

# **CORPORATE SOCIAL RESPONSIBILITY (CSR) FROM SHIPPING COMPANIES IN THE STRAITS OF MALACCA AND SINGAPORE**

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## **ABSTRACT**

According to the World Business Council for Sustainable Development, Corporate Social Responsibility (CSR) is the continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce, the local community and society at large. The Straits of Malacca and Singapore, which connect the Indian Ocean with the South China Sea and the Pacific Ocean is considered one of the busiest waterways in the world, a vital trade and communication link to the international shipping community. In 2010 the Malaysian Marine Department recorded traffic of 74,136 ships through the Klang Vessel Traffic System (VTS). The high vessel-traffic in these waters presents regulatory and operational challenges, not the least of which are the risk of accidents and the need to maintain effective navigational systems. By virtue of Article 41, 42 and 43 of the 1982 LOSC, the burden of responsibility lies on the Strait States, especially in regard to navigational safety and pollution prevention. The case is argued in this article, however, for User States, contributing to the maintenance of safety of the Straits of Malacca and Singapore. This article analyses the concept of CSR and how it is adopted by the User States, i.e., the shipping companies. The findings reveal that CSR of the shipping companies is addressed through voluntary contributions and cooperative mechanisms. The CSR also complies with relevant laws and regulations related to safety and pollution (for example MARPOL 73/78, SOLAS 1974, International Safety Management Code). The concepts of voluntary contribution and cooperative mechanism are derived from obligations established under Article 43 of the 1982 LOSC.

**Keywords:** Corporate Social Responsibility, the Straits of Malacca and Singapore, the 1982 Law of the Sea Convention, voluntary contribution, cooperative mechanism

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## 1. INTRODUCTION

This article analyses the concept of and importance to promote Corporate Social Responsibility (CSR) of shipping companies in the Straits of Malacca and Singapore. Recently, the provision of Article 43 of the 1982 UN Convention on the Law of the Sea (LOSC) signifies a successful partnership between the IMO, the Strait States and User States to enhance the safety of navigation and the prevention of marine pollution in the straits. This article discusses contributions made by the Strait States to maintain, secure and install navigational aids within the passage. The role of Japan in providing generous contributions and technical assistance to sharing the burden of the upkeep of the Straits of Malacca and Singapore is highlighted. The benefits of possible CSR implementation in the straits are identified through

- a) precedents to maintain navigation aids the Middle East for all the Gulf Arab States,
- b) A proposal made by the Nippon Foundation to pay 1 US cent per ton for every ship that transits the straits,
- c) Shipping companies complying with the guidelines of ISO 26000 which highlights corporate social responsibility standards.

In sum, this article has highlighted the importance of the Straits States, IMO and User States in incorporating CSR in their business policy. The long term benefits in implementing CSR have been identified and recognised.

According to Holmgren (2010), since the boom of CSR in the early 2000s, the concept has continued to flourish. In 2005, 80% of the Fortune 500 companies were mentioning CSR on their websites. In 2009, despite the economic recession, many corporations continued to invest in their CSR-related budgets. Bottiglieri Shipping Company managing director, Maria Bottiglieri said: “some companies still think CSR is time-consuming and money-consuming, but they must realise it is vital tool for recruitment” (Matthews 2010). The Secretary-General of the International Maritime Organization (IMO), Efthimios E. Mitropoulos stated “environmental credentials” of the shipping industry (International Maritime Organisation News, Issue 4, 2006) as:

“In the world of global business today, it is not unusual to find major commercial companies freely embracing the notion that good environmental and social stewardship actually make good business sense. And shipping is no different from any other industry in that, both collectively and individually, ship-owners and operators need to protect their brand image. Indeed, in almost every sphere of shipping...one can discern a growing awareness of society’s broader concerns.... Commercial success may remain paramount, but the wise are increasingly realizing that they may need to explore new roads to achieve it.”

Mitropoulos added that members of shipping industry need to maintain high standards to provide a clean, safe and comfortable workplace. The statements made by Mitropoulos indicate that acting responsibly in CSR by the shipping industry is significant, positive and

enhances the status image of shipping companies worldwide. Basically CSR is concerned with environment, safety, labour (employees), customers, investors, community and business ethics (Beckman, 2010).

