Transport Intelligence

The Middle East Logistics Market Whitepaper Series

Transport Intelligence's CEO,John Manners-Bell looks more into the Middle East as a region with logistics potential

March 2014

In the lead up to Transport Intelligence's Emerging Markets Conference to be held in Dubai in June 2014, Ti's CEO, John Manners-Bell has written a series of briefs, collated within this document, on a number of themes that will be addressed. These are themes that are also included with the Middle East and North Africa Transport and Logistics 2014 report, published in March 2014. Ti are offering the report at a discounted price to attendees of the conference *(see below for details)*. For more information on the report, please contact lmorris@transportintelligence.com, or for more information on the conference, please visit the Ti Conferences site, or contact ssmith@transportintelligence.com.

Can the Middle East support any more logistics hubs?

Manners-Bell explores the recent investments in the Middle East and highlights the benefits and pitfalls of the developing infrastructure on the regional as well as global logistics industry.

The Middle East – The world's future logistics hub

Continuing on from the previous brief, Ti's CEO analyses the regions hub and spoke operations, exploring its role as a refuelling point for air freight carriers and shipping lines moving between Europe and Asia as well as highlighting other opportunities available in the region, including FTZ, custom procedures and open sky policies.

Logistics in the Middle East – Domestic demand creates logistics momentum

Using the Agility Emerging Markets Logistics Index, Manners-Bell explores how investment in industrial projects and infrastructure, as well as the creation of a vibrant Middle Class, have provided significant momentum to the domestic logistics industry.

Special Offer: If the content of this whitepaper is of special interest to you, you will find Ti's upcoming Emerging Markets Logistics Conference in Dubai (4th-5th June 2014) to be of particular value.

Register for the 2 day conference, usual price £595.00, and receive the Middle East and North Africa Transport and Logistics report at the special price of £895.00 – a saving of £400!

Further information can be found on the Ti Conferences website. Alternatively, contact Sarah Smith (Head of Events) E: ssmith@transportintelligence.com.

Can the Middle East support any more logistics hubs?

by John Manners-Bell, Ti

In recent years vast sums of money have been invested in transport infrastructure by governments right across the Middle East in an attempt to diversify their oil and gas dependent economies.

The most recent example is the King Abdullah Economic City Port in Saudi Arabia, which began operations in January 2014. The port, up the coast from Jeddah in the Red Sea, has a capacity of 1.3 million twenty–foot equivalent units (TEUs) and this is expected to rise to 4 million TEUs by 2016, 7 million by 2018 and ultimately 20 million.

The developers, Emaar Economic City, hope that the port will turn into a global hub, in much the same way as Dubai or Abu Dhabi in the Gulf. As 25% of the world's trade passes through the Red Sea on the way to the Suez Canal, there may be some justification for this aspiration. Other multimodal hub developments in the region include:

- $14bn development of the port of Sohar, Oman in conjunction with a new airport at Muscat.
- Doha seaport, Qatar; expected capacity 2 million TEUs by 2015 working alongside cargo operations at Doha's new Hamad International Airport.
- In the UAE, DP World's new terminal in Jebel Ali which will add a further 4 million TEU, at the same time as the development of the Dubai World Central Al Maktoum International Airport (DWC) and the expansion of Dubai International Airport (DXB).

- Also in the UAE, Khalifa Bin Salman Port's development has been completed adjacent to the Kizad trade zone and Abu Dhabi International Airport.

The development of so many logistics projects is in itself not without risk, as the strategy relies on the continued growth of freight volumes to fill the new capacity. However, although volumes are growing, their development could be described as patchy.

- DP World's port volumes in the UAE rose by 2.7%
- Middle Eastern air cargo carriers continued their strong growth, expanding FTKs by 12.8% (IATA)

- In Oman, the volume of cargo handled by Port of Salalah grew by 6.5% and that of Port Sultan Qaboos by 5.5%.
- Cargo volumes reached record levels at Dubai International Airport, up 6.8% on the year before.
- Abu Dhabi's airport saw cargo surge by almost a quarter.
- Doha's air cargo grew by 4.7%.

Concerns are growing even within the region itself. Many of the forecasts on which development plans were based were made during the mid–2000s when global trade was booming. Now, even the Qatari authorities believe that Phase 1 of the Doha seaport project will open with just half its capacity being used. To utilise all its planned capacity by 2030, direct volumes would have to grow at 15% a year, highly unlikely in the present economic environment.

