MIDDLE EAST

Logistics Hub at the Centre of Asia and Europe

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The Gulf Corporation Council (GCC) constitutes six member countries, namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE) forming a political and economic union of the Arab states.

These GCC economies are energy powerhouses of the world, home to 47 million people and with combined GDP of USD 1.60 trillion - witnessing robust growth momentum supported by high oil prices, strong government financial balances and a continued wave of public spending on infrastructure projects.

The GCC member countries are continuing their economic reform and expansion programs, with a focus on attracting domestic, regional and foreign private sector investments in the power generation, telecommunications and real estate sectors as well as the traditional Middle East stronghold sectors of oil and gas. The GCC region is increasingly becoming an integrated economic entity with consistent positive initiatives from each member nation towards minimizing political and geographic boundaries.
LOGISTICS A KEY ENABLER OF ECONOMIC GROWTH

Logistics has emerged as one of the key drivers of economic activity in the GCC, whereby logistics now constitutes a major industry sector, rather than being just a support activity to other industries.

Oil and gas, infrastructure, trading and retail industry segments are the leading contributors to the GCC logistics sector, with overall logistics revenue estimated by Frost & Sullivan to be USD 35 billion, with the three major economies of Oman, Saudi Arabia and the UAE together accounting for 85% of the total logistics revenue.

Booz & Company estimate that logistics represents around 2.3 per cent of GDP of the GCC countries (or 4.3 per cent of GDP excluding the oil and gas sector). They project growth of seven per cent per annum for the transportation sector, with higher annual growth of ten per cent for logistics services, including warehousing, contract logistics and freight forwarding.

The domestic services segment (inland transportation and warehousing) is dominated by local players, while the international services segment (freight forwarding and international transportation by air/ocean) is dominated by multinational players.
Focus on development of the Free Trade Zones (or Free Economic Zones) by the GCC nations has been a major driver for their non-oil economic growth, which has had a profound impact on the logistics sector. Due to promotional policies in this regard, the GCC has seen numerous multinational organisations setting up their continent-level distribution centres (for air and sea modes), which has had a positive impact on the logistics services market.

Frost & Sullivan’s Logistics Industry Benchmarking Study of the GCC revealed the key trends across the logistics sector in the Middle East:

Overall in the GCC, inbound freight forwarding (related to imports) and inbound transportation (typically from ports) are reported to be the most outsourced logistics functions. Further, value-added services (VAS) such as packing, labelling, inventory management and reverse logistics are reported to be the least outsourced logistics functions.

The primary reason for outsourcing logistics functions - as reported by end users across the GCC - is to reduce cost. The other two important reasons reported by end users are the lack of required capabilities and preference to let professionals handle logistics activities.

The study also reveals that the logistics users prefer dealing only with reputed Logistics Service Providers (LSP’s) that have proven capabilities. Their reputation and capabilities for time bound deliveries have been reported as the leading parameters in selection of LSP’s by end users. Ability to provide security and visibility of consignments has been reported as the next important selection parameter.

Growth opportunities for Logistics Service Providers are linked with the typical nature of business operations in the gulf, which involves import and distribution for most industries. Accordingly, the greatest potential growth opportunities for LSP’s include provision of freight forwarding and other international logistics services and domestic transportation services.

Other prevalent challenges faced by both LSP’s and end users across the GCC include the harsh geographical environment and lack of alternate transport modes to roadways. The harsh climate (dry desert) prevalent across the region necessitates extra effort and equipment in handling logistics for several industries including food, pharma, FMCG and chemicals among others. These extra efforts include employing temperature-controlled transportation and warehouse facilities resulting in higher logistics costs for companies.

Further, lack of an alternative to the road transport mode for distributing goods within the domestic markets across all GCC nations or for cross-border movements means longer transportation time in the harsh environment, which in turn increases the scope for damage of goods. All of which ultimately results in higher operational costs for LSP’s and costlier logistics services for end-user companies.
FREIGHT FORWARDING MARKETS - LARGE WITH HEALTHY GROWTH PROJECTIONS

The latest report from Transport Intelligence forecasts average annual growth of 7.8% for the Freight Forwarding market in Middle East and North Africa (MENA) – growing from USD 7.9 billion in 2013 to over 10.7 billion in year 2017, during which time the proportion of Sea Freight will expand from 55% to 58% of the total freight market.
The Air Freight sector grew by over six per cent in value during 2013 to USD 3.5 billion, with cargo tonnage volumes as reported by Airports Council International (ACI) increasing by 5.4% at Middle Eastern airports, with Dubai International's cargo volume up by 7.4% and Abu Dhabi's up by 24.4%. The region’s carriers increased the connectivity of their expanding hubs with significant increases in both network (destinations) and frequency - Middle East and African carriers are beneficiaries of cargo growth from new trade lanes and developing trade links between the two regions. IATA reported that Middle Eastern carriers experienced growth of 12.8% in freight tonne kilometres (FTKs) for the year.

From 2013, the Air Freight forwarding market in the Middle East is forecast to grow at an average annual growth rate of 6.1% to reach 4.5 billion dollars in 2017.
For Sea Freight, modest volume growth was recorded at most container ports during 2013, with the regional mega-hub of Jebel Ali reporting a 2.7% throughput increase. However, due to the volatility of freight rates amongst highly competitive container shipping markets, the value of sea freight declined by 7.3% in 2013 to just under 4.4 billion dollars.

