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JUDUL: CONNECTION BETWEEN PRICE SATISFACTION DIMENSION ON SEAWEED PRODUCER TOWARDS THEIR LOYALTY AND BUSINESS RELATIONSHIPS: A CASE STUDY IN BUM BUM ISLAND, SEMPORNA

IJAZAH: DEGREE OF BACHELOR OF AGRICULTURE SCIENCE WITH HONOURS

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**CONNECTION BETWEEN PRICE SATISFACTION DIMENSION ON
SEAWEED PRODUCER TOWARDS THEIR LOYALTY AND BUSINESS
RELATIONSHIPS: A CASE STUDY IN BUM BUM ISLAND, SEMPORNA**

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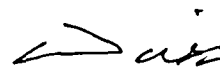
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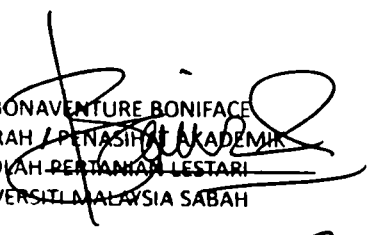


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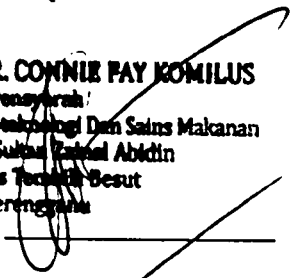


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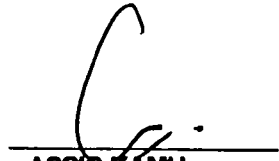
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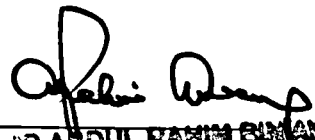
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ACKNOWLEDGMENT

I would like to express my sincere thanks to my supervisor and co-supervisor Dr. Bonaventure Boniface and Dr. Connie Fay Komilus for their guidance, advice and supervision and financial support throughout the entire duration of my final year project in Semporna. I would like to thank them very much for their patience and tolerance. The willingness that they gave by spending a lot of time to educate and motivate me throughout the study would always be remembered and appreciated.

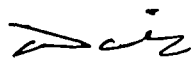
I would also to extend my heartfelt thanks to my lecturers Mr. Assis Kamu, and Dr. Rahim bin Awang for their guidance and helpful advice during the whole duration of this project. Without their continued support and guidance, my dissertation would not be the same as presented here.

Furthermore, I would like to thank Mr. Azhar Kassim as Head of Aquaculture Resource Management Branch from Department of Fisheries Sabah who approved my study request in Semporna. I also would like to thank Mr. Melvin Kinsuat as Officer from Department of Fisheries Sabah who provided compiled data of seaweed price and some fundamental information to me. Besides, special thanks to Mr. Mohd Rizal as Head of Department of Fisheries Semporna who assisted and supported my final year project; and Mr. Norsharizan as Officer incharge on seaweed cluster programme and lead me throughout my study.

Besides, I would like to say thank you to Mr. Hadman and Mr. Usman as JKK & Director from Lok Buton village and Gelam Gelam village, who guided, assisted and introduced me to the target respondents and shared their valuable experience during my visits to their villages. I would also like to acknowledge Mr. Abdul Hamid as an assistant of Project Director to provide their house as my accommodation and other technical assistance.

My sincere appreciation is also extended to my friends for their moral support, help and opinion. Last but not least, I would also like to express my sincere thanks to all my family members and coursemates who provided me with their moral support to lead me to the completion of this dissertation.

Thank you.