There is also the concern that the rise of the mega–hubs, such as Dubai and Abu Dhabi, will come at the expense of smaller port/airport locations such as Fujairah and Sharjah. In this respect the growth figures reported above may not wholly be 'new' business created by attracting volumes to the region as a whole or organically created, but rather a result of cannibalisation.

Will this momentum be enough to support the huge capacity which is being created for sea and air freight?

It may be that the Middle East can only support two global hubs, which at this moment would seem to be Dubai and Abu Dhabi, although multiple regional sub–hubs could arise. As well as that there would be a number of tertiary locations which serve as hubs for domestic markets.

There is no doubt that in the short term, the Middle East will benefit from improving economic conditions in Europe as well as solid growth in domestic economies. Investment has also helped the growth, especially in the Gulf countries such as Saudi Arabia where GDP grew at 3.6% in 2013, with an expected growth of 4.4% in 2014. However, what will be just as important for the long term is the rise of the Middle East (in particular the GCC economies) as a logistics hub for Africa, Central Asia and the Indian sub–continent.

The importance of global, regional and domestic hubs in the Middle East will be discussed in the next article.

This topic, along with many others of importance to the region, will be part of the discussions at Transport Intelligence's conference to be held in Dubai later this year. For more information please contact Sarah Smith, Head of Marketing & Events, ssmith@transportintelligence.com.

The Middle East – The world's future logistics hub

by John Manners-Bell, Ti

The Middle East has acted as a refuelling point for air freight carriers and shipping lines moving between Europe and Asia for many years. It was therefore only a small step to create hub and spoke operations in this region in order to maximise capacity and improve operational efficiencies. Now just as important as its geographical location are a range of other advantages. These include:

- modern facilities
- relative lack of corruption
- free trade zones
- open sky policies
- easy customs procedures

The development of the now popular sea-to-air product (consignments which start off as sea freight are offloaded in the Middle East and then shipped by air to the final destination, mainly in Europe) also came about due to the Gulf countries' advantage in transport and logistics assets. A lack of air cargo capacity out of India meant that shippers could more easily move goods by sea to a major port such as Dubai, and then air freight the goods to Europe. This worked due to the imbalance of air cargo flows into the Middle East which left air carriers looking for back loads to Europe. As a result transit time can be reduced by a week or more. As an illustration of the importance of the multi-modal approach, Dubai International has 56 truck docks for import, export and perishable cargo, with seven dedicated to sea-to-air traffic. Both Dubai's airports are integrated with the main sea ports, Port Rashid or Jebel Ali, and movements of containers can take just six hours. The transfers can take place under bond.

An increasing number of manufacturers have decided to base their distribution facilities at hubs such as the Jebel Ali Free Zone in Dubai, from where they can more efficiently supply growing consumer markets across the region. For example, Japanese manufacturer Canon uses this location as its hub to supply 45 markets in the Africa and Middle East region. 95% of its product is transported to the hub by sea where value adding logistics services such as localisation and kitting can take place.

Chinese high tech manufacturer Huawei has also recently decided to use Dubai as its regional hub. Its location in the Jebel Ali Free Trade Zone will shorten delivery time by about 30 days for its sea freight shipments. The manufacturer's logistics strategy for the region is typical. The hub will initially supply the Gulf countries and Pakistan but will then be expanded to serve Kenya, Tanzania and the rest of Africa.

One of the reasons why companies are increasingly basing their distribution operations in the Gulf is the business-friendly attitude which has been developed. This was borne out by the 2014 Agility

Emerging Market Logistics Index. The Market Compatibility portion of the Index, which measures whether conditions are favourable for business and trade, was dominated by Gulf countries Qatar, UAE, Oman, Saudi Arabia and Kuwait, along with nearby Jordan.

'Connectedness' – that is, the quality of transport infrastructure and range of locations served by shipping lines - is also critical to the development of hubs and the region also performs impressively against these criteria. The UAE, Oman, Saudi Arabia, Bahrain and Qatar all appear in the top ten countries of the ranking.

Too much capacity?

