Board of Architects Malaysia</td>
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<td>BOMBA</td>
<td>Fire &amp; Rescue Department of Malaysia</td>
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<td>BPRH</td>
<td>Best Practice Regulation Handbook</td>
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<tr>
<td>CAGR</td>
<td>compound annual growth rate</td>
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<tr>
<td>CBL</td>
<td>Customs Brokerage Licence</td>
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<tr>
<td>CCC</td>
<td>Certificate of Completion and Compliance</td>
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<td>CSCMP</td>
<td>Council of Supply Chain Management Professionals</td>
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<td>DBKL</td>
<td>Kuala Lumpur City Hall</td>
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<tr>
<td>DC</td>
<td>Distribution centre</td>
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<td>DOE</td>
<td>Department of Environment Malaysia</td>
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<td>DOSH</td>
<td>Department of Safety and Health</td>
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<tr>
<td>DOSM</td>
<td>Department of Statistics Malaysia</td>
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<tr>
<td>EIA</td>
<td>Environmental Impact Assessment</td>
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<td>EPU</td>
<td>Economic Planning Unit</td>
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<td>ERP</td>
<td>Enterprise Resource Planning</td>
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<td>ESAH</td>
<td>Electricity Supply Application Handbook</td>
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<tr>
<td>FAPAA</td>
<td>Federation of Asia Pacific Air Cargo Associations</td>
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<td>FCZ</td>
<td>Free Commercial Zone</td>
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<td>FIATA</td>
<td>International Federation of Freight Forwarders Association</td>
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<td>FIZ</td>
<td>Free Industrial Zone</td>
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<tr>
<td>Acronym</td>
<td>Description</td>
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<tr>
<td>FMFF</td>
<td>Federation of Malaysian Freight Forwarders</td>
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<td>GMP</td>
<td>Good Manufacturing Practices</td>
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<td>GSP</td>
<td>Good Storage Practice</td>
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<td>IILS</td>
<td>International Integrated Logistics Services</td>
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<td>ISIC</td>
<td>International Standard Industrial Classification</td>
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<td>IWK</td>
<td>Sewerage Certifying Agency</td>
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<tr>
<td>JKDM</td>
<td>Royal Malaysian Customs Department</td>
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<td>JOFFA</td>
<td>Johor Freight Forwarders Association</td>
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<td>JTKSM</td>
<td>Labour Department (Peninsular Malaysia)</td>
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<tr>
<td>KKFAA</td>
<td>Kota Kinabalu Freight Forwarders Association</td>
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<td>LFFA</td>
<td>Labuan Freight Forwarders Association</td>
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<td>LPI</td>
<td>Logistics Performance Index</td>
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<td>LMW</td>
<td>Licence Manufacturing Warehouse</td>
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<td>LTFMP</td>
<td>Logistic and Trade Facilitation Master Plan</td>
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<tr>
<td>MIDA</td>
<td>Malaysian Investment Development Authority</td>
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<td>MITI</td>
<td>Ministry of International Trade and Industry</td>
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<td>MNSC</td>
<td>Malaysian National Shippers Council</td>
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<td>MOF</td>
<td>Ministry of Finance</td>
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<td>MOH</td>
<td>Ministry of Health</td>
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<td>MOHR</td>
<td>Ministry of Human Resources</td>
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<td>MOT</td>
<td>Ministry of Transport</td>
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<tr>
<td>MPC</td>
<td>Malaysia Productivity Corporation</td>
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<td>MSIC</td>
<td>Malaysia Standard Industrial Classification</td>
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<td>NDPC</td>
<td>National Development Planning Committee</td>
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<td>NKEAs</td>
<td>National Key Economic Areas</td>
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<td>NLTF</td>
<td>National Logistics Task Force</td>
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<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>NPDIR</td>
<td>National Policy for the Development and Implementation of Regulations</td>
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<td>NRE</td>
<td>Ministry of Natural Resources and Environment</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<tr>
<td>PBTs</td>
<td>State / Local Authorities</td>
</tr>
<tr>
<td>PEKEMA</td>
<td>Association of Malay Importers and Traders of Motor Vehicles of Malaysia</td>
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<tr>
<td>PEMUDAH</td>
<td>Special Task Force to Facilitate Business</td>
</tr>
<tr>
<td>PFFA</td>
<td>Penang Freight Forwarders Association</td>
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<tr>
<td>PSP</td>
<td>Principal Submitting Person</td>
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<tr>
<td>RFID</td>
<td>Radio Frequency Identification</td>
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<tr>
<td>RIA</td>
<td>Regulatory Impact Analysis</td>
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<td>RIS</td>
<td>Regulatory Impact Statement</td>
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<tr>
<td>RORO</td>
<td>Roll-on Roll-off</td>
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<tr>
<td>RTD</td>
<td>Road Transport Department</td>
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<tr>
<td>RURB</td>
<td>Reducing unnecessary regulatory burdens</td>
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<td>SDBA</td>
<td>Street, Drainage and Building Act</td>
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<tr>
<td>SFAA</td>
<td>Sarawak Freight Forwarders Association</td>
</tr>
<tr>
<td>SFFLA</td>
<td>Selangor Freight Forwarders and Logistics Association</td>
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<tr>
<td>SKRL</td>
<td>Singapore-Kunming Railway Link</td>
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<tr>
<td>SME</td>
<td>small-medium enterprises</td>
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<tr>
<td>SPAD</td>
<td>Land Public Transport Commission</td>
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<tr>
<td>SSM</td>
<td>Companies Commission of Malaysia</td>
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<tr>
<td>SYABAS</td>
<td>Water authority</td>
</tr>
<tr>
<td>WBDB</td>
<td>World Bank Doing Business</td>
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<tr>
<td>WMS</td>
<td>Warehousing management systems</td>
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CHAPTER 1: ABOUT THE REVIEW

Contents: About the review, The 10th Malaysia Plan, What the MPC has been asked to do, Approach and rationale of this review, Conduct of the study and Structure of the report.

1.1 About the Review

Regulatory burdens arise from the costs imposed by regulation and enforcement that would otherwise not arise for businesses. While it is usually necessary that some burden is placed on business for regulation to achieve its objectives, greater burdens may as well be created when the regulation is poorly designed or written, poorly implemented or administrated, and where there is unnecessary regulatory duplication and inconsistency.

Conducting a systematic review and identifying priority areas where regulation needs to be improved, consolidated or removed is crucial. Reducing unnecessary regulatory burdens (RURB) is important and part of the regulatory reform process to improve the country’s productivity and competitiveness. To achieve this goal, comprehensive review of business regulations, starting with regulations that impact the National Key Economic Areas (NKEAs) have been led by the Malaysia Productivity Corporation (MPC).

1.2 What the MPC Has Been Asked to Do

In the Eleventh Malaysia Plan, 2016-2020¹, the focus is to accelerate economic growth and promote an economy that will be driven by high-value and knowledge-intensive activities, sectoral governance reforms, and enhancing internationalisation of products and services.

The Services Sector Blueprint (2015-2020)² mandated Malaysia Productivity Corporation (MPC) to undertake initiative on sectoral governance reform to remove structural barriers and outdated regulations through:

- Accelerating and increasing the efficiency of sectoral governance reform;
- Ensuring that the best regulatory development practices are in place for new regulations by expanding and accelerating the adoption of the National Policy for the Development and Implementation of Regulations (NPDIR).

The 10th Malaysian Plan has mandated MPC to carry out regulatory reviews to facilitate the ease of doing business in Malaysia. These reviews will draw on the expertise and perspectives of different representative stakeholders from the public and the private sectors. These stakeholders will help identify issues and assist in the formulating of appropriate solutions. Figure 1.1 below illustrates the regulatory review framework in MPC. Mandated in the 10th Malaysia Plan specifically, MPC will³:

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² http://www.epu.gov.my/documents/10124/284bf868c-1aa1-4e3a-b43e-3b4b91f1a2d1b
³ Malaysia 2010, Tenth Malaysia Plan: 2011-2015, The Economic Planning Unit, Prime Minister’s Department, Government of Malaysia
Review existing regulations with a view to removing unnecessary rules and compliance costs;

- Undertake a cost-benefit analysis of new policies and regulations to assess the impact on the economy;
- Provide detailed productivity statistics, at sector level, and benchmark against other relevant countries;
- Undertake relevant productivity research (e.g. the impact of regulations on growth of small-medium enterprises (SME));
- Make recommendations to the Cabinet on policy and regulatory changes that will enhance productivity; and
- Oversee the implementation of recommendations.

**Figure 1.1: MPC Regulatory Review Framework**

The government formalised and institutionalised the mandate given to MPC with the introduction of a national regulatory policy through the policy document National Policy on the Development and Implementation of Regulations (NPDIR). This document was formally launched by the Chief Secretary of the Government of Malaysia in July 2013.

The objective of the national policy is to ensure that Malaysia’s regulatory regime effectively supports the country’s aspirations to be a high-income and progressive nation whose economy is competitive, subscribes to sustainable development and inclusive growth. The policy is to ensure a regulatory process that is effective, efficient and accountable as well as to achieve greater coherence among policy objectives of government (Malaysia 2013)."
1.3 Scope of the study

The Department of Statistics Malaysia (DOSM) defines a warehousing service as a ‘unit which mainly provides services for storage goods for other entity.

The business activities that are considered to be within the scope of this review are based on particular divisions of the Malaysia Standard Industrial Classification 2008 (MSIC 2008) (Box 1.1).

Box 1.1 Industries included in the review.

SECTION H : TRANSPORTATION AND STORAGE
Division 52 : Warehousing and Support Activities for Transportation

*Group 521 : Warehousing and storage*

5210(1) Warehousing and storage
52100 Warehousing and storage services
(1) Includes: (a) operation of storage and warehouse facilities for all kind of goods: operation of grain silos, general merchandise warehouses, freight, refrigerated warehouses, storage tanks, etc.
(b) storage of goods in foreign trade zones
(c) blast freezing
Excludes: (a) parking facilities for motor vehicles, see 52213
(b) operation of self-storage facilities, see 68102
(c) rental of vacant space, see 6810

*Group 522 : Support activities for transportation*

5224(1) Cargo handling
52249 Other cargo handling activities n.e.c. 63019
(1) Includes: the loading and unloading of goods or passengers' luggage irrespective of the mode of transport used for transportation and stevedoring services
Excludes: operation of terminal facilities, see 5221, 5222 and 5223

5229(2) Other transportation support activities
52291 Forwarding of freight(3)
(2) Includes: pickup and delivery of goods and grouping of consignments – Integrated system
Excludes: (a) courier activities, see 53200
(b) provision of motor, marine, aviation and transport insurance, see 6512
(c) activities of travel agencies, see 79110
(d) activities of tour operators, see 79120
(e) tourist assistance activities, see 79900
(3) Includes:
(a) arranging or organizing of transport operations by rail, road, sea or air
(b) organizing of group and individual consignments
(c) issue and procurement of transport documents and waybills
(d) activities of customs agents
(e) activities of sea-freight forwarders and air-cargo agents
1.4 Approach and Rationale of This Review

Efficient and high-performing logistics and trade facilitation are important determinants of a country’s competitiveness. The logistics industry is the backbone to the supply chain and it is recognised as a key to stimulate trade, facilitate business and spur economic growth. In cognisance of Malaysia potential in this industry, Economic Planning Unit (EPU) developed the Logistics and Trade Facilitation Masterplan. The Masterplan is designed to provide guidelines and strategies to enhance the efficiency and the effectiveness of the transport and trade facilitation mechanisms, to improve productivity of the freight logistics industry and to provide a better environment for the logistics industry in the domestic and international markets.

The Vision for Malaysia’s logistics industry is “To be positioned strategically as the preferred logistics gateway to Asia, combining best-in-class infrastructure, network, and services to provide seamless and competitive logistics services”. Five strategic shifts are proposed in the Masterplan to capitalize on Malaysia’s strengths, address its core issues, and improve its regional standing in the logistics industry. To achieve this, 19 action items under the five strategic shifts and nine tactical action items are proposed.

Under the Eleventh Malaysia Plan (2016-2020), one of the focus areas is unleashing growth of logistics and enhancing trade facilitation. This will be met through various strategies; among them is the strengthening the institutional and regulatory framework through the National Logistics Task Force (NLTF) and regulating other functions such as off-dock depots, warehousing activities, and commercial vehicle registrations. The Eleventh Malaysia Plan emphasises on creating seamless connectivity for people and goods. Within the logistics industry, focus will be given to developing integrated logistics and enhancing trade facilitation mechanisms. Strategies that will be undertaken include strengthening institutional and regulatory framework, enhancing trade facilitation mechanism, building freight infrastructure efficiency and capacity, deploying technology in the logistics chain and strengthening capabilities of logistics service providers.

Under Malaysia’s Services Sector Blueprint is to ensure the removal of structural barriers and outdated regulations in order to create an efficient and flexible business environment for the private sector (Figure: 1.2).

**Figure 1.2: Sectoral Governance Reform under Services Sector Blueprint**

<table>
<thead>
<tr>
<th>Reform existing regulations</th>
<th>Establishing best practices for future regulations</th>
</tr>
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<tbody>
<tr>
<td>Accelerating sectoral Regulatory reforms</td>
<td>Expanding and Accelerating NPDIR rollout</td>
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<tr>
<td>Introducing regulations portal</td>
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</tbody>
</table>

*Source: Services Sector Blueprint March 2015*
The Government will undertake efforts to provide an efficient, facilitative policy environment and machinery to provide a thriving business environment. Cumbersome and inappropriate bureaucratic procedures affecting businesses will be reduced or eliminated. Efforts towards comprehensive and integrated governance reforms include: Realigning functions of related ministries and agencies to reduce overlapping responsibilities. Finally to expanding and accelerating the roll-out of the National Policy on the Development and Implementation of Regulations (NPDIR) to state and local governments.

Warehousing is a major part of the supply chain and logistics activities. Issues in the institutional and regulatory framework are related to lack of coordination, inefficient and insufficient regulations as well as lack of data management. The coordination issues in the logistics sector are attributed to the overlapping functions of agencies and presence of institutional gaps. Off-dock depots and ordinary warehouses are poorly regulated and inefficient. In addition, the database for land freight is fragmented and this impedes effective planning and development of the sector.

Hence this sub-sector is viewed as a significant cross-cutting component for regulatory review. Regulations that stifle the competitiveness of the warehousing industry will invairably adversely affect the competitiveness of the logistics sector, as well as other related industries.

**Box 1.2: Malaysia aims to be in top 10 World Bank Logistics Index by 2020**

“Malaysia aims to be the preferred logistics gateway to Asia and improve its ranking in the World Bank Logistics Performance Index from among the top 25 in 2014 to be among the top 10 by 2020. By 2020, Malaysia aims to achieve an annual growth of 8.5% for the transport and storage sub-sector, creating an additional 146,000 jobs, mostly high-skilled in the Eleventh Malaysia Plan (11MP). This would be met through strengthening the institutional and regulatory framework through the National Logistics Task Force (NLTF) and regulating other functions such as off-dock depots, warehousing activities and commercial vehicle registrations. Other strategies include enhancing the trade facilitation mechanism, building freight infrastructure efficiency and capacity, deploying technology in the logistics chain, and strengthening the capabilities of logistics service providers through training and accreditation programmes.

EPU said unleashing growth of logistics and enhancing trade facilitation is among the key initiatives in strengthening infrastructure to support economic expansion. Efficient and high-performing logistics and trade facilitation are important determinants of a country’s competitiveness, as well as an important source of employment, it said. Malaysia will upgrade the freight and logistics infrastructure and increase container handling capacity to position the country strategically in the region, while trade will be facilitated through simpler, paperless and business-friendly procedures, according to the 11MP.

(Source: Bernama (May 21, 2015).

A significant portion of this study will be based on literature reviews of laws and regulations in the country, past studies made by more mature regulatory agencies such as the Australian Productivity Commission, policy papers and reports, statistical reports and research literatures within the country and official web-sites of relevant professional bodies, non-

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governmental organisations, regulatory bodies, associations and business organisations. The other portion of the study will come through direct interviews and consultations with the warehousing services, professional bodies, associations and regulatory agencies involved in this sector.

The first part of the study will be to establish the key areas of the warehousing industry services viewed as the more burdensome. This will record the views and experiences on the regulatory burden from which improvement options could be formulated. The study will cover the industry profile, regulatory environment of the warehousing industry, and unnecessary regulatory burdens encountered by the warehousing businesses. Primary and secondary data sources will be used in the study. Primary data will be collected through direct engagement with stakeholders in the industry. Public consultation will be carried out during the process of the study. Inputs from various industry players and regulators will be verified to ensure their validity. Finally, the final report of the study will be published and made available to public.

1.5 Conduct of the Study

The team will select a sample of warehousing companies across the country and will interview the senior management personnel to identify the regulatory issues of concern. Based on the principles of good regulatory practices, the team will formulate feasible options for further deliberation. These issues and options will be subject to further consultation with relevant stakeholders in order to develop concrete recommendations that will reduce unnecessary regulatory burdens.

MPC will develop a short list of priority areas for removing or reducing regulatory burdens which impact mainly on the sector under review and have the potential to deliver the greatest productivity gains to the economy. Subsequently from this short list, identify regulatory and non-regulatory options which could be reduced without compromising the achievement of the objectives of the regulations, which might alleviate the regulatory burdens, including those which will enhance regulatory consistency across jurisdictions, or reduce duplication and overlap in regulation or in the role of regulatory bodies and, where appropriate, recommend which option/s are the most suitable.

1.6 Structure of the Report

This report has been organised into five chapters. Chapter 1 - About the Review which highlights the rationale of the review and approach to the study. Chapter 2 – Industry characteristics provides a statistical overview and presents value chains of the warehousing industry. Chapter 3 looks at core concepts of regulatory burdens and the potential sources of unnecessary regulatory burdens in general. Chapter 4 presents value chains to illustrate the extent of government regulatory requirements placed on businesses in these parts of the economy. Reference is made to the Malaysia GST act 762, Sect. 70 (2014) and Customs Act 235 (1967) in defining the warehouse followed by Malaysia Standard Industrial Classification (MSIC) 2008 Ver. 1.0. The Warehouse business activity is based on Division
52 (Warehousing and support activities for transportation) under Section H - Transportation and storage of the Malaysia Services Industrial Code (MSIC) 2008 and also MIDA Logistics Services Booklet. Also looks at the national policy related to warehousing and the governing Acts and regulations, its regulatory framework, existing legislative and institutional arrangements, and mapping of the value chain to regulations. Chapter 5 - Regulatory Issues in Warehousing captures the issues raised by the main warehousing business. From the analyses, various feasible options to mitigate them are formulated for consideration. The analyses will also be the basis for the next stage of consultations with the respondents, the regulators and other interested parties and stakeholders, prior to publishing the final report.
CHAPTER 2: WAREHOUSING

ECOOMIC PERFORMANCE


**Key Points:**

- This Chapter highlights the importance of warehousing as part of logistics and supply chain management, its economic performance, drivers of change, industry size and characteristics, summary statistics in terms of productivity, overall impact on the economy and Malaysia’s regional standing.

- Transport and logistics involve a complex chain of activities, spread. Although transportation is core component of logistics, logistics cover a wide range of other areas including storage, warehousing, trucking services and equipment maintenance across multiple modes of transportation and infrastructure points. The logistics industry is a crucial determinant of Malaysia’s competitiveness. Its importance as an enabler and economic multiplier of the nation’s trade-dependent and export-oriented economy cannot be over-emphasised.

- In 2015, services sector remained as the largest contributor to the country's GDP at 53.5% to RM569 billion. It was also the largest employer with 8.6 million people. The Services sector is expected to grow at 6.8% per annum and contribute 56.5% to the GDP in 2020, and provide 9.3 million jobs.

- AEC, Urbanisation, Services Sector Liberalisation, Multimodality and E-Commerce as Key Drivers of Change. The implementation of the ASEAN Economic Community (AEC) is likely to change the existing structure of the logistics industry in ASEAN, impacting incumbents and new entrants, higher demand of value added services and specialized and customized logistics focus. As markets open up, trade barriers down and regional economies integrate under the ambit of AEC, the industry players need to innovate and offer more value added services.

- Major freight operators with better financial capabilities typically own or lease warehouses. In terms of bonded licenses issued by the Royal Malaysian Customs, there were 1,828 bonded licenses issued by the department during 2009-2013 period.