Ocean Freight Hubs in the Middle East

Average annual growth rate for Sea Freight is predicted to be 9.0% through to year 2017, when the total market will be valued at USD 6.19 billion.
The Contract Logistics market across the region is forecast by Transport Intelligence to grow by average 7.5% per annum from USD 3.1 billion in 2013 to over 4.15 billion in year 2017. Reflecting the Middle East region’s strategic position as the international crossroads amongst ever-increasing trade flows between Africa, Asia and Europe, there is an emergence of additional multi-modal logistics hubsthat will complement and compete with the well-established and world-renowned existing mega-hub of Dubai (which will be featured in a future white paper) with Oman emerging as a leading regional Trans-Shipment Hub and International Gateway.
OMAN EMERGING AS REGIONAL TRANS-SHIPMENT HUB AND INTERNATIONAL GATEWAY

Oman is geographically blessed, being centrally located within the Arabian Gulf, making it both a regional trans-shipment hub and also an international gateway for cargo destined for inland markets across Saudi Arabia, United Arab Emirates and Yemen.

Situated in the northern end of the Sultanate of Oman, some 200 km from the capital Muscat, is the latest development at Sohar, encompassing a deep-sea Port and Free-Zone.

With current investments exceeding USD 15 billion, Sohar is one of the world’s major port and free zone developments and is strategically located at the centre of global trade routes between Europe and Asia. Core business activities include the petrochemicals, metals and logistics sectors – all of which are growing rapidly.

Sohar Port was launched in 2002 as a joint venture with the Port of Rotterdam and with cargo volumes now growing beyond 50 million tons per year, the port will become an even more important contributor to the Omani economy, especially as cargo costs in Dubai continue to rise.

According to Mr Jamal Aziz, Sohar’s Freezone chief executive, “Rising commercial property costs in places like Dubai are enabling us to reap the benefits of the abundance of land, low-cost energy, and skilled staff that we have at our disposal. While many around us are struggling to find space to grow and produce enough energy to meet demand, we are fortunate to have more than enough – without creating overcapacity, of course. This is a long-term strategy and we are by no means aiming to compete with the likes of Jebel Ali. That would be unrealistic. Instead, we are focused on increasing cargo volumes and driving down costs”.

During the last year Sohar has invested USD 130m on relocating and expanding the Oman International Container Terminal plus an additional USD 2.5 m on connecting infrastructure. Sohar’s current road network enables freight to be moved effectively within hours overland to Dubai, Abu Dhabi, Al Ain and Muscat - all of which are within 240 km of the port.

Future development plans include enhancing multi-modal hinterland connectivity by air and train - with emphasis on improving rail links. The focus on developing rail networks will help alleviate some of the congestion and traffic management challenges experienced in the road highway system, whilst also providing more environmentally friendly supply chain solutions.

The USD 250 billion master plan for developing the regional rail network includes USD 15 billion to build rail connectivity between Oman’s ports with all of the consumer markets throughout the GCC. Currently valued at USD 8 billion, Oman’s rail freight market is forecast to grow 50% by 2017 to over USD 12 billion.
In addition to Sohar Free Zone, the government is investing in other large-scale infrastructure projects including Al Mazyounah Free Zone, Salalah Port, Muscat Knowledge IT City, and Duqm Special Economic Zone. These developments will empower the local logistics sector and consolidate Oman’s position as a premier logistics and transshipment hub. The Special Economic Zones are expected to encourage foreign businesses to set up operations in Oman.

The Strategic Analysis study of Oman’s logistics sector by Frost & Sullivan, which explores transportation, warehousing, freight forwarding and value-added logistics services, concludes that as a highly import-dependent economy, Oman will be particularly attractive for logistics providers that have a significant presence in the global freight forwarding business.

Logistics sector revenues in Oman totalled USD 7.87 billion in 2013 and are projected to increase to over USD 12 billion by 2017. The strong growth will be driven by Government plans to diversify the economy and create manufacturing clusters to reduce the economy’s dependence on oil and gas.

These initiatives will generate growth in the domestic manufacturing sector, thus increasing demand for logistics, transport and warehousing services to empower the supply chain ecosystems for raw materials, components, sub-assemblies and finished products - for both domestic and international consumption.
The resurgence in economic prosperity throughout the Middle East region is resulting in healthy growth across multiple industry sectors, in turn driving increasing volumes in both air cargo and ocean freight and fuelling additional demand for logistics services.

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**CONCLUSION**

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Mark Millar leverages 25 years global business experience to provide value for clients with informed and independent perspectives on their supply chain strategies in Asia.

His ‘Asia Supply Chain Insights’ series of presentations, consultations, whitepapers, corporate briefings and seminars help companies navigate the complex landscapes in China and ASEAN, make better informed business decisions and improve the efficiency of their supply chain ecosystems.

Acknowledged as an engaging and energetic presenter, clients have engaged Mark as Speaker, Moderator, MC or Conference Chairman at over 300 events in more than 20 countries.

Mark is a Visiting Lecturer at Hong Kong Polytechnic University and has delivered Guest Lectures at Georgia Tech (Atlanta and Hong Kong), RMIT (Ho Chi Minh City) and SP Jain (Singapore & Dubai). His industry contributions have been recognised with a number of accolades, including being named in the “Who’s Who of Power Players in Supply Chain Management in China”, the “Pro’s-to-Know Thought Leaders in Supply Chain” and as “One of the most Progressive People in World Logistics”.

London based business publisher Kogan Page have recently commissioned Mark to write the book entitled “Global Supply Chain Ecosystems”, due for publication in 2015.

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Industry thought leader Mark Millar has been engaged by clients as Speaker, MC, Moderator or Conference Chairman at more than 250 events in 20 countries and is recognized by the Global Institute of Logistics as “One of the most Progressive People in World Logistics”