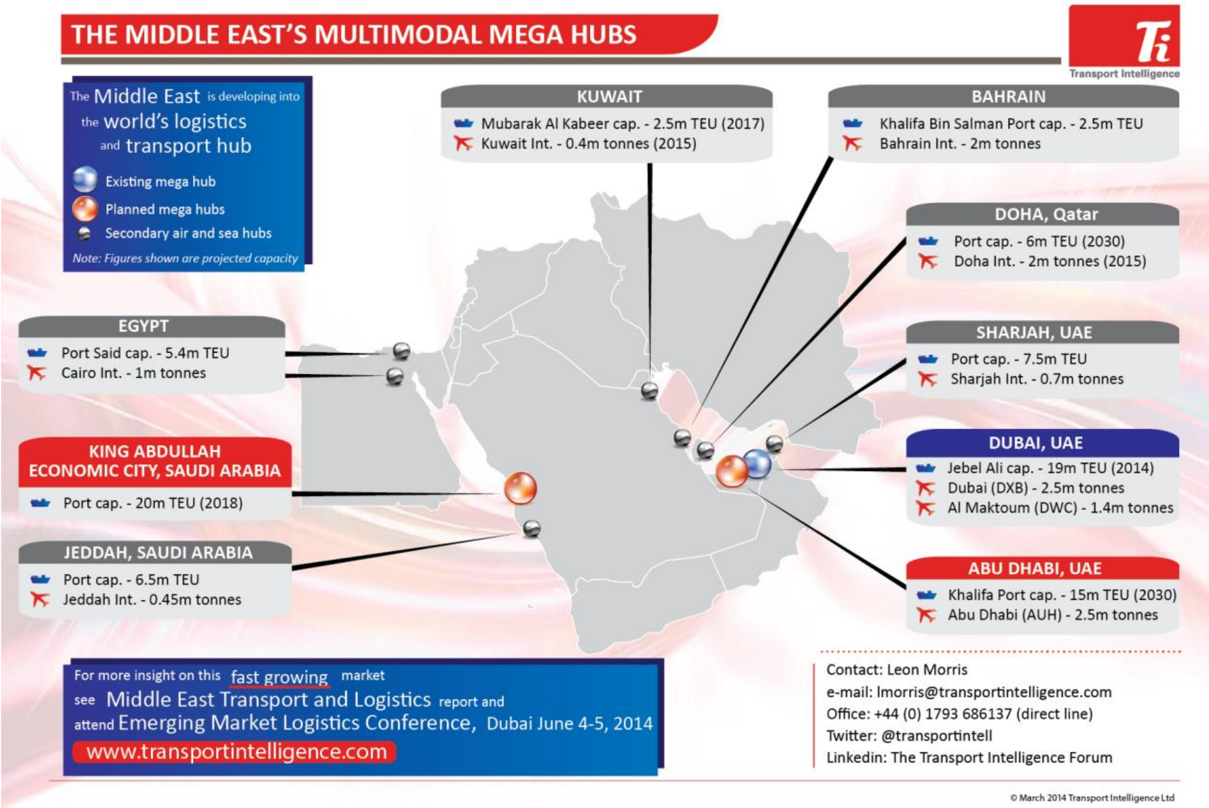
However will the momentum that has been growing in the region be enough to support the huge capacity which is being created for sea and air freight?

At present the major sea freight hubs in the region have a capacity of around 40m TEU per year. However, if development plans are to be believed, this could rise in the next 10-15 years to closer to 100m TEU. Assuming that ports are at full capacity at the moment (which they are not) an annual increase of freight volumes of over 8% throughout this period would be required. Likewise the major airports in the region have a capacity of around 8m tonnes per year. This is set to rise to 14m tonnes by 2020 – an increase of three quarters, or a compound annual growth figure of close to 10%.

Some analysts believe that the region can only support two global hubs, although multiple sub-hubs could arise. If this is the case then the obvious candidates for global hub status are Dubai and Abu Dhabi. Jebel Ali Port is by far the largest in the region, almost three times the size of its nearest competitor, Jeddah. It is integrated with Dubai International Airport (DXB) and the smaller, more recent development, Dubai World Central Al Maktoum International. The latter has the stated aim of expanding to 12m tonnes of cargo capacity per year, although it is unclear when it would like to achieve this target by. At present its capacity is 600,000 tonnes.

Khalifa Port in Abu Dhabi is also under development, with the impressive target of 15m TEUs by 2030. It is part of a wider development – Khalifa Industrial Zone Abu Dhabi (KIZAD), which includes manufacturing and logistics facilities. The airport in Abu Dhabi, the home of Etihad, is also expanding, with plans to grow from 1m tonnes per year to 2.5m, and Dubai's airports are also situated close by.

In terms of ambitions, the only other contender in this league is the port development on the Red Sea at the King Abdullah Economic City. The port has plans to expand to 20m TEUs per year by 2018. As well as planning on becoming a major future transhipment port, it is also developing port centric logistics capabilities. Toys'R'Us became one of the first companies to establish facilities on the site to distribute goods throughout Saudi Arabia. However the port is located 100km north of Jeddah airport, which will make integration for sea-air volumes more challenging.