- In setting the context for the development of the Logistics and Trade Facilitation Masterplan, a Profiling Study of the freight logistics industry entitled, “Developing an Empirical and Diagnostic Base to Support Strategic Planning for the Freight Logistics Industry” was conducted in 2013 by Frost & Sullivan for the Economic Planning Unit (EPU). The study found that in Malaysia, only 14.9% of freight logistics operators have a distribution centre. Of the operators with distribution centres, 86.7% are located in Peninsular Malaysia, while only 3.3% are located in Sabah and 10% are located in Sarawak. Across Malaysia, the average utilisation rate of the distribution centres is high: around 89% in Peninsular Malaysia, 90% in Sabah and 95% in Sarawak. In terms of ownership, 67% of freight operators owned their warehouses while 33% preferred the lease option, 29% of the freight operators have 250 m2 and below of warehouse
built up area, while another 21% of them have more than 5,000 m² warehouse built up area. Majority of warehouses in Sabah have 1,000 to 3,000 m² built up area.

- A total of 31% of end users in Malaysia are currently engaged with international freight logistic providers while 21% are engaged with local ones. International freight logistic providers, usually 3PL/4PL are favoured because of their global recognition, better network coverage, service credibility and most importantly their ability to provide integrated supply chain services to end users.

- The warehouse industry in Malaysia is dominated by medium and small-sized companies (SMEs). As such, and given high investment costs, most warehouses do not have specialised services such as cold storage facilities, pick & pack facilities, and pre-retail services. Companies that do offer these value-added services are usually large conglomerates or MNCs. Due to the limited competition in specialised service areas, the warehouse industry is less inclined to innovate and make improvements to increase efficiency and productivity.

- The study indicated that although revenue output for the sector as a whole did increase significantly by 56.7% from 2008 to stand at RM912,374,000 in 2010, the revenue per company has reduced. This may be attributed to many smaller companies that have sprung up causing a fragmented market. The revenue output per storage was RM3,649,000 in 2010, a drop from RM3,649,000 in 2016.

- The transportation and storage sub-sector’s contribution to Malaysia’s GDP has seen near continuous growth (in terms of value) since 2006. In 2013, the sub-sector contributed MYR 28.6 billion (constant 2005 price) to Malaysia’s GDP, accounting for 3.63% of national GDP. This is an increase of MYR 8.2 billion compared to 2006, when the sub-sector contributed 3.57% of national GDP.

- In the recent Productivity Report 2015/2016 of MPC, the Services sector registered a productivity level of RM66,346 in 2015, compared to the manufacturing sector with the highest productivity level of RM105,156, Agriculture (RM53,540) and Construction (RM35,673). In terms of productivity growth manufacturing productivity growth registered the highest upsurge at 7.1% followed by construction at 5.5% while services registered 3.2%.

- In terms of value added, employment and productivity growth and levels in 2015, the Transportation and Storage sub-sector registered value added growth of 5.68% valued at RM37,326, employment growth of 7.21% and a decline of 1.43% in terms of productivity growth to register productivity level of RM58,665.

- From the perspective of Malaysia’s regional performance, Malaysia was ranked 25th in the Global Enabling Trade Report 2015 in the transportation services category mainly due to its high rankings in the quality of transport infrastructure (ranked 14th) and quality of transport services (ranked 26th).

- In the Logistics Performance Index (LPI) 2014 by World Bank, Malaysia ranked 25 out of 160 countries, leading upper-middle-income nations, above China and Thailand. Malaysia ranked 25 out of 160 countries, leading upper-middle-income nations, above China and Thailand. The high-income nations dominate the first 20 positions in the Logistics Performance Index 2014.
2.1 Purpose

This Chapter aims to highlight the importance of warehousing as part of logistics and supply chain management, the increasing importance of the Services sector and Transport & Storage sub-sector, its economic performance, drivers of change, industry size and characteristics, summary statistics in terms of productivity, overall impact on the economy and Malaysia’s regional standing.

2.2 Warehousing - part of a logistics and supply chain management

Transport and logistics involve a complex chain of activities. Although transportation is core component of logistics, logistics cover a wide range of other areas including storage, warehousing, trucking services and equipment maintenance across multiple modes of transportation and infrastructure points. The logistics industry is a crucial determinant of Malaysia’s competitiveness. Its importance as an enabler and economic multiplier of the nation’s trade-dependent and export-oriented economy cannot be over-emphasised.

Efficient logistics enable competition over a greater area, allowing key export industries to compete for international markets, and domestic industries to be more competitive. The logistics industry as backbone to global supply chain is vital to competitiveness and connectivity as it stimulates trade, facilitates business efficiency and enhances growth. It has strong linkages with most key industries in the economy and economic impact, as “an increase in logistics total factor productivity of 1% is estimated to increase GDP by $2 billion” (Australian Logistics Council).

Malaysian logistics services sector enables the efficient transportation of a diverse range of goods and services via its multi-modal, air, road or sea logistics networks. Creating efficient and effective warehousing and distribution systems is vital to supply chain management and the global economy. Changing business dynamics and the entry of global 3PLs have led to the re-modelling of the supply chain including logistics and warehousing services. Increasingly, warehouses are being used to serve several important functions, beyond mere storage of products. The demand drivers for logistics services and facilities in Malaysia such as industrial parks, free zones, warehouses/depots and distri-parks are manifold.

2.3 Increasing importance of services sector

In 2015, services sector remained as the largest contributor to the country's GDP at 53.5% to RM569 billion. It was also the largest employer with 8.6 million people. (Figure 2.1). The Services sector is expected to grow at 6.8% per annum and contribute 56.5% to the GDP in 2020, and provide 9.3 million jobs. In addition, specific targets to transform the Services sector are: Increasing value added per worker from RM55,574 in 2013 to RM74,101 in 2020; Raising the contribution of knowledge-driven subsectors to GDP from 36% in 2014 to 40% in 2020; and Increasing the share of services exports value added from 12% in 2010 to 19% in 2020. The sector is expected to record broad-based growth across all sub-sectors.
At the sub-sector level, Transport & Storage contributed 3.6% (RM30 billion) to GDP and 6.5% to the Services sector value added in 2014. The share of Transport and storage to GDP from 2005 to 2014 ranged between 3.6% to 3.7%. In the Eleventh Malaysia Plan, the development of the Services sector will be guided by the Services Sector Blueprint, launched in 2015. The Blueprint aims to unlock the potential of the sector and transform it to become more knowledge-intensive and innovation-led.

Under the Eleventh Malaysia Plan, among the focus areas is the “Unleashing growth of logistics and enhancing trade facilitation” (Figure 2.2), where Malaysia aspires to become the preferred logistics gateway to Asia, and improve its ranking in the World Bank Logistics Performance Index from top 25 in 2014 to be among the top ten by 2020. Efficient and high-performing logistics and trade facilitation are important determinants of a country’s competitiveness, as well as an important source of employment.

By 2020, the Transport and storage sub-sector is targeted to contribute 4% to GDP, to grow 8.5% annually and is expected to generate an additional 146,000 jobs through the following strategies:

- Strengthening the institutional and regulatory framework through the National Logistics Task Force (NLTF) and regulating other functions such as off-dock depots, warehousing activities, and commercial vehicle registrations;
- Enhancing trade facilitation mechanisms through collaboration to reduce cargo clearance time and greater paperless trading;
- Building freight infrastructure efficiency and capacity by improving last-mile connectivity at Port Klang and expanding air and rail freight infrastructure;
- Deploying technology in the logistics chain through development of virtual selling platforms and supporting logistics infrastructure for e-commerce; and
- Strengthening the capabilities of logistics service providers through training and accreditation programmes.
2.4 Drivers of Change

The ASEAN Economic Community (AEC) initiative, urbanisation, services sector liberalisation, multimodality and e-commerce (Figure 2.3) will become key drivers of change for the logistics Industry. Changing business dynamics and the entry of global third party logistic service providers have led to the re-modelling of logistics and warehousing services from a mere combination of transportation and storage services to a fast emerging strategic function that involves end-to-end solutions. It has evolved into integrated supply chain of business due to global sourcing, whereby outsourcing could achieve cost competitiveness, attain economies of scale, Just-in-time and zero-inventory production concepts to lower inventory and storage costs. In line with increasing environmental awareness, the sub-sector also needs to prepare for the shift to green standards. As markets open up trade barriers go down and regional economies integrate under the ambit of AEC, the industry players need to innovate and offer more value added services.

Among the benefits of AEC are connecting ASEAN as a single market and production base and facilitate seamless movement of goods and people across the region, reduce customs and transport procedures through the implementation of effective trade and transport facilitation measures (e.g. ASEAN Single Window and ASEAN Customs Transit System); enhancing logistics connectivity through the development of ASEAN Highway Networks (AHN), Singapore-Kunming Railway Link (SKRL) and ASEAN Roll-on Roll-off (RORO) network; and liberalising transport operation through the ASEAN Open Skies and ASEAN Single Shipping Market. The implementation of AEC is likely to change the existing structure of
the logistics industry in ASEAN, impacting incumbents and new entrants, higher demand of value added services and specialised and customised logistics focus.

**Figure 2.3:** AEC, Urbanisation, Services Sector Liberalisation, Multimodality and E-Commerce as Key Drivers of Change

2.5 Definition of Warehouse

Although the terms ‘warehouse’ and ‘distribution centre’ (dc) are often used interchangeably, there are a number of different views on their precise meaning. One view is that warehouses are primarily for storing goods, whilst distribution centres are for moving goods through in a rapid manner (as noted by Hatton, 1990). This is supported, for example, by Dawe (1995, p. 102), who states that: “Warehouses handle most products in four cycles (receive, store, pick, and ship); DCs handle most products in two: receive and ship.” De Koster (2007, p.482), drew a different distinction, aligning the term ‘distribution centre’ more closely to the role of storage: Warehouses “are commonly used for storing or buffering products (raw materials, goods-in-process, finished products) at and between points of origin and points of consumption. The term ‘warehouse’ is used if the main function is buffering and storage. If additionally distribution is a main function, the term ‘distribution centre’ is commonly used, whereas ‘transhipment’, ‘crossdock’, or ‘platform’ centre are often used if storage hardly plays a role”.

---


2.6 Malaysia Standard Industrial Classification of Warehousing

The Malaysia Standard Industrial Classification (MSIC) 2008 is a classification of all economic activities in Malaysia which adopts the International Standard Industrial Classification (ISIC) Revision. The main purpose of the MSIC is to provide a set of activity categories that can be used for the collection and presentation of statistics according to such activities. Industries are then formed by grouping units with a common primary activity, according to specified similarity criteria. MSIC can then be used to produce statistics by activity or by industry, for enterprises as well as for establishments or kind of activity units. The Warehouse business activities are based on Division 52 (Warehousing and support activities for transportation) under Section H - Transportation and storage of the Malaysia Services Industrial Code (MSIC) 2008 (Table 2.1).

The business activities that are considered to be within the scope are:

Table 2.1 : MSIC 2008: Warehousing & Storage

<table>
<thead>
<tr>
<th>Class</th>
<th>Item</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>DIVISION 52 : WAREHOUSING AND SUPPORT ACTIVITIES FOR TRANSPORTATION</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group 521 : Warehousing and storage</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5210</td>
<td>Warehousing and storage</td>
<td></td>
</tr>
<tr>
<td>Includes:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) operation of storage and warehouse facilities for all kind of goods: operation of grain silos, general merchandise warehouses, freight, refrigerated warehouses, storage tanks, etc.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) storage of goods in foreign trade zones</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) blast freezing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excludes:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) parking facilities for motor vehicles, see 52213</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) operation of self-storage facilities, see 68102</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) rental of vacant space, see 6810</td>
<td></td>
<td></td>
</tr>
<tr>
<td>52100</td>
<td>Warehousing and storage services</td>
<td></td>
</tr>
</tbody>
</table>

Source: MSIC 2008

2.7 Industry Size and Characteristics

Key information such as number of warehouses and their locations, types, capacities, ownership and utilisation rates are not readily available. In setting the context for the development of the Logistics and Trade Facilitation Masterplan, a profile of the freight logistics industry entitled, “Developing an Empirical and Diagnostic Base to Support Strategic Planning for the Freight Logistics Industry” (the Profiling Study) was developed in a preceding study conducted in 2013. This study by Frost & Sullivan for the Economic Planning Unit (EPU) gathers inputs from industry players and findings through extensive quantitative and qualitative assessment and international best practices benchmarking. Below are extracts of findings from the above-mentioned study.

It was observed that the current service offerings provided include inbound transportation, outbound transportation, inbound warehousing, outbound warehousing, freight forwarding,
order processing, fleet management & consolidation, information management, customer service/support, vendor management support, billing/payment/transaction, packing and labeling and value added services (customer service/support, assembly operations and consulting). Major freight operators with better financial capabilities typically own or lease warehouses. In terms of bonded licenses issued by the Royal Malaysian Customs, there were 1,828 bonded licenses issued by the department during 2009-2013 period (Figure 2.4).

**Figure 2.4: Public and Private Bonded Warehouses in Malaysia, 2009-2013**

![Public and Private Bonded Warehouses in Malaysia, 2009-2013](image)

*Source: Royal Malaysian Customs*

The study found that in Malaysia, only 14.9% of freight logistics operators have a distribution centre. Of the operators with distribution centres, 86.7% are located in Peninsular Malaysia, while only 3.3% are located in Sabah and 10% are located in Sarawak. Across Malaysia, the average utilisation rate of the distribution centres is high: around 89% in Peninsular Malaysia, 90% in Sabah and 95% in Sarawak. In terms of ownership, 67% of freight operators owned their warehouses while 33% preferred the lease option (Figure 2.5). 29% of the freight operators have 250 m² and below of warehouse built up area, while another 21% of them have more than 5,000 m² warehouse built up area. Majority of warehouses in Sabah have 1,000 to 3,000 m² built up area.
Figure 2.5: Warehouse Ownership Type by Region, Malaysia, 2013

<table>
<thead>
<tr>
<th></th>
<th>Owned</th>
<th>Leased</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peninsular Malaysia</td>
<td>70%</td>
<td>30%</td>
</tr>
<tr>
<td>Sabah</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Sarawak</td>
<td>64%</td>
<td>36%</td>
</tr>
</tbody>
</table>


In terms of utilisation, more than 60% of the freight operators have high warehouse utilisation rate of up to 91% to 100%, highly utilised by large size freight logistics companies. From its primary research it also found that transportation and warehousing, be it inbound or outbound, as well as freight forwarding, are the most sought after by logistic freight end users in Malaysia. Warehousing services are commonly sought by the larger end user companies while end users with smaller companies are engaged in inbound transportation with their freight logistic operators.

A total of 31% of end users in Malaysia are currently engaged with international freight logistic providers while 21% are engaged with local ones. International freight logistic providers, usually 3PL/4PL are favoured because of their global recognition, better network coverage, service credibility and most importantly their ability to provide integrated supply chain services to end users.

Limited governance of the warehouse segment in Malaysia has led to the non-strategic location of warehouses, with most warehouses in Peninsular Malaysia situated away from central locations. For example, warehouses are scattered around the Klang Valley, hampering the movement of trade goods from Port Klang and KLIA. As no zoning is allocated to warehouses, most of these facilities are located outside cities due to land cost concerns. So, operators need to share the major road networks from regional hubs (including seaports and airports) to cities for the distribution of goods. There is no integration of last-mile delivery and freight flows with the national and international supply chain; which leads to road congestion and lower productivity among operators.

In addition, the warehouse industry in Malaysia is dominated by medium and small-sized companies (SMEs). As such, and given high investment costs, most warehouses do not have specialised services such as cold storage facilities, pick & pack facilities, and pre-retail services. Companies that do offer these value-added services are usually large conglomerates or MNCs. Due to the limited competition in specialised service areas, the warehouse industry is less inclined to innovate and make improvements to increase efficiency and productivity.

The study indicated that although revenue output for the sector as a whole did increase significantly by 56.7% from 2008 to stand at RM912,374,000 in 2010, the revenue per
company has reduced. This may be attributed to many smaller companies that have sprung up causing a fragmented market. The revenue output per storage and warehouse company was RM13,147,000. This dropped to RM3,649,000 in 2010. (Figure 2.6).

**Figure 2.6:** Revenue Output per Storage and Warehouse Company, Malaysia (2006, 2008 and 2010)

2.7 **Summary Statistics**

2.7.1 **Sub-sector Contribution to GDP**

The transportation and storage sub-sector’s contribution to Malaysia’s GDP has seen near continuous growth (in terms of value) since 2006. In 2013, the sub-sector contributed MYR 28.6 billion (constant 2005 price) to Malaysia’s GDP, accounting for 3.63% of national GDP. This is an increase of MYR 8.2 billion compared to 2006, when the sub-sector contributed 3.57% of national GDP (Figure 2.7).

**Figure 2.7:** Transportation and Storage Sub-Sector Contribution to GDP (constant 2005 price) by Value and Percentage, 2006-2013
2.7.2 Productivity Performance

In the recent Productivity Report 2015/2016 of MPC, the Services sector registered a productivity level of RM66,346 in 2015, compared to the manufacturing sector with the highest productivity level of RM105,156, Agriculture (RM53,540) and Construction (RM35,673). In terms of productivity growth manufacturing productivity growth registered the highest upsurge at 7.1% followed by construction at 5.5% while services registered 3.2%. Table 2.2 below shows statistics in terms of value added, employment and productivity growth and levels in 2015 for the sub-sectors under Services. Transportation and Storage registered value added growth of 5.68% valued at RM37,326, employment growth of 7.21% and a decline of 1.43% in terms of productivity growth to register productivity level of RM58,665.

Table 2.2: Statistics by Services Sub-sectors, 20159

<table>
<thead>
<tr>
<th>Sub-Sectors</th>
<th>Added Value (RM)</th>
<th>(%)</th>
<th>Employment (RM)</th>
<th>(%)</th>
<th>Productivity (RM)</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services</td>
<td>569,046</td>
<td>5.15</td>
<td>8,595</td>
<td>3.59</td>
<td>66,204</td>
<td>1.51</td>
</tr>
<tr>
<td>Utilities</td>
<td>27,085</td>
<td>3.46</td>
<td>127</td>
<td>-12.09</td>
<td>212,710</td>
<td>17.69</td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>155,738</td>
<td>6.89</td>
<td>2,361</td>
<td>3.73</td>
<td>65,965</td>
<td>3.04</td>
</tr>
<tr>
<td>Food &amp; beverage and accomodation</td>
<td>20,377</td>
<td>6.37</td>
<td>1,122</td>
<td>0.82</td>
<td>26,188</td>
<td>5.50</td>
</tr>
<tr>
<td>Transportation and storage</td>
<td>37,326</td>
<td>5.68</td>
<td>636</td>
<td>7.21</td>
<td>58,665</td>
<td>-1.43</td>
</tr>
<tr>
<td>Information and communication</td>
<td>60,480</td>
<td>9.40</td>
<td>223</td>
<td>5.19</td>
<td>271,786</td>
<td>4.01</td>
</tr>
<tr>
<td>Finance &amp; Insurance</td>
<td>73,488</td>
<td>-0.69</td>
<td>366</td>
<td>11.10</td>
<td>200,687</td>
<td>-1062</td>
</tr>
<tr>
<td>Real estate &amp; business services</td>
<td>45,796</td>
<td>6.58</td>
<td>1,075</td>
<td>2.89</td>
<td>42,620</td>
<td>3.59</td>
</tr>
<tr>
<td>Government services</td>
<td>42,553</td>
<td>2.84</td>
<td>767</td>
<td>2.95</td>
<td>55,485</td>
<td>-0.11</td>
</tr>
<tr>
<td>Health</td>
<td>19,180</td>
<td>3.87</td>
<td>569</td>
<td>6.94</td>
<td>33,729</td>
<td>-2.87</td>
</tr>
<tr>
<td>Education</td>
<td>46,213</td>
<td>5.06</td>
<td>926</td>
<td>5.95</td>
<td>49,922</td>
<td>-0.84</td>
</tr>
<tr>
<td>Other services</td>
<td>31,810</td>
<td>5.03</td>
<td>425</td>
<td>-2.35</td>
<td>74,922</td>
<td>7.56</td>
</tr>
</tbody>
</table>

Source: www.mpc.gov.my

On comparison to the performance in the previous year, productivity growth in the transportation and storage services grew by 10.1% to RM50,683 per employee in 2014, an improvement from RM46,051 per employee in the previous year (Figure 2.8). The sub-sector contributed 3.6% to GDP in 2014 and made up 9.7% of the services sector, while employing a total of 593,300 workers. The sub-sector’s productivity performance was driven by improvements in the freight industry, with warehousing & support activities registering the highest productivity growth of 10.7% to RM195,381 per employee in 2014. The industry generated added value of RM16.1 billion. (Source Productivity Report 2014/2015, MPC).

