Beyond DUBAI

While Dubai and the rest of the UAE remain essential to supply chain strategy in the MENA region, analysts believe that there's more to the story. In fact, U.S. shippers are being asked to take a look at other important markets in the region, such as the Kingdom of Saudi Arabia and Egypt before making shipping and sourcing decisions.

By **Patrick Burnson**, *Executive Editor*

For a few years, it appeared that the Middle East and North Africa (MENA) region was going to be the exception to the global economic meltdown. Then came news that Dubai World was debt-ridden, thereby threatening the likelihood that the region would be spared the consequences of the international financial crisis. As a result, industry analysts are being a bit more cautious in their evaluation of risk and reward.

Still, the continued economic development of MENA has led to increased demand for logistics outsourcing services, from both multinational and local firms, says Adrian Gonzalez, director, executive logistics council at Boston-based ARC Advisory Group.

"The third party logistics industry in MENA is currently highly fragmented and local regulations and constraints present logistics service providers and customers with unique challenges," Gonzalez says. "Nonetheless, pan-regional service providers offering end-to-end logistics services are starting to emerge, which will further accelerate the growth of the outsourcing industry."

According to Gonzalez, the market still has many small players providing "point solutions." At the same time, local regulations and constraints—such as labor availability and land ownership laws—present logistics service providers and customers with unique challenges.

While the petroleum sector represents a significant portion of MENA's economic activity, Gonzalez adds that the manufacturing and retail sectors are also on the rise. At the same time, the Kingdom of Saudi Arabia (KSA), for example, is taking steps to grow its private sector, especially in power generation, telecommunications, and petrochemicals. Its $80 billion investment in the King Abdullah Economic City (KAEC) exemplifies this commitment.

"KAEC aims to become the single greatest enabler of social and economical growth for the Kingdom of Saudi Arabia," Gonzalez says. "It has planned infrastructure investments to promote the manufacturing sector, including plastics, computer-chip manufacturing, and sectors using raw materials such as steel, wood, and paper."

Seeking Saudi solutions

Gonzalez and other analysts point to Wared Logistics—which entered the Saudi Arabian 3PL market last year—as further evidence that the region shows great promise for both shippers and their logistics providers.

Zahid Holding Group and Construction Products Holding Company (CPC) formed Wared last year and recruited Brian McHale to be the CEO. McHale is a transportation and logistics veteran who formerly worked for Menlo Worldwide Logistics and Ryder Integrated Logistics.

"The Emirates has the brand in terms of being the entry point of choice for shippers who value a free trade zone," McHale says. "But Saudi Arabia really offers more advantages once shippers want to distribute goods in MENA. Roads and highways are better developed, and rail links are being built for anticipated growth."

With Volvo and Caterpillar comprising two of its key clients in the construction sector, Wared has developed a network of 12 distribution centers in Jeddah, Dammam, Medina, Jubail, Qassim, with future plans for facilities in Riyadh and Jeddah.

"The combined strength of CPC and Zahid Holding Group enables us to operate transportation hubs, warehouses, and distribution centers in multiple geographies—not just Saudi Arabia," says McHale. "We're also in UAE, Syria, Lebanon, and Egypt."

Indeed, Egypt shows tremendous promise given its huge population concentration and access to multinational shipping and sourcing of goods through the Suez Canal. McHale references a case study done recently with Gonzalez and ARC Advisory Group on how his company is currently working with General Electric to move large-scale items like turbines, generators, and transformers from vendors around the world through the Suez Canal.

"You have to ensure compliance with Egyptian customs regulations and also comply with Saudi Arabia's," McHale adds. "Different rules exist even within the MENA trading framework. Having someone inside to facilitate the process is very important because it's not something an outside party can master overnight."

Red tape runneth over

Red tape procedures generated by customs authorities is only one of the challenges facing 3PLs and shippers wishing to generate new business in the MENA region, say analysts for Transport Intelligence (Ti), a London-based logistics think tank.

The other major drawbacks of the region consist of overcoming inefficient trucking and transport services and low outbound export volume leading to long shipping times and the need for costly inventory accumulation.

"Conventional players who have been able to consolidate their positions now enjoy a competitive advantage, as it's harder for new entrants to penetrate the market and build an effective opera-

EMIRATES SKYCARGO SEES BRIGHTER FUTURE

While news of late has been on the financial crisis in the Middle East, the flagship air carrier of the region maintains that it is not at risk. Indeed, in the first-half of its financial year 2009-10, Emirates reported robust business growth year-to-date in available capacity and in cargo bookings.