Extending hub scope

Middle East hubs have been able to extend their scope far beyond their own region, filling a gap in the market created by Africa, Central Asia, India and Pakistan's own lack of transport infrastructure and paucity of services. This means that as well as acting as a gateway for goods coming from Asia, Europe or North America, hubs can also be used for the distribution of goods on an intra-regional basis. Point-to-point transport is often made difficult by congestion, corruption and cost, issues which can be circumvented by using one of the more sophisticated Middle Eastern hubs. Middle Eastern carriers have benefited from this by capturing a significant share of the increase in the volumes out of these regions.

In addition to Africa, the Middle East has geographic proximity to a range of fast growing markets in the Commonwealth of Independent States (such as Kazakhstan, Turkmenistan and Uzbekistan) which have not yet developed their transport infrastructure. The alternative of using poor road and rail links through Western Europe adds considerable time and cost to the supply chain.

As manufacturers increasingly develop their distribution strategies to include secondary markets in the emerging regions, the Middle East will continue to enhance its position as a major and reliable transport hub.

This topic, along with many others of importance to the region, will be part of the discussions at Transport Intelligence's conference to be held in Dubai later this year. For more information please contact Sarah Smith, Head of Marketing & Events, ssmith@transportintelligence.com.

Logistics in the Middle East – Domestic demand creates logistics momentum

By John Manners-Bell, Ti

The first two briefings in this series focused on the Middle East's potential as a global and regional logistics hub. However investment in industrial projects, infrastructure as well as the creation of a vibrant Middle Class, have provided significant momentum to the domestic logistics industry.

According to the Agility Emerging Markets Logistics Index, Saudi Arabia, the Middle East's largest economy, is third behind only China and Brazil in terms of prospects. Among the world's largest emerging economies, no country has improved its position as much as Saudi Arabia, which was in ninth position in the Index rankings five years ago. Saudi Arabia is in the midst of unprecedented public spending with projects that include building and expanding airports, roads, ports, universities, industrial complexes and other infrastructure.

Saudi Arabia's Gulf neighbour, the United Arab Emirates, comes in at No. 6 in the Index. The Market Compatibility portion of the Index, which measures whether conditions are favourable for business and trade, was dominated by Gulf countries Qatar, UAE, Oman, Saudi Arabia and Kuwait, along with nearby Jordan. Attracting foreign direct investment has been an important factor in the development of the countries in this region as they seek to diversify their economies away from dependency on oil and gas.

Infrastructure investment

The investment in infrastructure projects across the region is vast. From the King Abdullah Economic City on the Red Sea in Saudi Arabia to the Qatar-Bahrain Causeway in the Gulf, billions of dollars are being spent on a range of oil and gas, industrial, healthcare, transportation and hotel/leisure projects.

In the Gulf, although the construction market was impacted by Dubai's financial woes, especially in the residential and hotel sectors, there are plenty of other major projects continuing. Abu Dhabi, unaffected by the crisis not least because of its large natural resources, is one of the key areas for building work.

Construction has also continued apace in other countries where government investment has been the driving force, particularly Saudi Arabia and Kuwait. Each project represents a considerable opportunity in terms of logistics and, due to the long term nature of many of these projects, they offer a sustained revenue stream for many years. This is not to mention the on-going logistics requirements for existing oil, gas and chemical operations. After initial construction these installations need to be supplied with spare parts, pipes and oversized parts that often require special handling. There is also a need for procurement and purchasing, origin logistics, customs clearance, freight forwarding and local transportation.

Retail developments key to logistics

The development of the retailing sector is absolutely critical to the future of logistics in the region. Global brands demand a great deal of sophistication in the marketing of their products. The added layers of logistics complexity require the development of a supply-side capable of undertaking value adding services, for example in the pre-retail preparation of goods.

The UAE stands out as the key market for Western brands, and is already fully saturated, according to AT Kearney's Global Retail Development Index. All the same, Abu Dhabi is set to expand its Mall space by almost 50% by 2015 and the retail market in the UAE is expected to grow by 33% between 2012 and 2015.

The UAE also has the highest fashion clothing sales per capita in the developing world and has the highest number of international retailers present in the market. Kuwait ranked third in the index, with Saudi Arabia in fifth. Importantly, contracts are being signed with local joint venture partners to create retailing networks across the whole region which will increase the penetration of the international retailers significantly in the years to come.