The warehousing and support activities industry registered improved labour cost competitiveness, with productivity growing by 10.7% while labour cost per employee grew at 4.5% and unit labour cost dropped by 5.4% (Figure 2.9).

**Figure 2.9: Growth of Labour Cost Competitiveness within the Transport And Storage Sub-Sector, 2013-2014**

*Source: Productivity Report 2014/2015, MPC*
2.8 Enhancing Contribution of the Sector through the Logistics and Trade Facilitation Master plan (2015-2020)

Recognising the potential of the logistics industry, the vision of the master plan is to place Malaysia as the “Preferred Logistics Gateway to Asia” by integrating the best infrastructure and network to establish effective and competitive services.

Box 2.1 : Logistics and Trade Facilitation Master Plan (2015-2020)

“The Logistics and Trade Facilitation Master plan provides the strategic framework to resolve bottlenecks in the logistics sector and elevate Malaysia to become a regional player in the medium term. The logistics sector is important as it supports all sectors of the economy, facilitates trade, reduces cost of doing business and contributes to enhancing productivity and efficiency of the economy. The Master plan will be part of the Eleventh Malaysia Plan, 2016-2020. The successful implementation of this Masterplan will increase the contribution of the transport and storage sub-sector to the gross domestic product from 3.6% in 2013 to 4.3% in 2020, an estimated increase of RM22.2 billion. The cargo volume is projected to grow 8% annually to reach 880 million tonnes in 2020. It will also generate 146,000 new jobs by 2020, mostly in the high skilled category. To ensure that the Masterplan is implemented expeditiously and in a cost effective manner, the National Logistics Taskforce will be established and headed by the Minister of Transport”.

(Source: Foreword by Dato’ Sri Abdul Wahid Omar Minister in the Prime Minister’s Department March 20, 2015).

Under the Services Sector Blueprint March 2015, the Special Committee on Services Sector will oversee the implementation of the development strategies and action plans, particularly the Services Sector Blueprint, the Logistic and Trade Facilitation Master Plan (LTFMP) as well as the Construction Industry Transformation Programme. The committee will ensure cross-sectoral policy and agency coherence in line with the national development objectives. The National Logistic Taskforce will be set-up to lead the implementation of the LTFMP while implementing reform strategies would impact the overall sectoral governance.
2.10 Malaysia’s Potential Logistics Output and overall Impact on the Economy

In its current state, Malaysia’s transportation and storage sub-sector is expected to grow at a CAGR of 5% from 2014 to 2020, contributing MYR 40.9 billion to Malaysia’s GDP, owing to a resilient domestic economic environment as well as strong intra-Asia trade. This contribution will make up 3.6% of national GDP. In terms of cargo volume and labour productivity, total cargo volume is estimated to reach 0.74 billion tonnes (CAGR 5.5% between 2014 and 2020) while labour productivity is estimated to achieve MYR 136,021 by 2020 (CAGR 3.6% between 2014 and 2020), (Figure 2.10).

With the implementation of the Masterplan, total cargo volume and labour productivity in the transportation and storage sub-sector is expected to display further improvement. With the Masterplan’s action items in place, total cargo volume is expected to reach 0.88 billion tonnes, with CAGR of 8% between 2014 and 2020 (compared to 0.74 billion tonnes under normal growth). In monetary terms, it is estimated that for every one tonne increase in cargo volume, the transportation and storage sub-sector’s contribution to GDP increases by MYR 45,010. Therefore, a CAGR of 8% increase in cargo volume between 2014 and 2020 will result in an estimated contribution of an additional MYR 5.9 billion to national GDP by 2020. CAGR of 8% increase in cargo volume between 2014 and 2020 will result in an estimated contribution of an additional MYR 5.9 billion to national GDP by 2020. Labour productivity is expected to improve at the rate 5% CAGR between 2014 and 2020 to reach MYR 149,711 (compared to MYR 136,021 at CAGR 3.6% between 2014 and 2020). In monetary terms, every MYR 1,000 increase in labour productivity will increase the transportation and storage sub-sector’s contribution to GDP by MYR 28 million. With productivity estimated to reach MYR 149,711, an increase of 5% CAGR between 2014 and 2020, the transportation and storage sub-sector is expected to contribute an estimated additional MYR 3.88 billion to GDP by 2020.

As a result of total cargo volume growth and labour productivity improvement from the implementation of the Masterplan, the transportation and storage sub-sector is expected to grow at an estimated CAGR of 8.5% from 2014 to 2020, contributing MYR 50.8 billion to Malaysia’s GDP.

This contribution will make up 4.3% of national GDP. The sub-sector’s contribution to GDP is consistent with that seen in the logistics industry in major developed economies such as the US and European countries. According to Eurostat 2013, the transport industry in the EU contributes 4.6% to the GDP of most member states.
Additionally, based on Malaysia’s impressive CAGR of more than 6% over the past five years in sea and land transport freight volume, the logistics industry is poised to play a bigger role in leading the country’s economic growth. High growth and proactive measures to strengthen the logistics industry are expected to result in significant spinoff effects for the country, in the form of increased business investment, a higher employment rate, an increase in the country’s competitiveness level and a reduction in the cost of doing business.

Economic growth Malaysia recorded strong GDP growth of 5.3% with value added of RM830 billion in 2014. The growth was driven by strong domestic demand, substantial increase in private and public sector consumption, and sustained foreign investment inflows. The economy is projected to grow between 5.5% and 6.3% annually until 2020, with steady growth in all economic sectors. Trade was valued at approximately RM1.45 trillion in 2014 and is expected to grow 4.7% annually by 2020, backed by strong trade growth prospects in Asia.

2.11 Malaysia’s Regional Standing

Malaysia was ranked 25th in the Global Enabling Trade Report 2015 in the transportation services category mainly due to its high rankings in the quality of transport infrastructure (ranked 14th) and quality of transport services (ranked 26th). In the Logistics Performance Index (LPI) 2014 by World Bank, Malaysia ranked 25 out of 160 countries, leading upper-middle-income nations, above China and Thailand. The high-income nations dominate the first 20 positions (Figures 2.11 and 2.12).
Figure 2.11: Standing in the Logistics Performance Index, 2014

In the Trading Across Borders 2014, Malaysia ranked 11 out of 189 economies. Malaysia’s logistics performance and trade facilities are benchmarked with countries such as Indonesia, Thailand, Singapore and Hong Kong. Malaysia’s performance in the region (Figure 2.13) can be summarised as follows:

- The average growth for air freight declined by 0.8% between 2005 and 2013. The freight volume in 2013 was 0.9 million tonnes which accounted for only 50% that of Singapore and 25% that of Hong Kong
- Malaysia was ranked third behind Hong Kong and Singapore for sea container volume. However for sea freight volume, Malaysia achieved only 34% that of Indonesia
- Malaysia’s trade cost per container was much lower than the other selected countries except Singapore

Figure 2.12: Malaysia’s competitiveness of the freight logistic industry

<table>
<thead>
<tr>
<th>Country</th>
<th>LPI Rank</th>
<th>LPI Score</th>
<th>Customs</th>
<th>Infrastructure</th>
<th>International Shipment</th>
<th>Logistics Competence</th>
<th>Tracking &amp; tracing</th>
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In terms of the number of procedures involved in building a warehouse, Malaysia had 2.6 times more procedures which took 1.2 times longer than Hong Kong.

Shippers in Malaysia needed 11 days for the completion of export procedures and eight days for the completion of import procedures. This is almost twice the time needed to complete import and export procedures in Singapore.

**Figure 2.13: Comparison of the Logistics Sector Performance, 2013**

- **Air**
  - Air Transport (million tonne-km): Malaysia 1,990.9, Indonesia 959.1, Thailand 2,644.4, Singapore 6,512.2, Hong Kong 9,439.9
  - Air Freight Volume (million tonne): Malaysia 0.9, Indonesia 1.5, Thailand 1.6, Singapore 1.8, Hong Kong 4.1

- **Sea**
  - Container Traffic (million tonne): Malaysia 20.8, Indonesia 10.1, Thailand 7.9, Singapore 32.6, Hong Kong 22.4
  - Sea Freight Volume (million tonne): Malaysia 506.2, Indonesia 1,470.5, Thailand 198.5, Singapore 560.9, Hong Kong 276.1

- **Land**
  - Trade Costs (US$ per container)
    - Import: Malaysia 485.0, Indonesia 660.0, Thailand 760.0, Singapore 440.0, Hong Kong 595.0
    - Export: Malaysia 450.0, Indonesia 615.0, Thailand 595.0, Singapore 460.0, Hong Kong 590.0

- **Warehouse**
  - Building a warehouse (procedures no.): Malaysia 13.0, Indonesia 17.0, Thailand 7.0, Singapore 10.0, Hong Kong 5.0
  - Time (days): Malaysia 74.0, Indonesia 211.0, Thailand 113.0, Singapore 26.0, Hong Kong 66.0

- **Trade Facilitation**
  - Time Requirement (Days)
    - Import: Malaysia 8.0, Indonesia 23.0, Thailand 13.0, Singapore 4.0, Hong Kong 5.0
    - Export: Malaysia 11.0, Indonesia 17.0, Thailand 14.0, Singapore 6.0, Hong Kong 6.0

In terms of building a warehouse in Malaysia involves 13 procedures and 74 days as compared to Hong Kong with 5 procedures and 66 days.
CHAPTER 3: REGULATORY BURDENS: CORE CONCEPTS


Key points:

- This chapter outlines the core concepts of regulatory burdens and their significance, the principles of good regulatory practice and government initiatives in best regulatory practice and generic poor regulatory practices - all these would provide useful insights to guide the development of options in the subsequent chapter and complexity of regulations in the context of warehousing.

- A well-functioning regulatory system is essential to enhance governance and promote stability, productivity, progress and prosperity while at the same time protecting public health, safety and the environment.

- Impacts should be assessed and regulations reviewed systematically to ensure that they meet their intended objectives efficiently and effectively in a changing and complex economic and social environment. Those aspects of economic regulations that restrict entry, access, exit, pricing, output, normal commercial practices, and forms of business organisation should be periodically reviewed to ensure that the benefits of the regulation outweigh the costs, and that alternative arrangements cannot equally meet the objectives of the regulation with less effect on competition.

- Regulatory burdens arise from the costs imposed by regulation and enforcement that would otherwise not arise for businesses. While it is usually necessary that some burden is placed on business for regulation to achieve objectives, where regulation is poorly designed or written, or it is not administered or enforced well, it may impose greater burdens than necessary.

- In 2013, the launch of the National Policy on the Development and Implementation of Regulations (NPDIR) reflected the government’s desire to improve the rule-making process. Regulatory impact statements and public consultations were introduced in order to standardize the way that polices, laws and regulations are developed and improve overall regulatory quality.

- Warehousing and logistics are largely concerned with managing, handling, storing and transporting goods and materials from one destination to another destination. As the types of goods are almost infinitely large in numbers, so are the regulatory requirements to manage the logistic chain and warehousing. Depending on the characteristics of the goods and the risks they pose to human beings and the environment, there will be highly variable needs for the level and type of regulatory intervention to ensure the security, safety and health of the public as well as the goods, and the preservation of the environment.

- Regulations are influenced by several endogenous factors, which make a regulatory framework complicated; namely, the multi-sectoral nature, fragmentations, national political
priorities, and historical legacies and cultural norms. With the combination of these factors, there is no simple model for logistics regulations across countries.

- Warehousing and logistics regulations spread over multiple sectors (and types of goods) and are often not transparent to service providers. Many local statutory regulations do not cover every aspect of warehousing and logistics activities.
- Dealing with a range of authorities requires resources from the service provider, both in terms of time and finance. In addition to the time required for the actual regulatory procedures, the service provider also has to research the requirements specific to its operations to ensure that all relevant permits have been applied for. This can be particularly challenging for small and medium-sized enterprises (SMEs) with limited financial and personnel resources.

3.1 Purpose

This chapter outlines the core concepts of regulatory burdens and their significance, the principles of good regulatory practice and government initiatives in best regulatory practice and generic poor regulatory practices, - all these would provide useful insights to guide the development of options in the subsequent chapter and complexity of regulations in the context of warehousing.

3.2 Why Regulation?

A well-functioning regulatory system is essential to enhance governance and promote stability, productivity, progress and prosperity while at the same time protecting public health, safety and the environment. Many regulatory policies have already proved their worth, supporting structural reforms, entrepreneurship and market openness. While it is usually necessary that some burden is placed on business for regulation to achieve its objectives, greater burdens may as well be created when the regulation is poorly designed or written, poorly implemented or administrated, and where there is unnecessary regulatory duplication and inconsistency.

However, impacts should be assessed and regulations reviewed systematically to ensure that they meet their intended objectives efficiently and effectively in a changing and complex economic and social environment. Those aspects of economic regulations that restrict entry, access, exit, pricing, output, normal commercial practices, and forms of business organisation should be periodically reviewed to ensure that the benefits of the regulation outweigh the costs, and that alternative arrangements cannot equally meet the objectives of the regulation with less effect on competition.

Regulatory intervention can often be justified where freely operating markets would deliver less than optimal levels and qualities of output. This is usually because the benefits that the free-market brings to individuals or businesses carrying out a particular activity diverge from the benefits to society as a whole. When regulation is used appropriately, it addresses market imperfections so that total economic and social welfare is increased.
3.3 Reducing Unnecessary Regulatory Burden

Regulatory burdens arise from the costs imposed by regulation and enforcement that would otherwise not arise for businesses. While it is usually necessary that some burden is placed on business for regulation to achieve objectives, where regulation is poorly designed or written, or it is not administered or enforced well, it may impose greater burdens than necessary. Differences across states in regulations, addressing the same issue can also place additional burdens on businesses operating across jurisdictions. Regulations with the same objective, but imposing different requirements, can result in businesses having to plan and undertake a number of different approaches to meeting compliance in different geographical regions. If these different compliance activities yield similar outcomes, the differences can be viewed as unnecessary burdens. In addition, a business may have to interact with more than one regulator, either within or across jurisdictions. Different approaches to enforcement by these regulators could also create additional burdens.

3.4 Types of Unnecessary Regulatory Burdens

Often regulations have legitimate social, economic or environmental objectives. It is usually necessary that some burden is placed on business in order for the objectives of regulation to be achieved. However, regulations create unnecessary burdens on business where they are poorly designed and written; or are poorly administered and enforced. Unnecessary burdens might arise from:

- excessive coverage by a regulation - that is, the regulation affects more economic activity than was intended or required to achieve its objective (includes ‘regulatory creep’)
- subject-specific regulation that covers much the same issues as other generic regulation
- prescriptive regulation that unduly limits flexibility such as preventing businesses from:
  - using the best technology
  - making product changes to better meet consumer demand
  - meeting the underlying objectives of regulation in different ways
- overly complex regulation
- unwieldy licence application and approval processes, excessive time delays in obtaining responses and decisions from regulators
- requests to provide more information than needed
- requests to provide the same information more than once
- rules or enforcement approaches that inadvertently result in businesses operating in less efficient ways
- unnecessarily invasive regulator behaviour, such as overly frequent inspections or irrelevant or duplicative information requests

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• an overlap or conflict in the activities of different regulators
• inconsistent application or interpretation of regulation by regulators.

Poor governance and lack of transparency and accountability are among the principal causes of unnecessary regulatory burden, resulting not only from poor designed or written regulation and/or poor administration or enforcement of the regulations. This frequently provides opportunities for corrupt practices.

The survey by Transparency International has shown that countries which have exceptional records in addressing corruption, such as Singapore (ranking 5th), Hong Kong (14th) and the United Arab Emirates (27th) have been successful in transforming themselves into global logistics hubs, with efficient administration and customs processes which are largely untroubled by corrupt practices. In the Transparency International Corruption Perception Index, Malaysia ranked 50 out of 175 countries (last year ranked 53rd). Malaysia is improving its corruption perception index but slowly.

Box 3.1: **Principles of Good Regulation**

Effective governance structures encourage regulators to improve outcomes for the community within the boundaries of their legal framework and objectives outlined by government. The OECD (2005) Guiding Principles for Regulatory Quality and Performance recommended that good regulation should support eight key aims as follows:

1. serve clearly identified goals, and be effective in achieving those goals
2. have a sound legal and empirical basis
3. produce benefits that justify costs, considering the distribution of effects across society and taking economic, environmental and social effects into account
4. minimize costs and market distortions
5. promote innovation through market incentives and goal-based approaches
6. be clear, simple and practical for users
7. be consistent with other regulations and policies
8. be compatible as far as possible with competition, trade and investment-facilitating principles at domestic and international levels.

When conducting the reviews of existing written regulations, there are six core principles providing the framework to assess the quality of regulations and help identify where

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13 Transparency International, Corruption Perception Index 2014
14 OECD Guiding Principles for Regulatory Quality and Performance, 2005
unnecessary burdens on businesses could be reduced. Regulations that conform to best practice design standards are characterized by the following six principles and features. (Box 3.2) that would provide guidance to regulators.

**Box 3.2: Six Core Principles for Assessing Regulation and its Administration**

Principle 1: Have a proportionate and targeted response to the risk being addressed.

Principle 2: Minimize adverse side-effects to only those necessary to achieve regulatory objectives at least cost.

Principle 3: Have a responsive approach to incentivize compliance with regulation.

Principle 4: Ensure all written regulations are consistent and that regulations are consistent and that regulators interpret and apply them consistently. Avoid duplication and overlap of regulations and regulators.

Principle 5: Adopt transparency criteria, so interested parties are regularly consulted, it is clear to businesses what their legal obligations are, and all regulations are easily accessed by everyone.

Principle 6: Accountability so that businesses can seek explanations of decisions made by regulators, as well as appeal them and there are probity provisions in order to reduce corruption.

### 3.5 Government Initiatives in Best Regulatory Practices

In 2013, the launch of the National Policy on the Development and Implementation of Regulations (NPDIR) reflected the government’s desire to improve the rule-making process. The national policy also specifically mandates the MPC, through its responsibility to the National Development Planning Committee (NDPC), to implement the functions of the national policy. MPC is to assist in the coordination for implementing this policy.

The Best Practice Regulation Handbook (BPRH) which was launched together with the National Policy on the Development and Implementation of Regulations (NPDIR) provides detail guidance on how to carry out best practice regulation – the systematic process to the development of regulations. Basically, a regulator has to carry out Regulatory Impact Analysis (RIA) and produce a comprehensive report, the Regulatory Impact Statement (RIS) when it is introducing any regulation that may impact upon businesses. The NDPC oversees the implementation of the National Policy on the Development and Implementation of Regulations. It monitors RIS process, examines and endorses the adequacy of all RIS prior to submission for decision by the government. The MPC is responsible for assessing the need for RIS and for

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16 Malaysia 2013, National Policy on the Development and Implementation of Regulations, Malaysia Productivity Corporation
17 MPC 2013b, Best Practice Regulation Handbook, Malaysia Productivity Corporation
performing a review of RIS for adequacy prior to submission to the NDPC. It also provides guidance to regulators in facilitating RIA and developing RIS. This RIA for best practice regulation involves seven core elements as shown in Box 3.3.

**Box 3.3: Seven Elements of RIA**

1. **Problem statement**: RIA should clearly identify the problem/s that need to be addressed
2. **Objectives**: The “objectives” element should state the intent of the proposed regulatory action in concrete terms and relate this to the broader policy of the agency and Government
3. **Options**: This element describes the range of regulatory and non-regulatory options to be considered in addressing the issue or risk identified including the proposed regulatory action and the key differences between options
4. **Impact analysis**: To conduct a comprehensive assessment of the expected impact (costs and benefits) of each feasible options
5. **Consultation**: Any proposed new regulation or changes to regulation will involve consultation with relevant stakeholders, including the main parties affected by the proposal: Business, non-governmental organisations, the community, regulators and other government agencies
6. **Conclusion & recommendation**: should include a clear statement identifying the preferred option based on the impact analysis. The recommendation for the selection of this option must be supported by the preceding analysis and a comparison with other options provided.
7. **Strategy for implementation**: It is necessary to consider how the option will be implemented and enforced, and to establish a review strategy that will allow the option to be evaluated after it has been in place for sometime

Regulatory impact statements and public consultations were introduced in order to standardize the way that policies, laws and regulations are developed and improve overall regulatory quality. Under National Policy on the Development and Implementation of Regulations (NPDIR), all Federal Government regulators must undertake Regulatory Impact Assessment (RIA) and present the Regulatory Impact Statement (RIS) in the creation of all new regulations or review of regulations that relate to, or impact business, investments and trade, upon assessment by MPC. The process is also applicable for voluntary adoption by state governments and local authorities. RIA will be applied in all ministries and agencies. The tool is to enable governments to make sound analysis, evidence-based decision making and ensure transparency in all new and amended regulations.

