

INVESTMENT OPPORTUNITIES IN THE AQUACULTURE INDUSTRY IN SABAH, MALAYSIA

1.0 Introduction

The state of Sabah, Malaysia, which is located in the middle of one of the 12 mega-diversity sites in the world, has numerous and varied natural resources. Its marine resources, which include coral reefs, fisheries and coastal wetlands are both abundant and diverse as can be expected from being located at the center of the world's highest marine biodiversity ecosystems. Sabah desires to leverage these marine riches to develop its fishing and aquaculture industry through sustainable means of exploitation for economic development. Both national and state policies stress the importance of expanding this industry through commercialisation of the fisheries and aquaculture industries. In order to do so investors both local and foreign are encouraged to invest in this important sector.

Fish in Malaysia is everyman's food. The per capita consumption of fish and other seafood in the country is estimated to be close to 50 kg. This represents more than two-thirds of the total animal protein consumed per capita locally. By end of the planning period of the Third National Agriculture Policy which is year 2010, it is expected that the total national fish production will be 1.93 million metric tonnes worth more than RM9.36 billion. To this end the Fisheries Department of Malaysia has targeted the fisheries sub-sector to grow by at least 5% annually.

This paper is prepared to give the reader an overview of the prospects and opportunities that exist in the aquaculture industry in Sabah. As a backdrop of this discussion, a brief detail is written about the current status of the fisheries and aquaculture industry followed by an explanation on various government policies and tax and fiscal incentives that have relation with this industry.

2.0 Sabah's Economy In Brief

Sabah Gross Domestic Product was about 10.2 billion Ringgit in 2002. For the year 2002/2003, the State's economy is forecasted to improve. The growth of 4.0 per cent in 2002 is forecasted to increase to 4.3 per cent in 2003. In comparison the Malaysian economy is projected to grow by 6.0 to 6.5 per cent in 2003.

Sabah's economy is commodity-based dominated largely by primary commodities such as agriculture, forestry and petroleum. However, in the wake of dwindling natural resources, the State has in recent years, adopted aggressive development strategies to transform its economy to one that is based on industrialisation, services and knowledge and high technology-

based products. Manufacturing and services are emphasized as key growth sectors.

Sabah's abundance natural resource endowments is the State's distinctive comparative advantage. Although these natural resources are fast depleting in recent times, they still have a major role in shaping the State's economy. The primary commodities export sector constitute about 70 per cent of the State's total output. The agriculture sector, which contributes 35 - 40 per cent to the State's GDP, is the main contributor with palm oil being the main income earner of the state export. Other exports of major primary commodities are cocoa, rubber, crude petroleum, sawn timber and plywood. The State's industrialisation process seeks to concentrate in developing this resource-rich comparative advantage commodity by developing higher value-added knowledge intensive palm oil-based, cocoa-based and marine-based products.

Apart from timber and the agriculture sectors, the manufacturing and the tourism sectors in the State are important contributors to the GDP. The manufacturing sector is mainly dominated by the timber based industry. The tourism sector will remain one of the key growth sectors for the State as the potential to further develop the industry is vast. Income from the tourism sector is expected to increase from RM1.2 billion in the year 2002 to RM1.4 billion in the year 2003.

3.0 Fisheries and Aquaculture Industry in Sabah

The fisheries and aquaculture sector in Sabah has proven to be an important supplier of animal protein and has contributed significantly to the State's economy. In addition this sector has provided many communities with employment and socio-economic opportunities. The industry plays a vital role in providing social and economic stability to the industry players and fishermen as a whole. Contribution of this industry can be categorized in three aspects: a source of foreign exchange in trades, source of affordable and reliable animal protein and income generation.

The fisheries sector has contributed significantly to Sabah economy. The last ten years has been tremendous with exports listing higher value each year. Real Gross Domestic Product (GDP) for Sabah in 2002 was recorded at RM10.2 billion, for which the fisheries sector contributed about 2.8%. Balance of trade for fisheries sector for the last three years is presented in **Table 1**. Import bills in fisheries do not pose any significant impact to the state's economy, balance of trade has always recorded trade surplus for Sabah.

