

WAREHOUSES

Worker safety
precedes all

INTERVIEW

Agility Iraq bolster's
local training

WHEELS OF TRADE

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Dubai's roads

MIDDLE EAST LOGISTICS NEWS

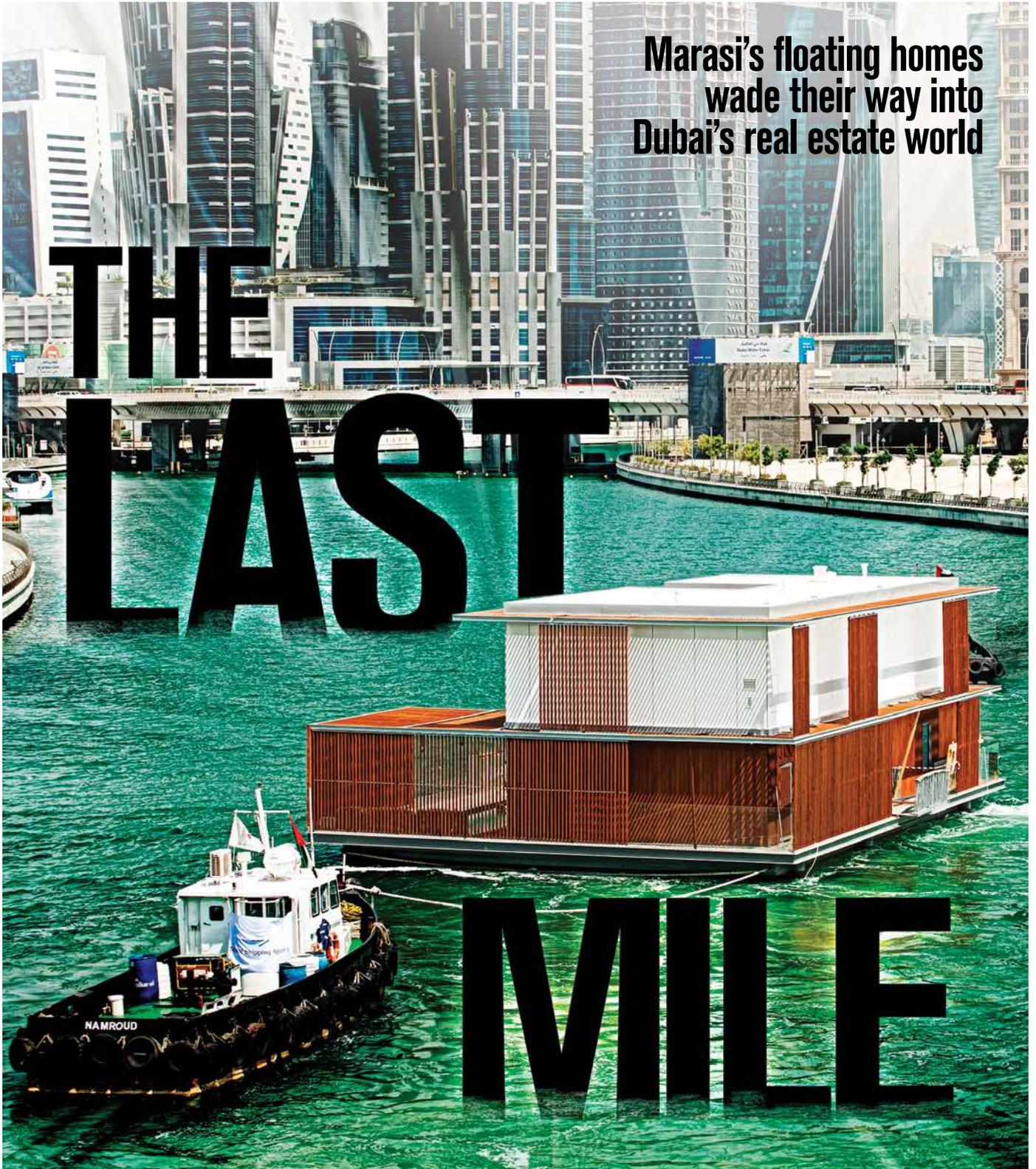
CONNECTING TRADE PROFESSIONALS WITH INDUSTRY INTELLIGENCE

OCTOBER 2017

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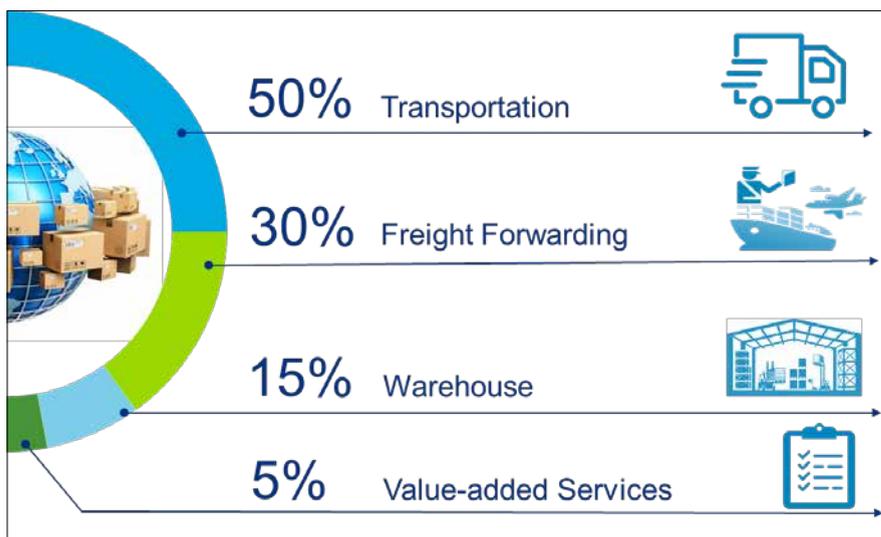
**THE
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MILE



KINGDOM OF WAREHOUSES

Vishal Pandey, director at Glasgow Consulting Group, comments on the trends in the rapidly expanding warehousing and value-added services sector in Saudi Arabia



Saudi Arabia is one of the leading countries in terms of logistics and warehousing in the GCC region. The growth of various sectors including manufacturing, retail, and trade activity is driving the logistics industry's growth. The Kingdom's logistics market can be categorised into four segments – transportation, freight forwarding, warehousing, and value-added services (VAS). In 2015, the transportation segment dominated the logistics market in Saudi Arabia, accounting for 50% of the \$19bn market. The Kingdom's logistics market is expected to expand at a compound annual growth rate (CAGR) of approximately 5.7% during 2015–2020; new infrastructure developments and the Kingdom's proximity to regional markets are the major growth drivers. The country ranked fifth in the 2017

Emerging Markets Logistics Index. Saudi Arabia is situated at the crossroads of important international trade routes, between three continents – Asia, Europe, and Africa. This strategic location makes the kingdom an ideal logistics hub.