MPC has published the Guidelines on Public Consultation Procedures as public consultation is a central element of RIA. This guideline is part of MPC’s efforts to facilitate the implementation of the NPDIR and also supplements the BPRH. Much of the information is based on the practices and publications from various countries such as the OECD, the United Kingdom, and the Australian Government. The intention of this guideline is to provide a reference for Ministries and federal agencies in conducting their public consultation exercises. It will also clarify the role of the stakeholders involved in public consultation. For the general public, the information will provide them with better understanding on the transparency and democratic process of the Government when developing regulations that will affect them.

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18 GRP portal grp.mpc.gov.my
3.6 Complexity of Regulations in Warehousing

Warehousing is defined\(^{19}\) as the storage of goods: raw materials, semi-finished goods, or finished goods. This includes a wide spectrum of facilities and locations that provide warehousing. Since this is a point in the logistics system where goods are held for varying amounts of time, the flow is interrupted or stopped, thereby creating additional costs to the product. In a macroeconomic sense, warehousing creates time utility for raw materials, industrial goods and finished products. It also increases the utility of goods by broadening their time availability to prospective customers.

Flexibility of available warehousing space is a major concern as owners/occupiers of warehouses aim to maximise their workflow efficiency (their cube-wise space – length, width, and height) to fully optimise the warehouse for efficient material handling, order picking and storage processes, accommodating personnel movement, and handling of equipment. Thus the lack of warehousing standards and accreditation poses a significant challenge to the industry, in particular when the owner/occupier needs to invest and upgrade / expand space and are unsure of what specifications to standards should be adopted and complied with.

Depending on the characteristics of the goods and the risks they pose to human beings and the environment, there will be highly variable needs for the level and type of regulatory intervention to ensure the security, safety and health of the public as well as the goods, and the preservation of the environment. Regulations are influenced by several endogenous factors, which make a regulatory framework complicated; namely, the multi-sectoral nature, fragmentations, national political priorities, and historical legacies and cultural norms. With the combination of these factors, there is no simple model for logistics regulations across countries.\(^{20}\)

Warehousing and logistics regulations spread over multiple sectors (and types of goods) and are often not transparent to service providers. Many local statutory regulations do not cover every aspect of warehousing and logistics activities. Operators also face difficulty to access all regulatory information as there is no “one stop centre” to centralise all the important information needed. Some regulatory information is restricted to members of trade associations and not available to the public thereby compounding the problem.

Each segment of logistics services is often restricted by a different license, such as for a customs clearing agent, trucking, warehousing, handling dangerous goods, and fire safety. Furthermore, institutional fragmentation among relevant ministries and agencies causes less transparency in terms of compliance to regulations.

Dealing with a range of authorities requires resources from the service provider, both in terms of time and finance. In addition to the time required for the actual regulatory procedures, the service provider also has to research the requirements specific to its operations to ensure that...

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all relevant permits have been applied for. This can be particularly challenging for small and medium-sized enterprises (SMEs) with limited financial and personnel resources.

For authorities, the duplication of regulatory information creates inefficiencies and may contribute to longer processing. At the same time, the likelihood of human error and conflicting information held by authorities may be higher. High regulatory burdens tend to foster corruption, as businesses try to avoid them.

Studies\textsuperscript{21} have suggested that although performance improvements are evident in many areas of the transport and logistics value chain, red tape still remains a serious issue facing importers and exporters in many developing countries. Reductions in documentary formalities have been minimal in recent years, and costs have actually increased in many countries. Many countries have scope to further reduce delays and improve supply chain performance by rationalising red tape burdens.

Key legislation that may affect businesses in warehousing industry includes customs licensing, warehouse licensing, qualifications to store/transport certain goods or services (e.g. food, waste) and approval of transport security plans. The more necessary to register as a warehouse provider in particular when dealing with dangerous goods or when establishing a bonded warehouse.

For e.g. in Singapore, all business premises need to be approved by the Urban Redevelopment Authority for the intended use. For logistic companies, the premises need to follow the 60-40 rule, i.e. at least 60\% of the gross floor area is to be used for industrial or warehousing activities e.g. storage of goods, while the remaining 40\% being used for offices and other support functions. In Thailand, a company wishing to set up a bonded warehouse need to apply for permission with the Customs Department, and are subject to a security bond, bank guarantee and other requirements, as well as a yearly license fee. The criteria vary by the type of bonded warehouse to be established.\textsuperscript{22}

Thus for the warehouse industry to remain competitive in the global market, to ensure processes are efficient, and to keep up with regulatory environment and addressing regulatory compliance in line with the changing roles and functions of warehousing is always challenging.

\textsuperscript{21} Aid for Trade and Value Chains in Transport and Logistics (OECD & WTO, 2013).
CHAPTER 4: WAREHOUSING VALUE
CHAIN & REGULATORY MAPPING

Contents: Purpose, Warehousing Services as logistics and trade facilitation support, Logistics and trade facilitation ecosystem, Warehouse Supply Chain, The World Bank Doing Business: Procedures to Build a Warehouse, Warehousing business cycle. Specific environmental and security conditions and regulations under which each of these products must be kept. Institutional Framework for Warehousing in Malaysia, Warehouse Business Startup, Value Chain and Regulatory Mapping, Trade Associations as Intermediaries and Overview of Government stakeholders (Regulators) and their roles in the value chain.

Key points
- This chapter describes the legislations governing the activities in the value chain of the warehousing services in Malaysia. It aims to establish the value chain for warehousing which helps to identify the key business players and intermediaries and regulators that enforce existing regulations and guide the regulatory mapping and stakeholder analysis.
- Warehousing is part of a logistics and supply chain management. Although transportation is core component of logistics, logistics cover a wide range of other areas including storage, warehousing, trucking services and equipment maintenance. Transport and logistics involve a complex chain of activities, spread across multiple modes of transportation and infrastructure points.
- The logistics industry as backbone to global supply chain is vital to competitiveness and connectivity as it stimulates trade, facilitates business efficiency and enhances growth. Warehousing and warehouse management are part of a logistics management system, which is itself a component in supply chain management. Although viewed by some as simply a place to store finished goods, inbound functions that prepare items for storage and outbound functions that consolidate, pack and ship orders provide important economic and service benefits to both the business and its customers, there are various value chains or models that have been developed.
- In a supply chain, warehousing function is very critical as it acts as a node in linking the material flows between the supplier and customer. Warehouses have been going through various challenges such as – supply chains are becoming more integrated and shorter, globalised operation, customers are more demanding and technology changes are occurring rapidly. Demand for specialised warehouse services will increase for the foreseeable future as manufacturers intensify their focus on core competencies.
- Today warehousing management systems (WMS) can be standalone or part of an Enterprise Resource Planning (ERP) system and can include complex technology such as Radio Frequency Identification (RFID) and voice recognition. However, the basic principle of the warehouse system has remained the same, which is to provide information to allow efficient control of the movement of materials within the warehouse. The complexity of a WMS implementation varies with each business.
- The logistics and trade facilitation ecosystem is made up of manufacturers, traders, e-business organisations, logistics service providers involved in the movement of goods and necessary support services, Customs departments (to facilitate the documentation and clearance of moving and stored goods), and approving agencies and local authorities responsible for various processes in the functioning of businesses. Participants in the ecosystem adopt and follow various industry regulations in the form of acts, laws and conventions.
- In general, warehousing services business cycle consists of three main activities which is i) Acquisition of premises, ii) Operational, and iii) Closing a business.
- There are relevant regulations, standards (local and international), code of practices, licences and good manufacturing practices that the establishment must understand and comply with. This is in addition to their customer’s requirements, including product and process standards in particular if the standards are mandatory (such as standards for dangerous goods including hazardous chemical substances and dangerous goods waste) to ensure the quality and integrity of the products stored are maintained at all times such as protecting products from contaminants, unapproved chemicals, excessive temperature fluctuations and physical damage, hygienic condition and pose no risk to products.
The purpose of value chain analysis in this report aims to review the regulatory framework and identify those aspects which have contributed or stifled the efficiency and growth of the warehousing industry. The focus is on reducing the unnecessary regulatory burdens (RURB) imposed on the business across the warehousing business cycle chain. The unnecessary burdens and issues will be identified by getting the perspectives of businesses in the warehousing industry.

This chapter also presents the current legislative arrangements. The main Acts governing the activities in warehousing services sub-sector in Malaysia are the Customs Act 1967 and GST Act 2014. Royal Malaysian Customs Department (JKDM) is the government agency responsible for administrating the nation's indirect tax policy.

The warehousing services sub-sector is also bound by other acts at the Federal, State and Local Government levels.

An overview of licenses in various forms, such as registrations, notifications, approvals, licences and permits is also highlighted here as the main characteristic of licensing as a regulatory instrument is that a prior approval from the government is required before any commencement of business or operations of business.

Trade associations and Chambers of Commerce act as intermediaries to communicate and coordinate between the logistics and warehousing businesses and the regulators. They provide services, information and training to enhance regulatory compliance and issue resolutions between regulators and the businesses. There are regular consultations to deal with issues of concern on government policies and implementation.

4.1 Purpose

This chapter describes the legislations governing the activities in the value chain of the warehousing services in Malaysia. It aims to establish the value chain for warehousing which helps to identify the key business players and intermediaries and regulators (and outsourcing partners or intermediaries (if any) that enforce existing regulations and guide the regulatory mapping and stakeholder analysis.

As mentioned in the Eleventh Malaysia Plan (Chapter 14), issues in the institutional and regulatory framework are related to coordination, inefficient and insufficient regulations as well as lack of data management. The facilities provided at warehouses are not monitored. In addition information on the requirements, fees and categorisation differ among the local councils causing difficulties and higher cost of doing business for investors. This includes information pertaining to location, type, space and size and utilisation rate and operators, which are important for logistics planning and decision-making. Until today, there is still no specific act or regulation for warehouse.

4.2 Warehousing Services as logistics and trade facilitation support

According to the Council of Supply Chain Management Professionals (CSCMP), logistics management can be defined as, "that part of supply chain management that plans, implements, and controls the efficient, effective forward and reverse flow and storage of goods, services and related information between the point of origin and the point of consumption in order to meet customers' requirements."
The supply chain is “a system of resources, organisations, people, technologies, activities and information involved in the act of transporting goods from producer to consumer. In the context of globalisation it is a network of supply chains that form today’s global commerce” (Transport Research Support by the World Bank: Supply Chain Security Guide, 2009). Raw material and component producers, product assemblers, wholesalers, retail merchants, and transportation companies are all members of a supply chain. Throughout the chain, logistics service providers facilitate the movement of goods and information to end users by providing transportation, warehousing, distribution, cargo clearance and other value-added services.

The Logistics and Trade Facilitation Masterplan (2015-2020) provides the strategic framework to resolve bottlenecks in the logistics sector and elevate Malaysia to become a regional player in the medium term. The logistics industry as backbone to global supply chain is vital to competitiveness and connectivity as it stimulates trade, facilitates business efficiency and enhances growth. Figure 4.1 presents the logistics and value added services along the supply chain as indicated in the Masterplan.

Figure 4.1: Logistics and Value Added Services Along Supply Chain

In a supply chain, warehousing function is very critical as it acts as a node in linking the material flows between the supplier and customer. Warehouses have been going through various challenges such as – supply chains are becoming more integrated and shorter, globalised operation, customers are more demanding and technology changes are occurring rapidly. Demand for specialised warehouse services will increase for the foreseeable future as manufacturers intensify their focus on core competencies.

Today warehousing management systems (WMS) can be standalone or part of an Enterprise Resource Planning (ERP) system and can include complex technology such as Radio Frequency Identification (RFID) and voice recognition. However, the basic principle of the warehouse system has remained the same, which is to provide information to allow efficient control of the
movement of materials within the warehouse. The complexity of a WMS implementation varies with each business.

### 4.3 Logistics and trade facilitation ecosystem

The logistics and trade facilitation ecosystem (Figure 4.2) is made up of manufacturers, traders, e-business organisations, logistics service providers involved in the movement of goods and necessary support services, Customs departments (to facilitate the documentation and clearance of moving and stored goods), and approving agencies and local authorities responsible for various processes in the functioning of businesses. Participants in the ecosystem adopt and follow various industry regulations in the form of acts, laws and conventions. They also leverage ICT and infrastructure to deliver relevant business solutions and products.

**Figure 4.2: Logistics and Trade Facilitation Ecosystem**

A regulatory and institutional framework is a system of regulations and procedures, and includes the functions of implementing agencies (i.e., those with the authority and means to enforce regulations and procedures). This is usually established by the government to regulate specific activities stipulated by law. The interaction between various industry participants helps to drive trade and is ultimately responsible for customer purchases. In short, an efficient logistics and trade facilitation ecosystem is necessary to boost trade and consumption.

### 4.4 Warehouse Supply Chain

In a macroeconomic sense, warehousing creates time utility for raw materials, industrial goods and finished products. It also increases the utility of goods by broadening their time availability to prospective customers. In essence, the primary aim for warehouses and distribution centres is to facilitate the movement of goods from suppliers to customers while meeting the customers’ demand in a timely and cost-effective manner. Figure 4.3 presents a typical warehouse supply chain.
The inbound warehousing process begins with the arrival of incoming transportation. Inbound logistics refers to the transport, storage and delivery of goods coming into a business (from for all modes of transport- air, rail, sea, road) while outbound logistics refers to the same for goods going out. The storage of goods has been the primary function for warehouses; to receive customer orders, retrieve required items, and finally prepare and ship those items. Once the goods have been received from the manufacturer and/or shipper, they are compactly stored to maximise space within the warehouses. While the distribution center as a facility from which wholesale and retail orders are filled; distribution involves getting the product from the manufacturer to the ultimate consumer.

The warehousing and transporting of goods to the end customer does not necessarily mark the end of the supply chain process. Reverse logistics is another type of warehousing activity - referring to items that are going from the end user back to the distributor or manufacturer (some as defective returns or for environmental reason). Warehouses are becoming to larger extent flow-through facilities that perform certain value adding functions or customer specific activities before products continue their movement through the supply chain.

Due to increased competitiveness and challenges occurring in such areas as reverse logistics, environmental sustainability, greener operations, information technology, and overall supply chain integration are further evolving the strategies, roles, and responsibilities for warehouses.

4.5 The World Bank Doing Business: Procedures to Build a Warehouse

Another area of concern that may hinder the development of warehousing business in Malaysia is the number of procedures needed prior to building a warehouse. Data from the World Bank’s Doing Business project suggested that although performance improvements are evident in many
areas of the transport and logistics value chain, red tape still remains a serious issue facing importers and exporters in many developing countries. Reductions in documentary formalities have been minimal in recent years, and costs have actually increased in many countries. Many countries have scope to further reduce delays and improve supply chain performance by rationalising red tape burdens.

*World Bank Doing Business* records all procedures required for a business in the construction industry to build a warehouse along with the time and cost to complete each procedure (Figure 4.4). In addition, Doing Business has introduced a new measure, the building quality control index, evaluating the quality of building regulations, the strength of quality control and safety mechanisms, liability and insurance regimes, and professional certification requirements. Information is collected through a questionnaire administered to experts in construction licensing, including architects, civil engineers, construction lawyers, construction firms, utility service providers and public officials who deal with building regulations, including approvals, permit issuance and inspections.

![Figure 4.4: Time, Cost and Number of Procedures to comply with formalities to build a warehouse](image)

Doing Business divides the process of building a warehouse into distinct procedures in the questionnaire and solicits data for calculating the time and cost to complete each procedure (Figure 4.4). These procedures include obtaining and submitting all relevant project-specific documents (for example, building plans, site maps and certificates of urbanism) to the authorities; hiring external third-party supervisors, engineers or inspectors (if necessary); obtaining all necessary clearances, licenses, permits and certificates; submitting all required notifications; and requesting and receiving all necessary inspections (unless completed by a private, third-party inspector). Interactions between company employees, such as development of the warehouse plans and inspections conducted by employees, are not counted as procedures. However, interactions with external parties that are required for the architect to prepare the plans and drawings (such as obtaining topographic or geological surveys), or to have such documents approved or stamped by external parties, are counted as procedures. Doing Business also records procedures for obtaining connections for water and sewerage. Procedures necessary to register the warehouse so that it can be used as collateral or transferred to another entity are also counted.

Doing Business 2016 report continues to measure efficiency in construction permitting while also adding a measure of quality. The building quality control index assesses both quality control and safety mechanisms across 189 economies in six main areas: transparency and quality of building regulations; quality control before, during and after construction; liability and insurance regimes; and professional certifications. To make the data comparable across economies, several assumptions about the construction company, the warehouse project and the utility connections
are used. The ranking of economies on the ease of dealing with construction permits is determined by sorting their distance to frontier scores for dealing with construction permits. These scores are the simple average of the distance to frontier scores for each of the component indicators (Figure 4.5).

![Figure 4.5: Dealing with Construction Permits: Efficiency and Quality of Building Regulation](image)

Table 4.1 shows Malaysia’s performance in Dealing with Construction Permits for the last 3 years (2014-2016).

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Malaysia DB 2016</th>
<th>Malaysia DB 2015</th>
<th>Malaysia DB 2014</th>
<th>Best Performer DB 2016 (Spore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dealing with Construction Permits (Rank/DTF Score)</td>
<td>15 (81.10)</td>
<td>28 (82.49)</td>
<td>39 (79.55)</td>
<td>1 (92.92)</td>
</tr>
<tr>
<td>Procedures (number)</td>
<td>15</td>
<td>13</td>
<td>13</td>
<td>10</td>
</tr>
<tr>
<td>Time (days)</td>
<td>79</td>
<td>74</td>
<td>105</td>
<td>26</td>
</tr>
<tr>
<td>Cost (% of warehouse value)</td>
<td>1.4</td>
<td>1.3</td>
<td>1.3</td>
<td>0.1</td>
</tr>
<tr>
<td>Building Quality Control Index (0-15)</td>
<td>13</td>
<td>-</td>
<td>-</td>
<td>11.0</td>
</tr>
</tbody>
</table>

4.6 Warehousing business cycle

In general, warehousing service business cycle consists of three main activities, namely 1) Acquisition of premises, 2) Operational, and 3) Closing /cessation of a business (Figure 4.6). However focus of this study would be on the acquisition of premises and warehouse business start up.
4.7 Specific environmental and security conditions and regulations under which each of these products must be kept

There are relevant regulations, standards (local and international), code of practices, licences and good manufacturing practices that the establishment must understand and comply with, in addition to their customer’s requirements, including product and process standards in particular if the standards are mandatory (such as standards for dangerous goods including hazardous chemical substances and dangerous goods waste) to ensure the quality and integrity of the products stored are maintained at all times such as protecting products from contaminants, unapproved chemicals, excessive temperature fluctuations and physical damage, hygienic condition and pose no risk to products. For eg, to maintain the original quality of pharmaceutical products, every party active in the distribution chain has to comply with the applicable legislation and regulations. Every activity in the distribution of pharmaceutical products should be carried out according to the principles of GMP, good storage practice (GSP) and good distribution practice.

For drugs and pharmaceuticals, the storing, handling, distributions, labelling and packaging, traceability and re-calling among others are governed by the Pharmaceutical Services Division of the Ministry of Health (MOH). The MOH also has various guidelines such as the Good Manufacturing Practices (GMP) and Good Distribution Practices that industries need to follow.

Dangerous goods and radioactive materials are strictly regulated and the governing authorities include the Department of Safety and Health (DOSH), the Atomic Energy Licensing Board (AELB), the Fire & Rescue Department of Malaysia (BOMBA) and the Department of Environment Malaysia (DOE).
Among related regulations of the warehousing business operations are as shown in Figure 4.7. However this study has its limitations as no analysis would be done on warehousing business operations and its related regulations.

