



Flanders
State of the Art

A 3D rendering of a modern warehouse conveyor belt system. Multiple blue metal tracks with silver rollers curve through the space, carrying several brown cardboard boxes. The boxes are arranged in a line, moving along the tracks. The scene is brightly lit, highlighting the metallic surfaces and the texture of the cardboard.

THE LOGISTIC SECTOR IN SAUDI ARABIA

FLANDERS INVESTMENT & TRADE MARKET SURVEY

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THE LOGISTICS SECTOR IN SAUDI

ARABIA

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1. IMPORTANCE AND DEVELOPMENT OF THE LOGISTICS SECTOR

1.1 A STRATEGIC GROWTH SECTOR

Reading the present economic situation in Saudi Arabia, the logistic sector with its pillars aviation, roads & transport, railways, warehousing & marine, is expected to be a key factor helping the Saudi economy to continue to grow in the near future. The aim is to create more direct investment opportunities in the country and increase exports to amount to SR600 billion (\$160 billion), as well as finding industrial expertise and qualified national cadres to face market challenges.

Saudi Arabia is already considered to be an important international logistics hub because of its central geographical location at the crossroads of the main international trade routes, amidst three continents Asia, Europe, and Africa, in addition to its size and its large economy on the Arabian Peninsula. However, location and size are not sufficient to be considered an important logistics hub. Therefore, the country has taken up an ambitious plan to improve its logistics infrastructure with specialized facilities and new economic zones. This plan - the [Saudi Vision 2030](#) - was launched by Crown Prince Mohammed bin Salman in 2016 to reduce the Saudi dependence on oil. It encompasses a nine-point strategy of process streamlining, market liberalization, privatization, infrastructure enhancement, the establishment of new free economic zones and governance and regulatory reforms to maximize its strategic advantage to evolve into the “go-to logistics hub” for the Middle East region.

Out of all Middle Eastern and North African (MENA) countries, Saudi Arabia has witnessed the biggest changes and activity in the logistics industry during the last 2 to 3 years. In the last two years, the market grew by US\$ 18 billion, which amounts to 55% of the total logistics market for all the GCC-countries¹, and is expected to witness high growth to reach US\$ 25bn by 2020, making the Kingdom's logistics sector one of the fastest growing logistics sectors in the world.

The Kingdom has recently developed the logistics sector through a capital investment of more than SR400 billion (US\$ 106bn). This allowed an increased capacity in land, air and maritime cargo, in addition to the development of and simplification of the import/export operations and the removal of all restrictions related to logistics operations.

¹ Gulf Cooperation Council: Bahrain, Kuwait, Oman, Qatar, UAE, Saudi Arabia.



1.2 FUTURE PROSPECTS

The Saudi Ministry of Transportation is planning to launch a number of promising projects to stimulate the sector. One of them is the Integrated Logistics Bonded Zone (ILBZ) at King Khalid International Airport in Riyadh. This project is considered to be the first economic zone in the Kingdom with its own set of regulations, registration and incentives designed to attract new investors.

The prospects for growth of the Saudi logistics industry look promising over the next five years as economic diversification, policy reforms, tax regimes, and foreign direct investment (FDI) policies are shifting in favor of an open economy and encouraging private investment. Until recently, Saudi Arabia was a closed market. However, recent initiatives on economic diversification have opened doors to industrial, retail, and logistics players around the world by allowing 100% ownership. A report by Frost & Sullivan's² noted that Saudi Arabia is extensively focusing on industrialization and improving the transport infrastructure to become a transshipment hub with rapid growth in e-commerce, automation of warehouses with built-to-suit models which are likely to be in high demand through 2024. Moreover, the rail freight transportation is underutilized and the government is taking necessary steps by developing new rail lines and building better port connectivity to increase the usage, the report adds.

1.3 PRIVATE SECTOR TO BECOME A KEY PLAYER

Further, the Kingdom has recently launched the [National Industrial Development and Logistics Program](#) (NIDLP) which will be focused on supporting the Saudi logistics sector and increasing exports to reach SR600 billion (US\$ 160bn) by 2030. According to experts, Saudi Arabia is determined to broaden the role of the private sector as it pushes to diversify its economy. Accordingly, private entities are being encouraged to collaborate with the government as it develops the Kingdom's transport infrastructure. Partnership is being sought for the operation of seaports, airports and their related supply chains. Public-private partnerships (PPP) are being pursued to fund several key schemes, while a number of the country's publicly operated transportation facilities are being readied for full privatization.

Under the Saudi Foreign Investment Law, foreign investors can own 100% of businesses after obtaining a license from the Saudi Arabian General Investment Authority (SAGIA) and can bid in PPP-projects directly or through a local consortium. A draft law covering partnership between the government and the private sector is under discussion to attract new foreign investments. By 2020, there should be private sector involvement in the development and operation of at least 5% of roads, 50% of the rail network and 70% of Saudi Arabia's ports.