In an exclusive interview with *Logistics Management*, Robert Siegel, regional manager of cargo commercial operations for Europe and the Americas, provided some additional insight to the year gone by as well as his forecast for the future.

LOGISTICS MANAGEMENT: ***IATA researchers suggest that there is a soft recovery in air cargo. Do you agree?***

ROBERT SIEGEL: Yes, the recovery process started in the last quarter of 2009 and it has been stronger than we had expected.

LM: ***Can you share your forecast for the coming year?***

SIEGEL: We are cautiously optimistic. Indications are that this year will be as strong as the final few months of 2009. Early March will likely set the scene for the first half of 2010. We are expecting steady growth in the second half of the year.

LM: ***Which commodities are driving this trend?***

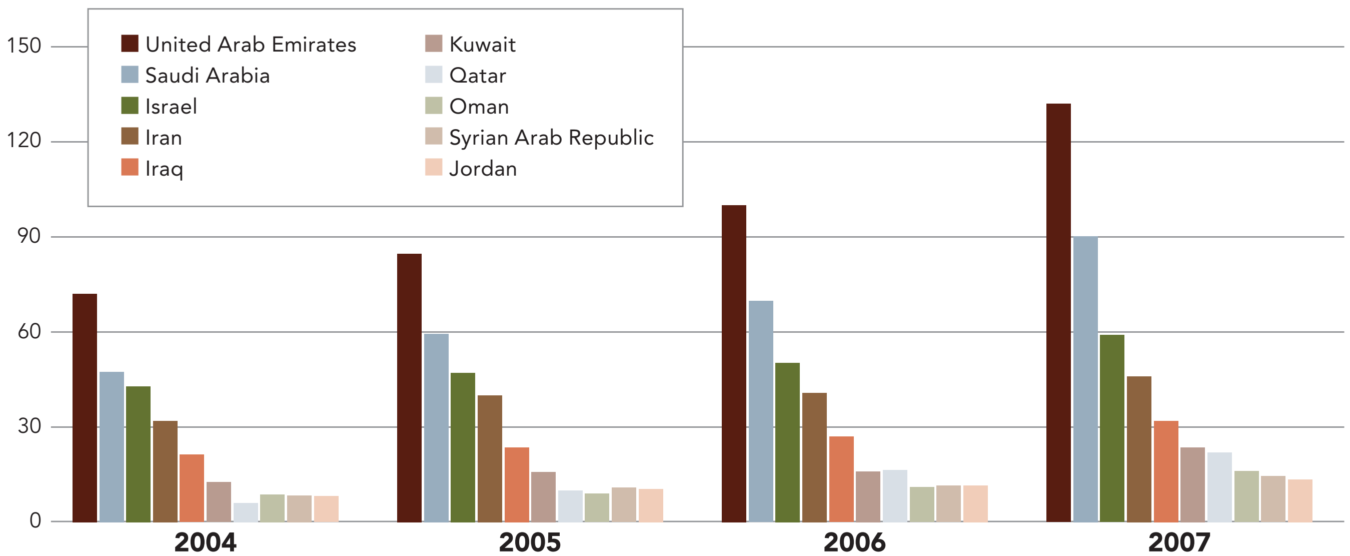
SIEGEL: Electronics, laptops, and cell phones out of the Far East have picked up tremendously in the last quarter. Some commodities such as perishables were more resilient to the downturn. We carried strong loads of fruits, vegetables, and pharmaceuticals throughout 2009.

LM: ***Will Emirates be adding capacity this year?***

SIEGEL: Yes. In terms of new routes, in March we launch passenger flights to Tokyo and in May to Amsterdam, although we have been operating freighters to Amsterdam since 1994. We will also continue taking delivery of new aircraft, which we will deploy on existing routes. Sixty five percent of our freight travels in the belly hold of our passenger aircraft, the other 35 percent in our eight freighters.