The European Commission defined CSR as a concept where companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. Holmgren stated that CSR is a responsibility beyond the requirements of national law regarding questions of human rights, environmental and social rights (Holmgren, 2010). At present, there is no universal or agreed definition of CSR. However, it is expected that by the end of 2011 the International Organisation for Standardisation will have implemented the ISO 26000 standard for CSR which consist of seven principles i.e. accountability, transparency, ethical behaviour, respect for stakeholders, respect for the rule of law, respect for international norms of behaviour and respect for human rights (Matthews 2010). Matthews (2010) further elaborated that key environmental issues identified in the ISO 26000 are prevention of pollution, sustainable resource use, climate change mitigation and adaptation and finally the protection of the environment and restoration of natural habitats. Matthews (2010) reported that the ISO 26000 is consistent with the International Labour Organisation Maritime Labour Convention 2006.

The commitment to incorporate corporate social responsibility brings a “triple bottom line” reporting, which means expanding the traditional company reporting framework to take into account environmental and social performance in addition to financial performance (Fafaliou, Lekakou and Theotokas, 2002). For example, Japan has a very high standard of CSR and is ranked 19<sup>th</sup> in the Global Responsibility Competitive Index 2007 (Tan 2007). Among the first companies in Japan to participate in the United Nations Global Compact was Mitsui OSK Lines. Another Japanese company that has adopted CSR as a prominent policy, the NYK Line, has appointed CSR co-coordinators and has developed a wide ranging of CSR programme, as well as running extensive educational and training programmes for seafarers (Matthews, 2010). More than 80% of tankers that carry oil to Japan were plying their trade through the Straits of Malacca and Singapore (The Nippon Foundation, 2011). Japan has generously contributed financially and technically in managing the marine environment and safety of navigation in the Straits. To illustrate this, for over forty years, The Nippon Foundation has given more than US\$125.5 million towards the enhancement of safety, security and protection in the Straits of Malacca and Singapore (The Nippon Foundation, 2011). The cost of rerouting tankers to Japan could increase the cost of doing business by US\$88 million (for a 3-day diversion away from the Malacca Strait) or by US\$1.2 billion (for a 2 weeks diversion away from Indonesian waters) (Ho, 2009).

Beyond these direct financial and logistical advantages, CSR also has important strategic benefits for shipping companies. Matthews (2010) concluded that:

- a) CSR is recognised as having real business benefits in terms of attracting customers and high quality employees.
- b) CSR has tended to focus corporate activities on recruitment and retention of seafarers and their working conditions.

- c) Over half of the survey of students from four Norwegian maritime academies reported that they were uncertain about the contributions of shipping companies contributions while one third considered they make positive contributions.
- d) The need to promote seafaring and shipping through primary education, to provide improved onboard training and facilities onboard has been identified by these companies.
- e) Shipping companies need to publicise their CSR activities.
- f) The studies show that companies that emphasis on CSR has generated more committed and loyal employees.

One way for ship-owners and operators to improve their branding and image is to adopt the concept of corporate social responsibility towards the safety of navigation in vitally important straits used for international navigation. The ship-owners and operators could make voluntary contributions to a fund established to maintain and replace aids to navigation in the Straits and as a result could improve their image significantly, both on a corporate level and within the general public.

## **2. THE STRAITS OF MALACCA AND SINGAPORE: LEGAL OBLIGATIONS AND OPERATIVE BURDENS**

The Straits of Malacca and Singapore connects the Indian Ocean to the South China Sea and is the shortest route between the Persian Gulf and East Asian Countries. Not only does it act as an important economic Strait transporting the bulk of the world's oil supply and cargos, but it is also an important source of livelihood, food, recreation and transportation for the Strait States consisting of Malaysia, Indonesia and Singapore. The Malaysian Marine Department (2010) revealed that 74,136 ships are reported at the Klang Vessel Traffic System (VTS). Research conducted by the Japan International Transport Institute (JITI) revealed that the future traffic volume in the Straits of Malacca will be increased roughly by 50% in 2020 (Izaki 2007). This intense volume of traffic in the Straits combined with the physical peculiarities of the Strait ensures a constant risk of accidents in these waters, notwithstanding the positive contributions that the Strait States, User States and IMO have made in managing safety and protection of the marine environment in the Straits.