The marine capture fishery is the overall major provider to the fisheries sector, while considerable volume of aquaculture are produced for export and local consumption. The domestic demand for fishery products is fully met. Sabah is

a net exporter of fish and is self-sufficient to meet demands for high quality seafood to cater for the over two million population.

Table 1.
Fishery Total Trade and Balance for Sabah (1999 – 2000)
(Value in RM Million)

Year	1999	2000	2001	2002
Export	319	383	391	445
Import	40.2	45.8	49	56
Balance of Trade	278.8	337	342	389

The prawn industry from both marine capture fisheries and aquaculture is the most important commercial commodity in terms of value in the export market. However, recent trade statistics has also shown a notable increased in exports of seaweed from Sabah. In order of importance, the intensive culture of tiger prawn constitutes the main part of export-oriented aquaculture product.

Aquaculture has expanded tremendously in the past decade, witnessing an increased number of prawn producers, cage culture operators and seaweed farmers. The total production from aquaculture activities in year 2001 was about 15,500 metric tonnes; the 4 main contributors were freshwater fish culture, shrimp pond culture, seaweed mariculture, fish cage culture and mollusc farming (**Table 2**). In 2002, the department record shows a number of 86 prawn producers were actively involved in prawn farming while 213 cage operators are involved in supplying local restaurants and the live fish trade and about 550 seaweed farmers were active in the cultivation seaweed. There were 26 prawn hatcheries in the same year. The main areas for shrimp culture were Tawau, Sandakan, Semporna and Lahad Datu. For seaweed farming the main locations are Semporna, Kunak and Lahad Datu.

Table 2: Production from Aquaculture in Sabah (2001)

Commodity	2001		
	Operation	Production (Tonnes)	Value (RM)
Shrimp	3343 ha	5640	166 million
Finfish - Cage	7500 sq. meter	550	9 million
Seaweed	700 operators	4,700	7.5 million
Freshwater Ponds	5020 operators	4,330	23 million

The major activity in freshwater aquaculture in Sabah is fish pond culture that rears fish such as Nile tilapia, lampam jawa, Chinese carps, patin, kalui, kissing gourami and marble-head goby. At present there are several start-up operations on cage culture, tank culture and ornamental fish breeding and culture. There are also some small-scale operations in the culture of freshwater soft-shelled turtles and bullfrogs.

There were around 16,906 total number of freshwater ponds which cover an area of some 1518 hectares in 2001. The top five districts where these ponds are located are in Kota Belud, Keningau, Ranau, Tambunan and Tuaran. There were about 5,020 fish farmers engaged in freshwater aquaculture in Sabah in 2001.

Sabah has few true large water bodies other than the 7 major river systems. Apart from some ox-bow lakes, the state does not have comparable freshwater bodies as found in West Malaysia where there are extensive mining pools, several dam lakes, and many naturally occurring lakes. Although there are no survey data on the fish production accruing from freshwater capture fisheries, indications are that fishing are carried out along the major rivers albeit on a part-time basis by riparian inhabitants for their own consumption. Some commercial freshwater fisheries are found along the S. Segama, S. Padas and S. Kinabatangan.

In 2002, Sabah recorded a total of RM 445 million worth of exports and RM 56 million was recorded for import of seafood commodities. Main contributors to the Sabah's exports were processed prawns (RM 219 million) and dry seaweed (RM14 million).

Currently, there are 22 prawn processors/exporters registered with the Department of Fisheries Sabah. Processing plants in Sabah do very basic processing activities. The processing of prawn for exports involved sorting, grading, cleaning, freezing and packing.

4.0 Policies Impacting on Fisheries and Aquaculture

The agriculture sector in Sabah is aimed to play an important role in the state's food production. With this in mind, the government has formulated policies complimentary to strengthening Sabah economy and charting the phase of agricultural sectors at-par with other industry. The Sabah Outline Perspective Plan (OPPS), 1995–2010 and the Second Agriculture Policy (SAP2) was designed to ensure the existing trend in development and production stay at a high level of sustainable growth for each food industries. These broad policies are given effect through development and services undertaken by respective departments through programs and projects under the Eighth Malaysia Plan (2001-2005).

The OPPS has indicated the importance of the private sector as the engine for growth and stress on enhancing private sector capacity and agriculture growth. Fisheries will be given special attention specifically in the development of aquaculture and deep-sea fishing.