Sincerely,
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ABSTRACT

Sabah is the only state in Malaysia which commercially produces seaweed. Problem of price instability for seaweed tends to have negative impacts on seaweed producers. This study which used a Price Satisfaction Dimension Model (with five elements such as price reliability, price fairness, relative price, price-quality ratio and price transparency) was to investigate seaweed price satisfaction among producers towards buyers and its linkage relationship on producer's loyalty in term of business performance (financial and non financial). A total of 50 seaweed producers were selected and interviewed face to face at Lok Buton village and Gelam Gelam village on Pulau Bum Bum, Semporna. Demographic characteristic of respondents were summarized using descriptive statistics. Factor analysis was conducted and three components (price reliability, relative price and price-quality ratio) were identified in price satisfaction dimensions. K-mean clustering analysis further revealed there were three producer segments namely satisfied, unsatisfied and neutral groups and their demographic characteristics also explained from this dimensions. Partial least square method was used and Structural Model of relationship between price satisfaction towards loyalty and business relationships was predicted. This model successfully met the goodness of model fit requirements from its composite reliability, convergent validity, discriminant validity and R^2 for loyalty, financial, non financial performance showed 0.579, 0.832 and 0.698 respectively. Overall, it is hoped that this study would be able to offer a managerial options for local and foreign seaweed buyers to meet seaweed producers' satisfaction towards their loyalty and promote sustainability of business relationship.

**PENYAMBUNG ANTARA DIMENSI KEPUASAN HARGA TERHADAP
PENGUSAHA RUMPAI LAUT DENGAN KESETIAAN MEREKA
DAN HUBUNGAN PERNIAGAAN: SATUKAJIAN KES
DI PULAU BUM BUM, SEMPORNA**

ABSTRAK

Sabah merupakan negeri yang menghasilkan rumpai laut secara komersial di Malaysia. Tetapi masalah harga yang tidak stabil menyebabkan kesan negatif terhadap pengusaha rumpai laut. Melalui kajian ini, Dimensi Kepuasan Harga (Kebolehpercayaan Harga, Keadilan Harga, Harga Relatif, Nisbah Harga Kualiti dan Ketelusan Harga) telah digunakan untuk mengenalpasti penyambung antara kepuasan harga terhadap pengusaha rumpai laut dengan kesetiaan pengusaha and hubungan perniagaan. Jumlah 50 pengusaha telah ditemu bual di Kampung Lok Buton and Kampung Gelam Gelam, Pulau Bum Bum. Maklumat asas pengusaha dan latar belakang ladang telah diringkaskan. Faktor analisis menunjukkan terdapat tiga komponen (Kepercayaan harga, Harga relatif dan Nisbah Harga Kualiti) terlibat, dan K-mean kluster analisis menunjukkan terdapat tiga kluster (puas hati, tidak puas hati dan berkecuali) dan demografi pengusaha dinyatakan. Kaedah "partial least square" digunakan dan satu model diwujudkan dimana memenuhi keperluan model yang lengkap dari segi kebolehpercayaan komposisi dan kesahihan tumpu. R^2 untuk kesetiaan, prestasi dari segi kewangan and bukan kewangan menunjukkan 0.579, 0.832 dan 0.698. Secara kesimpulannya, kajian ini memberi pilihan kepada pembeli untuk memenuhi kepuasan pengusaha dan mencapai kekelan dalam hubungan perniagaan.

TABLE OF CONTENTS

Content	Page
DECLARATION	ii
VERIFICATION	iii
ACKNOWLEDGEMENT	iv
ABSTRACT	v
<i>ABSTRAK</i>	vi
TABLE OF CONTENT	vii
LIST OF TABLES	ix
LIST OF FIGURES	xi
LIST OF SYMBOL, UNITS AND ABBREVIATIONS	xii
CHAPTER 1 INTRODUCTION	
1.1 Background	1
1.2 Justification	2
1.3 Objectives	2
1.4 Research Questions	3
1.5 Significance of the study	3
1.6 Hypothesis	4
CHAPTER 2 LITERATURE REVIEW	
2.1 Seaweed Background	5
2.1.1 Cultivation system	6
2.1.2 Environmental characteristics of seaweed farming	7
2.2 Status of Seaweed Industry	8
2.3 Economic Importance of Seaweed	8
2.4 Issues faced in Seaweed Industry	9
2.4.1 Diseases	9
2.4.2 Occupational health hazards	11
2.4.3 Introduction on price	12
2.5 Marketin aspect of Seaweed	13
2.6 Price Satisfaction Dimensions	13
2.6.1 Price transparency	13
2.6.2 Price-quality ratio	13
2.6.3 Relative price	14
2.6.4 Price reliability	14
2.6.5 Price fairness	14
2.7 Producer's Loyalty	15
2.8 Business Relationships Performance	15
CHAPTER 3 METHODOLOGY	
3.1 Location of Study	17
3.2 Duration of Study	18
3.3 Target Population	18
3.4 Survey Design	18
3.5 Data Collection using Questionnaire	18
3.5.1 Section I: Demographic and Socio-Economic variables	20
3.5.2 Section II: Price Satisfaction Dimensions of Producers towards their main buyer	20
3.5.3 Section III: Relationship between producers and their main buyer	21