**Figure 4.7: Warehousing Business Operations**

4.8 **Institutional Framework for Warehousing in Malaysia**

Figure 4.8 shows the current institutional framework of warehouse industry in Malaysia across the different sectors of policy, planning, regulation and enforcement with its respective ministries and agencies. It provides an overview of the regulatory framework, existing legislative and institutional arrangements, and mapping of the value chain to regulations, including the stakeholders.

**Figure 4.8: Existing Institutional Framework for Warehousing**

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23 EPU Logistics Trade Facilitation Masterplan, 2014
4.9 Warehouse Business Startup

The warehousing services value chain commences with the regulatory compliance surrounding the acquisition of the warehouse to start the business, then to the operation of the warehouse and cessation of warehouse if the business needs to relocate or exit the industry. In warehousing, an operator must first submit an application to construct a warehouse and obtain development approval from the local authority (Figure 4.9). Once building construction is complete, inspections from the relevant technical agencies are required. Upon inspection and confirmation that the warehouse is fit for occupancy and use and complies with relevant regulations, the operator will receive a Certificate of Completion and Compliance (CCC) from a principal submitting person (“PSP”) who is defined in SDBA (Street, Drainage and Building Act, 1974) as a Professional Architect, Professional Engineer or building draughtsman registered under the Board of Architects Malaysia (BAM). The warehouse operator can then apply for a warehouse licence appropriate for its intended use from the local authority or from the Customs Department. There are three types of warehouse licences, and selection of the appropriate type depends on how the operator intends to use the warehouse. An operator can choose to operate an ordinary warehouse, a public-bonded warehouse or a private-bonded warehouse.

Figure 4.9: Warehousing Business Startup Procedures

4.10 Value Chain and Regulatory Mapping

The purpose of value chain analysis in this report aims to review the regulatory framework and identify those aspects which have contributed or stifled the efficiency and growth of the
warehousing industry. This section has its limitations of the review process, as it will only narrow the scope to regulatory mapping on the first phase of the business cycle (starting a business). It will provide detailed analysis on the business startup of a physical premise for warehousing activities in terms of the general regulatory requirements. However as warehousing is complicated by the types of goods handled and stored, regulations on selected types of goods handled would be highlighted (Table 4.2) as they are subjected to different types of regulations e.g. pharmaceuticals, dangerous and hazardous goods, scheduled chemicals, cold chain facilities and disposal of scrap/waste; albeit no detail analysis in this study.

Details of the requirements in terms of Acts, Regulations, Policies for each step of the value chain process, namely Acquisition of premise & startup; Application for warehouse licence (Ordinary, Public Bonded, Private Bonded & LMW) as well as Warehouse Operations (selected types of goods handled) are listed in Table 4.2 (Note: The list of Acts, Regulations and Policies is however not exhaustive).

Table 4.2: Acts, Regulations and Policies by Approval of Agency/Ministry for Warehouse Activities

<table>
<thead>
<tr>
<th>Value Chain</th>
<th>Primary Activity/Process</th>
<th>Acts, Regulations, Policies</th>
<th>Approval Agency/Ministry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of premise and start-up</td>
<td>Submission for development approval (Warehouse operators can submit applications for warehouse construction and operation permits to OSC Submission, but the process to obtain development approval takes 130 days due to the need to satisfy the multiple requirements of different internal and external agencies).</td>
<td>• Street, Drainage &amp; Building Act 1974 • Companies Act 1955</td>
<td>• Local Authority • Companies Commission of Malaysia (SSM)</td>
</tr>
<tr>
<td></td>
<td>Request for utility Inspection</td>
<td>• Street, Drainage &amp; Building Act 1974</td>
<td>• Local Authority</td>
</tr>
<tr>
<td></td>
<td>Request for Road and Drainage Inspection</td>
<td>• Street, Drainage &amp; Building Act 1974</td>
<td>• Sewerage Certifying Agency (IWK)</td>
</tr>
</tbody>
</table>

25 Adapted from EPU Logistics Trade Facilitation Masterplan, 2014
<table>
<thead>
<tr>
<th>Obtain approval on fire safety (premise is equipped with an adequate number of fire extinguishers, as well as fire and safety alarm systems).</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire Services Act 1988</td>
</tr>
<tr>
<td>Fire and Rescue Department (BOMBA)</td>
</tr>
<tr>
<td>Obtain a water clearance letter</td>
</tr>
<tr>
<td>Water Services Industry Act 2006</td>
</tr>
<tr>
<td>Water authority (SYABAS)</td>
</tr>
<tr>
<td>Application for the Certificate of Completion and Compliance (CCC). (Potential operators of ordinary warehouses must obtain approval from the Department of the Environment if they want to store hazardous goods, and approval from the Fire and Rescue Department and other technical agencies along with a Certificate of Completion and Compliance (CCC) from the local authority to acknowledge that the building is safe for occupation).</td>
</tr>
<tr>
<td>Street, Drainage &amp; Building Act 1974</td>
</tr>
<tr>
<td>Building Department and Board of Architects via the Local Authority</td>
</tr>
<tr>
<td>Application for an Ordinary Warehouse Licence</td>
</tr>
<tr>
<td>Companies Act 1965; Local Government Act 1976; Street, Drainage &amp; Building Act 1974; Fire Services Act 1988; Water Services Industry Act 2006;</td>
</tr>
<tr>
<td>SSM; Local Authority; IWK; BOMBA; SYABAS; Building Department and Board of Architects</td>
</tr>
<tr>
<td>Application for a Public Bonded Warehouse Licence for a warehouse that intends to provide central storage for the distribution of bonded goods (i.e., goods on which Customs’ duties and</td>
</tr>
<tr>
<td>Customs Act 1967; Companies Act 1965; Street, Drainage &amp; Building Act 1974; Fire Services Act 1988;</td>
</tr>
<tr>
<td>Royal Malaysian Customs Department (JKDM); SSM; Local Authority; IWK</td>
</tr>
</tbody>
</table>
| Operation of Warehouse (selected types of goods handled)- Cont’d | Handling & Transport of hazardous goods and management of toxic, hazardous chemicals, radioactive materials and hazardous wastes. A facility which generates, stores, transports, treats or disposes scheduled waste is subject to the stipulated environmental regulations. | • Guidelines on Storage of Hazardous Chemicals: A Guide for Safe Warehousing of Packaged Hazardous Chemicals  
• Environmental Quality (Scheduled Wastes) Regulations 2005;  
• Environmental Quality (Prescribed Conveyance) (Scheduled Wastes) Order 2005;  
• Environmental Quality (Prescribed Premises) (Scheduled Wastes Treatment and Disposal Facilities) Order 1989; | • Department of Occupational Safety and Health (DOSH)  
• Ministry of Human Resources (MOHR)  
• Ministry of Natural Resources and Environment (NRE)  
• JKDM  
• Atomic Energy Licensing Board (AELB)  
• Ministry of Science, Technology and |
<table>
<thead>
<tr>
<th>Requirements</th>
<th>Relevant Act/Regulations</th>
</tr>
</thead>
<tbody>
<tr>
<td>For pharmaceuticals and drugs, the storing, handling, distributions, labelling and packaging, traceability and re-calling. Storage conditions for hazardous, sensitive and dangerous materials and/or products and/or cosmetics such as combustible liquids and solids, pressurized gases, highly toxic substances and radioactive materials/products.</td>
<td>Good Manufacturing Practices and Guidelines on Good Distribution Practice (GDP) 2013, under the Dangerous Drugs Act 1952 (Revised 1980), Poison Act 1952 (Revised 1989), Poisons (Psychotropic Substances) Regulations 1989 and the Control of Drugs and Cosmetics Regulations 1984 (Revised 2009).</td>
</tr>
<tr>
<td>Occupational Safety and Health Act (OSHA), 1994. supported by regulations, codes of practices and guidelines</td>
<td>National Pharmaceutical Control Bureau, Ministry of Health Malaysia (MOH)</td>
</tr>
</tbody>
</table>

**OCCUPATIONAL HEALTH & SAFETY**

- the legislative framework to promote, stimulate and encourage high standards of safety and health at work, reduced risks to health from the use, storage or transportation of substances. To meet these aims, all practicable precautions must be taken in the proper use and handling

- Occupational Safety and Health Act (OSHA), 1994. supported by regulations, codes of practices and guidelines

- DOSH

- MOHR
of any substance likely to cause a risk to health.

<table>
<thead>
<tr>
<th><strong>MACHINERY OPERATIONS</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>- provides for the control of factories with respect to matters relating to the safety, health and welfare of person therein, the registration and inspection of machinery and for matters connected therewith. DOSH carries out inspection, certification and registration of all machinery prior to their installation.</td>
</tr>
<tr>
<td>• Factories and Machinery Act 1967</td>
</tr>
<tr>
<td>• DOSH</td>
</tr>
<tr>
<td>• MOHR</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>INVENTORY MANAGEMENT</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>- provides for inspection and certification of factory machinery.</td>
</tr>
<tr>
<td>• Factories and Machinery (Notification, Certificate of Fitness, and Inspection) Regulations, 1970.</td>
</tr>
<tr>
<td>• DOSH</td>
</tr>
<tr>
<td>• MOHR</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>SPECIALISED STORAGE</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>- Protection of persons and property from fire risks and for purposes connected therewith.</td>
</tr>
<tr>
<td>- a legal framework to control exposure of chemical hazardous to health at workplace.</td>
</tr>
<tr>
<td>• Fire Services Act 1988</td>
</tr>
<tr>
<td>• Occupational Safety and Health (Use and Standards of Exposure of Chemicals Hazardous to Health (USECHH) Regulation 2000</td>
</tr>
<tr>
<td>• BOMBA</td>
</tr>
<tr>
<td>• DOSH</td>
</tr>
<tr>
<td>• MOHR</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>SCHEDULED WASTE MANAGEMENT</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>- ensure that scheduled wastes generated are properly stored, treated on-site, recovered on-site for material or product from such scheduled wastes or delivered to and received at prescribed premises for treatment, disposal or recovery of material or product from</td>
</tr>
<tr>
<td>• Environment Quality Act 1974</td>
</tr>
<tr>
<td>• Environment Quality (Scheduled Waste regulations) 2005</td>
</tr>
<tr>
<td>• DOE</td>
</tr>
<tr>
<td>• NRE</td>
</tr>
<tr>
<td><strong>Employment Requirements</strong></td>
</tr>
<tr>
<td>-----------------------------</td>
</tr>
<tr>
<td>scheduled wastes. Areas for the storage of the containers shall be designed, constructed and maintained adequately to prevent spillage or leakage of scheduled wastes into the environment.</td>
</tr>
</tbody>
</table>
| 1.5 Special Industrial Building Allowance for Warehouses An initial allowance of 10% and an annual allowance of | - Employment Act 2011  
- Industrial Relation Act 1967  
- Minimum Wages Order 2012  
- Minimum Retirement Age Bill 2012  
- Employees Provident Fund Act 1991  
- Income Tax Act 1967  
- Employees’ Social Security Act 1969  
- Pemangunan Sumber Manusia Berhad Act 2001  
- Occupational Safety and Health Act 1994  
- Immigration Act 1959/63  
- Registration of workforce (MOHR)  
- Registration of Unions (Industrial Relations Department – MOHR)  
- Registration of employees with SOCSO  
- Registration of employees with PSMB  
- Registration of employees with LHDN  
- Work Permits (Immigration) |
3% of qualifying capital expenditure is given for buildings used as warehouses for storing goods for export and re-export. Applications should be submitted to the Inland Revenue Board.

<table>
<thead>
<tr>
<th>Cessation of Warehouse</th>
<th>Closing/Winding down of business, Sales or ownership transfer and Bankruptcy</th>
</tr>
</thead>
</table>
|                        | • Insolvency Law Act 360  
• Bankruptcy 1967   |
|                        | • Malaysia Department of Insolvency |

(Note: The list of Acts, Regulations and Policies is however not exhaustive.)

### 4.11 Trade Associations as Intermediaries

Trade associations and Chambers of Commerce act as intermediaries to communicate and coordinate between the logistics and warehousing businesses and the regulators. They provide services, information and training to enhance regulatory compliance and issue resolutions between regulators and the businesses. There are regular consultations to deal with issues of concern on government policies and implementation.

Beside the industry-based associations there are also service business-based associations which play a major role in mediation and negotiation with the Government on logistics matters. Among them are the Federation of Malaysian Freight Forwarders (FMFF), Airfreight Forwarders association (AFAM), Association of Malaysian Hauliers, ASEAN Ports Authorities etc.

The Federation of Malaysian Freight Forwarders (FMFF) was registered in September 1987 as a National Association representing the Freight Forwarders in the logistics industry. In 2000, the Ministry of Transport endorsed and recognized FMFF as a national Association to represent the logistics industry. Current membership in FMFF nationwide is about 1091 members with several applicants pending approval. FMFF membership as per State association is as follows:-

- Selangor Freight Forwarders and Logistics Association (SFFLA) - 627 company members; Johor Freight Forwarders Association (JOFFA) - 254 company members; Penang Freight Forwarders Association (PFFA) - 119 company members; Kota Kinabalu Freight Forwarders Association (KKFAA) - 51 company members; Sarawak Freight Forwarders Association (SFAA) - 92 company members; Labuan Freight Forwarders Association (LFFA) - 15 company members.

FMFF is affiliated to FIATA (International Federation of Freight Forwarders Association), AFFA (Asean Freight Forwarders Association), FAPAA (Federation of Asia Pacific Air Cargo Associations, MNSC (Malaysian National Shippers Council). FMFF participates in many government forums such as Dialogues with MITI and MOF, Customs Liaison meeting, MOT,
MLC, Trade and Facilitation Action Council (MITI) and provides industry views and inputs for policy makers’ consideration.

The Selangor Freight Forwarders and Logistics Association (SFFLA) is the largest in the region. Its mission is to undertake to market and promote its members' activities / businesses through participation in exhibitions, trade missions, dialogues and forums, locally and internationally. Through all this, members benefit directly and indirectly through the extended local and international network co-operation and collaboration in all the logistics activities.

SFFLA and FMFF participate actively in all government fora and consultative bodies and meetings to ensure that the interests of the logistics industry are articulated and represented at dialogues and pre-dialogue meetings initiated by important ministries such as MOF, MITI and MOT, SME Corporation, and Customs Liaison Meetings. SFFLA also implements a sustainable professional capacity development programme for its members to enhance the professional capacity of the logistics industry.

The International Federation of Freight Forwarders Association (FIATA)’s objectives are:

- to unite the freight forwarding industry worldwide
- to represent, promote and protect the interests of the industry by participating as advisors or experts in meetings of international bodies dealing with transportation
- to familiarise trade and industry and the public at large with the services rendered by freight forwarders through the dissemination of information, distribution of publications, etc.
- to improve the quality of services rendered by freight forwarders by developing and promoting uniform forwarding documents, standard trading conditions, etc.
- to assist with vocational training for freight forwarders, liability insurance problems, tools for electronic commerce including electronic data interchange (EDI) and barcode.

The Federation of Asia Pacific Aircargo Associations (FAPAA) is the regional Aircargo body bringing together the representative Aircargo Associations in 20 Member countries and/or regions around the Asia-Pacific and provides a forum for sharing and developing knowledge, innovation and experience amongst leaders in the international logistics chain.

The Associations that comprise FAPAA can be accessed via the "Members by Country and/or Region" page and their respective Forwarding members businesses have the ability to reach all corners of the globe - for any type of commodity and provide a variety of services including Import /Export Forwarding; 3rd & 4th party Logistics; Customs Brokerage and professional advice. The group meets on an annual basis in one of the member countries and/or regions and during the year communicates on a regular basis to enact the primary objectives of the group.

The Malaysia Logistics Directory (msialogistics.com) classifies the logistics industries into four categories: sea freight, land and rail transport, air freight and supporting industries. Under the supporting industries include Warehouses-public (40), warehousing equipment and supplies (10), warehousing services-bonded (10), warehouse services-cold storage (7) and warehousing services-general (46). The trading community in Malaysia is a vibrant one. Comprising not only traders, manufacturers, importers, exporters, forwards, shipping agents, warehouse and depot operators; it also includes transport and logistics community, banking and insurance agencies
as well as ASEAN and international links. Smooth communications is key for this community to run business efficiently.

myTRADELINK is Malaysia's trade facilitation portal that connects trading communities with the relevant government agencies and also other businesses involved in global trade and logistics. An initiative of the Malaysian Government, led by the Ministry of Finance of Malaysia - and operated by Dagang Net Technologies Sdn Bhd, it is a single platform where the trade community can exchange documents required to fulfil regulatory trade processes for import, export or transit - anytime, anywhere via the Internet. Traders, manufacturers, importers, exporters, forwarders, shipping agents, warehouse and depot operators, transport and logistics community, banking and insurance agencies as well as ASEAN and international links stand to gain many benefits from myTRADELINK. Among them are a significant reduction of manual paperwork and physical processes; and the convenient reusability of data and information that reduces the unnecessary keying in of the same data or information more than once. Dagang Net Technologies Sdn Bhd ("Dagang Net") has been appointed by the Royal Malaysian Customs Department as National Single Window Service Provider ("NSW Service Provider"). As a NSW Service Provider, Dagang Net will provide the trading community (including importers, exporters, shipping agents, traders, manufacturers, and warehouse and depot operators) the gateway for the business community to access to the uCustoms trade services upon its implementation. Apart from facilitating trade transactions, myTRADELINK service serves as a trade information hub and allows users to streamline their transactional activities. The portal provides the listing of main stakeholders of the import-export logistics communities. The communities identified are in four categories: Trade associations, port operators (sea and inland ports), port authorities and permit issuing agencies.

The following section presents in more detail an overview of government stakeholders (regulators) – the Royal Malaysian Customs Department (JKDM), Department of Environment, Ministry of Natural Resources and Environment), Department of Occupational Safety and Health, Ministry of Human Resources Malaysia, Malaysia's Ministry of International Trade and Industry (MITI), Ministry of Transport (MOT), MIDA and State / local Authorities (PBTs) and their roles.

4.12 Overview of government stakeholders (regulators) and their roles in the value chain

4.12.1 Customs Act 1967 and GST Act 2014

The main Acts governing the activities in warehousing services sub-sector in Malaysia are the Customs Act 1967 and GST Act 2014. JKDM is the government agency responsible for administrating the nation's indirect tax policy.
Box 4.1: Customs Act 1967

Sections 2. (1) “customs warehouse” means a warehouse or other place established by the Minister under subsection 63(1) for the deposit of dutiable goods;

Sections 63. (1) The Minister may establish and maintain customs warehouses, wherein dutiable goods may be deposited and kept without payment of customs duty, at any customs port, customs airport, place of import or export or at any inland customs station and may prescribe the amount to be paid as warehouse rent on goods deposited in such warehouses and remit any amount payables rent.

Sections 65. (1) The Director General may, at his absolute discretion, on payment of such fees as may be fixed by him in each case, grant a licence to any person, hereinafter in this section referred to as the licensee, and when granted withdraw any licence, for warehousing goods liable to customs duties and any other goods in a place or places specified in such licence.

Sections 65D. (1) The Director General may at his absolute discretion on payment of such fee as may be prescribed, grant a licence to operate a duty free shop to any person, hereinafter in this section referred to as “the licensee”, and when granted, may suspend or withdraw such licence.

Sections 65E. (1) The Director General may at his absolute discretion on payment of such fee as may be prescribed, grant a licence to operate an inland clearance depot to any person, hereinafter in this section referred to as “the licensee”, and when granted, may suspend or withdraw such licence.

Box 4.2: GST Act 2014

Sections 70. (7)(a) “customs warehouse” has the meaning assigned to it in section 2 of the Customs Act 1967

Sections 70. (7)(g) ‘warehouse’ means –
(i) any customs warehouse;
(ii) any licensed warehouse;
(iii) any duty free shop licensed;
(iv) any inland clearance depot.

4.12.2 Other Regulations

The warehousing services sub-sector is also bound by other acts at the Federal, State and Local Government levels.

4.12.2.1 Federal Regulations

Acts which are applicable to the warehousing services sub-sector at the federal level include the National Land Code 1965 (Act 56 of 1965), Land Acquisition Act 1960 (Act 34), Environmental Quality Act 1974 (Act 127), Occupational Safety and Health Act 1994 (Act

The Environmental Quality Act 1974 relates to the prevention, abatement, control of pollution and enhancement of the environment, and for purposes connected therewith. Licences are required from the Department of Environment (DOE), NRE, for activities that give rise to pollutions, such as emission of noise, emission or disposal of wastes into the atmosphere, water, or land. It is compulsory to conduct an Environmental Impact Assessment (EIA) for any proposed project to assess its potential impact on the environment, and subsequently propose measures to control such impact. A list of Environmental Quality regulations relevant to the warehousing services sub-sector is available in Table 4.2.