The formulation of the Second Agriculture Policy (SAP2) for Sabah shows the government's highest commitment in the development of the food sector in Sabah. The Second Sabah Agricultural Policy (1999-2010) was crafted to promote sustainable development in the state's agriculture sector, and one that is efficient and competitive to compete globally. The guiding principle under the SAP2 is to pursue food production enhancement and transform the state's agriculture into a modernized, commercialized and dynamic sector to meet challenges ahead. The government has given strong thrusts to the private sector to continue their support in strengthening key business areas and ensure successful implementation of the policy.

The objective of SAP2 is to maximise income through the optimal exploitation of the agricultural resources in order to improve and continue their contributions to the state's economy. The specific objectives of SAP2 are:

- Transforming smallholders into a more commercial and dynamic sector;
- Increasing efficiency and productivity of the agriculture sector;
- Increasing the level of domestic food production;
- Accelerating the development and growth of local agro-based downstream processing and manufacturing industries;
- Promoting globally competitive agriculture;
- Strengthening essential economic foundation and basic support services; and
- Adopting sustainable development.

Five basic strategies were identified to achieved the policy objectives, there are:

- Optimal utilisation of agricultural resources.
- Acceleration of agro-based industries development.
- Intensified research and development.
- Human resource development.
- Development of efficient marketing systems and strategies.

Sabah has the potential and the fisheries resources to further increase production especially aquaculture and high value-added marine product. The plan for expansion under the SAP2 for fisheries are:

- Increasing production for food security and exports.
- Improvement in productivity and competitiveness.
- Increasing private sector investment.
- Sustainable exploitation of resources.

- Human resource development.
- Rationalisation of fisheries-related institution.

The government has adopted strategic plans to realise the above through the development of integrated and commercial capture fisheries and aquaculture. The economic foundation of this sector will be strengthened in order to provide adequate technology, expanding infrastructure, support services and enabling an effective legal, administrative and institutional framework. A coordinated investment in fisheries and aquaculture with equal benefit in partnership with the private sector will be implemented.

The policy also identified the need in increasing efficiency and productivity through intensification and the use of automation and mechanisation in fishing, fish handling, aquaculture production and product processing. The plan has acknowledged that improvement in the existing marketing of fish and fish based-product; market distribution and market information system need to be further improved.

The private sector continues to play a dominant role in the state fisheries development process. The government is committed to an orderly development and expansion of the sector. Expansion in development to include management resources will be supported and reinforced by support services, research and development.

The Department of Fisheries Sabah has prepared several strategic plans relevant and complimentary to investment policies under NAP3 and SAP2. These plans include:

- To identify capable private sector and encourage commercial fishing and large-scale aquaculture production.
- To encourage establishment of consortium and estate grouping between aquaculture farmers for commercial production.
- To initiate business interest from relevant corporate mega company which already successful in business to invest and take up commercial fishing and aquaculture industry in Sabah.
- To encourage joint ventures between local companies and investors from other countries under the existing trade regional cooperation such as the BIMP-EAGA.
- To encourage investment from local and foreign companies to invest in high level of seafood processing, packaging and marketing.
- To established a 'One Stop Sabah Seafood Investment and Information Centre' to provide assistance and services to prospective investors and strengthen investment and market link in Sabah seafood sector.

Increasing investment, up-date on international fisheries, trade and marketing development are an initiative put in placed by the department in early 1999. Since then, the following range of services are available from the department:

- A help-desk service as a stop point for all trade, investment and market enquiries.
- Organising and coordinating business meetings and business matching between prospective importer/investor with local producers/exporters.
- Assisting local processor to get market information and seafood safety regulation.
- Receive and re-direct enquiries and correspondence for seafood market opportunities.
- Support services in providing company lists and commodity search for would be importer/buyer.
- Providing support for industry-developed investment.
- Providing assistance for application in Investment Incentives for new incorporated companies in fisheries/aquaculture project

Policy directions for fisheries industries investment and development in the SAP2 are summarised as follow:

Capture Fisheries	Aquaculture
<ul style="list-style-type: none"> ▪ Maximize production in capture fisheries, pursued on a rational manner. ▪ Encouraged the adoption of efficient and resource-friendly fishing technologies. ▪ Promote joint ventures between local and foreign private sector under regional groupings such as Brunei Indonesia Malaysia Philippines-East ASEAN Growth Area (BIMP-EAGA). ▪ Improvement and expansion of onshore facilities and services. 	<ul style="list-style-type: none"> ▪ Encourage growth and expansion in brackish-water and fresh water fish production. ▪ Increase in aquaculture ventures in shrimp farming, large-scale cage culture, production of seed for candidate species, which are of high value, and feed production. ▪ Large-scale aquaculture farming with operations of vertical integration of production and value-added processing at the farm level.