3.6	Conceptual framework	23
3.7	Statistical Analysis	23
3.8	Survey Instrument	24
CHAPTER 4 RESULT		
4.1	Introduction	26
4.2	Descriptive Statistics	26
4.2.1	Profile of Seaweed Producers in Semporna	27
4.2.2	Farming Background of Seaweed Producers in Semporna	32
4.2.3	Seaweed Farming Production of Respondents in Semporna	33
4.2.4	Practices and Problem faced by Seaweed Producers	34
4.2.5	Business information of seaweed farming from respondents	34
4.3	Inferential Statistics	39
4.3.1	Factor analysis on Price Satisfaction Dimensions	39
4.3.2	Factor analysis on Producer's Loyalty, Financial and Non Financial Performance	42
4.3.3	Cluster analysis on Price Satisfaction Dimensions	44
4.3.4	Path analysis on Structural Equation Modelling	47
CHAPTER 5 DISCUSSION		
5.1	Demographic and Socioeconomic Characteristic of Respondents	52
5.1.1	Profile of seaweed producers	52
5.1.2	Seaweed Farming Background	53
5.1.3	Seaweed Farming Production	53
5.1.4	Problem faced by seaweed producers	54
5.1.5	Business information of seaweed producers	55
5.2	Price Satisfaction Dimension of Producers towards their main buyer	55
5.3	Producer segmentation and its demographic variables in Price Satisfaction Dimensions	56
5.4	Relationship between price satisfaction dimensions, producer's loyalty and business performance	58
CHAPTER 6 CONCLUSION		
6.1	Conclusion	59
6.2	Limitations of the study	60
6.2	Recommendations	60
REFERENCES		61
APPENDICES		68

LIST OF TABLES

Table		Page
2.1	Seaweed culture methods in Sabah	6
2.2	Disease in commercial seaweeds caused by bacteria and other microorganism	10
3.1	Number and area of seaweed culture in operation and number of culturists by race and district	18
3.2	Summarized statements of Price Satisfaction Dimensions used in questionnaire	20
3.3	Summarized statements of Loyalty, Financial Performance and Non Financial Performance used in questionnaire	22
4.1	Background information of seaweed producers in Semporna	28
4.2	Cross tabulation between village location and respondent's gender	30
4.3	Cross tabulation between education level and respondent's age	30
4.4	Cross tabulation between monthly income (RM) and experience in seaweed farming (year)	31
4.5	Cross tabulation between number of family members and their main occupation	31
4.6	Farming backgrounds of seaweed producers in Semporna	32
4.7	Seaweed Farming Production from total of 50 respondents in Semporna	33
4.8	Different types of seaweed species planted by respondents	35
4.9	Cross tabulation between reason of planting and number of species	36
4.10	Problem faced by producers and suggestion to solve these problem	37
4.11	Problem faced during trade with main buyers and suggestion to solve the problem	38
4.12	Cross tabulation between minimum and maximum seaweed price in dry weight per kilogram	39
4.13	Kaiser-Meyer-Olkin and Bartlett's test on Price Satisfaction Dimension	40
4.14	Rotated Component Matrix on Price Satisfaction Dimensions	41

