

Small-package Delivery Services in Malaysia

Highlights

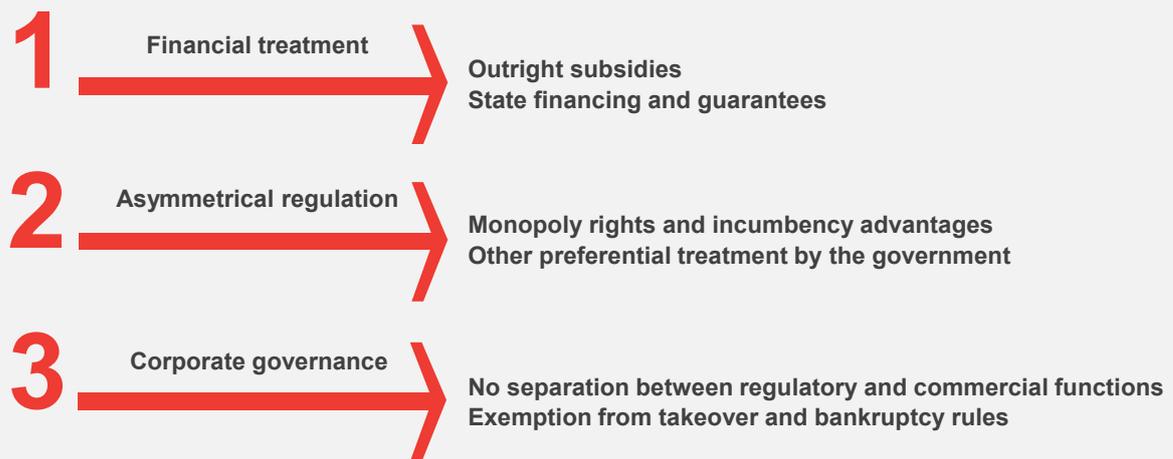
Competitive neutrality (state-owned and private businesses competing on a level playing field) ensures that all enterprises, public or private, domestic or foreign, face the same sets of rules. Ensuring a level playing field between public and private market participants leads therefore to more choice, higher quality and lower prices for consumers and ultimately benefits economic growth and development. This is why it is useful to assess the impact of state-owned enterprises (SOEs) and government-linked companies (GLCs) on competition.

The OECD was tasked by the ASEAN Secretariat and the ASEAN Expert Group on Competition, with funding from the ASEAN Economic Reform Programme under the UK Foreign, Commonwealth & Development Office (UK Government), to carry out an independent assessment of the impact of SOEs on competition in the small-package delivery services sector in ASEAN. The results of the assessment can help to promote a level playing field between SOEs and private entities in ASEAN and help detect special rights and privileges granted to SOEs that affect long-term growth and competitiveness. This document presents the main findings from the assessment and the full review is available at oe.cd/comp-asean.

The review is the result of an assessment by the OECD based on an analysis of selected (prioritised) Malaysian legislation, interviews with stakeholders and desk research. The review took place in stages. **Stage 1** served to determine the exact scope of the study. Pos Malaysia was identified as the relevant GLC for the purpose of the study, and the main laws and regulations and other GLC-related information were analysed. The OECD team met with government authorities, industry associations and private stakeholders. **Stage 2** screened the relevant legislation to identify potential provisions affecting the level playing field and to understand their rationales and policy objectives. **Stage 3** analysed the special rights, privileges and duties of Pos Malaysia in depth. **Stage 4** served to draft the report with non-binding recommendations. The draft review and recommendations were shared and discussed with the relevant public stakeholders.

SOEs and competitive neutrality

SOEs may enjoy rights or privileges unavailable to private competitors, which could confer undue competitive advantages. These advantages can make market entry or expansion more difficult for (domestic or foreign) private companies and result in a competitive obstacle. At the same time, SOEs may be subject to obligations, which can affect their ability to compete effectively with private companies. Examples of advantages of SOEs or factors that may affect competitive neutrality are:



E-commerce and small-package delivery services

The COVID-19 pandemic has disrupted global supply chains in unprecedented ways and will have a significant economic impact with GDP contractions in most ASEAN member states, including Malaysia. However, as result of the COVID-19 outbreak, the use of e-commerce has increased abruptly and sharply. The COVID-19 pandemic will lead to long-term changes, accelerating the shift to e-commerce. Many brick-and-mortar businesses will also evolve offering services beyond retail, including last-mile deliveries.

