The office we sit in, the clothes we wear and the food we eat all rely on business planning frameworks that manage material, service, information and capital flows around the globe.

This is logistics and by necessity, in today’s increasingly complex business environment, it centres on the communication and control systems required to keep our world moving twenty-four hours a day, each and every day of the year.

As one of the world’s fastest growing Port and Freezone developments, logistics is at the core of our business in SOHAR and connects us with markets all over the world. As this is our Year of Logistics, we asked MEED Insight to prepare this special report on the Middle East logistics industry as part of a series of SOHAR sponsored thought leadership reports.

We define thought leaders as people or organisations whose efforts are aligned to improve the world by sharing their expertise, knowledge, and lessons learned with others. We believe this knowhow can be the spark behind innovative change, and that’s what we’ve set out to inspire by commissioning this series of reports.
The GCC Economy

GCC Macroeconomic Overview

GDP GROWTH

The petrodollar fuelled GCC economies have had a strong run during the first decade of this millennium, registering a compound annual growth rate (CAGR) of 5.7% during 2000–2012. Though growth momentum has slowed down significantly since then, to 3.5% CAGR during 2013–2015, the GCC economies today are considerably more diversified. According to IMF estimates, oil currently accounts for about 50% of the GCC region’s overall GDP, down from about 60% in 2000. This has somewhat eased the grip of global oil price fluctuations on GCC economies. Still, the region’s fate remains closely tied to the future of oil.

The significant drop in oil prices is estimated to have led to a fiscal deficit in most GCC economies. The consolidated fiscal balance of the GCC region is estimated to have declined from a surplus of 4.8% of GDP in 2014, to a deficit of 7.5% of GDP in 2015. Among all GCC economies, Kuwait and Oman have been the most severely affected by the oil-price decline, with 2014 GDP growth in the countries falling to 1.3% and 2.9% respectively. Saudi Arabia has been fairly successful in lowering its oil dependency to 42% of GDP in 2014, down from 55% in 2008. The UAE, the second-largest GCC economy, has also already diversified its economy away from oil to a significant extent. While oil-price pains may continue for sometime, the GCC will continue to focus on diversification and infrastructure development.

However, GCC governments may face some issues in financing various expansion projects. In February 2016, S&P warned that GCC economies might fall short of resources to fund their projects during 2016–2019. Though the GCC governments have allocated US$330 billion to various projects, S&P estimates the actual requirement to be closer to US$604 billion. The GCC economies will need to raise more funds from other channels, such as public-private partnerships (PPP) or debt, to partially fund their ambitious infrastructure projects.

GCC VISION PLANS

All the GCC states have formalised strategic, long-term plans aimed at transforming their economies and social policies. One common thread across these vision plans is to develop non-oil sectors, such as infrastructure and logistics. For instance, as part of its Vision 2030 plan, Saudi Arabia intends to leverage the PPP model to enhance its connectivity with the rest of the GCC and other countries through cross-border projects related to air, sea and road. Through these initiatives, Saudi plans to strengthen its position as a major trade hub and improve its global ranking in the Logistics Performance Index from 49 currently, to 25 by 2030.

The UAE Vision 2021 focuses on critical sectors such as healthcare, education, and infrastructure. Key government initiatives such as Abu Dhabi’s Surface Transport Master Plan focus on strengthening the UAE’s crucial infrastructure. Moreover, Dubai Expo 2020 and the Dubai Maritime Vision 2030 have further boosted investment in infrastructure projects. These initiatives from the UAE government offer huge opportunities to logistics players and also generate interest from logistics providers, air carriers, shipping lines and freight forwarders.

As part of Oman’s Vision 2020, the government plans to increase investment in tourism and infrastructure to accelerate overall economic growth. Other GCC economies such as Bahrain, Qatar and Kuwait are also focusing on economic diversification and human capital development.

Although GCC economies still rely on oil as the main source of revenue, their concerted efforts over the last decade have resulted in a much more diversified economy than was the case at beginning of this century.
GCC Macroeconomic Overview

GROWING POPULATION
Population in the GCC region is growing at a very rapid pace, with expatriates dominating the population in most countries. By 2020, the overall GCC population is forecast to increase to 53 million, with the vast majority under 25 years of age. The rapidly rising population will lead to greater infrastructure development, with focus on public services, transportation and housing in urban centres.

Cumulative Population Growth % (2000–2014)

Source: IMF

RISING INVESTMENTS
The GCC governments have planned a spending outlay of US$330 billion for the 2016–2019 period for various projects. Of this, US$50 billion has been allocated for infrastructure development, but S&P estimates the actual requirement for GCC infrastructure investments could be double this amount, at around US$100 billion. Although the investment plan looks encouraging, investment efforts differ among countries. For instance, while Dubai increased its 2016 budget by 12% year-on-year to boost its infrastructure spending, Saudi Arabia was forced to reduce its 2016 transport and infrastructure budget by 63% to keep next year’s fiscal deficit in check. In Qatar, road transport has been the key focal area, accounting for more than 95% of infrastructure investments, with maximum investment being diverted for the development of roads, bridges and tunnels to improve connectivity.

Transport Sector Contribution to GDP (2014)

Source: ConstructionWeekOnline.com

Transport Sector Contribution to GDP (2014)

The GCC governments have focused on heavy spending on construction, as well as on oil and gas projects, which drives the GCC transportation sector. The sector’s contribution to GDP in the GCC countries averages over 5.8%. This share is high when compared to developed economies: 3% in the US and 5% in the UK; and developing economies: 2% in India and 4.5% in China. This is mainly because of the concerted efforts of the GCC governments to diversify their economies and further develop infrastructure. Logistics have been identified as one of the key sectors to support the GCC diversification strategies, with huge infrastructure spending laid out over the near future. The contribution of transport sector differs from country to country. The UAE, which has the most diversified economy in the GCC, has invested huge amounts in the transport sector and as a result has the highest transport sector contribution to GDP among all GCC nations. The outlook for the sector in the country is positive, with many major projects underway.