4.15	Reliability Statistics of Cronbach's Alpha on three related components	42
4.16	Kaiser-Meyer-Olkin and Bartlett's test on Producer's Loyalty, Financial Performance and Non Financial Performance	42
4.17	Component Matrix of Producer's Loyalty, Financial Performance and Non Financial Performance	43
4.18	Reliability Statistics of Cronbach's Alpha on Producer's Loyalty, Financial Performance and Non Financial Performance	43
4.19	Perception of producers towards price satisfaction based on Likert-scale	44
4.20	Demographic characteristics of producer segments	46
4.21	Summarized table for all indicator variables	48
4.22	Summarized of Evaluation for Outer Model, Inner Model and Structure Model	49
4.23	Results of the structural model	51

LIST OF FIGURES

Figure		Page
3.1	Map showing the Bum Bum Island in Semporn a Districts. Location A is referred to seaweed farm in Lok Buton Village, while Location B is referred to seaweed farm in Gelam Gelam Villa	17
3.2	Conceptual Model of price satisfaction dimension, loyalty of producers towards buyers and business relationship performance	23
4.1	Structural Model of Price Satisfaction Dimensions towards producer loyalty in term of financial and non financial performance	50

LIST OF ARREVIATIONS

ATC	Alkali treated chips
DOF	Department of Fisheries
DOFS	Department of Fisheries Sabah
FAO	Food and Agriculture Organization
FP	Financial Performance
GDP	Gross Domestic Product
IMTA	Integrated Multi-Tropic Aquaculture
JPM	<i>Jabatan Perikanan Malaysia</i>
NFP	Non Financial Performance
PF	Price Fairness
PQR	Price Quality Ratio
PR	Price Reliability
PT	Price Transparency
RP	Relative Price
RM	<i>Ringgit Malaysia</i>
SEAFDEC	Southeast Asian Fisheries Development Center
SME	Small and Medium Enterprise
SRC	Semi-refiend carrageenan

CHAPTER 1

INTRODUCTION

1.1 Background

Sabah is the only state that commercially produced seaweed in Malaysia. Seaweed cultivated in four districts on large scale, namely Semporna, Lahad Datu, Kudat and Kunak. Main cultivated species are *Kappaphycus alvarezii* and *Euचेuma spinosum* which are mainly for export purpose. Busing (2008) reported that the downstream industry comprised of three players, which are Jaygee Sendirian Berhad in ATC (alkali treated chips) production at Semporna; and two in SRC (semi-refined carrageenan) production. These two companies are Tacara Sendirian Berhad based in Tawau (food grade SRC) and Omnigel Sendirian Berhad based in Semporna (non-food grade SRC).

Like in the Ninth Malaysia Plan, seaweed farming is also one of the essential high value agriculture including swiflet farming, ornamental fish, herbs and spices, organic fruit and vegetables, mushroom and floriculture to support and contribute our national Gross Domestic Product (GDP) in Tenth Malaysia Plan. There is growing demand for these high value products which provide opportunities for farmers to increase their income. However, one of the major constraints faced in seaweed industry is instability of seaweed market price. The price of seaweed fluctuates seasonally, which range from minimum RM0.80 to maximum RM6.30 per kg dried weight (JPM Sabah, 2009). Seaweed farming in Semporna has been going through a "bubble about to burst" phrase of production, as many traders controlled the price determination of seaweed and bid up the wholesale price to extraordinary level. Thus, the study of how the price being determined and its price satisfaction linkage to

relationship between seaweed producers and processors has become an important aspect to the seaweed industry in Semporna.

1.2 Justification

The justification for this study is that it would provide effective support and equitable farming agreements between producers and buyers. Most seaweed farms are financed under informal agreements with local traders or processing plants who provide the farm materials and financial assistance. It is therefore pertinent that a standard format for farming agreements be established so that both sides can benefit equitably. In addition, the price of seaweed can be determined more reliably, fairly and transparently to meet the satisfaction of both producers and buyers. Thus, linkage relationships between buyers and producers can be strengthened and enhanced the socio-economic of the farmers. Seaweed producers can get a stable monthly income and hence job security and the lack of manpower can be solved. Subsequently, the production of seaweed would continue to increase and contribute to Malaysia's Gross Domestic Product (GDP).