5.0 Investment Opportunities in Sabah’s Aquaculture.

Under the second Sabah Agriculture Policy, the state Government has emphasized development of fisheries and aquaculture in the following areas.

- Large-scale production of high-value species aquaculture, for example in marine shrimp culture and snapper & grouper culture;
- Industrial seaweed cultivation;
- Seed and fry production (marine fry hatcheries);
- Deep sea fishing;
- More value-added, downstream processing of fisheries products; and
- Support Facilities

Land For Aquaculture

The need for good and suitable lands and seas for productive aquaculture need is an obvious fact. With the passing of the new Sabah Inland Fisheries and Aquaculture Enactment the policy of establishing Aquaculture Industry zones is codified into law. This allows the State Government to establish such zones specifically for land-based aquaculture. For marine and estuarine aquaculture activities, such aquaculture development zones will be established under the Fisheries Act, 1985.

Under both laws mentioned above, the regulation of aquaculture activities is done through licensing. The two policies of aquaculture industry zones and licensing are very important because these will give a degree of certainty to would be investors and fish farmers.

The government is already in the process of establishing aquaculture industry zones. **Table 3** shows the locations and site of areas that are either established or in the process of consideration by the state Land and Survey Department.

Table 3: Areas To Be Designated As Aquaculture Industry Zones

Culture Type	District	Acreage
Prawn Culture In Brackish Water	Tawau	12,280
	Semporna	750
Seaweed	Semporna	38,500
Mollusc	Tawau	1,000
	Kudat	250
	Kota Marudu	250
Fish Cage Culture	Kudat	1,000
	Kota Kinabalu	475
	Lahad Datu	5,850
Fish Culture In Brackish Water	Kuala Penyu	1,000
	Papar	400
	Total	61,755

Aquaculture Potential By Activity

Outside of these Aquaculture Industry Zones, aquaculture activities will also be promoted according to suitability of land and sea and in accordance with official Aquaculture Development Plans. The Department of Fisheries has undertaken a series of studies and continue to do so to assess the potential areas for aquaculture. The following is a discussion of the suitability of various locations for the several types of aquaculture activities.

There is potential for expansion of shrimp culture in Sabah, although the area available is not large compared to other regional countries. A 16 districts-survey study undertaken by the Fisheries department, Sabah in 1997 shows

that for coastal shrimp aquaculture there is a total coastal area of 929,889 ha, areas with high potential covered 4,048 ha (0.4%), medium covered 145,551 ha (15.6%) and low potential 123,060 (13.2%) (**Table 4**). Areas of high and medium potential are most likely to be suitable for shrimp farm development, as borne out by the analysis of the Tawau area where much of the existing farms are on land classified as high and medium potential. Assuming that both high and medium have potential for development (albeit under different constraints), this gives a potential area of 149,599 ha.

There was a considerable geographical variation in shrimp culture potential. The areas with largest apparent potential were Pitas and Sandakan. The analysis also shows a large area in Tawau covering 18,852 ha, including the existing shrimp farming areas.