Source: Respective Government Websites

GCC Capital and Infrastructure Spending Plan (2016–2019)

- Overall Capital Spending US$480 Bn
- Government Spending US$330 Bn
- Fund allocated for infrastructure US$50 Bn
- Additional Funds required US$270 Bn

Source: Standards & Poor; ConstructionWeekOnline.com
GCC governments have identified logistics as one of the key sectors to support their diversification strategy, with huge infrastructure spending laid out over the near future.
Global logistics industry has grown at a brisk rate, supported by increasing outsourcing, innovative delivery models, and swift e-commerce market growth.

Global Logistics Overview

MARKET SIZE

Logistics is the cornerstone for the smooth functioning of all the sectors of an economy, as it brings together the entire value chain of industries. In 2015, the global logistics market was estimated to be close to US$4.6 trillion, accounting for ~11% of global GDP. The logistics supply chain comprises transport, warehousing, forwarding, customs, and other distribution components. The transport segment, which accounts for close to 80% of logistics, is further sub-categorised into road, rail, air and water freight, of which roadways had the biggest share of US$2 trillion. The global logistics industry is expected to expand at a robust CAGR of 8.44% from 2015 to 2019.

One of the emerging trends in the logistics industry is the rise of contract logistics, which entails the outsourcing of logistics to specialised companies instead of keeping it in-house. 2PL (second-party logistics), 3PL (third-party logistics) and 4PL (fourth-party logistics) are three major logistics models that fall under contract logistics. The 3PL model is the most successful one, accounting for 20% of the overall logistics market. It has been rising at a CAGR of 5.1% from 2011 to 2015 to reach US$800 billion in 2015. The Asia-Pacific region leads the 3PL market with 36% share, and also clocked the highest CAGR of 10% (2011–2015). A rapid expansion in the industrial and retail sectors, in conjunction with a need for improvement in delivery models, has driven the Asian 3PL market.

Global Logistics Infrastructure

REGIONAL ANALYSIS

Countries across the globe are spending significantly on infrastructure projects, including ports, roadways and railways, and warehousing. The total value of the top 100 infrastructure projects underway across the globe is about US$560 billion. Asia alone accounts for about US$225 billion or 40% of the total value of the top 100 infrastructure projects. Of the individual subsectors in logistics, ports are predicted to grow the fastest at 5.8% CAGR during 2014-2025, particularly due to the growth of industrial real estate around the ports. The Gulf region and Eastern seaports are gaining much traction as they provide easy access to major population centres.

Latin America: In Latin America, US$47 billion will be invested in rail freight transportation from 2014 to 2020. The Brazilian government launched a logistics investment plan in 2013, with a budget of US$26.8 billion for 12 new railway projects totalling 10,000 kilometres over the next 30 years. One of the most significant rail projects is the 572 kilometre long Vitoria-Rio de Janeiro railway being built at a cost of US$7.8 billion. This will increase the logistics potential for bulk cargoes such as iron-ore, minerals and various agricultural products.

North America: The New International Trade Crossing (NITC) Bridge is one of the most impactful projects in the pipeline in North America. The US$950 million NITC Bridge will connect Ontario in Canada with Michigan in the US, to improve the connectivity at these major centres of commerce. One of the other major projects is Mexico City’s new airport, worth US$9.2 billion, which is expected to boost airfreight logistics in North America.

Middle East: Roads will be the largest growth segment in the Middle East, with 116% rise in road investments from 2014 to 2025. Qatar will be the most active market in the MENA region, with US$47.7 billion worth of road projects lined up. Moreover, the Battinah expressway is one of the most significant projects in Oman, stretching for 275 kilometres from Muscat to Oman’s border with the UAE at Khutmat Malaha. Other major projects include the Sharq crossing in Doha and the Masirah Island causeway project in Oman.

Europe: In Europe, logistics growth will be modest due to continuing fiscal constraints and targeted spending. However, railways are forecast to witness strong growth in mature markets such as Germany, the UK and Spain. Rail Baltica is one of the priority projects of the European Union, which will link Finland, the Baltic States and Poland for better trade connectivity.

Asia-Pacific: The APAC market will represent nearly 60% of global infrastructure spending by 2025. The “One Belt One Road” project in China, aimed at integrating major Eurasian economies, will lead to a paradigm shift in infrastructure growth. The project will link the land-based silk-road and the maritime silk-road, that links China’s port facilities with the African coast, with the aim to strengthen the trade ties with other Asian and European nations.

While Asia-Pacific accounts for the bulk of major infrastructure projects with large-scale infrastructure projects in China and India, Europe is catching up with a big pipeline of seaport projects.
Global Logistics Segments

SEA

Oceans have always been one of the primary modes of global transportation, especially for bulk cargo such as metals, coal, and hydrocarbons. With the growth of international trade, shipping volumes have further soared, requiring an expansion of sea logistics.

Driven by strong growth in Chinese trade volumes during the last decade, the global shipping lines witnessed a huge demand, leading to a steep rise in the shipping rates. This prompted a frenzy of orders for new ships, as the carriers expected to reap good margins. However, within three years, by 2012, when the new ships were ready to launch, the global economy had firmed out and the shipping operators faced losses due to the investments already made in these vessels.

In 2013, the ship-owners again started to take a cue from high freight prices due to the surge in China’s coal imports. But the situation in China started to press against the growth of sea logistics. The global road logistics market can be segmented into four divisions: full truckloads; less than truck load (LTL), where the shipment does not require a full 48-foot or 53-foot trailer; parcel; and same-day Truckload accounts for the largest global share within the segments. As is the case with the other transport segments, road freight also witnessed varying growth rates based on the regional dynamics of the differences in the industry growth, fiscal constraints, fuel prices and government policies.