Under Saudi Arabia's Vision 2030 and National Transformation Plan, the government is investing heavily in infrastructure development. Also, the government is upgrading the Kingdom's ports to equip them to more efficiently handle the increasing numbers of ultra-large container vessels traversing the global shipping routes. The government's plan to establish new free trade zones, the country's proximity to regional markets, high trade volumes, and multiple projects in pipeline are some of the major factors boosting the Kingdom's logistics industry.

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Vishal Pandey, Glasgow Consulting Group

3PL MARKET

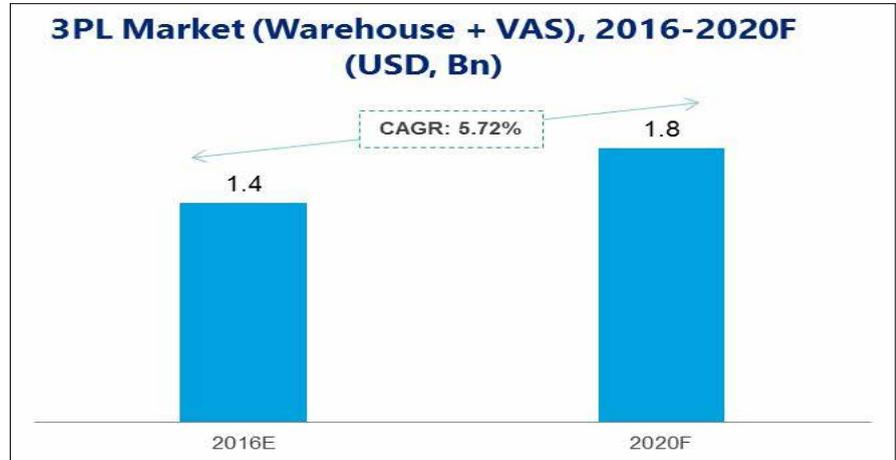
The 3PL market in Saudi Arabia is expected to expand at a CAGR of 5.7% over 2016-2020. Factors such as enabling cost reduction, availability of specialised service providers, presence of industrial zones, and increasing industrialisation are driving this market. Warehousing and VAS are the major components of the 3PL market. 3PL contributes 7% to 10% to Saudi Arabia's overall logistics market. The market is characterised by the presence of a large number of unorganised local, and international players. Most of the international companies seeking industrial premises in Saudi Arabia look for world-class warehousing space; however, owing to a limited supply of top-notch warehousing facilities in the country, they prefer leasing land and constructing facilities according to their specific requirements. This could hamper the country's 3PL services industry.