With the ratification of the 1982 Law of the Sea Convention (1982 LOSC) by the Strait States, the Straits of Malacca and Singapore fall within the legal definition of "a strait used for international navigation" and are governed by the transit passage regime encapsulated in Part III of the 1982 LOSC. According to George (2008), subject to certain resource rights, the transit passage regime implies that the strait is no longer to be considered as part of the territorial sea, and that the coastal State powers in the strait are different from those in the territorial sea. George (2008) added that the immediate implication of the transit passage regime for all Strait States is that user States have unlimited and maximized freedom of passage.

By virtue of Article 43 of the 1982 LOSC, cooperation is required between the Strait States and User States in managing the safety of navigation and prevention of pollution. User States and States bordering a strait should by agreement co-operate:

- a) in the establishment and maintenance in a strait of necessary navigational and safety aids or other improvements in aid of international navigation; and
- b) for the prevention, reduction and control of pollution from ships.

Article 43 of the 1982 LOSC deals with agreement to secure navigation and environmental protection and the issue of security within the Straits is not included in the cooperation (Djalal, H. 2007). Article 43 however does not specifically describe the format that such cooperation must take. User States and Strait States can reach an agreement in a variety of forms. According to Beckman (2007) and Djalal H. (2007), the language in Article 43 is hortatory because the word “should” is used; the language when read in light of its context and purpose seems to require that User States negotiate in good faith with Strait States to reach an agreement to cooperate.

Another interpretation to alleviate the financial burden of the Strait states would be, it is submitted, to interpret the term “User States” as not being confined to States *per se* but to include the shipping companies, cargo owners, insurance brokers and the commercial and trading activities that use the strait. Furthermore, the term “User State” is not well defined in the 1982 LOSC. Literally it does refer to States that use the strait and includes the owner of the ship who benefits from the international strait and different sets of people who at the same time benefit from the trade such as shipping companies, cargo owners and insurance brokers (Sasakawa 2007).

One of the key persons responsible for drafting Part III of the 1982 LOSC was Satya Nandan where he suggested that if User States refuse legitimate requests for co-operation, it may amount to an abuse of right under Article 300 of the 1982 Law of the Sea Convention. The article states:

“States Parties shall fulfill in good faith the obligations assumed under this Convention and shall exercise the rights, jurisdiction and freedoms recognized in this Convention in a manner which would not constitute an abuse of right. In addition, the provisions on compulsory binding dispute settlement in Part XV are available to resolve any dispute between User States and Strait States on the interpretation and application of Article 43”.

There are essentially two kinds of ships navigating through the Straits of Malacca: ships that do not stop at any Strait States ports and ships that stop at the port whereby the Strait States collect port dues from those particular ships (Beckman 2007). The ships that pass through the Straits of Malacca without stopping at the Strait States ports have been highlighted as “free-riders” as they do not have to pay anything for the passage but the Strait States are under obligation to ensure that passage is safe (Ahmad 1997). This situation is seen as burden and unfair to the Strait States - especially to Indonesia and Malaysia as they are developing States - because shipping statistics show that there is an increase in the number of ships navigating through the strait, hence maintaining and upgrading the strait is burdensome when compared to the capacity of the Strait States. While Strait States have to set aside some finances for the safety of international navigation through their straits, it is fair to state that the international

shipping community has come forward in assistance in cash or kind for the upkeep of the good order of the Straits. Malaysia's Deputy Prime Minister (as he was then), now the Prime Minister, **Dato' Sri Najib bin Tun Abdul Razak**, would like to see greater contributions from the User States: "It is regrettable that international users have thus far not matched their usage of the straits with contribution to the costs of maintaining its safety and security." The trend of the "free rider" is no longer accurate as recently shown in the contribution made by the User States and stakeholders in the six (6) projects identified by the Strait States through the Co-operative Mechanism in October 2009.