1.3 Objectives

There are three objectives that need to be achieved from this study:

- 1) To investigate the price satisfaction dimensions of the seaweed industry in Pulau Bum Bum, Semporna;
- 2) To investigate the business relationships between seaweed producers and seaweed buyers which related to price satisfaction dimension, loyalty, financial performance and non financial performance; and
- 3) To identify the demographic and socioeconomic characteristics of seaweed producers in Pulau Bum Bum, Semporna.

1.4 Research Questions

- 1) How the price is being developed by the agreement between seaweed producers and buyers in Semporna?
- 2) How the price satisfaction dimension influence the loyalty of producers towards buyers in Semporna?
- 3) How the loyalty of producers towards buyers influence the non-financial and financial relationship performance in Semporna?
- 4) What is the demographic characteristics of seaweed producers in Semporna?

1.5 Significance of the study

One of the significance of the study is to aid the seaweed buyers to have a better insight to the perception of the seaweed producers based upon their demographic characteristics, loyalty towards buyers and non-financial and financial performances. Since the price of seaweed always fluctuated, thus the elements of price satisfaction dimension, producer loyalty towards buyers and non-financial and financial performance are crucial to be understand to promote long-term business relationship sustainability.

In addition, seaweed buyers can use this study as references to confront upon the elements of price satisfaction dimension which does not meet producer's satisfaction. Therefore, seaweed buyers should promote price satisfaction dimension towards seaweed producers to meet their price, loyalty and performance satisfaction. Overall, it is hoped that this study would be able to offer a managerial options for local and foreign seaweed buyers to meet seaweed producers' satisfaction towards their loyalty and promote sustainability of business relationship.

1.6 Hypothesis

From the objectives of the study, a main hypothesis was proposed:

- H₀: Price satisfaction dimension of seaweed producers shows there is not significant in business relationship between seaweed producers and buyers in Semporna.
- H_a: Price satisfaction dimension of seaweed shows there is significant in Business relationship between seaweed producers and buyers in Semporna.

Nine sub-hypotheses are proposed to achieved the main hypothesis of this study. These hypothese including price reliability (H1), relative price (H2), price-quality ratio (H3), price fairness (H4), price transparency (H5), price flexibility (H6), relationship between producer's loyalty to non-financial performance (H7), relationship between producer's loyalty to financial performance (H8) and relationship between non-financial performance and financial performance (H9). In the next chapter, numerous literature reviews regarding seaweed industry, price satisfaction dimension, producer's loyalty and business relationship will be discussed in further.

- H₁: Price reliabilty has a positive influence on the loyalty of producers towards buyers.
- H₂: Relative price has a positive influence on the loyalty of producers towards buyers.
- H₃: Price-quality ratio has a positive influence on the loyalty of producers towards buyers.
- H₄: Price fairness has a positive influence on the loyalty of producers towards buyers.
- H₅: Price transparency has a positive influence on the loyalty of producers towards buyers.
- H₆: Loyalty of producers towards buyers has a positive influence on the non-financial performance.
- H₇: Loyalty of producers towards buyers has a positive influence on the financial performance.
- H₈: Non-financial performance has positive influence on the financial performance

CHAPTER 2

LITERATURE REVIEW

2.1 Seaweed Background

Seaweeds are macro-algae which in form appear like terrestrial plants (Lee, 2008). Seaweed contains three main component parts: the root like part named holdfast, the stem part called stipe and the leaf part called blade or frond. Holdfast usually function as anchor to protect the seaweed while the blade and frond parts used to absorb the nutrients seawater. Generally, seaweed has two reproduction processes, which are either sexual reproduction through fragmentation, or asexual reproduction based on spores and gametes.

During 1978, an American company based in Hawaii named Aquatic Resources Limited was the pioneer which introduced seaweed farming to the district of Semporna in Sabah, Malaysia. Since 1980, the management of seaweed farming project in Semporna has been solely under the responsibility of the Sabah Department of Fisheries (SDOF). This government agency plays an important role in continuously promoting seaweed farming to the local people as their promising and reliable source of income.