In the US, the trucking tonnage index, which measures the gross tonnage of goods transported through roads, declined 0.9% at the end of 2014, but increased by 3% in 2015 with similar trends expected to continue in 2016. This was due to strong growth in retail, expansion of the energy sector and a growing population. European road freight transport increased marginally by 0.4% in 2014, compared to 2013, with national transport being more or less stable, while cross-trade and motor vehicle transport recorded robust growth.

However, the outlook is promising, driven by the recovering demand for containerized and bulk cargo. Due to factors such as increasing global exports, expansion of new trade hubs, and rising adoption of technology, the market is expected to regain traction in 2015-2020. Asia-Pacific is expected to remain the largest market due to economic growth in India and trade-focused regional development plans in China, despite its financial turmoil. But Europe and North America are expected to register only modest growth rates of 2.5%–3%, against the global forecast of 4.7% CAGR (2015–2020).

RAIL

Rail plays a pivotal role both in passenger movement as well as cargo handling, especially of bulk items such as coal and iron ore. Rail freight is witnessing mixed demand across the globe, with some regions posting strong growth and others witnessing decline. For instance, the China Railway Corp reported 11.6% year-on-year decline to 227 million tonnes in railway cargo volume during 2015, primarily due to faltering demand especially for industrial goods. But the demand grew at a brisk pace in the Asia-Europe rail corridor. This was due to the Chinese manufacturer’s efforts to improve speed of exports as compared to sea, and reduce costs by up to 65% when compared to air.

On the other hand, the UK witnessed strong growth in rail freight in 2015, driven by the increase in volume of consumer goods being transported. Conversely, the slump in commodity markets in the US has adversely impacted exports. Shipments of US coal, the biggest commodity moving by rail, declined 12% to 5.1 million carloads in 2015, and so did rail freight demand.


ROAD

Road freight is the largest among all the logistics segments as it serves as the backbone of retail, wholesale and agricultural sectors. The global road logistics market can be segmented into four divisions: full truckloads; less than truck load (LTL), where the shipment does not require a full 48-foot or 53-foot trailer; parcel; and same-day Truckload accounts for the largest global share within the segments. As is the case with the other transport segments, road freight also witnessed varying growth rates based on the regional dynamics of the differences in the industry growth, fiscal constraints, fuel prices and government policies.

In the Asia-Pacific region, demand for heavy trucks in China in 2015 declined by 3.3% year-on-year, to 748,000 units, mainly owing to the impact of consolidation in the Chinese logistics market. However, the situation in China started to improve in 2015, driven by new infrastructure projects, energy conservation and emission reduction drives, and rapid growth in e-commerce demand. Moving forward, financial challenges in China will continue to press against the growth momentum in the logistics industry.

In spite of mixed regional growth, the global road freight market is set to attract higher investments to record a CAGR of 6.64% during 2013–2018. The European road freight sector is expected to post strong recovery for the heavy-duty truck market, posting a 4.8% CAGR during 2014–2019. Russia will be one of the top performing BRIC (Brazil, Russia, India and China) markets, as the demand from neighbouring eastern European markets will boost demand. China will experience robust growth by 2020, due to quick implementation of low-carbon transportation systems, government spending and population growth.

Huge investments made by the global shipping carriers in megaships during the early part of this decade, followed by an unexpected decline in global trade, has led to overcapacity.

Global Heavy Truck Demand (2013–2022)

- North America: 220 units in 2013, 200 units in 2022
- South America: 70 units in 2013, 70 units in 2022
- China: 900 units in 2013, 900 units in 2022
- India: 300 units in 2013, 300 units in 2022
- Russia: 220 units in 2013, 220 units in 2022
- Europe: 380 units in 2013, 380 units in 2022
- Next 11: 90 units in 2013, 90 units in 2022
- Rest of the World: 70 units in 2013, 70 units in 2022

Source: Frost & Sullivan (base year 2013)
Aviation is a crucial mode of transport for the movement of high-value and time-sensitive goods, besides meeting the growing passenger demand. According to the International Air Transport Association (IATA), the airfreight demand was volatile in 2015, with a 3.3% year-on-year increase in cargo volumes.

During 2015, sluggish growth in the airfreight market was primarily due to weak growth in global trade and a slowdown in China. Besides that, qualitative easing in the Eurozone, global concern about rising carbon emissions from aviation, and structural changes due to the shortening of supply chains were the other factors contributing to this sluggish growth.

The global freight load factor, the ratio of revenue cargo tonne miles to the available cargo tonne miles, was 47% in October 2015, much lower than the passenger load factor of 79.1% in 2014. However in 2015, the Middle East carriers witnessed a 15.3% year-on-year growth in demand, with a capacity hike of 19.2% year-on-year. In the Middle East, the airlines have started pursuing a successful hub strategy that connects the long and short haul markets, thereby improving trade connectivity. Asia-Pacific’s airfreight volume grew 10% in 2015, while Europe and North America’s volume was below the global average of 11% for the same period.

IATA has predicted that international airfreight volumes will rise at CAGR of 4.1% from 2015 to 2020. During this period, the Middle East will be the fastest-growing region at 4.7% CAGR, followed by Africa at 4.4% CAGR, and Asia-Pacific and Latin America at 3.8% CAGR. By 2018, the three largest global airfreight markets will be the US, China and the UAE. Qatar will also witness a notable CAGR of 5.7%. However, the overall outlook for the airfreight market remains slightly muted due to factors such as geopolitical concerns, volatile oil prices and the constant threat of trade protectionism.

Warehousing is a significant part of logistics enabling the value chain players to stock goods in appropriate condition until the market demand is elicited. The global storage and warehousing industry has grown at a strong pace to reach a market size of US$566.4 billion as of 2014, driven by export-import growth, the global retail industry, especially e-commerce, and overall industrial production. Growth opportunities were strong in the developing countries of Asia and Africa due to increasing trade activities, and accelerated government spending on enhancing warehousing infrastructure.