The estimated cost in managing the Straits of Malacca by Malaysia in 1993 was RM613,000 for the cost of deploying vessels and aircraft against sea-robberies, piracies and other illegal activities (Hamzah Ahmad 1997). The cost of purchasing aircraft and vessels for activities in the Straits of Malacca was estimated at RM64 million. Between 1984 and 1993, The Royal Malaysian Navy spent approximately RM70 million for hydrographic-related services, that is, services including surveys, charting, tide tables production, notices to mariners and others in the Straits of Malacca (Hamzah Ahmad 1997). The government of Malaysia spent RM180 million to purchase two hydrographic vessels which were essential to hydrographic activities. In 2008, Deputy Prime Minister, **Datuk Seri Najib Razak** revealed that the nation spent more than RM200 million on providing and maintaining various aids to navigation in the straits, as part of Malaysia's commitment to ensuring the safety and environmental protection of the straits (Ibrahim, 2010). However, Malaysia, Singapore and Indonesia should not be the only sponsors of safety and environmental protection in Straits. Malaysia has been one of the biggest investors in enhancing the safety and security of navigation through the strait. Yasin (2009) reported that Malaysia has installed the Sea Surveillance System (SSS), Vessel Traffic Monitoring System (VTS), the Electronic Chart Display System (ECDIS) and the Automatic Identification System (AIS). "Eyes in the sky" is the joint air surveillance operation carried out by the strait states and Thailand. Moreover, the Strait States have implemented the MALSINDO programme, which is a coordinated patrol scheme involving the navies of Singapore, Malaysia and Indonesia (Najib 2007).

### **3. ESTABLISHMENT OF A NEW COOPERATIVE MECHANISM FOR THE STRAITS**

It was decided at the 2005 Jakarta meeting arranged by IMO that the Strait States should identify and prioritise specific needs to ensure safety of navigation and protection of the marine environment. The User states should respond to those scientific needs which included provisions of resources, capacity building, training and technical support.

The Cooperative Mechanism recognises the following principles: (Sasakawa 2007)

- a. Recognising territorial sovereignty, sovereign rights, as well as jurisdiction of the Strait States.
- b. It should be in conformity with Article 43 of the 1982 LOSC.

- c. The TTEG (Tripartite Technical Experts Group) of the three Straits States will be the focal point for activities to promote safety of navigation and marine environmental protection in the straits.
- d. The recognition of the interest of the users and other stakeholders in those straits as well as their roles and contributions to the promotion of cooperation in the straits.<sup>i</sup>

Under this scheme, the main components of the cooperative mechanism constitute a cooperation forum, project coordination committee and an Aids to Navigation Fund (The Maritime and Port Authority 2010). For instance, with regard to the cooperation forum, this is the right way to meet and invite the shipping industry to sit together and exchange views on how cooperation can be achieved. In November 2008, The International Symposium on Safety and Protection of Marine Environment in the Straits of Malacca and Singapore was organised jointly by the Nippon Foundation of Japan and the Round Table of International Shipping Associations that comprises the group of major players in shipping industry such as Baltic and International Maritime Council (BIMCO), International Chamber of Shipping (ICS), International Association of Independent Tanker Owners (INTERTANKO) and the International Association of Dry Cargo Ship Owners (INTERCARGO).

In May 2008, Malaysia hosted the First Project Coordination Committee involving three Strait States i.e. Indonesia, Malaysia and Singapore, five user states i.e. Australia, China, Japan, Republic of Korea, and the United States and also two international organisations i.e. International Marine Organisation (IMO) and Oil Companies International Marine Forum (OCIMF). Singapore hosted the 2<sup>nd</sup> Co-operation Forum from 14 to 15 October 2009. The Co-operation Forum is part of the Co-operative Mechanism which is a key platform for the three Strait States and the international maritime community to collaborate on issues relating to the Straits. The Co-operative Mechanism has been making good progress through its three pillars: the Co-operation Forum; the Straits Projects; and the Aids to Navigation Fund. Beyond the Co-operation Forum and Straits projects, Japan, the United Arab Emirates and organizations such as the Nippon Foundation, Malacca Strait Council, and the Middle East Navigation Aids Service have made significant contributions to the Aids to Navigation Fund. The IMO Straits of Malacca and Singapore Trust Fund complements the Aids to Navigation Fund (The Maritime and Port Authority 2010).