Main seaweed cultivation sites in Sabah are Semporna which contributes of 95 percent of total cultivation site; while Kudat, Kunak and Lahad Datu contributes the remaining five percent. Most of the seaweed farms have been concentrated on islands located in the districts which include islands of Bum-Bum, Omadal, Sebangkat, Karindingan, Sepanggau, Tanduan, Selakan, and Bodgaya. Seaweed farms in Kudat associated on Banggi island. Seaweed farms in Kunak are located in Kunak Jaya and Pababag island and seaweed farms in Lahad Datu are located at Silam and Bakapit.



McLachlan *et al.* (1972), in his comprehensive review of some of the examples of major genera of seaweeds are *Sargassum*, *Euचेuma*, *Caulerpa*, *Gracilaria*, *Hypnea*, *Padina* and *Hydroclathrus*. According to McHugh (2003), only two main species namely *Kappaphycus alvarezii* and *Euचेuma denticulum* are widely cultivated in Sabah. *Kappaphycus alvarezii*, or formerly known as *Euचेuma cottonii*, has been widely cultivated in the east coast of Sabah which included Semporna, Kunak, Lahad Datu and Tawau. Meanwhile, *Euचेuma denticulum* or formerly known as *Euचेuma spinosom* is found to be more resistant to disease and widely cultivated in the northern part of west coast of Sabah namely in Kudat.

2.1.1 Cultivation System

There are three main types of seaweed cultivation systems which have been widely used in Sabah, namely stake system, longline system and raft system. Different types of seaweed cultivation system used will depend on water depth, operation cost and estimation growth rate, as shown in Table 2.1. Among these three culture methods, longline method is the most popular system used in Semporna because of its inexpensive production cost and easier installation (Ahemad *et al.*, 2004).

Table 2.1 Seaweed culture methods in Sabah

Culture Method	Water Depth (meter)	Operation Costs (RM/acra)	Growth Rate (%)
Long line	2.0 – 5.0	600 – 1,000	4 – 8 %
Stake	0.3 – 1.5	600 – 1,000	2 – 4 %
Raft	3.0 – 15.0	1,300	4 – 8 %

Source: Biusing, 2008

The recommended duration of culture for *Kappaphycus* species varies among agronomic manuals and protocols. For instances, Trono Jr and Ganzon-Fortes (1989) reported that duration of culturing *Kappaphycus* species required eight to twelve weeks, while Barraca (1990) argued that only a duration of six to eight weeks for culturing was needed. While studies of Trono and his partners claimed that *Kappaphycus* species required ten to twelve weeks to harvesting stage (Trono Jr *et al.*, 2000). In the year 2000, the Southeast Asian Fisheries Development Center (SEAFDEC) specifically reported the suggested period for harvesting *Kappaphycus* species was after cultured for 8.5 weeks.

There are two kinds of drying method which have been widely practiced in Sabah, namely the platform method and hanging method. Different types of materials such as wood, cement or bamboo material have been used to make the platform. Basically the drying process will take between three to five days, or up to seven days, depending on climate conditions. Moisture content of fresh wet seaweed will be reduced from 90% of moisture content to range of 30% till 40% of moisture content. Hanging method is not so popular used due to its slow drying rate. Paradoxically, platform method promote fast drying rate as compared to hanging method and is more economically.

Seaweed farmers usually use eye inspection as guideline to grade the dried seaweed. However, this grading method often causes fuzziness and ambiguity, due to several reasons such as subjective sense of inspection, eye fatigue during a long period of inspection and different perceptions on "colour", "gloss" and "flavour" of seaweed (Mao *et al.*, 1993).

2.1.2 Environmental characteristics of seaweed farming

Several seasonal factors including planting time, light intensity, salinity and water temperature would affect the growth rate of seaweed. In a previous study, Hanelt *et al.* (1997) gave one of the examples that light was one of the main abiotic factors that affected the growth rate of seaweed, as seaweed needed light to undergo photosynthesis process. In addition, poor seawave movement would delay the growth rate of seaweed.

Thus, seaweed farms with high productivity can be summarized as characterized with stable seawave movement, appropriate salinity level in between 30 to 35 parts per million (ppm), good water quality and temperature in range 25 to 30 °C, free from pest and disease and sandy seabed with corals, reported by Busing (2008).