In Europe, trade growth has significantly outpaced the region’s GDP growth, leading to a rise in the demand for warehouses needed to store goods in-transit. This in turn has led to investments in warehouse property development in northern European port areas and inland hubs. Outsourcing demand is also strong in the warehousing market, with operators offering services such as packaging and kitting, which are otherwise challenging to manage in-house. Some of the prominent storage and warehousing operators across the globe include APL, DHL, Genco, Kuehne+Nagel and UPS.

The warehousing market is expected to expand at a CAGR of 5.8% during 2014–2019, to reach a market value of US$709.7 billion. Upcoming technology trends, such as the use of robots in warehouses, automated vehicles and drones for product distribution, are going to impact the structure and dynamics of the warehouse market by 2020.
GCC Logistics Market Size

MARKET OVERVIEW
The strategic location of the GCC as a gateway between Europe and Asia has created a strong logistics market in the region. Additionally, the efforts of all GCC economies to focus on diversification away from oil have further propelled the GCC logistics market. Large-scale infrastructural developments, a booming retail industry, and a high dependence on international trade are some of the major drivers that have been instrumental in the logistics market growth story. The GCC logistics market forms a fundamental part of the economy and grew at a brisk pace to reach a value of US$71.7 billion in 2015, and continues to expand further.

GCC Logistics Market Growth (US$ Bn)

<table>
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<th>Year</th>
<th>Value (US$ Bn)</th>
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<tr>
<td>2015</td>
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<tr>
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<td>2019</td>
<td>93.7</td>
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<td>2020</td>
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Country-wise Logistics Market Share 2015

- UAE: 42%
- KSA: 25%
- Qatar: 15%
- Oman: 12%
- Kuwait: 3%
- Bahrain: 1%

GCC Logistics Market Share 2015

GCC Logistics Market Growth (US$ Bn)

Source: MEED Insight Research & Analysis

Developing railways as a viable mode of logistics is a top priority for GCC economies, as they would eventually replace roadways as the logistical backbone of the region.

GCC Logistics Segments

GCC RAILWAYS: A WORK-IN-PROGRESS INFRASTRUCTURE

Railways are one of the main pillars of the logistical infrastructure of any country. They function as a major conveyance for both passengers and cargo. However, the same cannot be said of the GCC. Unfavourable geographic conditions, relatively small country size, with the exception of Saudi Arabia and Oman, and the availability of cheap fuel for road transport have made roads the preferred option for inland logistics. However, this situation has changed over the recent past, especially in view of the diversification efforts undertaken by the region’s economies. With the growth of various sectors, especially manufacturing and construction, the requirement to transport greater quantities of bulk raw materials has created the need for a functioning rail network. Considering these changed circumstances, the GCC countries have implemented various rail projects.

The most ambitious rail project is the GCC Railway Network, which would connect all GCC countries. The project is planned to extend 2,177 kilometres in length and has an estimated budget of US$250 billion. While concerns loom large over the low oil-price environment, the need for a fully functional logistics sector to support a diversified economy will ensure that the sector continues to receive due attention. The UAE’s logistics sector is expected to grow at slightly slower CAGR of 5.7% during 2015–2020, compared to that in other countries such as Qatar, expected to record a CAGR of 12.5% owing to huge spending for the 2022 FIFA World Cup over the same period. Oman’s logistics sector will also register strong growth, at a CAGR of about 6.9% over the same period. The logistics sector in the GCC region as a whole is expected to register a CAGR of 6.9% over the next five years as regional governments invest heavily in this vital sector.

GCC RAILWAYS: A WORK-IN-PROGRESS INFRASTRUCTURE

- Railways are one of the main pillars of the logistical infrastructure of any country.
- They function as a major conveyance for both passengers and cargo.
- However, the same cannot be said of the GCC.
- The GCC countries have implemented various rail projects.
- The GCC Railway Network is expected to extend 2,177 kilometres in length.
- The project is planned to cost US$250 billion.

RAIL VERSUS ROAD TRANSPORTATION

- One freight train can replace 50 trucks.
- Uses 60%–80% less energy per km compared to roads.
- Safer mode of transport.
- Causes less CO2 emissions compared to road transport.

By 2020, the share of rail in cargo transportation is expected to reach 20%–25% for Saudi Arabia, 15%–20% for the UAE, and 10%–15% for Oman. With various projects underway or planned, the GCC logistics and transportation sector is likely to undergo a major transformation.
ROADWAYS: THE REAL CONNECTOR IN GCC

Road infrastructure plays a crucial role in the GCC inland logistics space, as the railway network is still not established. Therefore, businesses and individuals still have a significant reliance on road transportation. The GCC is estimated to have about 276,252 kilometres of road networks. The availability of low-cost fuel has also worked in favour of roadways as the preferred mode of transport in the GCC. It is estimated that more than 90% of inland freight in the GCC is carried on roadways.

Despite the importance of road transport for logistics in the GCC, the network is not as developed as needed. Road density, which is the ratio of total road network to total land area in a country, is quite low. Also, the road network in three GCC countries is below the global average.

However, the situation is being addressed with major road development projects. Saudi Arabia is leading the race with close to US$35 billion being allocated to various road projects. The largest project is the Riyadh Road Development Project, planned over four phases and costing US$13.3 billion. This project will create 491 kilometres of new roads and 180 bridges, in addition to improving 779 kilometres of existing roads. Another visionary project is a US$5 billion bridge, the Saudi-Egypt Causeway linking Saudi Arabia with Egypt. However, this project is delayed owing to on-going political tensions between the two countries.

Kuwait is also investing US$6.2 billion in the development of road projects covering a distance of 550 kilometres. Key projects include the US$875.8 million Jahra Road development, one of the largest elevated road projects in the world, and the US$789 million Jamil Abdul Nasser Street development to transform the street into a world-class expressway.