² "Saudi Arabia Logistics Industry—Growth Insights, Forecast to 2024", Frost & Sullivan's, Sept 2018.

2. PILLARS OF THE SAUDI LOGISTICS SECTOR

2.1 AVIATION

As Saudi Arabia continues to diversify its economy through the logistics sector, the civil aviation industry is a key pillar in this drive to turn the country into a global logistics hub.

The Vision 2030 aviation growth initiatives include

- privatization of Saudi airports,
- access to self-service,
- automation of passengers airport experience (SMART airports),
- development of digital infrastructure to enable smooth passenger traffic,
- ambitious plans to develop new cargo terminals and multimodal cargo hubs,
- and an increase in the number of operators of air cargo companies in the Kingdom.

2.1.1 Role of the General Civil Aviation Authority (GACA)

The General Civil Aviation Authority (GACA), acting as the operational and governing body of the Saudi civil aviation industry, is the key player implementing these initiatives. The Authority supervises safety regulations, air navigation services, and airport operations, and manages the licenses for air transport activity and support services.

Historically, all the airports in the Kingdom were owned and operated by the government through GACA. As well as owning airports, GACA was and still remains the designated regulator of air transport in the Kingdom. GACA's current privatization strategy aims to transfer all Saudi airports to companies wholly owned by the Saudi Civil Aviation Holding Co., then transfer ownership of the holding company to the Public Investment Fund (PIF).

To achieve its strategy, GACA has created several state-owned companies during the years 2016-2018 to foster the aviation business in Saudi Arabia such as Riyadh Airport Company (RAC), Saudi Aviation Information Technology Company (SAVIT), Saudi Air Navigation Services (SANS) and Dammam Airport Company (DACO). In addition, there is the Saudi Safety Program (SSP,) as well as an awareness program on implementing economic regulations in air transport, the completion of the deregulation of the air transport market, and the licensing of companies in various fields to eliminate monopolies in services such as supplies and catering, freight, fixed bases, and private aviation.



Given that Jeddah is a major destination for millions of Hajj and Umrah pilgrims each year, the new airport will play a crucial role in serving the ever-growing number of visitors.

2.1.2 Current situation

Approximately 90% of the Saudi population lives within a two-hour drive of the nearest airport, making air travel a popular transport option. Furthermore, the Kingdom connects to 81 airports in 45 countries, allowing for more than 1.2 million tons of cargo to be shuttled around the globe.

Currently, Saudi Arabia has 27 airports, 5 of which are international, 10 are regional and 13 are domestic. GACA's plan to upgrade the regional airports to serve international flights, is expected to raise the total number of international airports in the kingdom to 13.

Three of its airports are amongst the busiest in the GCC. According to GACA, the number of passengers at the Kingdom's airports in 2018 reached more than 98 million passengers, an increase of 7.4% compared to the previous year, while the number of flights in 2018 increased by 3.4%, good for 773 thousand flights.



International, regional and domestic airports in Saudi Arabia - © ic.gov.sa

The Saudi aviation market is growing fast, helped by a liberalization that has permitted the competitive entry of new low-cost airlines to rival state-owned Saudi Arabian Airlines' domination of the domestic market. Currently there are five airlines serving the domestic market, compared to only two airlines a couple of years ago.

The top four airports, good for 84% of the Kingdom's total traffic volume are:

- **King Khaled airport in Riyadh:** serves the capital city
- **King Abdulaziz airport in Jeddah:** Jeddah is the Kingdom's commercial capital and its airport also serves pilgrimage traffic to and from the holy site at Mecca
- **King Fahad airport in Dammam:** serves traffic driven largely by activities related to oil fields located in the Eastern Province
- **Prince Mohammad bin Abdulaziz International airport in Medina:** receives, like Mecca, considerable volumes of pilgrimage traffic.



For public transportation, the [Saudi Public Transport Company](#) (SAPTCO), a public joint stock company, provides regular passenger trips and services between 450 cities, villages and hijras (localities). SAPTCO services also include regional transport to neighboring countries and domestic transport of pilgrims. Additionally there are other small-scale private bus transport companies that also provide transportation services. In addition, there are also taxis and cab services like Uber and Careem, that provide personal services on larger scale.

2.3 RAILWAYS

Saudi Arabia is on track to develop its rail networks as part of a GCC-wide push to ramp up regional transportation.

The Public Transport Authority has many plans to expand the railway system in the future, with a connection between Yanbu Industrial City and the King Abdullah Port on the Red Sea, as well as a 1,150km-land bridge linking the Kingdom's east coast to its west coast. Other plans are set to extend the railway to the Jubail Industrial City on its eastern end and, eventually, to Mecca, Jeddah and Madinah on its western side. Yet another extension would link Riyadh to the mining areas in the north. This expansion will be carried out by the private sector.