Nevertheless, Busing (2008) reported that seaweed farming is not encouraging in Marudu Bay, Pitas, Tuaran and Kota Belud due to poor site suitability, turtle grazing and poor participation from the local community.

2.2 Status of Seaweed Industry

According to Sabah Department of Fisheries (SDOF) records year 2011, the seaweed production increased in year 2011 by 15.18% to 239,450.00 tonnes (wet weight) from 207,892.40 tonnes in year 2010. Its value also showed an increase of RM670.46 million from RM83.16 millions the previous year. This increment was related to the increase of the seaweed wet price per kilogram. Meanwhile, the total acreage under seaweed culture recorded an increase of 15.97% to 9,208.23 hectares in 2011 compared to 7,940.50 hectares in 2010. In the previous study, factors that lead to increasing seaweed productions in year 2006 was due to the improvised farming methods, government incentive support and new opening farms in Lahad Datu and Kunak (Biusing, 2008).

2.3 Economic Importance of Seaweed

Hydrocolloids are micro-polymer particles which dispersed in a aqueous mixture. Most of the hydrocolloids are applied in many industries due to their gelling properties, thickening, stabilizing, emulsifying and anti-caking characteristics, depending on its polysaccharides of the seaweed.

Extraction of seaweed will produce various types of hydrocolloids, namely agar, alginate and carrageenan. Carrageenan extracted from the seaweed is valuable. For instance, agar or carrageenan extracted out from *Gracilaria changgi* and *Euचेuma* can be used as stabilizer in food industries and production of tissue culture media (Glickman, 1987; Jahara and Phang, 1990; Bradford and Bradford, 1996). In fact, agar in gel form is capable to bind with large amount of water, it can be used as stabilizer in various food ingredients which included ice cream, jellies and processed meats (Lee, 2008).

Despite of some edible seaweeds are rich in sources of vitamins which include A, B1, B2, B6, B12, niacin and C, nevertheless they are as well as good sources in essential minerals, such as iodine, potassium, iron, magnesium and calcium (Mondragon and Mondragon, 2003; Norziah and Ching, 2000; Wong and Cheung, 2000). Characteristics of low calories but rich in vitamins, mineral and dietary fibers

had lead the seaweed become potential of nutritional interest (Ito and Hori, 1989; Chapman and Chapmam, 1980).

Several previous studies showed that certain edible seaweeds comprised fundamental amount of nutrition that needed by human, such as protein, vitamins and minerals (Jensen, 1993; Noda, 1993; Oohusa, 1993). Jensen (1993) reported that seaweed species, geographic area, season of the whole year and water temperature are all factors that affected the nutrient content of seaweed. Meanwhile, Honya and Kinoshita (1993) claimed other than factors that reported by Jensen (1993), seaweed element is also affected by oceanic residence time, physicological factors, type of processing and method of mineralization.

Agar is commonly used as solidifying agent for culture media in tissue culture application because of many microorganisms incapable to decompose agar. Over the past decades, seaweed have been well recognized and used as fertilizer in agriculture practice. Seaweed can be applied either added directly to the soil or mixed with compost. In addition to seaweed as sources of plant fertilizer, seaweed have also been used broadly in food feeds for animal.

One of the previous studies was examined by Neori *et al.* (1996) about a integrated fish and seaweed culture system of *Sparus aurata* L. and *Ulva lactuca* L. to test the bioremediation ability of seaweed biofilters. This study result showed seaweed oxgenated the water through process of photosynthesis and removed most of the ammonia. This integrated system offera a solution to solve major environmental pollution in mariculture. However, Daume (2006) argued that function of seaweed in Integrated Multi-Tropic Aquaculture (IMTA) should not only bio-filter of waste products but also effective as feed material for abalones.

2.4 Issues faced in Seaweed Industry

2.4.1 Diseases

Andrews (1976) defined seaweed disease as "a continuing disturbance to the plant's normal structure and function, such that, it is altered in growth rate, appearance, or economic importance". Apparently, the "ice-ice" disease has become familiar topic

when discussing disease affecting the *Kappaphycus* sp. and *Eucheuma* sp. among farmers. However, little information and knowledge causes the mindset restricted. Conversely, other cultivated seaweed species including *Porphyra*, *Gracilaria* and *Laminaria* in Asia, also possess various types of disease, depending on their causative agents (Largo, 2002). Largo (2002) had summarized various seaweed species cultivated around the world affected by disease and their suspected causative agents, as shown in Table 2.2.