Oman is not far behind, investing US$3.9 billion in one of the biggest road projects in the country, the Batrainh Expressway. It will work as an extension of the Muscat Expressway and spans over 265 kilometres to the Oman-UAE border. Additionally, Oman has built the Oman-Saudi Arabia road, which has reduced the distance between two countries by 800 kilometres.

Over next five years, GCC investment in road infrastructure is projected to grow at a healthy rate as GCC governments plan to increase budgetary allocations to fuel employment opportunities, economic growth and diversification efforts.

AIR: GCC SKIES ARE AMONG THE BUSIEST IN THE WORLD

In terms of infrastructure, Saudi Arabia has the highest number of airports in the GCC region with 33, followed by Oman with 10, and the UAE with 9. Kuwait, Bahrain and Oman have two airports each. This is more or less proportionate to the landmass of the countries, as the airports are laid out from a connectivity standpoint.

In 2015, the Middle Eastern airfreight sector expanded 11.3% year-on-year. The freight load factor for the region was 42.8% in 2015, which was quite healthy compared to the global average. Airlines in the GCC region, such as Emirates, Etihad and Qatar Airways, have led the way and expanded their freight networks and increased their cargo capacities.

According to the International Air Transport Association (IATA), the Middle East is expected to be one of the fastest growing regions in terms of passenger traffic, recording a CAGR of 4.6% until 2034. All these factors point towards a strong outlook for the GCC air logistics segments.

Healthy freight load factors will keep the GCC air logistics sector soaring at high altitude.
GCC ports are gateways through which the region trades with the rest of the world; GCC governments are making major efforts to expand and modernise them.
Seaports in the GCC were operating at about 75% of capacity in 2015, with the highest capacity utilization in the UAE at 80%.

GCC logistics sector is highly fragmented, with many players. However, the market is witnessing consolidation through M&A activities.
GCC Logistics Drivers and Trends

Growth Drivers (1/3)

FREE TRADE ZONES: STRENGTHENING THE LOGISTICS SECTOR

A focused approach towards the development of free-trade zones by the GCC nations has been a major contributor to the development of the logistics sector. Also, the promotional policies of free-trade zones have attracted multinational corporations to setup continent-level distribution centres for air and sea modes, thereby boosting the logistics services market.

Saudi Arabia

Saudi Arabia’s General Authority of Civil Aviation (GACA), with the support of other government agencies, is planning to set up free-trade zones at Jeddah and Riyadh airports as part of the long-term plan to diversify the Kingdom’s economy. The free-trade zones would be set up to attract foreign businesses through relaxed licensing, visa and taxation rules across industrial and services sectors.

UAE

Free-trade zones are an established phenomenon in the UAE. Jebel Ali, the UAE’s first free-trade zone, was setup in 1985, and has helped the country to significantly boost its industrial base and diversify its economy. Well over 20 free-trade zones now exist in the country, offering a range of benefits to businesses, such as 100% foreign ownership, 100% import and export tax exemptions, 100% repatriation of capital and profits, corporate tax exemptions up to 50 years, no personal income tax, and assistance with labour and support services. One of the latest free-trade zones is Umm Al-Quwain, set up primarily for SMEs and micro businesses; however, it is also attracting larger businesses.

Oman

To diversify its non-oil revenues, Oman began setting up free-trade zones in 2000. Oman currently has three functioning free-trade zones: at Salalah, Sohar and Al Mazunah. Salalah and Sohar are the larger and more important free-trade zones, and operate major projects. Oman is now building its fourth free-trade zone at the port city of Duqm, which when completed is planned to cover a mammoth 1,777 square kilometres, to serve the tailored needs of heavy manufacturing, tourism, logistics, food packaging, education and fishery industries.

Kuwait

Kuwait plans to build free-trade zones on five of its islands: Boubyan, Failaka, Warba, Miskan and Awha. The planned zones would serve as economic and cultural gateways between the northern Gulf region and Kuwait. These are slated to boost regional and international competitiveness. The proposal includes involving the private sector to finance, execute and operate the free-trade zones.

Bahrain

Bahrain boasts three main free-trade zones: Bahrain Logistics Zone, Bahrain International Investment Park, and Bahrain International Airport. These are suitable for foreign companies intending to use Bahrain as a regional manufacturing or distribution base. These free-trade zones enjoy a robust infrastructure and offer significant investment opportunities for logistical expansion, to help overcome existing trade bottlenecks.

Qatar

Ras Bufontos free-trade zone spans 4.1 square kilometres of land close to the new Hamad International Airport and is specialised for companies operating in the technology, energy, construction, info-tech, and transportation sectors. Two other special economic zones include Um Alhoul and Al Kahaara. Um Alhoul will be a 33.5 square kilometres light manufacturing cluster adjoining the new port project, south of Al Wakrah, while the 38.4 square kilometre Al Kahaara, located halfway between Doha and Abu Samra, targets businesses involved in building materials, machinery and fabrication, specialised spill-over industries, as well as safety, maintenance, and specialised warehousing and logistics activities.

Governments across the GCC are leveraging existing and constructing new free-trade zones to offer a competitive edge to businesses and to help diversify their economies.
A constant demand for better transportation infrastructure from a growing population, and overall development of the GCC region's business and manufacturing sectors, are the factors driving growth in the logistics sector. 

Trade, whether intra-GCC or with the rest of the world, has been a fundamental driver of the logistics sector.
SHORTAGE OF SKILLED LABOUR

The success of the transportation and logistics industry depends significantly on the quality and quantity of the people involved in operating the value chain. Despite strong infrastructure expansion and growth in the logistics market, there is still a lack of skilled labour to support the logistics sector in the GCC. Numerous jobs in the logistics industry, such as those in procurement, sourcing, material handling and transportation, demand different categories of labour for the various roles. The GCC has been heavily reliant on expats for both skilled and unskilled labour, due to shortages in the local human capital market. Therefore, logistics companies are compelled to hire skilled expats who demand higher salaries, leading to cost escalations.