Table 4: Shrimp aquaculture potential (ha) based on GIS analysis

Area	High	Medium	Low	Potential area*	% M/H of total potential area
Sipitang	167	12782	3973	12,949	8.66
Kuala Penyu and Beaufort	0	9787	9135	9787	6.54
Papar	441	13809	3714	14,250	9.52
Kota Kinabalu and Telipok	599	11464	2200	12,063	8.06
Kota Belud	357	7404	1344	7,761	5.19
Kudat	5	3953	2050	3,958	2.65
P. Banggi and Balambangan	0	3034	7961	3,034	2.03
Kota Marudu	517	7790	3580	8,308	5.55
Pitas	782	14926	9765	15,708	10.50
Jambongan	40	4301	8493	4,342	2.90
Sg. Labuk and Sugut	0	4105	17117	4,105	2.74
Sandakan	413	14784	2277	15,197	10.16
Kinabatangan	0	88	10196	88	0.06
Tambisan	63	10253	6011	10,317	6.90
Tungku	100	3557	9790	3,657	2.44
Bakapit	44	3069	1144	3,114	2.08
Lahad Datu	0	34	6580	34	0.02
Kunak	0	791	92	791	0.53
Semporna (A)	8	213	386	221	0.15
Semporna (B)	0.04	1063	579	1,063	0.71
Tawau (A)	63	6446	11785	6,509	4.35
Tawau (B)	446	11898	4886	12,344	8.25
Total area	4048	145551	123060	149,599	100

The same study by the Fisheries Department also analysed the potential cage farming areas in Sabah. The study indicated a significant area for marine cage farming in several districts (**Table 5**). The analysis confirms the high potential in Sandakan bay, where there is already some cage farming development, but also reveals a significant and untapped potential in Semporna. (Note: The Study Report comments that there were a number of

other areas where the GIS analysis could not be undertaken because of a lack of bathymetric data, including small mangrove creeks. The analysis therefore probably underestimates potential cage farming areas in Sabah.)

Live fish and certain shellfish is a potential high earner for the local seafood industry. Although relatively small in terms of total quantity, the live fish trade achieved a value of some 26 million Ringgit last year. Production of high value marine fish fingerlings is identified as a lucrative business. The technology and development of marine fish fingerlings is still at the early stage. There are several breakthroughs in the marine hatchery but yet to produce desired result. The local fish culture can increase its production of commercial species of fish for the live fish trade.

Table 5: Marine cage aquaculture potential (ha) based on GIS analysis

Place name	Potential for development (ha)		
	High	Medium	Low
Gaya and Sepangar Bay	9.9	856.7	637.3
Usukan Bay	93.4	191.1	
Kudat Bay	75.5	482.8	0.6
P. Banggi & Balambangan	0.2	1167.1	878.2
Sandakan Bay	113.2	3559.3	1247.3
Lahad Datu	0.7	2579.0	939.7
Semporna	936.3	6696.7	1107.
	1229.25	15532.6	4172.8

Seaweed farming has contributed largely in providing income for the coastal communities in Sabah. Seaweed is cultivated mainly in Semporna, Kunak, Kudat and Lahad Datu. Over the last three years, Sabah has experienced tremendous increase in production as compared to ten years ago when seaweed was first introduced in Semporna. A limited survey of the potential areas of Sabah's coasts revealed that more than 100,000 hectares of sea are suitable for this type of aquafarming. A GIS analysis carried out by the Fisheries Department shows clearly that the northern and south-eastern part of Sabah are potentially more suitable for seaweed culture, more so than the western area. The area in the western part had only 300 ha, compared to the 15,958 ha in the northern part and 1,824 ha in the eastern part and 84,330 in the Semporna area (**Table 6**). This analysis fits in with the existing patterns of seaweed farming in Sabah, with most farms in the Semporna area, although it indicates the potential for expansion into other areas, subject to more detailed analysis of exposure, water depth, pollution risk, accessibility and potential environmental impacts on coral reefs.

Product Processing

There is potential in investment for seaweed processing for the export market. Currently, there are only 2 companies in the state that are involved in processing of seaweed. The cultivation of seaweed use relatively low technology and minimum financial input. The Sabah Fisheries Department encourages more investors and put emphasis on industrial farming of seaweed and establishment of high-quality *carrageenan* manufacturing facilities. Trade statistics for 2002 shows export destination for Sabah seaweed are United Kingdom, Chile, Hong Kong and Korea.