There are six (6) projects that identified and prioritised specific needs by the Strait States. Firstly, the removal of wrecks led by Malaysia to which India has committed providing the three Strait States at the Naval Hydrographic School in Goa in November 2009. Secondly, the co-operation against hazardous and noxious substances (HNS) incidents (led by Malaysia) and a joint site assessment survey conducted by the US and China on development of a HNS databank and a regional Standard Operating Procedure, whereby Australia contributed its technical expertise to develop the HNS Databank. Thirdly, the Automatic Identification System Class-B transponders (led by Singapore), whereby Australia and Singapore prepared the project design and implementation plan; Japan has contributed 10 transponders and Singapore acquired 20 additional transponders through the IMO Straits Trust Fund. Fourthly,

to establish wind, tide and current measurement system (led by Singapore), China has adopted a desktop assessment study while a site assessment conducted by China and India in July 2009. Fifthly, the navigational aids (led by Indonesia), the Nippon Foundation has contributed US\$1.351 million towards the Aids to Navigation Fund (ANF) for the site survey for this project and the Japanese Government committed US\$200,000 towards one or two navigation aids for this project. Finally, the replacement of navigation aids damaged by the tsunami off the Sumatran coast (led by Indonesia) which China has undertaken to replace all seven (7) navigation aids (The Maritime and Port Authority 2010).

To date the Aids to Navigation Fund receives contributions from Japan, the United Arab Emirates, the Nippon Foundation, the Middle East Navigation Aids Service and the Fund totals at US\$7.326 million. Singapore, Malaysia and Indonesia have concluded a Joint Technical Arrangement with IMO to institutionalize an IMO Trust Fund and the Fund receives contributions of US\$1 million from Greece (The Maritime and Port Authority 2010). The Singapore's Transport Minister and Second Minister for Foreign Affairs sum up the recent development of the good progress of the Co-operative Mechanism: "the challenge was to sustain interest and keep the momentum going, not only to entrench progress but also to encourage further participation and contributions from existing as well as new stakeholders" (The Maritime and Port Authority 2010).

The idea of User States assisting Strait States is not new. Historical records show that User States had collaborated with the Strait States in the building of The Horsburgh Lighthouse in 1851 (Sasakawa 2007). The Horsburgh Lighthouse stands at the eastern end of the Straits of Malacca and Singapore. Sasakawa (2007), the chairman of the Nippon Foundation has offered a concept of "burden sharing for the next generation". This concept, according to Sasakawa, would respect the Strait States' sovereignty, realise cooperation for mutual benefit and specify the social responsibility of users of the strait. Thus, the burden-sharing system is based on the initiative of the Strait States and IMO, with the cooperation and contributions of the User States.

The Cooperative Mechanism convened by the IMO, Strait States and User States has proved effective because all the projects that have been identified by the Strait States have been sponsored by the User States. However, these offers of assistance should come in a sincere, transparent package with no strings attached to the sovereignty and integrity of the Straits States. Other forms of contribution needed from User States include transfer of technology, expertise and assistance in kind or socio-economic developmental assistance. As stated, the Straits of Malacca and Singapore fall within the definition of a Strait Used for International Navigation in Part III of the 1982 Law of the Sea Convention. Subject to certain resource rights, the transit passage regime implies that the strait is no longer to be considered as part of the territorial sea, and that the coastal State powers in the strait are different from those in the territorial sea (Mary George 2008). Even though Malaysia and Indonesia retain their rights to a twelve nautical mile territorial sea within the straits, with traditional, and revocable, innocent passage rights, littoral states are prevented from suspending passage rights through the straits for any reason (Woolley & Carrie 2010). In short, Malaysia and Indonesia would welcome contributions from the User States but not where it infringes their state sovereignty.



#### **4. CORPORATE SOCIAL RESPONSIBILITY FROM SHIPPING COMPANIES - MOVING FORWARD**

In addition to government-led assistance to Strait States, precedents also exist for the payment of voluntary contributions from the shipping industry to maintain aids to navigation. The example of a shipping company that has contributed to the maintenance of navigational aids is MENAS (the Middle East Navigational Aids Service). It is a nonprofit charity registered in the UK. MENAS maintains all of the aids to navigation in the Middle East for all the Gulf Arab States. The board consists of government representatives and shipping company executives. Its major revenues in the past were derived from voluntary contributions from ships calling at ports in the Gulf, collected from their shipping agents (Beckman 2007).