WAREHOUSING

In 2015, the Saudi Arabian warehousing market accounted for 15% of the logistics market, at \$2.85bn. In Saudi Arabia, warehousing is of four types: dry, frozen, ambient, and hazardous. Of these, dry warehouse is the most common type. Dry warehouses store dry goods, such as consumer goods, textiles, and certain food grains, which do not require specific temperatures. Frozen warehouses are used for storing goods that require low temperatures, such as seafood, poultry, and select pharmaceutical products. Ambient warehousing is ideal for storing goods that require room temperature, such as electronic equipment, plastics, packaging, construction materials, and auto parts. Hazardous warehouses store materials such as compressed gas, oxidisers, combustible liquids, and radioactive products. With regard to expenses involved in storage, the cost is higher at frozen warehouses owing to higher compliance, investment, and energy needs, while it is lower at dry warehouses owing to lower regulatory requirements.

Hazmat warehouses, on the other hand, are used for storing hazardous materials. Hazardous materials could be raw materials or finished goods that produce harmful physical effects such as sudden release of pressure, fire, radiation, acute health effects such as burns, and chronic effects such as organ damage, among others. As the storage of hazardous materials involves high risk, these are highly regulated. In Saudi Arabia, special permission from the Ministry of Interior and Civil Defense is required to build a hazardous warehouse.

Competition is low in hazmat warehousing, with only a few players operating in this space. The low competition intensity could also be attributed to the requirement of specific expertise



Vision 2030

Under its Vision 2030, Saudi Arabia has made significant efforts to reduce its dependence on oil and diversify its revenue stream. This development is expected to benefit the country's chemical industry. A major development on this front is the \$20 billion JV between Saudi Aramco and Dow Chemical for manufacturing performance plastics and specialty chemical products. This JV will lead to increased production of chemicals, presenting significant growth opportunities for hazmat warehouses.

Industrial Cluster Program

Saudi Arabia aims to leverage the availability of abundant hydrocarbons at competitive prices in the country. The government has initiated an Industrial Cluster Program which is focused on investment and growth in five key industries – metals and minerals, automotive, plastics and packaging, home appliances, and solar energy. All these industries are heavily reliant on chemicals. For instance, chemical-based fluids are used for processing of metals and minerals. The growth of these industries will augment the demand for hazmat



Focus on Manufacturing Sector

Saudi Arabia's manufacturing sector has registered a healthy average growth of 7.5% (Mordor Intelligence). The government is strongly focused on developing its manufacturing industry and plans to invest ~\$70 billion for developing support infrastructure. Moreover, the surge in manufacturing activity in the country will increase the demand for chemicals, propelling the demand for hazmat warehouses.

and strict regulations. However, factors such as high bargaining power of suppliers, low threat of substitution, coupled with healthy margins (25% to 35%) are expected to attract more players into this space and increase competition. DHL, Agility, LSC, GAC, and WPL are some of the players providing hazmat warehousing services in Saudi Arabia.

The success of the logistics industry and hazmat warehousing segment hinges on various factors within and outside the country.

Internally, in the post 2011 period, Saudi Arabia witnessed a decline in its real GDP growth rate and has been unable to surpass its 2011 growth levels. In May 2016, the International Monetary Fund revised its growth estimate for Saudi Arabia down to 1.2%. The drastic fall in global oil prices also remains a major concern. In addition, Saudi Arabia faces challenges such as rising unemployment (unemployment rate rose to 12.7% in Q1 2017) and constant geo-

political tension. However, various reforms introduced by the government under the Kingdom's Vision 2030 and increased participation of the private sector are expected to stimulate the economy, boosting trade in the country.

Given the high level of globalisation, improvement in the global economy, and economies of the major trade partners will play a vital role in augmenting trade prospects for Saudi Arabia and its logistics industry and hazmat warehousing segment. The gradual economic recovery in Europe, declining unemployment rate in the US, and high growth registered by India and China are some of the factors that can favor a positive trade environment for Saudi Arabia.

With several factors, such as an array of economic reforms and expected increase in consumer demand at play, we can expect steady growth for Saudi Arabia's logistics industry and hazmat warehousing segment during 2017-2020. ■