According to the Malaysia Communications and Multimedia Commission (MCMC), already in 2018, the volume of parcel has increased by 23.51% to 49.59 million. With the rise of e-commerce, speedy delivery has become a major competitive advantage with Malaysian consumers willing to pay a premium for same-day or faster deliveries.

A number of third-party logistics companies, including local and regional players, are active in the small-package delivery services market, mainly in the B2C segment. Competition for last-mile delivery is intense with over 100 providers. Start-ups have also entered the market, focussing their services on the Klang Valley area, which includes Kuala Lumpur. Furthermore, some e-commerce companies have established their own delivery services.

SOEs and the sector for small-package delivery services

Notwithstanding partial divestment and privatisation initiatives, GLCs today still constitute a significant part of Malaysia's economic structure. Although no official list of GLCs exists, Minister of Finance (Incorporated), the most important government-linked investment company, holds direct majority shareholding in approximately 70 companies. GLCs remain the main providers of key strategic utilities and services, and drive infrastructure and industrial projects. The Mid-Term Review of the Eleventh Malaysia Plan 2016-2020 identified SOE policies as a strategy to improve market efficiency and fair competition with the aims to strengthen sectoral growth and to increase efficiency and transparency.

Pos Malaysia is the main GLC active in small-package delivery services. It is the Universal Postal Union's "designated operator" and the only provider holding a universal service licence in Malaysia. Even though Pos Malaysia does not consider itself a GLC, it can be considered as a GLC for the purposes of this study. This is as result of the government indirectly holding a "special rights redeemable preference share" in the company, which seem to reflect the strategic importance of Pos Malaysia's services.

While competition has increased in the last years, Pos Malaysia remains one of the largest providers for both B2C and B2B small-package delivery services. The decline of the mail business and the liberalisation of the small-package delivery services sector has led Pos Malaysia to transform and diversify its business. In the B2C segment, its subsidiary Pos Laju is a leading provider with the largest courier fleet in Malaysia and the widest delivery network coverage. Pos Laju operates 99 branches and 39 "kiosks" throughout the country, and handled approximately 100 million items in 2018-2019. The B2B segment is mainly covered by Pos Logistics' supply-chain solutions. Finally, Pos Malaysia provides cross-border solutions in which customers ship e-commerce items from mainly China to various destinations around the world.

Key recommendations

1. Ensure that regulated rates for universal service reflect Pos Malaysia's actual costs and take into account any other cross-subsidisation or other public funds, grants or subsidies accessible to Pos Malaysia. The establishment of a Universal Service Obligation Fund to which other licensees can partially contribute is a valid alternative, although measures should then be introduced to ensure proportionate contributions, to avoid such a compensation fund leading licensees to exit the market.
2. Require revenue and costs related to the universal service obligations to be clearly separated in Pos Malaysia's accounts. Accounting separation is required to ensure that compensation is adequate irrespective of the mechanism adopted.

3. Clarify who has jurisdiction over competition-law issues in the small-package delivery services sector. Consider conferring to the Malaysia Competition Commission (MyCC) sole jurisdiction. Alternatively, should continue to opt for MyCC and MCMC having concurrent competition powers, make explicit reference in the Postal Services Act 2012 to the Competition Act 2010 as the relevant competition law applicable to the sector. Moreover, implementing regulation should be passed to address co-operation and any competence issues between MyCC and MCMC.
4. Except for land and facilities strictly related to Pos Malaysia's universal service obligations, use competitive processes to assign the leasehold of government land and buildings with the aim of maximising their value. Rents should reflect market value.

Fostering Competition in ASEAN

Funded by the UK Foreign, Commonwealth & Development Office (UK Government), **Fostering competition in ASEAN** is a project that aims at assessing regulatory constraints on competition in the logistics sector in all 10 ASEAN countries identifying regulations that hinder the efficient functioning of markets and creating a non-level playing field for business.

The project runs two parallel components: **competition assessment reviews** of specific logistics sub-sectors and **competitive neutrality reviews** of small-package delivery services.

This report and the accompanying “OECD Competition Assessment Reviews: Logistics Sector in Malaysia” are contributions to implementation of the ASEAN Competition Action Plan.