The Occupational Safety and Health Act 1994 is an act to make further provisions for securing the safety, health and welfare of persons at work, for protecting others against risks to safety or health in connection with the activities of persons at work, to establish the National Council for Occupational Safety and Health, and for matters connected therewith. The Act is enforced by the Department of Occupational Safety and Health (DOSH), under the Ministry of Human Resources (MOHR). The Act is applicable throughout Malaysia to the industries specified in the first schedule of the Occupational Safety and Health regulations relevant to the industry are as listed in Table 4.2.

The warehousing services sub-sector must abide by the Factories and Machinery Act 1967, which provides for the control of factories with respect to matters relating to the safety, health and welfare of person therein, the registration and inspection of machinery and for matters connected therewith. DOSH carries out inspection, certification and registration of all machinery prior to their installation. Regulations under the Factories and Machinery Act 1967 relevant to the warehousing services sub-sector are listed in Table 4.2.

The Land Public Transport Commission (SPAD) enforces the Land Public Transport Act 2010 in plans, regulates, and enforces all matters relating to land public transport and has jurisdiction over Peninsular Malaysia and agency issues Goods Vehicle Operator Permit.

The Road Transport Department (RTD) under MOT is in charge of the registration and licensing of drivers and all motor vehicles and trailers and the enforcement of the Road Transport Act 1987 which provides for the regulation of motor vehicles and of traffic on roads and other related matters.

4.12.2.2 State Regulations

Land matters in the Peninsular Malaysia are governed by Acts such as the National Land Code 1965, and Land Acquisition Act 1960 (Box 4.3). Although these are federal law, state authorities are empowered to make rules for carrying out the objects and purposes of the Act within their respective states.

**Box 4.3: Land Acquisition Act 1960**

*Section 3 of the Land Acquisition Act 1960* provides that the State Authority may acquire any (privately owned) land which is needed:

a) For any public purpose;

b) By any person or corporation for any purpose which in the opinion of the State Authority is beneficial to the economic development of Malaysia or any part thereof or to the public generally or any class of the public; or

c) For the purpose of mining or for residential, agricultural, commercial, industrial or recreational purposes or any combination of such purposes.

In Sabah and Sarawak, the main legislations with regard to land matters are the Sabah Land Ordinance, and the Sarawak Land Code respectively.

Matters related to supply of water are also within the jurisdiction of each state government.

4.12.2.3 Local Government Regulations

Local governments are generally within the administration of the respective state governments. However, the Ministry of Housing and Local Government plays a role in coordinating and standardising the practices of local governments across the country. There are currently three types of local governments; City Hall or City Council (e.g. Kuala Lumpur City Hall), Municipal Council (e.g. Batu Pahat Municipal Council), District Council (e.g. Hulu Selangor District Council). There are 149 local authorities, consisting of 12 City Halls/Councils, 39 Municipal Councils and 98 District Councils. There are other bodies empowered by state governments to execute the functions of local authority such as Kulim Hi-Tech Local Authority and Putrajaya Corporation.

Matters pertaining to local regulations are bound by the Local Government Act 1976 (Act 171) which outlines the form, organisational structure, functions and responsibilities of a local authority. The Town and Country Planning Act 1976 (Act 172) controls the planning of land use in local authority area. The Street, Drainage and Building Act 1974 (Act 133) deals with matters regarding drainage, maintenance of municipal roads and public buildings. The Acts empower local governments with authority on local planning, licensing, property taxes, construction of buildings, housing and commercial, public utilities, and traffic management.
4.13 Regulators and other relevant bodies

4.13.1 Free Zones Area

A free zone is a designated, secured area in which commercial and industrial activities are carried out and gazetted by the MOF as stated under section 3(1) Free Zone Act 1990. There are two types of free zone that is the free zone for industrial activities and free zone for commercial activities. Customs control at the free zone is at the minimum and basically only at the exit point. Free Zone Authority is appointed by the Minister under Section 3(2) Free Zones Act 1990 to administer, maintain and operate the zone.

4.13.1.2 Port Authority

The function of the Port Authority includes operating and maintaining the port in respect of which it is established, within the powers and duties provided under the Port Authorities Act 1963. Two main roles of the Port Authority relating to warehouse are:

i. to undertake all or any work of every description of or in connection with the loading, unloading and storing of goods or cargo in the port, or authorize by way of licence any company, firm person or persons to undertake such work, subject to such regulations or by-laws as the authority may from time to time make, and such licence may contain conditions which may include a condition that such work shall be undertaken under contract to the authority;

ii. to construct and maintain, and, within the limits of the lands vested in it, to operate railways, warehouses, sheds, engines, cranes, scales and other appliances for conveying, receiving, handling and storing goods to be landed or shipped or otherwise dealt with by the authority;

4.14 An Overview of Licences

Licensing can be in various forms, such as registrations, notifications, approvals, licences and permits. The main characteristic of licensing as a regulatory instrument is that a prior approval from the government is required before any commencement of business or operations of business.

4.14.1 Royal Malaysian Customs

Basically guided by the General operations of Free Industrial Zone (FIZ) and Licensed Manufacturing Warehouse Guidelines. It is documentarily controlled by the Royal Malaysian Customs Department and is subjected to all Customs laws and regulations.
4.14.1.1 Customs Act 1967

A licensed warehouse has been specially designated for storing dutiable goods approved by the JKDM under Section 65 of the Customs Act 1967. However, since 1981, its function has been enhanced for other activities such as break bulking and trading to facilitate commercial activities as well as to make it a distribution hub within the ASEAN region. Its creation also helps to reduce port congestion and for convenience of the importers.

There are several categories of warehouses under the Customs Act 1967, subject to approval, such as public warehouse, private warehouse, PEKEMA (Association of Malay Importers and Traders of Motor Vehicles of Malaysia) warehouse and public agent warehouse. Each category has different criteria and different types of goods to be kept but all of them need to be licensed under Section 65 of the same Act.

In Malaysia, Manufacturing Bonded Warehouse is known as Licensed Manufacturing Warehouse (LMW) established under the provision of section 65/65A of the Customs Act 1967. LMW is a type of bonded warehouse where the manufacturing process is allowed to be carried out to produce finished goods for export. Manufacturing operation therein is subject to minimal customs procedures. It is primarily intended to cater for export oriented industries.

Customs duty exemption is given to all raw materials and components used directly in the manufacturing process of approved produce from the initial stage of manufacturing until the finished product is finally packed ready for export. This includes packing materials and casings. The list of raw materials/components that can be imported and taken to a licensed manufacturing warehouse without payments of customs duty is issued together with the licensed manufacturing warehouse license.

Goods subject to excise duty incorporated in the final product may be exempted from excise duty. Application for such excise duty exemption should be made to the Treasury (MOF) for consideration. Machinery equipment required for direct manufacturing process of approved final products is entitled to exemption from customs duty and sales tax.

Generally, licensed manufacturing warehouse are documentarily controlled by the customs. As such, customs officers will not be stationed at the licensed premises. Manufacturing process can be carried out without any time limit, but no dutiable goods shall be brought in or taken out of the licensed premises outside the normal opening hours without written permission from customs authority.

The Guide on Warehousing Scheme Goods and Service Tax (GST) by the Royal Malaysian Customs (as at 6 July 2015) assists businesses in understanding matters with regards to GST treatment on Warehousing Scheme under section 70 of the Goods and Services Act 2014.

In general, under the GST system, goods are subject to GST upon importation. The payment of GST by importers at the point of importation would cause difficulties in terms of cash flow as they have to pay the tax upfront. Thus, a special scheme known as a Warehousing Scheme is introduced to assist them to alleviate cash flow problems. Generally, GST on all goods imported and deposited in a public licensed warehouse is suspended.
This scheme is provided for importers or owners of the goods as the users of a licensed warehouse since it provides storage facilities with payment of GST suspended. No application is required for users to enjoy this scheme.

**Warehousing Scheme**

A licensed warehouse has been specially designated for storing dutiable goods approved by the Royal Malaysian Customs Department (JKDM) under Section 65 of the Customs Act 1967. However, since 1981, its function has been enhanced for other activities such as break bulking and trading to facilitate commercial activities as well as to make it a distribution hub within the ASEAN region. Its creation also help to reduce port congestion and for convenience of the importers.

4.14.1.2 **Customs Agent- Customs Brokerage Licence (CBL)**

Approval of Forwarding and Shipping agents to become an import or export agent in Customs matters is subject to Section 90, Customs Act 1967.

14.14.1.2.1 **Qualification**

For Forwarding Agent Company - At least 51% Bumiputera participation on share capital, management and employees.

For Shipping Agent Company - At least 30% Bumiputera participation on share capital, management and employees.

4.14.1.2.2 **Approval**

Approval as forwarding / shipping agent is given for a period of two years and is subject to the conditions stated that could be added to or changed when necessary. Some of the main conditions are:

1. they are not allowed to transfer ownership, change name, sell or handover to any party without Customs permission;
2. prepare General Bond according to the amount fixed by Customs;
3. be legally liable on acts of workers; and
4. comply with all the provisions under the Customs Act 1967 and its Regulations as well as other instructions released by the Customs.

Approval will be revoked upon impingement of provisions under the Customs Act 1967 and related regulations.

Approval to become a forwarding / shipping agent by the State Director of Customs in one state also covers company branches in other states. The branch company's approval to be an agent is also subject to terms stated in paragraph *Conditions Approval*. Nonetheless, Bumiputera share
capital and employees' equity is taken into consideration as a whole without focusing only on branches that will be set up.

4.14.1.2.3 Renewal

Application to renew an approval has to be submitted 2 months before the approval's expiry. Supporting documents that need to be enclosed are EPF Statement, annual report and audited financial statement, Form 24, Form 49, list of lower-level management and employees as well as represented customers. Approval of renewal will be given for a period of two years subject to the conditions stated.

4.14.2 MIDA

There are three (3) types of licences, depending on the warehousing requirements of the operator. An operator can choose to operate as an ordinary warehouse, a Public Bonded Warehouse or a Private Bonded Warehouse. Investors intending to provide warehousing services are required to incorporate a company under the Companies Act, 1965.

4.14.2.1 Licensing and Registration

(i) Ordinary Warehouse Licence: A company that wishes to provide ordinary warehousing services must apply for a licence to the relevant Local Authority. The following approvals must be obtained before applying to the Local Authority:

- Approval from the Department of Environment (DOE) when operators store hazardous goods.
- Approval from the Fire and Rescue Department and other Technical Agencies to ensure that the premise is equipped with an adequate number of fire extinguishers and safety alarm systems.
- Certificate of Completion and Compliance (CCC) from the Local Authority which is an official document to acknowledge that the building is safe for occupation.
  - The CCC which was implemented in 2007 replaces the Certificate of Fitness for Occupation (CFO) previously issued by the Local Authority. The CCC is issued by the project’s Principal Submitting Person (PSP) who is a Professional Architect, Professional Engineer or a Registered Building Draughtsman.

(ii) Public Bonded Warehouse Licence

- A Public Bonded Warehouse operates as a central storage for the distribution of bonded goods (i.e. goods on which Customs duties and taxes have not been paid) in the country and for international trade, catering for the general public.
- Public Bonded Warehouses that store different categories of goods must comply with the following conditions:-

iii) PrivateBonded Warehouse Licence

- A Private Bonded Warehouse is a central storage and distribution centre for bonded goods (i.e. goods on which Customs duties and taxes have not been paid), of the companies and its related companies.
- Private Bonded Warehouses that store different categories of goods must comply with the following conditions:-

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Critical Goods</td>
<td>50,000</td>
<td>1,000,000</td>
<td>NA</td>
</tr>
<tr>
<td>Non-Critical Goods</td>
<td>20,000</td>
<td>250,000</td>
<td>NA</td>
</tr>
</tbody>
</table>

A company that wishes to provide public or private bonded warehousing services must apply to the Royal Malaysian Customs Department. The following approvals must be obtained before applying to the Royal Malaysian Customs Department: Approval from DOE when operators store hazardous goods.

- Approval from the Fire and Rescue Department and other Technical Agencies.
- CCC from the Local Authority.

4.14.2.2 Other Licensing and Registration

A Public or Private Bonded Warehouse operator that is licensed under Section 65 of the Customs Act, 1967 can be given permission to act as an agent for transacting businesses relating to the import or export of goods that are stored in the licensed warehouse. For this purpose, a warehouse operator is required to obtain a Freight Forwarding Agent/Customs Agent License and/or Shipping Agent License and a Service Tax Licence. The Service Tax Act, 1975 shall apply throughout Malaysia except Langkawi, Tioman, Labuan, Free Zones and ‘Joint Development Area’. Effective 1 January 2011 the rate of service tax is 6%. Applications for the above licenses except for Customs Agent License should be submitted directly to the Royal Malaysian Customs Department. Before acquiring a Freight Forwarding Agent/Customs Agent Licence from the Royal Malaysian Customs Department, the company must obtain an International Integrated Logistics Services (IILS) status from MIDA.
4.14.2.3 Equity Policy

- Ordinary Warehouse: There is no equity condition imposed by the Royal Malaysian Customs Department. Investors only need to obtain licence from the local authority.
- Public Bonded Warehouse: A company must have at least 30% Bumiputera equity.
- Private Bonded Warehouse: There is no equity condition imposed by the Royal Malaysian Customs Department.

4.14.2.4 Specific Immigration Procedure

The company must apply for an approval to employ expatriates from the Expatriate Committee of the Immigration Department. Upon approval of the expatriate posts, companies should forward their applications for Employment Passes to the Immigration Department for endorsement. The spouse and children of the expatriate can apply for Dependant Passes once the expatriate has been issued with the Employment Pass. The Dependant Pass may be applied together with the application for the Employment Pass or after the Employment Pass is approved. The spouse and children of the expatriate who enter the country on a visit (temporary employment or professional) will be issued a visit (social) pass.

1.5 Special Industrial Building Allowance for Warehouses
An initial allowance of 10% and an annual allowance of 3% of qualifying capital expenditure is given for buildings used as warehouses for storing goods for export and re-export. Applications should be submitted to the Inland Revenue Board.

4.14.3 Local Authorities (PBTs)

Business licenses issued by the local authorities are grouped according to category of business and comprise schedule of licensing annual fees for Trades, Business and Industries By-Law. Under warehousing and storage, are for Acetylene, oxygen and LPG exceeding 230; Alloy and amalgam including other metal treatment; Animal/Fish manure; Animal feed; Bottling of drinks (manufacture); Cables & wires; Charcoal, Coal and other related material; Detergent, wash products; Embroidery; Fiberglass products; Flammable gas; Godown; Hardware and construction products; Industrial and agriculture chemicals and Plywood.

Section 102 of the Local Government Act 1976 (Act 171) specifies the general functions of the local authority in making, amending and revoking by-laws. The by-laws legislated by the local authorities as prescribed under this section are for the purpose of maintaining the health, safety and well-being of the population. This section also pertains to the good order and government of the local authority area. The subsections of Section 102 states the purposes for which local authorities are allowed to administer and for which by-laws can be made.

Box 4.4 General power to make by-laws

102. In addition to the powers of making by-laws expressly or impliedly conferred upon it by any other provisions of this Act every local authority may from time to time make, amend and revoke by-laws in respect of all such matters as are necessary or desirable for the maintenance of the health, safety and well-being of the inhabitants or for the good order and government of the local authority area and in particular in respect of all or any of the following purposes:
(a) … (r)

(s) to control and supervise, by registration, licensing or otherwise, including in proper cases by prohibition, a trade, business or industry which is of an obnoxious nature or which could be a source of nuisance to the public or a class of the public;

(t) … (u).

For any business to operate, it is required by law to obtain a licence from the local government. This as has been prescribed by the relevant by-laws: “No person shall act as a hawker without licence issued by the Mayor under this By-Laws” as stated in the section Prohibition to hawk without licence (Hawkers (...City Council) By-laws 2010). In a Public and Private Market (...City Council By-Laws 2010), under the section Licence for private market, it is stated that “No person shall establish, conduct or carry on a private market in any place, holding or building without a licence issued by the Mayor under these By-Laws.” Table 4.4 shows related licence to warehousing services.

Table 4.3: Warehousing services business licence

<table>
<thead>
<tr>
<th>Category</th>
<th>Types of Licences</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquor/Beer</td>
<td>List of technical licences</td>
</tr>
<tr>
<td></td>
<td>Liquor Wholesale / Storing / Selling Licence</td>
</tr>
<tr>
<td></td>
<td>List of non-technical licences (immediate)</td>
</tr>
<tr>
<td></td>
<td>Beer Warehouse / Distributor Licence</td>
</tr>
<tr>
<td>Storage</td>
<td>List of non-technical licences (immediate)</td>
</tr>
<tr>
<td></td>
<td>Rubber Storage Licence</td>
</tr>
<tr>
<td></td>
<td>Construction Materials Storage Licence</td>
</tr>
<tr>
<td></td>
<td>Wood and Planks Storage Licence</td>
</tr>
<tr>
<td></td>
<td>Fertiliser Storage Licence</td>
</tr>
<tr>
<td></td>
<td>Latex / Copra Storage Licence</td>
</tr>
<tr>
<td></td>
<td>Sea Produce Storage/ Selling Licence</td>
</tr>
<tr>
<td></td>
<td>Stone / Clay Products Storage Licence</td>
</tr>
<tr>
<td></td>
<td>Liquid Gas Petroleum Storage Licence</td>
</tr>
<tr>
<td></td>
<td>Skid Tank Storage Licence</td>
</tr>
<tr>
<td></td>
<td>Dangerous Oil Storage Licence</td>
</tr>
<tr>
<td></td>
<td>Non-dangerous Oil Storage Licence</td>
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<tr>
<td></td>
<td>Paints Storage Licence</td>
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<tr>
<td></td>
<td>Warehouse Licence</td>
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<tr>
<td></td>
<td>Carpet / Fabric Products Storage Licence</td>
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<tr>
<td></td>
<td>Cement Storage Licence</td>
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<tr>
<td></td>
<td>Hardware Storage Licence</td>
</tr>
<tr>
<td></td>
<td>Fabric / Linen Storage Licence</td>
</tr>
<tr>
<td></td>
<td>Cement products Storage Licence</td>
</tr>
<tr>
<td></td>
<td>Charcoal / Coal Storage Licence</td>
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<tr>
<td></td>
<td>Gas Storage Licence</td>
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<tr>
<td></td>
<td>Rotten Fish Storage Licence</td>
</tr>
<tr>
<td></td>
<td>Heavy vehicles storage (open area) Licence</td>
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<tr>
<td></td>
<td>Heavy vehicles storage (in building) Licence</td>
</tr>
<tr>
<td></td>
<td>Aluminium / Glass Products Storage Licence</td>
</tr>
<tr>
<td></td>
<td>Wood / Rattan/ Bamboo products Storage Licence</td>
</tr>
<tr>
<td></td>
<td>Coal / Attap Storage Licence</td>
</tr>
<tr>
<td>Category</td>
<td>Technical Licences (Immediate)</td>
</tr>
<tr>
<td>-----------------------</td>
<td>------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Food</td>
<td>Storing Old / Used Things Licence&lt;br&gt;Food / Drinks Storage Warehouse Licence&lt;br&gt;Cocoa / Palm Storage Licence&lt;br&gt;Refrigerated Food Storage Licence&lt;br&gt;Food and Drink Distributor / Storage Licence</td>
</tr>
<tr>
<td>Cigarette</td>
<td></td>
</tr>
<tr>
<td>Parking</td>
<td></td>
</tr>
<tr>
<td>Healthcare</td>
<td></td>
</tr>
<tr>
<td>Vehicle</td>
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CHAPTER 5: REGULATORY ISSUES IN WAREHOUSING

Contents: Purpose, Regulations must be periodically reviewed to test its continuing relevance, Spectrum of Regulatory Options, Regulatory Issues from Warehousing Service Providers, General Comments for further Improvements, Concluding remarks.

Key Points

- This chapter presents the spectrum of regulatory options on the issues raised by the warehousing service providers. From the analyses, various feasible options to mitigate them are proposed for consideration. Subsequent consultations with the respondents, the regulators and other interested parties and stakeholders, prior to publishing the final report.