The Middle East, in line with developments in western markets, is also experiencing a transition from fragmented local high street retailing to supermarket formats. It is not just at the top end of the market that changes are occurring. Supermarkets now account for the greatest share of retail fresh, chilled and frozen food sales in Saudi Arabia. Although still relatively underdeveloped, the growth of supermarkets and hypermarkets is expected to accelerate.

Cold Chain in demand

Across the region as a whole, the increasing value of food and pharma supply chains has created the demand for temperature controlled services and property. There has been a real boom in construction of refrigerated warehousing, particularly Dubai as well as Oman, Kuwait and Saudi Arabia. In general, investors think big, which means that a capacity of 50,000 pallet positions is considered more or less normal. In addition to this, of course, there is a very important transit market led by airlines such as Emirates.

Express carriers have been at the forefront of introducing cold chain services. As long ago as 2005, DHL announced the launch of a temperature controlled express delivery service in Saudi Arabia. The service combines express distribution with guaranteed security and validated temperature controlled packaging, transport and distribution.

Improvements in cold chain logistics are also impacting on food retailing. The Middle East region contains a number of rapidly growing retail markets for a wide range of consumer goods, mainly imported. The high level of imports is largely due to the small indigenous manufacturing base in the region and, particularly in the oil rich countries, the desire for western convenient, frozen and chilled, foods.

An example of this trend was the announcement in late 2013 by global consumer goods retailer, Spinneys, that it was to build a Dh55 million ($15m) dedicated cold storage facility in the logistics cluster of the Khalifa Industrial Zone Abu Dhabi (Kizad) in Abu Dhabi.

Out-sourcing opportunities

There are considerable opportunities for logistics out-sourcing in the Middle East. At present it is estimated that rates are around 12%, compared with 25-30% in Western Europe. This means that many efficiencies which have been introduced in developed countries are still lacking in the Middle East, even in many of the more sophisticated markets.

Government has a major role to play in the promotion of out-sourcing. In many countries the practice is actively discouraged by ‘agency’ laws or by regulations which favour in-house operations. However as well as liberalising markets, governments can also encourage state-owned companies, which often have large transport and warehousing divisions, to privatise them or at least bring in private sector partners.

This would have other benefits. High levels of fragmentation exist in the industry across the region, with few major logistics players, and many of these being owned by the global groups. Carving out logistics companies from SOEs would provide additional competition at the higher end of the market.

To the same end, governments are encouraging state-owned companies in the transport sector to become more active in the market. Post Offices, airlines, shipping lines are all leveraging their position in these growth markets to become more competitive on a global basis.

Conclusion

Whether as an international transit hub or as a consumer market, the Middle East is a region which cannot be ignored by global manufacturers, retailers or logistics companies. It is certainly true that the levels of opportunity are somewhat tempered by geo-political risks, not least the role of Iran and the potential contagion of Syria’s instability. Even Qatar’s relations with fellow GCC countries have recently deteriorated. However the major economies such as Saudi Arabia and the UAE have vast wealth, good security, increasingly robust transport infrastructure and a desire to develop their economies to Western standards. The implications of this for the logistics industry, both global and domestic, should not be underestimated.

This topic, along with many others of importance to the region, will be part of the discussions at Transport Intelligence’s conference to be held in Dubai later this year. For more information please contact Sarah Smith, Head of Marketing & Events, ssmith@transportintelligence.com.

About the Author:

John Manners-Bell, CEO, Transport Intelligence

John started his working life as an operations manager in a freight forwarding and road haulage company based in the UK. Prior to establishing Transport Intelligence, he worked as an analyst in consultancies specialising in international trade, transport and logistics. He also spent a number of years as European marketing manager for UPS Supply Chain Solutions working at locations across Europe including France, Netherlands and Germany.

He holds an MSc in Transport Planning and Management from University of Westminster and is an Associate of King's College London. He is a Fellow of the UK Chartered Institute of Logistics and Transport and a Member of the Logistics Global Advisory Council of the World Economic Forum. John has travelled widely, undertaking research and speaking at conferences in countries including China, Hong Kong, India, Japan as well as in the Middle East, USA and extensively throughout Europe. He is regularly quoted in the international and trade media as well as on radio and television.

About Transport Intelligence

Ti is one of the world's leading providers of expert research and analysis dedicated to the global logistics industry. Utilising the expertise of professionals with many years experience in the mail, express and logistics industry, Transport Intelligence has developed a range of market leading web-based products, reports, profiles and services used by all the world's leading logistics suppliers, consultancies and banks as well as many users of logistics services.

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