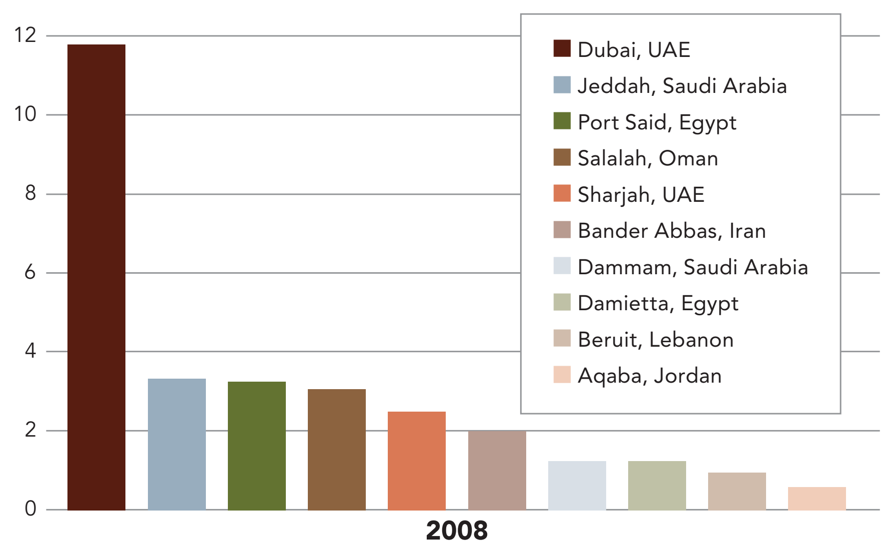
—Patrick Burnson, Executive Editor

Middle East Logistics 2009: Leading Merchandise Importers (US$bn)



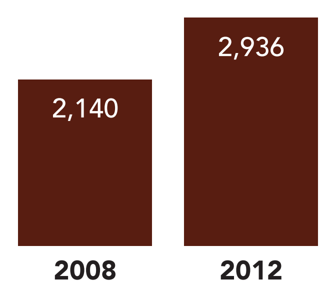
Source: World Trade Organisation

Middle East Transport & Logistics Markets: Top 10 Middle East Ports (mTeu)



Source: Transport Intelligence

Middle East Contract Logistics Market Size Forecast 2012 (€m)



Source: Transport Intelligence

Following strong growth in 2008, many economies in the region are due to contract in 2009. For example United Arab Emirates' GDP grew by 7 percent in 2008, but is forecast to fall by 1.4 percent in 2009. However after this, the prospect for stronger growth is good.

tional and terminal network," says John Manners-Bell, Ti's CEO.

He echoes other analysts in noting that the MENA ports system is dominated by the UAE, which accounts for around 50 percent of throughput. The bulk of these are trans-shipped from Asia Pacific destinations for onward distribution to Europe and North America.

"Located strategically between Europe and the Far East, UAE ports have been the preferred choice of location for a wide range of multinational companies," says Manners-Bell. "As the commercial and maritime center of the Middle East region, UAE has been very proactive in recognizing its strengths in the global market. The country has also embarked on a program of attracting investments into its free trade zones, particularly a wide range of manufacturing and service activities."

Manners-Bell also notes that the profile of import origins is very different from that of export destinations, with some 32 percent of imports by value coming from Europe, while a further 31 percent comes from Asia. This has made forecasting for the contract logistics market still more daunting.

"Following strong growth over the past two years, many economies in the region are due to contract now," says Manners-Bell. "For example, UAE's GDP grew by 7 percent in 2009, but is forecast to fall by 1.4 percent in 2010. However, after this, the prospect for stronger growth is good. Many oil rich countries are able to invest in substantial stimulus packages that will involve major construction projects. With the recovery of the global economy, the region will benefit from an increase in oil and gas prices as well as air and sea freight volumes."

Ti sees that Saudi Arabia, with its petrodollar revenues, has shown recent commitment to reforming and improving its transport sector, and believes that its current policy agenda—including greater private sector involvement—should bring results. Oil and gas exports will be the drivers of foreign trade. Although the pace of trade growth will ease, tanker exports will remain dynamic with infrastructure projects helping to expand transport capacity and boost demand for cargo.

"The international focus on Saudi Arabia's logistics industry has increased with companies such as DB Schenker, TALKE Logistics, and Kuehne + Nagel continuing to invest in the local market," says Manners-Bell. "The local government has embarked on an investment program, funding the development of several warehousing and transportation hubs throughout the country, from the $8 billion Prince Abdul Aziz bin Mousaed Economic City in the northern city of Hail to the $26.6 billion King Abdullah Economic City in the western coast of Rabigh."

Importance of supply chain increasing

Both Ti and ARC analysts say that most local companies believe that the importance of supply chain management is increasing, with logistics operations being considered the second most important business function after sales and marketing.

There is, however, a traditional reluctance in the region when it comes to outsourcing these operations. This is changing, with increased diversification from oil-based activities.

"One of the major challenges facing shippers is the limitation of relevant skills and capabilities in the local workforce that is resulting in low-levels of success when implementing supply chain operations in-house," says Manners-Bell. "Another challenge that has been identified is the low-level of collaboration, both upstream and downstream, between suppliers and customers."

Wared, and a number of other multinational 3PLs, are currently trying to change that reality. L

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