- Reducing unnecessary regulatory burdens (RURB) requires the examination and evaluation of regulations and regulatory activities that can seriously impact the effectiveness and efficiency of the warehousing business. This is made more complicated and burdensome when there is lack of information and poor access to information for optimal decision, thus pose significant burden to their operational efficiency.

- All regulations must be periodically reviewed to test its continuing relevance. There is no single superior regulatory strategy. Different strategies and approaches have different strengths and weaknesses, with different levels of effectiveness, in different contexts.

- Every regulation imposes a cost: on the Government administering it; on those regulated; and on the economy as a whole. Thus regulation needs to be constantly reviewed to ensure it remains necessary, effective and the most efficient way of achieving its policy objectives- when regulation is imposed, its benefits must clearly outweigh its costs.

- Various possible options/alternatives of regulatory and non-regulatory solutions can be developed to put in place institutional arrangements to ensure greater accountability and transparency around regulation making, improved processes for assessing the impacts of regulatory proposals and more effective consultation with those affected by regulation.

- This chapter captures the regulatory issues and areas of concern raised during a series of engagements by MPC, MOT and SFFLA with warehousing service providers. The objective of the study is to identify the regulatory burdens in operating warehousing in Malaysia. However the list of issues captured here is not exhaustive due to the duration and scope of this study as well as non-availability of business directory for warehouse (business players, warehouse space), no warehouse business association or warehouse in local plans. Also only samples of the warehouse service providers are interviewed.
Concluding remarks

- It has to be noted that the issues and areas of concern raised in this chapter are treated as common concerns among the warehouse service providers. Further analyses will be the basis for the next stage of consultations with the service providers, key regulators and other interested parties and stakeholders. This will be followed by feasible options and recommendations and regulatory impact assessment with adequate cost-benefit analysis and continuous engagement through public consultations.

5.1. Purpose

This chapter presents the spectrum of regulatory issues raised by the warehousing service providers and provides feasible options to mitigate them. With the feedbacks from these businesses and other background information and evidences, various options to mitigate them are formulated for consideration. The analyses will also be the basis for the next stage of consultations with the respondents, the regulators and other interested parties and stakeholders, prior to publishing the final report.

5.2. Regulations must be periodically reviewed to test its continuing relevance

Regulatory compliance by business if it is not administered and enforced well will introduce unnecessary regulatory burdens to business. Excessive bureaucracy imposes a disproportionate bureaucratic burden on small and medium size enterprises, creating both incentives and opportunities for bribery and corruption. This can manifest itself in the form of excessive or overly rigid administrative procedures, requirements for unnecessary licenses, protracted decision-making processes involving multiple agencies. Rent-seeking takes place to take advantage of the inefficiencies and the need of the business for timely delivery and approval.

Reducing unnecessary regulatory burdens (RURB) requires the examination and evaluation of regulations and regulatory activities that can seriously impact the effectiveness and efficiency of the warehousing business. This is made more complicated and burdensome when there is lack of information and poor access to information for optimal decision, thus pose significant burden to their operational efficiency. It is important to note that the relative burden placed on small businesses may be greater than that imposed on larger businesses as they may have to devote proportionately more effort to achieve equivalent compliance. They may also be disadvantaged where regulations are anti-competitive.

Among the contributing causes to compliance burden include duplicating in reporting, excessive compliance requirements, and inconsistent policies. In addition, the approach adopted by the regulators and enforcers of legislation can also add considerable compliance costs. Among them being lack of delineation between the roles of regulators, a lack of clarity over their powers, confusion over their objectives in exercising those powers and a lack of co-
ordination between regulators. The attitude of the regulator to the industry under regulation also has a major impact on compliance costs. All regulations must be periodically reviewed to test its continuing relevance.

Both the Australian Government and COAG have best practice regulation requirements in place to ensure that regulation is effective in addressing an identified problem, and efficient in terms of maximising the benefits to the community, taking account of the costs. There is no single superior regulatory strategy. Different strategies and approaches have different strengths and weaknesses, with different levels of effectiveness, in different contexts. The key lies in understanding and adapting regulatory strategies to take account of the influences and dynamics of the many different contexts in which they are deployed. Irrespective of whether regulators practise responsive regulation (including variants such as smart regulation) or risk-based (including regulatory craft) approaches, or a mix of approaches, regulators still face considerable challenges.

5.3 Spectrum of Regulatory Options

Every regulation imposes a cost: on the Government administering it; on those regulated; and on the economy as a whole. Thus regulation needs to be constantly reviewed to ensure it remains necessary, effective and the most efficient way of achieving its policy objectives - when regulation is imposed, its benefits must clearly outweigh its costs. Various possible options/alternatives of regulatory and non-regulatory solutions can be developed to put in place institutional arrangements to ensure greater accountability and transparency around regulation making, improved processes for assessing the impacts of regulatory proposals and more effective consultation with those affected by regulation (Box 5.1). The options and recommendations are only feasible and potential solutions to the issues. To ensure the practicality of the recommended options, regulatory impact assessments with adequate cost-benefit analysis and public consultation must be carried out on each of them.

Box 5.1: Does one size fit all?

Sometimes a mix of options should be considered. Different groups - especially small businesses - experience regulation differently while others present less compliance risk. The question then is whether a mix of policy options would be more effective and efficient?

- The no-regulation option: There may be good reasons for regulating, but these must be weighed against not regulating. One benefit of not regulating is, of course, you won’t need to find regulatory offsets, but there are usually others too.

26 The Australian Government Guide to Regulation (Further guidance material can be found at www.cuttingredtape.gov.au (March 2014)
Better enforcement of existing regulation policy option: Sometimes better staff training, enforcement or a different management focus to address cultural, behavioural or systems issues can be an effective means of achieving your outcome.

Principles–based regulation allows maximum flexibility among affected groups as to how they achieve compliance. For example, where a market operates inefficiently, light touch regulation might lay down rules for the participants on how to agree on prices. More heavy-handed regulation might involve government determining the price itself. Light touch regulation must be implemented to ensure those affected understand their legal rights and obligations otherwise the regulation may not be effective.

Self-regulation This consists of industry-written rules and codes of conduct enforced by the industry itself. Where industry participants understand and appreciate the need for self-regulation, this can be a good option. Any red tape resulting from self-regulation is usually minimal and often administered sympathetically by the industry. Self-regulation is a good option where the consequences of market failure are low and the market is likely to move towards an optimal outcome by itself. Self-regulation is not a viable option if an industry has no incentive to comply with its own rules. In some cases, self-regulation may create public concern, where, for example, perceived conflicts of interest could threaten safety, such as in food-handling, healthcare or aviation. Self-regulation should be approached carefully where previous attempts to achieve compliance or penalise non-compliance have failed.

Quasi-regulation: This approach covers a wide range of rules or arrangements that are not part of explicit government regulation, but nevertheless seek to influence the behaviour of businesses, community organisations and individuals. Examples include industry codes of practice developed with government involvement, guidance notes, industry – government agreements and accreditation schemes.

Co-regulation: This describes a solution where industry develops and administers its own arrangement and government provides the underpinning legislation to enforce it. Such legislation can set out mandatory standards, but may provide for enforcement through a code overseen by the industry.

Explicit government regulation: So called black-letter law, this comprises primary and subordinate legislation and is probably the most common form of regulation. Usually used as a regulatory tool.

Where there is high perceived risk or public interest and achieving compliance is seen as critically important. Where you rely on this form of regulation, ensure it is drafted in plain language and applicable requirements on sunset are observed.

Alternative instruments: With each of these regulatory options, there may be alternative instruments available to address the problem or issue set out in a RIS. Alternative instruments can include:
- No specific action—that is, relying on the market forces in conjunction with existing general liability laws (e.g. negligence or breach of contract) and insurance laws.
- Information and education campaigns, including product labelling or media campaigns.
– Market-based instruments including taxes, subsidies, traceable permits, performance bonds and traceable property rights.
– Pre-market assessment schemes, such as listing, certification and licensing.
– Post-market exclusions like bans, recalls, licence revocation or negative licensing.
– Service charters.
– Standards, which may be voluntary, compulsory or performance-based.
– Other mechanisms like public information registers, mandatory audits and Quality Assurance schemes.

Policy makers must ensure they consider the complete range of policy levers available to them. Doing nothing and maintain the status quo can be just as valid a policy solution as any other. However, a rigorous cost-benefit analysis should always include this option. All other things being equal, the policy option offering the greatest net benefit should always be the recommended option.

5.4 Regulatory Issues from Warehousing Service Providers

This chapter captures the regulatory issues and areas of concern raised during a series of engagements by MPC, MOT and SFFLA with warehousing service providers. The objective of the study is to identify the regulatory burdens in operating warehousing in Malaysia. Responses were recorded based on the list of questionnaires as in Issues Paper. However, the list of issues captured here is not exhaustive due to the duration and scope of this study as well as non-availability of business directory for warehouse (business players, warehouse space), no warehouse business association or warehouse in local plans. Also only samples of the warehouse service providers are interviewed. The companies involved are members of various trade associations (mainly members of FMFF). Engagements and meetings were held with logistic service providers in the Southern, Central, Eastern and Northern regions as well as Sabah/Labuan and Sarawak.

The following are twelve (12) issues collected from engagements and business meetings with the logistics service providers (November 2015 – May 2016). Under each of the issues highlighted are the various possible options/alternatives of regulatory and non-regulatory solutions recommended. Good regulatory practice requires consideration of the different options for achieving the desired objectives. They include take no action/continue as it is; self-regulation, quasi-regulation, co-regulation and explicit government regulation. The issues are structured along the value chain – acquisition of premise and warehouse business start-up. Most issues raised are related to the submission for development approval, utility inspection and fire safety requirements and application of the Certificate of Completion and Compliance (CCC).
Under the CCC system, each construction process needs to be verified and endorsed by professionals along the entire construction process together with clearance/confimation of supply/connection obtained from various essential service departments. Among them are Tenaga Nasional Berhad (TNB) (confirmation of electrical supply) and Bomba (clearances for active fire-fighting systems).

5.4.1 Business start-up and Acquisition of premise

Issue 1: Information Transparency to Establish and Operate Warehouse

Investors and businesses face difficulties in business planning and decision-making due to lack of insufficient information on warehouses and information are not readily available or accessible to users including information pertaining to location, type, space and size, utilisation rate and operators. Available warehouse data is scattered across different ministries and agencies (e.g. RMCD, SSM, SME Corp.) and also 149 local authorities in Malaysia. This creates a challenge for foreign investors to locate suitable warehouses.

Option 1: No action on existing practice

Lack of data and information will continue to impede effective planning and development of the sub-sector in particular and the logistics sector in general.

Option 2: Development of national warehouse inventory

Develop community profile and national warehouse inventory through engagements with KPKT, SSM, BEM, BAM and Logistics Association to obtain company name, address, contact details and by categories of business activities (by warehouse specialisation and goods storage and handling).

Option 3: Setting Up Warehouse Association

An association would be beneficial as it can represent the interests of warehouse service providers, encourage exchange of best practice information between members, provide an effective communication network on key business issues and provide technical and legal support to members through delivery of awareness training programmes.

Recommendation

Options 2 and 3 are recommended as comprehensive profiling of warehouse services providers in Malaysia is important for systematic planning, development and to promote orderly growth of the warehousing business. In addition, with the development of a dynamic online portal and specific website for warehouse will support quick and easy searches of warehouse space by potential customers. Reference could be made to the Malaysia Logistics Directory (msialogistics.com).
Furthermore, with the establishment of a Warehouse Association, the warehousing industry could have a voice regarding issues that could affect the warehousing industry including identifying improved regulations affecting the industry and providing industry views and inputs for policy maker’s consideration.

**Issue 2: Lack of clarity and different practices by local authorities on how to operate a warehouse**

Lack of clear guidance to operate a warehouse.

**Option 1: Continue as it is**

Starting a warehouse business and operating the business activity without clarity will not only affect compliance by both the authority and businesses but also increase cost of doing business.

**Option 2: Establish, publish and maintain guidelines on good warehouse practices**

Guidelines with a holistic approach that covers end-to-end cycle of the business process; i.e. from start-up, operations to cessation. By making available the guidance will help streamline work processes, eliminate non-productive process and integrate similar work process. This will also help to enhance transparency and make available the required information and checklist to ease business understanding. The publication of the guidelines, rules, specifications, performance criteria and procedures pertaining to the construction, development, administration, operation and maintenance is to ensure the authority and businesses beneficiaries comply with good regulatory practices and best practices.

**Recommendation**

**Option 2** is recommended. In order to implement all the requirements, it is important to develop guidance for building warehouses that aims at clear technical and architectural conditions and specifications and security requirements for designs, construction and delivery. This will increase the ease of doing business and raise the warehouse sector’s overall standards.

Reference could be made to countries with storage and warehouse building checklists such as Singapore (OSH Guidelines for the Logistics Industry), India, Saudi Industrial Property Authority, City of Henderson, Nevada and Department of Consumer Affairs, NYC. For e.g. Standards of warehousing document by the United Kingdom Warehousing Association (UKWA) provide guidance in conjunction with inspection. The City of Henderson storage and warehouse building submittal checklist which focuses on complete and accurate plan submittals to help speed up plan review process as attention to the completeness and accuracy of information at the beginning of the process generally leads to fewer delays and requests for revisions.
Issue 3: Long-time taken to obtain construction permits

One of the fundamental hindrances confronted by businesses in undertaking and implementing development projects is the delay in acquiring planning and development approval from the relevant authorities. Among the issues related to dealing with construction permits are excessive time delay in obtaining construction permit; high cost to comply with TNB substation installation; lack of risk assessment in installing the firefighting system; under-utilisation of warehouse space due to parking space regulation and compliance requirements on issuance of CCC.

Problems faced include difficulty and complexity in dealing with construction permits for new warehouses and extension of existing warehouses. Concern on excessive time delay (6 months to >1 year) in obtaining the construction permits for building warehouse due to many Government agencies monitoring and inspecting for building approval. In addition, it is very difficult to get approval from PBT on extension for new or existing bonded warehouse and the approval takes 3 to 6 months. Delays lead to and lost opportunities in a competitive environment. Most local governments had modified their OSC 3.0 model but have not yet being able to perform fast delivery development.

Option 1: Continue with existing practice

Not all the local authorities are using OSC 3.0, so in other areas, some still go through the hardcopy submission process. The One Stop Centre (OSC) 1 submission which has been introduced since 2012 for small-scale non-residential development by Kuala Lumpur City Hall (DBKL) still needs to be improved continuously as there are still complaints that such initiative was not felt on the ground.

Option 2: Strengthening the approval/implementation processes

Adoption of special lane (OSC 1Submission) to cater for low risk development e.g. warehouse one stop centre (OSC) approval process.

The One Stop Centre (OSC) 1 Submission gateway for construction of small-scale and non-residential projects in Kuala Lumpur has managed to approve new development proposal/application within 27 days. For those local governments that have adopted OSC 3.0, they should now implement risk-based system as this element has been currently incorporated in Kuala Lumpur. This should be replicated and expanded to all. In addition, with the current concurrent joint final inspections for utility providers and fire safety at the final inspection stage would shorten processing time to obtain development approval.

Option 3: Develop construction checklist/user’s manual for warehousing to construct or extension of warehouse

Develop user’s manual and construction requirements for warehouses (as done by the Saudi Industrial Property Authority). Should introduce two sets of checklist or manuals: 1) Manual for Building a warehouse in the right zoning. 2) Manual for building warehouse in different zoning.
Recommendation

Options 2 and 3. With the publication of the user manual, guidelines and specific checklist for both right and different zonings, complemented by the expanded adoption of OSC to all other states would create fast approval for the application process. Making headway with OSC 3.0 is significant step towards driving an effective, efficient and transparent building regulatory system as all parties involved could reap the benefits of having a simpler procedure in place and speedier approval process.

Issue 4: Burdensome in Getting Electricity

One of the concerns is delay in getting electricity - a long wait for power connection which sometimes takes up to a year. Business needs to pay TNB about RM5,000 for connection. In addition there is the requirement for warehouse to install substation in order to get Certificate of Completion and Compliance (CCC) from Local Authority which is burdensome. Approval process is long and the cost is high (e.g., ≈ RM 300,000.00 for installing a Substation).

Option 1: Continue as it is

Total compliance cost may total over RM 300,000. This additional cost incurred is due to the installation of TNB Substation requirement for warehouse (although they do not consume high energy consumption, it costs around RM2,000 to RM3,000 /month for 100k sq.ft.). High connection cost hinder business activity.

Option 2: Develop TNB electricity supply application handbook for types of building

Currently Tenaga Nasional Berhad (TNB) is streamlining and amalgamating procedures covering application submission, site visit, cost estimate, payment of connection charges and security deposit, external connection, and meter installation. This will contribute towards significant improvements in terms of days and time taken as well as cost of getting electricity.

Recommendation

Option 2. When the improved initiatives by TNB for speedy hassle-free electricity connections and reliable electrical power supply are implemented, it will facilitate ease of doing business and reduce compliance cost.
Issue 5:  Fire Safety for Different Warehouse Risk Groups and Activities

Similar fire safety requirement for dangerous vs. non dangerous goods adversely affect compliance cost for non-dangerous warehouse services. Fire-fighting system requirement should not be the same as normal manufacturing warehouse.

In addition, water sprinkler system needs to be set up in the warehouse, fire hose with alarm & water tank with certain horse power pump to be fixed which is very costly.

For water sprinkler system ought to apply only for bigger warehouse (70K sq.ft & above). (Warehouse sprinklers requirement treated similarly as a manufacturing plant and imposed 2 year regular inspection). Regulatory requirements should not be “one-size-fits-all” but based on business activities, facilities and products. Example is the requirement for in-rack sprinkler. As a 3PL, the sizes of items are dependent on customer’s packing. There is difficulty in implementing in-rack sprinkler when there are different pallet storage sizes. Requirement to put lock at racking system hinders business’s flexibility.

Option 1: Continue as it is

The existing by-laws governing fire safety in buildings are the Uniform Building By-Laws, 1984 under the Street, Drainage and Building Act, 1974 and guidelines are available in TNB’s Electricity Supply Application Handbook (ESAH). The various fire incidents in the ESAH have been categorised into 15 building types or occupancies, including category “0” - Warehouse (large scale storage).

Although there is a category for warehouse (large scale storage), active fire protection system installations tend to be inadequate. This is because the goods stored could vary drastically from highly combustibles and high rack storage to low combustibles and low rack storage. Generally, the approval plans of warehouses are submitted on the basis of low combustible storage to obviate the need for active systems notably automatic wet sprinkler installation. The rest of the categories of buildings generally have more types of fire-fighting appliances installed in compliance with the UBBL 1984. These would include portable fire extinguishers, hose reel system, dry or wet riser system, sprinkler system and external hydrants. In general, any fire incident should be easily brought under control with the manual application or automatic activation of the installed fire-fighting appliances. Unfortunately, the lack of proper maintenance of these facilities may render them ineffective in the event of a fire. The value of monetary losses (apart from human lives) would be high under such circumstances.

Option 2: Bomba to create standard /checklist for warehouse building for safety requirement and inspection

Propose to have a checklist/standard specific for various categories of warehouse in terms of fire passive and active requirements. Create standard on safety requirement and inspection, maintenance and sustenance of installations specific for warehouses such as Singapore’s Fire Safety Requirements for General Warehouses. The scope of this Guideline covers the fire safety requirements for general warehouses which include single-storey single-user warehouses, single-storey multi-user warehouses, underground warehouses, multi-storey warehouses with or without basements and warehouse within other non-industrial buildings.
**Recommendation**

**Option 2.** A checklist/standard will provide useful guidance on the requirement for installing fire-fighting system to cater for different warehouse risk groups and activities as well as warehouse/goods in store.

**Issue 6: Outdated and uncompetitive practices (Circular No 4/1989: Submission of Plans by Architects and Engineers)**

Some local authorities restrict submission of building plan to certain professionals (Architect / Planner / Engineer / Surveyor) where else their respective regulations allow them to do so. In addition, some local authorities request irrelevant information than necessary for application of approval (e.g. Building Plan). Most of the rules and regulations related to professionalism of the practitioners in delivering these services are regulated by the professional boards (BAM/BEM). Besides the professional regulations, these professionals are also required to abide the regulations and by-laws related to application for land development, planning permission application and dealing with construction permit.