Since recent years, there have been two problematic seaweed diseases namely "ice-ice" disease and epiphyte infestation which can be detected on cultivated farms of *Kappaphycus* sp. and *Eucheuma* sp. particularly in Asia including Malaysia.

Generally, "ice-ice" disease is caused by unfavourable environmental conditions in cultured site, which refers to level of temperature, level of salinity, level of light intensity and level of nutrients sufficiency (Largo, 2002). But to be more specific, the resident bacteria attached on the seaweed is the original key factor leading "ice-ice" disease development, as these bacteria could become opportunistic pathogens under certain imperceptible environmental conditions.

Largo *et al.* (1995) reported that there was a seaweed-bacteria interaction between two bacterial pathogens namely *Vibrio-Aeromonas* complex and *Cytophaga-Flavobacterium* complex and *Eucheuma* species. Subsequently, "ice-ice" disease can be induced by strains of these two bacteria groups when the seaweed cultivated in suboptimal level. In year 2007, outbreak of *El Niño* and *La Niña* seasons result in high rate of "ice-ice" and epiphytes being produced and in the end abundance of seaweed yield had been depletion. Epiphytes can be define as a group of microorganisms formed colonization on the surface of seaweed.

Table 2.2 Diseases in commercial seaweeds caused by bacteria and other microorganisms

Host seaweed	Name of Disease	Suspected causative agent	Environmental condition prior to outbreak	Author
<i>Porphyra tenera</i>	White rot disease	<i>Beneckia</i> (= <i>Vibrio</i>)	exposure to low temperature at extended low tide period	Tsukidate, (1983)

<i>Porphyra</i> sp.	"suminori" disease	<i>Flavobacterium</i> sp.	high temperature	Kusuda <i>et al.</i> , (1992)
<i>P. yezoensis</i>	"anaaki" or "pin-hole disease"	<i>Flavobacterium</i> sp.	low summer temperature	Sunairi <i>et al.</i> , (1995)
<i>Laminaria</i> sp.	malformation disease	unidentified bacteria	high H ₂ S content	Uchida and Nakayama, (1993)
<i>Gracilaria</i> sp.	"rotten thallus syndrome"	<i>Vibrio</i> sp.	reduced flow rate in culture tank	Lavilla-Pitogo, (1992)
<i>G. conferta</i>	"white rot"	amoeba-like organism		Correa and Flores, 1995
	"white tips disease"	unidentified bacterium	exposure to high temperature and high light intensity	Weinberger <i>et al.</i> , (1994)
<i>G. chilensis</i>	lesion/bleaching	agarolytic bacterial strain		Craigie, (1995)
<i>Chondrus crispus</i>	"green rot" or "green spot disease"	deep orange coloured bacteria	surface wounds by mechanical or biological activities	Craigie and Correa, (1996)
<i>Kappaphycus/ Eucheuma</i>	"ice-ice"	<i>Vibrio</i> sp. P11, <i>Cytophaga</i> sp. P25	low salinity, low light intensity	Largo <i>et al.</i> , (1995a and 1995b)

Source: Largo, 2002

2.4.2 Occupational health hazards

The recent literature suggested that seaweed farmers need to improve their working conditions to avoid occupational health hazards such as fatigue, musculoskeletal pain, hunger, respiratory problems, eye related problems, injuries from hazardous animal and skin allergies in Zanzibar (Fröcklin *et al.*, 2012).

Long period of intensive working under hot sun may cause body temperature of farmers easily rise, resulting body dehydration, electrolyte imbalance, multi-organ failure and even death (Belsito, 2005). Cole *et al.* (2009) claimed that a basic understanding regarding occupational health hazard programs need to be better organized and broadened around the world in order to improve working condition and reduce injuries level.

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