Table 6: Potential areas for seaweed development (ha)

Name	Area (ha.)	Total (ha.)
Kuala Penyu	239.4	299.8
Kota Kinabalu	14.0	
Pangalat	46.4	
Kudat	848.9	15,958.5
Karakit	2,531.8	
Tandak	10.3	
Telaga	294.0	
Bambangan	1,486.9	
Langkon	209.0	
Langkon (2)	297.7	
Pulau Tagajawan	2,632.3	
Pulau Malawali	4,246.1	
Balambangan Barat	246.2	
Pulau Mandidarah	3,155.3	
Kampung Lok Agong	1,034.8	1,824.8
Terusan	736.5	
Tanjung Labian	53.5	
Lahad Datu	129.7	84,330.3
Apas Balung	37.3	
Bakapit	983.4	
Semporna	6,231.1	
Pulau Silawa	75,477.4	
Silam	626.4	
Pulau Timbun Mata	85.0	
Pulau Sakar	759.9	
	102,413.4	102,413.4

There are good opportunities in the downstream activities with potentials to be developed to cater for local and export markets. These prospects are in fish processing, value added products, for instance, production of industrial packed seafood and canning, battered and breaded fish fillets, shrimps, squid rings, fish fingers, crab cutlers, convenience and ready to cook products. There exist a sizeable number of local processing plants in Sabah, producing frozen prawns, chilled and frozen fish, crabmeat, fishmeal and squids. There are exporters in Sandakan, Kota Kinabalu and Kudat involved in the live fish trade for local and export markets. Seafood processing is one area recommended by the Department of Fisheries for expansion. High value-

added food products such as surmi, ready to cook and ready to serve or microwave compatible dishes or convenience products are still very much underdeveloped. Even in a highly developed export area such as processed prawns and frozen fish, the level of processing is at the minimum level.

Basic Economic Data By Activity

Appendix 1 shows the basic economic data by aquaculture activity.

6.0 Fiscal and Tax Incentives For Fisheries Investment

The government's policy direction will focus on pursuing strategic action plans and work towards sourcing high quality fish product to compliment the processing industry. This is to be achieved through close cooperation between private and public sector, with government providing advisory, technical assistance, financial and investment incentives.

The government offers tax reduction and incentives for investments in selected food production activities as outlined under the Income Tax Act, 1967. Incentives are given as partial or full relief income incentives in the form of exemptions in duty and sales tax under the Customs Act, 1967.

Incentives for the agriculture sector are extended to companies producing 'promoted product' or involve in 'promoted activities' as listed and approved by the government. Promoted product and activities for fisheries sector are spawning, breeding and culturing of aquatic products, off-shore fishing, cultivation and processing of aquatic products, processing of aquaculture feed, and production of breeder stock.

These incentives are rendered in the form of deduction and exemption, relevant incentives for agriculture sector are:-

1. Pioneer Status (PA)

A company will enjoy tax payable on 30% (15% incentives for companies located in Sabah, Sarawak and Eastern Corridor of Peninsular Malaysia) of statutory income for a period of 5 years, commencing from production day.

2. Investment Tax Allowance (ITA)

ITA is an alternative to PA, to cater for projects that have large capital investments. A company will be allowed allowance of 60% (80% for companies located in Sabah, Sarawak and Eastern Corridor of Peninsular Malaysia) in respect of qualifying expenditure incurred within 5 years from date of approval of project. Set off against 70% (85% for companies located in Sabah, Sarawak and Eastern Corridor of Peninsular Malaysia) of statutory

income in the year of assessment. Qualifying expenditure for ITA in agriculture activities related to fisheries has been extended to cover provision of plant and machinery used for crop cultivation in aquaculture, inland and deep-sea fishing. Food production using emerging technology and advanced farming system are eligible for ITA of 60% on qualifying capital expenditure for 5 years.

3. Incentives for Research and Development (R & D)

Differing degree in ITA are available for companies engaged in R&D activities, Industrial Building Allowance for purpose of approved R & D, in-house research and eligibility for contract R & D. Double deduction is available on R & D expenditure incurred on direct research, which is approved by Ministry of Agriculture, Malaysia.

4. Reinvestment Allowance (RA)

Companies involve in expansion, modernisation & diversification are eligible for 60% allowance on capital expenditure incurred and set-off against 70% (100% for companies located in Sabah, Sarawak and Eastern Corridor of Peninsular Malaysia) of statutory income in the year of assessment.

5. Infrastructure Allowance (IA)

IA is available to companies engaged in manufacturing and agricultural activity in Sabah, Sarawak and the designated Eastern Corridor of Peninsular Malaysia. Companies will be granted a 100% allowance in respect of capital expenditure on infrastructure.