FRAGMENTED MARKET

Being in the early stages of growth, the GCC logistics industry is highly fragmented, with thousands of players either already operating or planning to enter the market. Because of this fragmentation, companies are hesitant to invest in technology because their volatile workloads cannot harness the same cost benefits as larger-scale operations. In addition, high attrition rates, the poor quality of trade and transport-related infrastructure, and inadequate indigenous logistics services also pose big challenges.

However, the GCC transport and logistics industry is witnessing consolidation through significant M&A activity, with Aramex (UAE), Agility Public Warehousing Company (Kuwait), and DP World (UAE) being the most active acquirers.

LOW-DENSITY ROAD NETWORKS

Road density is a measure that calculates the ratio of the length of a country's total road network to its land area. It helps in comparing a country's road infrastructure with other countries. As the most developed nations in the GCC, the UAE and Saudi Arabia still lag behind other countries as their road density is below 20 kilometres per 100 square kilometres. Road density in developed and developing countries such as Germany (180 kilometres), UK (172 kilometres), India (143 kilometres), Japan (98 kilometres) and US (67 kilometres) are much higher. On the other hand, smaller states like Bahrain, Kuwait and Qatar have above-average road densities compared with global benchmarks.

Poor road network density escalates the cost of transportation, both in terms of money as well as time, thereby causing difficulties in the integration of various regions within the GCC economy.

FUNDING CHALLENGES

The GCC’s substantial dependency on the oil trade has led it to face numerous challenges brought about by the oil price decline. Due to sluggish demand in China, political unrest in Iraq and Libya, and shale gas discoveries in the US, oil prices halved from US$110 per barrel in 2014, to around US$55 per barrel in 2015. In Bahrain, foreign investors are no longer willing to buy into stalled infrastructure projects worth US$795 million, due to low returns on account of falling oil prices. However, Saudi Arabia, the UAE and Qatar are better shielded from the effects of falling oil prices due to larger and more mature domestic banking systems, better access to international markets and larger sovereign wealth funds.

The GCC logistics industry is facing typical growth phase challenges such as skilled labour shortages, low road densities, and the lack of economy of scale associated with a fragmented market.

While the current geopolitical concerns and softening of oil prices has resulted in tightening of liquidity within the GCC, it has also created the need for more holistic growth within the region. This has enabled the GCC countries to focus on a long-term vision of diversification and sustainable development. With new opportunities expected to open up in flourishing industries, the outlook for the GCC's logistics sector is stable.

- Shailen Shukla, Head of Logistics, Jumbo Group, 2016
Trends in logistics

GCC TRENDS

Contract Logistics

The dominance of integrated service providers is a major trend in the GCC market, with the sector slated to expand by 33% in the MENA region by 2017. By outsourcing the logistics part of their operations to 3PL or 4PL providers, companies can focus on improving their core competencies while saving time and money. Moreover, increased competition has necessitated outsourcing to help companies maintain their position in the market. 4PL is the next step in the evolution of the logistics industry, as more customers require partners to share risks and gains.

IoT & Smart Logistics

The Internet of Things (IoT) is rapidly gaining ground in the logistics sector in the GCC, with companies implementing enhanced connectivity technologies to increase efficiency in port and road logistics. IoT offers traders a mobile, round-the-clock application platform that gives them real-time information from any geographical location. This in turn leads to better traffic management in and around port areas, and reduced waiting times at the docks. As an example of a successful IoT implementation in Dubai, part of a "Smart Port" initiative, active RFID (radio-frequency identification) tags have been issued to trucks transporting cargo to and from Jebel Ali terminal. The UAE and Qatar will also invest significantly in the development of IoT, with the GCC’s cloud market set to grow from US$118.5 million in 2014, to US$668.5 million by 2020.

Autonomous Vehicles

Autonomous vehicles are capable of sensing their environment on the basis of global positioning systems (GPS), radar, sensors and software, and navigate without human input. The technology of autonomous trucks holds great promise in the GCC as it can infuse a lot of efficiency in the road freight industry by reducing a large number of low-value expat jobs and creating high-value digital technology jobs for GCC nationals. Most of the freight in the GCC moves by truck, with more than one million trucks currently in operation, and this number has been growing at 5%-9% year-on-year since 2012. Experts believe that this trend would change the face of the GCC logistics industry, providing great cost savings and technological advantages to trucking companies in the region.

Development of Rail Network

The Gulf region’s railway landscape is set to transform due to the vast number of projects in planning and already underway. The need to balance out excessive dependence on roadways, save on fuel costs, and lower environmental impact has necessitated huge investment towards the development of railways in the GCC region. Over US$200 billion have been earmarked for investment in constructing thousands of kilometres of new railway lines across the GCC. Saudi Arabian Railways is building a massive rail network of 5,000 kilometres to strengthen its existing road connectivity.

Contract logistics, integration of technology with logistics delivery, and smart port concepts are transforming the face of the GCC logistics industry.
Opportunity Assessment: Projects

STRONG PROJECT PIPELINE ACROSS GCC AND OMAN

To reduce reliance on oil revenue, GCC economies have been adopting policies that support economic diversification. Heavy investments in non-oil sectors, such as construction, transport, power, and rail infrastructure, have resulted in a constant flow of projects in these sectors. This in turn is expected to drive demand for logistics and transportation services in the GCC region.

In Oman, over the next six years, investments worth US$100 billion are projected across sectors such as transport, construction, oil and gas, and chemicals, driven by heavy government spending. During 2015–2021, investments worth US$15 billion are targeted for construction projects, backed by plans to develop hotels, new roads and highways. While in the power sector, the focus will be on developing renewable infrastructure, have resulted in a constant flow of projects in these sectors. This in turn is expected to drive demand for logistics and transportation services in the GCC region.