**Option 1: Maintain status quo**

Unnecessary burden faced by the warehouse operators when there are cases of different local authorities requiring different types of information and submission requirements.

**Option 2: Review and update the said circular to ensure both Boards, all Principal Submitting Persons (PSPs) and Local Governments (LGs) understand and able to interpret the circular correctly**

To review and update the circular to ensure all stakeholders and regulators understand and interpret the circular correctly. Different requirements impose greater burdens than necessary.

**Option 3: Repeal General Circular No 4/1989 Submission of Plans by Architects and Engineers Malaysia**

To look into the Act to repeal so as to avoid conflict of interest. This will overcome the delay by various authorities in making decision on persons making the submissions. Let owner or project owner to decide the best professional to design the plan. To reduce cost of doing business, if the owner feels that the appointed submitted person is capable to submit and understand the liabilities e.g., Engineer is capable to submit a warehouse application, the owner has full power to appoint the engineer unless the other professional can value add the application then the appointment of the second professional is justified.

**Option 4: Strengthen the joint committee between Board of Architect Malaysia and Board of Engineer Malaysia to handle such complaint in the future.**

If there is dispute between submitting person and local authorities, the joint committee from both boards to handle complaint and issue quick decision.
Recommendation

Options 2 and 4. Businesses need to know what is required in order to understand their obligations and requirements to actually comply with the regulations. Engage with architects and engineers who design warehouse and warehouse operators to identify issues and concerns. In delivering the services, there are possible occurrence of overlapping terms and scope of services, ambiguities in rules and regulations, and also subjective definitions of terms and by-laws which need to be adjudicated. In the event of any disputes due to different interpretation of regulations, the joint committee will be a recourse for regulatory appeals or disputes.

Issue 7: Inappropriate parking requirement and building space by the Local Authority

Uniform Building By-laws (UBBL) revision 2012 has not been gazetted in many states. Some states are using UBBL 1984 while Selangor and Terengganu are using UBBL 2012. As a main reference to the building codes, the UBBL should be accepted at national level and be gazetted in every state to standardise the building codes.

Concerns raised include burdensome and inappropriate parking requirement. For e.g., Local Authorities (PBT) requires 1 (Car & Motorcycle) parking space/2000 sq.ft. (under the Town and Country Planning Act 1976). So for an area with 100,000 sq.ft business needs to provide 50 parking spaces for cars and motorcycles. Each PBT has their own parking requirements even within the same state.

Inconsistency in enforcement of parking restrictions by Local Authority creates uncertainty for businesses and customers and reduces the capacity for planning. As illustrated below there are different parking requirements by different states.
<table>
<thead>
<tr>
<th></th>
<th>Kuala Lumpur</th>
<th>Selangor</th>
<th>Terengganu</th>
<th>Seberang Perai</th>
<th>Melaka</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Car &amp; Motorcycle</strong></td>
<td>1 parking space/2,000 sq.ft</td>
<td>1 car space/1,000 sq.ft</td>
<td>1 parking space/2,500 sq.ft</td>
<td>1 car parking space/2,500 sq ft</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1 motorcycle space/2,000 sq.ft @ 1</td>
<td>1 motorcycle parking</td>
<td>1 motorcycle parking space/1,000</td>
<td>10% of parking space must be allocated</td>
<td>i. Godown (warehouse and storage area in the building is used for a</td>
</tr>
<tr>
<td></td>
<td>motorcycle space/1 worker</td>
<td>space/2,500 sq.ft</td>
<td>sq ft</td>
<td>for visitor parking for the</td>
<td>particular purpose)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>disabled</td>
<td>- For 100mp to provide 1 parking lot for lorry and 1 for car</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- Additional provision of 20% of total space for motorcycle parking</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Note: For each 600 mp area of the site or part thereof, to provide 1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>loading and unloading good space measuring 25’ x 19’ within the</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>compound of the building</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>ii. Godown storage areas and warehouses (used for other purposes)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- 1 car for every 200mp compartment floor area or part thereof</td>
</tr>
<tr>
<td><strong>Lorry</strong></td>
<td>-</td>
<td>1 parking space/5</td>
<td>1 parking space/2,500 sq ft (</td>
<td>1 lorry parking space/5000 sq ft</td>
<td>For 100mp to provide 1 parking lot</td>
</tr>
<tr>
<td></td>
<td></td>
<td>factory units</td>
<td>maximum 5 lots)</td>
<td>{1 trailer 14 feet x 60 feet}</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>{1 small lorry 10 feet x 20 feet }</td>
<td></td>
</tr>
</tbody>
</table>

Note: Each 600 mp area of the site or part thereof, to provide 1 loading and unloading good space measuring 25’ x 19’ within the compound of the building.
Option 1: Continue as it is

Inconsistency in parking requirement further aggravates uncertainty for businesses and customers and reduces the development capacity.

Option 2: Amend TLK Requirements

Warehouse has big gross floor area but not necessary to have more parking lots. Act needs to consider some exemptions instead of applying one standard formula for all buildings as it is usual for warehouse operator to maximise space. Exemptions are necessary to overcome the too prescriptive parking requirements.

Recommendation

Option 2 is recommended. With some exemptions to the “Garis Panduan dan Piawaian Perancangan” so as to avoid only one standard formula for all buildings - unnecessary wastage of space could be avoided. Plot ratio development could be increased to maximise storage usage of space (space is particularly critical for warehouses). For operator who is running a warehouse, indoor space is income. There should be flexibility in the parking requirements (TLK) for warehouses such that lots be allocated for more lorries and trucks instead of cars due to the nature of the warehouse business activities.

Issue 8: Non-standardised assessment rate for warehouse

Under the UBBL (1984) and Street Drainage and Building Act (1974), warehouse operators face difficulty in applying extension permit on premises from local authority (too tight in their regulations). It seems 14 to 16 authority departments are involved for development approval. Although there is a trading licence to operate warehouse, PBT has no guideline for warehouse, treats everything as godown. Charges are based on land size and size of the building. Assessment rate currently cut across all value chain, hence a tendency for double assessment charge.

Sect. 127., The local authority may, with the approval of the State Authority, from time to time as is deemed necessary, impose either separately or as a consolidated rate, the annual rate or rates within a local authority area for the purposes of this Act or for other purposes which it is the duty of the local authority to perform under any other written law.

<table>
<thead>
<tr>
<th>PBTs</th>
<th>Assessment Tax Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dewan Bandaraya Kuala Lumpur</td>
<td>10</td>
</tr>
<tr>
<td>Majlis Bandaraya Kuala Terengganu</td>
<td>15</td>
</tr>
<tr>
<td>Majlis Daerah Kuala Selangor*</td>
<td>8</td>
</tr>
<tr>
<td>Majlis Daerah Kuala Langat*</td>
<td>11</td>
</tr>
<tr>
<td>Majlis Daerah Sabak Bernam*</td>
<td>12</td>
</tr>
<tr>
<td>Majlis Daerah Hulu Selangor*</td>
<td>11</td>
</tr>
<tr>
<td>Majlis Perbandaran Sepang *</td>
<td>8.45</td>
</tr>
<tr>
<td>Majlis Perbandaran Ampang Jaya*</td>
<td>6.6</td>
</tr>
<tr>
<td>Majlis Perbandaran Kajang*</td>
<td>8.8</td>
</tr>
<tr>
<td>Majlis Perbandaran Selayang*</td>
<td>10.8</td>
</tr>
<tr>
<td>---------------------------</td>
<td>------</td>
</tr>
<tr>
<td>Majlis Perbandaran Klang*</td>
<td>7.5</td>
</tr>
<tr>
<td>Majlis Perbandaran Subang Jaya*</td>
<td>8</td>
</tr>
<tr>
<td>Majlis Bandaraya Petaling Jaya*</td>
<td>8.8</td>
</tr>
<tr>
<td>Majlis Bandaraya Shah Alam*</td>
<td>7</td>
</tr>
<tr>
<td>Majlis Bandaraya Pulau Pinang</td>
<td>14.75</td>
</tr>
</tbody>
</table>

**Option 1: Continue as it is**

With no specific guidelines on warehouse assessment rate by PBTs, assessment rates are not clear and maybe inconsistent.

**Option 2: One standard charge based on zoning (Development Area)**

Propose to impose one standard charge on all warehouses (manufacturing + storage company). Assessment rate should be considered according to industry classification/activity.

**Recommendation**

Option 2 is recommended for a more justifiable assessment rate. Equal taxation of warehouse services versus manufacturing company will adversely affect cost efficiency, productivity and increase compliance costs for warehouse services. Unified information on Assessment rates should be published on government website (e.g.: KPKT, MIDA – Invest in Malaysia) to improve clarity.
5.4.2 Issues Raised at Operations Stage

5.4.2.1. Oil & gas services

Issue 9: Timeliness to obtain Multiple Export/Import Permits approval

Businesses have to apply multiple permits and using different systems for various permits approval (Box 5.3). The same information has to be resubmitted either manually or using the existing system.

Box 5.3: Multiple Export/Import Permits approval

<table>
<thead>
<tr>
<th>Item Type</th>
<th>Licence Permit Required</th>
<th>Application Time</th>
<th>Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXPLOSIVE</td>
<td>Movement Permit</td>
<td>2 weeks (valid for 1 month)</td>
<td>Polis Diraja Malaysia</td>
</tr>
<tr>
<td></td>
<td>DCA Permit (Air Only)</td>
<td>3 working days (valid per shipment)</td>
<td>Department of Civil Aviation</td>
</tr>
<tr>
<td>RADIOACTIVE</td>
<td>Import/Export Permit</td>
<td>2 weeks (valid for 1 year)</td>
<td>Atomic Energy Licensing Board (AELB)</td>
</tr>
<tr>
<td></td>
<td>DCA Permit (Air Only)</td>
<td>3 working days (valid per shipment)</td>
<td>Department of Civil Aviation</td>
</tr>
<tr>
<td>CHEMICAL/MINERAL/ SOIL</td>
<td>Import Permit</td>
<td>3-5 working days (valid per shipment)</td>
<td>Department of Agriculture</td>
</tr>
<tr>
<td></td>
<td>Export Permit</td>
<td>7 working days (valid per shipment)</td>
<td>Department of Natural Resources and Environment</td>
</tr>
<tr>
<td>DUAL USE</td>
<td>STA Permit (Export only)</td>
<td>3-5 working days</td>
<td>AELB</td>
</tr>
</tbody>
</table>

Option 1: Continue as it is

AS-IS framework of permits application and issuance being a sequential process. The chain of government formalities relating to Ex/Import permit comprises more than 30 government agencies (OGAs). The transaction costs incurred in connection with the formalities required for trade activities raised the cost structure of businesses, which ultimately increased the price of goods and services, and adversely affecting domestic competitiveness.

Option 2: Develop single entry and simultaneous processing of permits application

The Government should streamline Ex/Import permits procedures with the objective of reducing unnecessary regulatory burdens on businesses. The single entry and simultaneous processing of permit application benefits all trade operators (importers, exporters and customs agents). Online processing cuts costs in terms of time and personnel assigned to tasks such as physically having to go from one place to another, as well as the amounts spent on stationery and other implements necessary for the physical processing of documents.
Recommendation

Option 2 is recommended. It was necessary to develop single entry of permit application to coordinate, automate and control the procedures relating to foreign trade operations, thus incorporating into a single system the activities of all agencies involved in issuing permits, delivering the certifications and approvals necessary for importing and exporting goods.

5.4.2.2.  LMW (bonded warehouse)

Issue 10:  Lengthy turnaround time to get approval for scrap disposal and sale of the scrap

One issue was raised by a Licensed Manufacturing Warehouse (LMW) at the operations stage mainly involving disposal of waste/scrap. LMW is a premise licensed under section 65 and 65A of the Customs Act 1967 and is a facility provided for export orientated industries. It is documentarily controlled by Royal Malaysian Customs and is subjected to all customs laws and regulations.

Application for approval to dispose scrap by LMW takes about 2 months to complete. LMW needs Custom’s approval but the Custom inspection and Permit approval lead time are taking too long. This will affect business’s productivity and affect image of Malaysia as business hub to the investors.

Option 1: Continue as it is

Delay in approval for scrap disposal will continue to be faced by LMWs.

Option 2: Blanket approval for scrap disposal / sale permit

To consider a blanket approval for scrap disposal / sale permit. A written consent could be given to the LMW for both scrap disposal and sale permit of scrap without requiring additional approval. However while it will save time and benefit the LMW applicant, there should be proper guidelines and checklist to ensure it is not being misused.

Option 3: Review disposal scrap procedure (SOP)

Customs need to revisit and look into the procedures and process flow in terms of volume and complexity aimed at expediting the approval process. A scrap disposal time motion study (TMS) - from start (registration) to stop (Customs release) could be conducted on a sample of LMWs comprising AEOs, compliance and non-compliance LMWs.

27 Guide on Free Industrial Zone & Licensed Manufacturing Warehouse, Jan 2016
Recommendation

**Option 3** is recommended. Customs can implement an efficient application process approval for scrap disposal by considering risk-based categorization of scrap to reduce idle time and waiting time (every transaction to be merit-based).

5.4.2.3. Freight forwarders services

**Issue 11:** Lengthy procedures for cargo clearance at border checkpoint.

Lack of transparency about rules and regulations, redundant and lengthy clearance processes, and multiple documents requirements in different formats and with different data elements, increase the costs and time of doing trade.

**Box 5.4: Cargo clearance procedures at border checkpoint (Johor)**

<table>
<thead>
<tr>
<th>No.</th>
<th>Cargo Clearance Procedure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Truck heading towards Tg. Kupang checkpoint will follow the designated lorry lane and subsequently proceed to follow respective lane for K2 (general truck), K8 (bonded sealed) or Empty truck lane</td>
</tr>
<tr>
<td>2.</td>
<td>Driver will need to swipe Customs gate pass card to pass barrier that lead to the Custom’s Import Station assessment area</td>
</tr>
<tr>
<td>3.</td>
<td>After parking the truck, driver to handover gate pass and freight documents to agent brokerage team</td>
</tr>
<tr>
<td>4.</td>
<td>Agent brokerage team to take queue number for registration</td>
</tr>
<tr>
<td>5.</td>
<td>Agent brokerage team to perform Custom form registration when queue number is called / next, Customs receives Form K2, invoice and export permit (if applicable) for Customs clearance</td>
</tr>
<tr>
<td>6.</td>
<td>Agent brokerage team to take queue number again for Officer’s Assessment</td>
</tr>
<tr>
<td>7.</td>
<td>Assessment of goods by Senior Customs Officer which includes the following process:</td>
</tr>
<tr>
<td>a.</td>
<td>Verification of particulars declared against supporting documents</td>
</tr>
<tr>
<td>b.</td>
<td>Instruction for physical inspection if necessary</td>
</tr>
<tr>
<td>c.</td>
<td>Classification / Valuation</td>
</tr>
<tr>
<td>8 a.</td>
<td>For K2 – Physical inspection if necessary will be carried out in the truck by Customs officer and in the presence of Forwarding Agent</td>
</tr>
<tr>
<td>b.</td>
<td>For K8 – Physical inspection will be carried out on the truck by Customs officer and in the presence of Forwarding Agent</td>
</tr>
<tr>
<td>c.</td>
<td>The relevant Government Agency (OGA – not 24hrs) will carry out cargo inspection or endorsement of the import permit if required</td>
</tr>
<tr>
<td>9 a.</td>
<td>Senior Customs Officer grants approval / release to the K2 in SMK and hardcopy</td>
</tr>
<tr>
<td>b.</td>
<td>Agent broker team will then handover Vehicle Gate Pass Card to Driver</td>
</tr>
<tr>
<td>10 a.</td>
<td>Driver to proceed to Levy Counter to make levy payment</td>
</tr>
<tr>
<td>b.</td>
<td>Officer collect payment, issue receipt and grant approval to Vehicle Gate Pass Card in system to release truck</td>
</tr>
</tbody>
</table>
11. Driver will collect truck and required to swipe the Vehicle Gate Pass Card when exiting the Custom’s Import station.

12. Truck will then pass through Immigration checkpoint.

13. Truck will then pass through JPJ (Road Transport Authority) checkpoint. Subject to inspection as and when required

14. Driver and truck will then proceed to Malaysia highway delivery

Option 1: Continue as it is

Customs clearance will continue to be delayed especially during peak period. The service providers will continue to bear higher cost and lower service quality, leading to lost business opportunities in road freight business and opportunities to expand operations.

Option 2: Customs to conduct Time Release Study (TRS) to spearhead the cargo clearance process.

A TRS would be useful to measure the time and the relevant aspects of the effectiveness of operational procedures goods and to assess the effectiveness of border clearance processes that are carried out by Customs and other regulatory actors in the standard processing of imports, exports and in transit movements.

Option 3: Full implementation of the trade facilitation reform measures

Implementation of the trade facilitation reform measures by simplifying and harmonizing formalities, procedures, and the related exchange of information and documents between the various partners between customs and other authorities (OGAs) will make trade across borders (imports and exports) faster, and cheaper and more predictable, whilst ensuring its safety and security.

Recommendation

Option 3 is recommended. With full implementation of the trade facilitation reform measure, movement, release and clearance of goods and cargo can be expedited. There are great potential gains from trade facilitation for both governments and the business community. A more efficient and transparent delivery will allow the Customs to maintain high security levels and effective control, while businesses will gain in terms of higher predictability and speed of operations and lower transaction costs, resulting in more competitive exports on global markets.

5.4.2.4. Courier services

Issue 12: Requirement of full declarations on courier low value shipment for Ex/Import

The requirement of full declarations (including Customs classification) of so called de minimis shipments, which no duties and taxes are collected (today this threshold is RM500).
Option 1: Continue as it is

If the current practices were to be continued where the value of the goods and their respective amount of duties and taxes is lower than the cost to administer this shipment (small consignments), government may spend more money on this administrative process than they collect in duties and taxes.

Option 2: Amend PTK No. 47 to increase the import de minimis from RM500 to RM1,000.

The information required by Customs for itemised declaration before shipment uplift cause delay. In view of the increasing number of low value shipments with the widespread of e-commerce, an increase in the import de minimis threshold will save time and cost both for the service provider and the regulator (Customs). A higher de minimis would reduce overall compliance and administration costs and encourage low value importations, with hassle free low value shipment, lesser document management, faster delivery shipment to customer and efficient space/storage utilisation.

Recommendation

Option 2 is recommended. MOF and Customs to conduct detailed study on impact analysis of the potential revenue and losses to the government. This will enable Customs authorities to devote those newly freed-up resources (where the value of the goods and their respective amount of duties and taxes is lower than the cost to administer those small consignments) to other high priority tasks. The benefits accrued include hassle free for low value shipment, lesser document management, more focus on high value shipment control and reduced administrative cost.
Concluding remarks

From the foregoing, one of the costliest qualitative problems of regulations is that many of the regulatory rules and procedures are unclear and subjective. As a result, regulators have wide discretionary power, and the regulatees are put into a very uncertain position in the regulatory processes. These uncertainties directly translate to increased business costs. Making the regulatory rules and procedures more transparent and predictable can substantially reduce such regulatory burden.

Redundant or obsolete regulations can give rise to unintended or even perverse consequences as businesses continue to incur compliance costs for no good reason. Businesses often face multiple demands from different agencies and government departments for similar information, as well as information demands that are excessive or unnecessary. The culture and behaviour of regulators sometimes compound the problems they faced with regulation itself. Too much legislation is too vague about its objectives and the principles or practices which regulators should apply to satisfy them. The time spent and costs incurred by business and the community dealing with excessive regulatory requirements are an unacceptable burden. In most cases need to consider risk-based categorisation and inspection. Over-regulation or inappropriate regulation acts to impede economic growth. It limits the scope for innovation, undermines entrepreneurial drive and reduces productivity and competition.

Businesses face difficulties for planning purposes when there is lack of information. Lack of warehousing standards and accreditation poses a significant challenge to the industry in particular when the owner/occupier needs to set up, upgrade/expand or invest are unsure of what specifications to standards should be adopted and complied with. By making available guidance will help streamline work processes, eliminate non-productive process and integrate similar work process. This will also help to enhance transparency and make available the required information and checklist to ease business understanding and compliance.

It has to be noted that the issues and areas of concern raised in this chapter are treated as common concerns among the warehouse service providers. Further analyses will be the basis for the next stage of consultations with the service providers, key regulators and other interested parties and stakeholders. This will be followed by feasible options and recommendations and regulatory impact assessment with adequate cost-benefit analysis and continuous engagement through public consultations.