6. Double Deduction on Expenses for Promotion of Export

This incentive is available for companies seeking opportunities for exports of manufactured products, services and agricultural products. Expenses eligible for double deduction include overseas advertising, supply of free samples abroad; export market research, exhibits and/or participation in trade exhibitions held locally and overseas.

7. Special Deduction for Capital Expenditure on Approved Agriculture Projects.

The qualifying capital expenditure eligible for deduction are land clearing and preparation, construction of road, bridge and building on a farm, construction of ponds or installation of irrigation system or drainage. Type of fisheries related project eligible to apply for this incentive is shrimp farming incurred within two years period in an area of 40 hectare (maximum).

8. Incentives for Cold Chain Facilities

Effective from 28 October 2000, incentives were given to companies providing cold chain facilities and services for food products. The companies are given Pioneer Status with exemption of 70% on the statutory income for a period of 5 years or Income Tax Allowance of 60% on the capital expenditure incurred within 5 years to be deducted against 70% of the statutory income.

Additional incentive for agriculture sector in the 2001 national budget was implemented to attract and increase private sector investment in food production. Tax incentives are given to companies which invest in the subsidiary company engaged in food production project as well as that subsidiary company. The tax incentives in the Budget are as follow:

First Alternative:

- I. The company which invests in the subsidiary company engaged in food production be granted tax deduction equivalent to the amount of investment made in that subsidiary.
- I. The subsidiary company undertaking food production be given tax exemption of 100% on its statutory income for 10 years commencing from the first year the company enjoys profit in which:
 - a) losses incurred before the exemption period is allowed to be brought forward after the exemption period of 10 years;
 - a) loses incurred during the exemption period is also allowed to be brought forward after the exemption period of 10 years; and
 - a) dividends paid from the exempt income be exempted in the hand of the shareholders.

Second Alternative:

- I. The company which invests in the subsidiary company engaged in food production be given relief for the losses incurred by subsidiary company before it records any profit.
- I. The subsidiary company undertaking food production be given income tax exemption of 100% on its statutory income for 10 years commencing from the first year the company enjoys profit in which:
 - a) losses incurred during the exemption period is also allowed to be brought forward after the exemption period of 10 years; and
 - a) dividends paid from the exempt income be exempted in the hand of the shareholders.

Incentives are granted with the following conditions:

- I. The investing company should own 100% of the company that undertakes food production.
- II. The eligible food products are as approved by the Minister of Finance. For a start, the approved food products in fisheries are the culture of aquatic animals (aquaculture).
- III. The food production project should commence within a period of one year from the date the incentive is approved.

Total equity of local investor/foreign investor in any project involving request for incentives is unlimited, except for aquaculture and deep-sea fishing which are:

- a) Aquaculture – at least 30% equity belongs to local investors.
- b) Deep-sea fishing – 100% owned by local investor.

Funding is available through the Fund For Food (3F), introduced by the government to provide funding facilities for local companies involve in food production and processing sector. Under this financial facility, a company can apply for loan of a minimum of RM30000 and a maximum of RM3 millions with 4% interest rate for a maximum period of 8 years. This facility is available through participating banks such as Bank Pertanian. For the manufacturing sector (including for food processing), loans are obtainable from special funds such as the SME (Small and Medium Enterprises) Fund.

7.0 Conclusion

With the increase in demand for shrimp and fish in Sabah and local and international markets, and the simultaneous reduction of fish stocks in from capture fisheries, the aquaculture industry will play an important future role in food production in Malaysia. As noted, the nation has many advantages in this area, and the government is actively involved in the development of fish, shrimp and other aquatic life farming. The aquaculture industry in Sabah has good potential for development. Among the key reasons for this is the quite extensive suitable land resources, established technology and the strong government support. Demands for fish and fish products in local, regional and international markets will translate to better opportunities for the local processors and exporters. Even though this sector faces a number of constraints and problems, these by no means will hamper the development of the industry. Challenges such as the opening up of regional markets and competition from foreign fish producers will make it incumbent upon local producers to be more resilient and competitive. How this industry will develop in the next few years will depend on the close cooperation between the private sector and the government.