Transportation forms a major investment focus in Oman. Investments in the Oman National Railway Project will exceed US$15 billion, once the project is restarted. The railway network will cover 2,135 kilometres and links Oman’s borders with the UAE to the capital, Muscat. The network will also connect to the southern parts of the country: Port of Duqm, Port of Salalah, and the border with Yemen. The project will include both freight and passenger trans. All these projects have fuelled demand for port logistics services. But some of these projects are getting delayed owing to funding issues. Any such delay in the implementation of these projects is likely to impact Oman’s logistics sector.

Opportunity Assessment: Oman Trade Overview

OMAN TRADE OVERVIEW

Oman, with its stable political and social environment, has a substantial trade surplus. The country has successfully built a competitive and low-cost economy in terms of production of goods. Oman’s diversification efforts have resulted in it starting to become an important contributor to global trade. Oman became part of the World Trade Organización (WTO) in 2000. It also signed a free-trade agreement with the US in 2006, which came into effect in 2009, with the primary objectives of:

- Eliminating most tariff and non-tariff barriers
- Expediting the movement of goods
- Strengthening protection for investors
- Protecting intellectual property rights and labour

Additionally, Oman has signed other FTAs

As part ofGCC
Signed free trade agreements with Syria (2005), Singapore (2008) and EFTA (2009)

As part ofGCC
Planning to establish with Australia, China, Mercosur, Japan, Jordan, Korea, Turkey, New Zealand, India,

Individually USA (2006)

All the abovementioned initiatives have boosted Oman’s trade environment. During 2011–2014, total trade recorded a CAGR of 9.2% to reach US$80 billion in 2014. Between 2010 and 2013, Oman’s total exports increased by 15%, while imports increased by 25%. Trade activity declined in 2014, mainly owing to a sharp drop in oil prices.

Oman’s external trade is dominated by oil exports, which account for the lion’s share of total exports. Other exports include petroleum products, certain re-exports, metals, as well as textiles and fish to Asian countries such as China, Korea, and Japan. Imports are also rising owing to heavy investments, and include food, machinery, transport equipment, and livestock from the UAE, Japan, China, the US and India, among others. Furthermore, on the back of heavy investments, exports are expected to rise to US$4.349 million and imports will increase to US$3.624 million by 2020.

Oman’s projects exhibit more diversity, with key sectors including transportation, construction, oil and gas, and chemicals.

Oman: Value of Contract Awards by Year, 2008–2021 (US$ Bn)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Awards</th>
<th>2008-2014</th>
<th>2015-2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>7</td>
<td>164</td>
<td>200</td>
</tr>
<tr>
<td>2009</td>
<td>9</td>
<td>222</td>
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<tr>
<td>2020</td>
<td>17</td>
<td>312</td>
<td>217</td>
</tr>
</tbody>
</table>

Compared with most of its GCC counterparts, Oman’s projects exhibit more diversity, with key sectors including transportation, construction, oil and gas, and chemicals.

While recent oil-price declines affected the Oman economy overall, steady investments in infrastructure, logistics, and various downstream sectors will help to create a more balanced economy.
Opportunity Assessment: Oman Logistics Market

OMAN LOGISTICS MARKET

Oman serves as a transhipment centre, by sea, and is an ideal gateway for moving goods by land into the interior of Saudi Arabia, the UAE and Yemen. Additionally, it shares marine borders with Pakistan and Iran. In 2015, the logistics sector contributed 4.9% to Oman’s GDP. Oman’s logistics market is expected to rise at a CAGR of 6.9% to reach US$12 billion by 2020.

Oman’s government has concentrated on the logistics and transportation sector through the Oman Logistics Plan 2020, and the Oman Logistics Strategy 2040. These plans aim to improve soft infrastructure, including the necessary regulatory environment, support mechanisms and national institutions, to catapult the Sultanate into the top ten of the world’s most logistics-friendly economies by 2040. Additionally, the government has undertaken several infrastructure projects, including Sohar port and free-trade zone, Salalah port and free-trade zone, Al-Maunsah free-trade zone and Muscat Knowledge City - the latter is Oman’s flagship technology park aimed at promoting entrepreneurial ventures.

With its strategic location and government focus on developing well-planned free-trade zones, Oman’s logistics sector is set to prosper at a CAGR of 6.9% during 2015–2020 to reach a total market size of US$12 billion.

SOHAR Port and Freezone

SOHAR PORT AND FREEZONE: BENEFITS

Sohar Port and Freezone is a deep-sea port, located roughly 220 kilometres northwest of the Sultanate’s capital of Muscat and about the same distance from Dubai. Setup in 2001 the port is managed by Sohar Industrial Port Company (SIPC), which is a 50:50 joint venture between the government of the Sultanate of Oman and Port of Rotterdam. The port received its first ship in 2004. The port and the adjacent free-trade zone offer modern infrastructure and operate on a landlord-tenant model, with the port and free-zone authorities acting as the landlord. In addition to the Government of Oman and Port of Rotterdam, SIPC, infrastructure from India holds a small minority share in Sohar free-zone as the provider for local labour requirements. Today, the port handles over 2,500 ships and well over 50 million tonnes of cargo a year. Sohar Airport opened recently, offering an additional air freight cargo link to other GCC states, with an initial planned capacity of 50,000 tonnes/year.

Sohar Port and Freezone focuses on key industries around four main clusters: petrochemicals, food, metals and logistics. From the outset, it partnered with leading international providers to help setup and operate its terminals: Oiltanking Odfjell for bulk liquid and gas storage; Hutchison Whampoa for containers; C. Steinweg for general and project cargo and stevedoring; Vale who operate the dry bulk jetty and the adjacent iron ore pelletizing plant; and Svitzer who operate the tugs and other marine services. In recent years, MIO has offered bunker fuel services at the port, including highly successful ship-to-ship transfers in the offshore anchorage area. The free-zone includes a cluster for ready built warehousing and offers an ideal hub for 3PL logistics providers; these include Saudi-owned WPL Group who were among the first specialised logistics companies to rent land there.