At the KL symposium, the Nippon Foundation, Sasakawa, proposed to the User Straits to voluntary contribution, paying US\$1 cent per ton for every vessel that transits the straits. At present, an estimated four billion deadweight tonnage transits the straits, which amounts to US\$40 million a year to support the maintenance of shipping safety in the Straits of Malacca and Singapore. Although this proposal was resisted by the representatives, perhaps in future, the Strait States and IMO will find a means to promote this contribution and at the same time benefit the contributors as well. The bottom line is, the contributions to the strait states which in the form of financial or technical assistance (in terms of as voluntary contributions, cooperative mechanism, CSR or User States aid) should be continued and encouraged to improve, enhance and sustain the safety and pollution in the straits.

The shipping companies are encouraged to apply CSR by fulfilling the guidelines of ISO 26000, the standard providing voluntary guidance on social responsibility. ISO 26000 constitutes guidelines for all types of organisations in both the public and private sectors, in developed and developing countries; add value to existing social responsibility programmes by developing an international consensus on what social responsibility means and the social responsibility issues that organizations need to address, providing guidelines on translating principles into effective action and distilling the best practice that has already evolved and disseminating it worldwide for the good of the international community (ISO & Social Responsibility). The direct beneficiaries of CSR on an internal level are the corporation's human resources while on an external level social responsibility relates to an enterprise's involvement in community activity (Fafaliou, Lekakou and Theotokas 2002). Based on research, companies may receive external benefits from implementing CSR policies because CSR is linked to more favourable corporate evaluations, increased purchase behaviour, higher customer satisfaction, market value of a firm, all of which is believed to result in increased profitability for the corporation (Stawiski, Deal and Gentry 2010). According to Fafaliou, it was evident that any attempt to create the public image of the industry should focus on the need to improve the safety and quality standards of shipping operations. The examples of the shipping companies that undertake CSR activities are social reporting, prompt response to supplier complaints, prioritization of employee's health and safety, monitoring of quality, environmental impact of product and services, financial or technical contribution to clean up oil or chemical spillage in the straits (Fafaliou, Lekakou and Theotokas 2002). This article proposes that further in-depth research is required to examine the perception and expectations of shipping companies in exercising CSR and CSR implementation from economic perspective in the Straits of Malacca and Singapore.

## **5. CONCLUSION**

The Straits of Malacca and Singapore is unquestionably one of the busiest and most important straits for the shipping industry. The burden of responsibility should be shared between the Strait States and User States to work together, not only in ensuring that ships have a safe and expeditious navigation but more importantly to ensure that the strait is preserved, protected and sustained from the continuous threat of oil and chemical spills, accidents, and other such undesirable outcomes. It is an established fact that the Straits region is rich in marine flora and fauna and fish, while an abundance of hydrocarbon reserves, important ports and tourism ensures that these waters are of key economic importance to the Strait Straits. Research demonstrates that companies that invest in promoting CSR activities may recoup additional profits as their seafarers are more committed and productive in the long-term. Thus, the contributions by the shipping industry to maritime safety and the protection of the marine environment in the Straits are seen as benefit sharing rather than burden sharing. As the benefits to the international community become apparent, this will further enhance cooperation between the Strait States, User States and non-State entities. It is a moral obligation on the User States to contribute towards the maintenance, management and replacement of navigational aids. CSR may be more accurately viewed as an investment with long-term benefits, rather than as mere expenditure. This is particularly true where the protection and sustainability of the marine environment is concerned. The total figure of US\$7.326 million in aid received by the Navigation Fund reflects a successful cooperative mechanism engendered between User States, Strait States and the IMO. Indeed, the IMO has a particular role to play as a facilitator between the Strait States and User States together to promote CSR in particular, as well as the proposal made by Sasakawa and the implementation of ISO 26000 by shipping companies in the Straits of Malacca and Singapore. It is hoped that additional contributions will in future be forthcoming from other stakeholders, such as from the shipping industries, chemical and oil companies, within the context of their Corporate Social Responsibility, as well as from other environmental groups and international or regional organisations.

## **ACKNOWLEDGEMENT**

The authors would like to express their gratitude to Universiti Kebangsaan Malaysia for supporting this research under UKM-DIPM-043-2011 grant.

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