Sohar Port and Freezone are setup to operate in symbiosis, with the port providing ample supplies of feedstock for industry and seamless logistics facilities for the export of any type of finished product through the port’s terminals. Thanks to massive infrastructure investments, the Oman logistics hub also provides excellent, uncongested road and air access to all other GCC countries. Additionally, Sohar provides easy access to emerging markets such as East Africa and the Indian sub-continent, as well as to adjacent Iran.

SOHAR Port and Freezone: Strategic Location

Sohar Port and Freezone is located outside the Strait of Hormuz, which helps to avoid the increased insurance premiums associated with passing through this narrow and congested waterway. Furthermore, it offers easy accessibility via road systems, connecting to different parts of Oman as well as to other major GCC economies, such as the UAE and Saudi Arabia.

Sohar Port: New Gateway to Gulf

Sohar Port has witnessed double-digit growth every year over the past ten years and is one of the fastest growing ports in the world, with investments today totalling US$25 billion. In 2015, it handled over 50 million tonnes of cargo, 12% more than in 2014. The closure of port Sultan Qaboos in the capital Muscat, in 2014, helped to consolidate volumes in Sohar and achieve a further growth of 18%. The new container terminal opened in 2014. In the first-half of 2016, container traffic saw continued year-on-year organic growth of 18%. The new container terminal in Sohar is equipped for 1.5 million TEU and uses remote-controlled quay cranes that are ready for next generation 20,000 TEU container vessels. A new and fully automated, 6 million TEU terminal is in the final planning stages and is due to start construction by 2019.

With its strategic location and government focus on developing well-planned free-trade zones, Oman’s logistics sector is set to prosper at a CAGR of 6.9% during 2015–2020 to reach a total market size of US$12 billion.
SOHAR Port and Freezone (2/2)

SOHAR PORT AND FREEZONE: PROVIDING OPPORTUNITIES

Oman is gearing up to take full advantage of its favourable geographic location by investing heavily in infrastructure, and SOHAR Port and Freezone is at centre of its plans. The significant investment in railway infrastructure integrating the three main deep-water ports with the entire country will be a major boost for Oman. The ports will be directly connected to different parts of Oman as well as to other major GCC economies, such as the UAE and Saudi Arabia, thereby bypassing the Strait of Hormuz.

Moreover, a major dual-carrigeway road is being constructed in Oman and Saudi Arabia, linking Iblb and Haradh-Batha road. This combined road network will reduce the distance to Saudi by more than 800 kilometres and the truck journey time by up to four days, and will serve as a key connector between Riyadh and Sohar, further increasing the viability of doing business through Oman’s main port.

Apart from boosting direct connectivity with Saudi Arabia and the UAE, the Sohar port and free-zone also emerges as a particularly good value-for-money proposition for exporters and importers, when compared with some of the other ports in the region, having among the lowest operating costs.

Port of Sohar - Key Characteristics

- Major Clusters
  - Logistics
  - Petrochemicals
  - Metals
- Ownership: 100% foreign ownership for Freezone tenants

<table>
<thead>
<tr>
<th></th>
<th>SOHAR</th>
<th>Jebel Ali</th>
<th>Hamriyah</th>
<th>KIZAD</th>
<th>Ras Al Khaimah</th>
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</thead>
<tbody>
<tr>
<td>Power (USD / kWh)</td>
<td>0.04</td>
<td>0.09</td>
<td>0.12</td>
<td>0.04</td>
<td>0.11</td>
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<tr>
<td>Open land (USD / sq m)</td>
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<td>5.44 - 21.78</td>
<td>6.81 - 10.89</td>
<td>2.72 - 6.81</td>
<td>9.53 - 13.61</td>
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<tr>
<td>Registration FZ company (USD)</td>
<td>2,700 - 4,100</td>
<td>4,100</td>
<td>2,500</td>
<td>1,400</td>
<td>1,900</td>
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<tr>
<td>General trade license (USD)</td>
<td>7,800</td>
<td>8,200</td>
<td>3,300</td>
<td>1,400</td>
<td>4,100</td>
</tr>
</tbody>
</table>

With its strategic location and government focus on developing well-planned free-trade zones, Oman’s logistics sector is set to prosper at a CAGR of 6.9% during 2015–2020 to reach a total market size of US$12 billion.

Thanks to a well-established metals cluster, lower costs and better connectivity to the UAE, Saudi Arabia and Iran, the biggest regional producers and consumers of iron and steel, Sohar port is ideally placed to facilitate iron and steel trade in the region.

About SOHAR

SOHAR Port and Freezone is a deep sea port and free zone in the Middle East, situated in the Sultanate of Oman midway between Dubai and Muscat. With current investments of US$25 billion, it is one of the world’s fastest growing port and free zone developments and lies at the centre of global trade routes between Europe and Asia.

SOHAR provides unequaled access to the fast diversifying economies of the Gulf and Iran, while avoiding the additional costs of passing through the Strait of Hormuz. The existing road network and airport and the future rail system provide direct connectivity to the UAE and Saudi Arabia, as well as to the rest of the world.

Equipped with deep-water jetties capable of handling the world’s largest ships, SOHAR has leading global partners that operate its container, dry bulk, liquid and gas terminals including Hutchison Whampoa, C. Steinweg Oman, Oiltanking Odfjell and Svitzer. SOHAR Port and Freezone is managed by Sohar Industrial Port Company (SIPC), a joint venture between Port of Rotterdam and the Sultanate of Oman.

Find out more at: soharportandfreezone.com

About MEED Insight

MEED Insight is the consulting arm of the MEED business. We provide bespoke market research, business plans, feasibility studies and corporate strategy development studies to help our clients make more informed and profitable business decisions. MEED Insight has access to a wealth of regional information ranging from broad macroeconomic statistics, to specific sector data to help our clients accurately and cost effectively forecast market growth and trends.

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