Main lines are as follows:

- Saudi Arabia's first rail line, between Riyadh and Dammam, opened in 1951. It was inaugurated by the country's founder King Abdul Aziz and the late King Saud, who put the nail for the last mile in the track from Dammam to Riyadh. This line transported 1.8 million passengers in 2018. In addition, it has also transported 700,000 containers from Dammam Port to Riyadh's Dry Port.
- The network line between Dammam and Riyadh is operated by the Saudi Railway Organization (SRO), the state-owned public railway entity under the Ministry of Transport (MoT). It consists of 449-miles from the Arabian Gulf port to the capital and includes stops in Hofuf and Abqaiq. There is also the 556-mile Dammam-Riyadh line travelling via Haradh, on the edge of the Empty Quarter. In the 1990s, the SRO carried around half a million passengers and nearly two million tons of goods annually.
- The [Haramain High Speed Railway](#) is another project launched in 2018 by King Salman which is a high-tech, state-of-the-art 450km-line connecting five stations between Madinah and Mecca at 300km/hour. This project is fully nationalized by hiring Saudi men and women to drive it, serve passengers and operate its ticketing system.



In Saudi Arabia, warehousing is of four types: dry, frozen, ambient, and hazardous where dry warehouse is the most common type. As the country has high food import volumes and an arid climate, it becomes vital for it to not only have a robust logistics system but also a warehousing and distribution system. An inadequate number of warehouses and cold storage facilities at present, results in food wastage, which in turn adversely affects operational efficiency and costs.

Most of the international companies seeking industrial premises in Saudi Arabia are looking for world-class warehousing space. However, owing to a limited supply of top-notch warehousing facilities, they prefer leasing land and constructing facilities according to their requirements.

The market for freight forwarding is expected to further increase at 6.4% CAGR to reach SAR 71.25 billion (US\$ 19bn) by 2020. This surge is attributable to the presence of around 10 million expats, increases in fuel prices, rising industrialization and the advancement of e-commerce. The freight-forwarding segment of the logistics market is the biggest contributor to growth in this sector. The market size increased from SAR 40 billion (US\$ 10.6bn) in 2010 to SAR 52.1 billion (US\$ 13.9bn) in 2015. Freight forwarding by sea is the dominant means of transport, accounting for SAR 26.25 billion (US\$ 7bn), according to Invest Saudi.

Likewise, rising demand for 3PL logistics is forecast for several reasons. Trade relations between Saudi Arabia and other countries are improving, which is attracting significant interest in export and import values. Strong FDI inflows (particularly in oil & gas) are also set to increase opportunities for 3PL providers, as will expanding industrial activity that stimulates the need for supply chain management services. The 3PL segment of the logistics market increased significantly between 2010 and 2015, growing at 26.6% CAGR (vs. 7.5% growth globally) and reaching a total value of SAR 3 billion (US\$ 0.8bn). Expectations are set for it to grow even further at 22% CAGR until 2020 to reach a value of SAR 8.25 billion (US\$ 2.2bn).

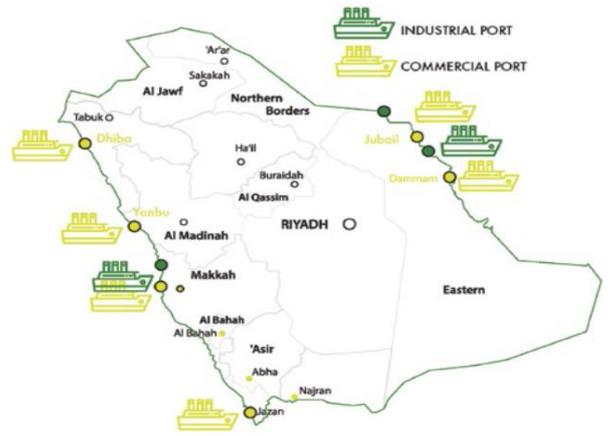
According to a report by Research and Markets³, the cold storage market in Saudi Arabia is projected to reach US\$ 2.5 billion by 2024 due to an increase in individual spending, expansion of the retail and logistic sector and growing demand for packaged/imported food items. Further, growing concerns over food wastage and increasing population in Saudi Arabia are the key drivers for boosting this segment. According to the report, the Central region held the major market for cold storage systems in terms of revenue on the back of increasing infrastructure development activities, especially in the industrial and manufacturing verticals. It is expected to maintain its market share until 2024 as well. Among all the verticals, the retail and logistics segment acquired the highest revenue share of the cold storage market in the Kingdom.

³ "Saudi Arabia Cold Storage Market (2018-2024)", Research and Markets, July 2018.

2.5 MARITIME TRANSPORT

The Saudi ports are among the most important ones in the region and are the destination of many international shipping lines where 70% of Saudi trade passes through them and where US\$ 500bn of international goods are transported to Saudi Arabia via them.

The ports had been receiving great attention since their inception under the Kingdom's founder King Abdelaziz, to form one of the nation's most important economic and commercial streams, as well as playing a major role in boosting its regional and international trade. The ports also contribute to the national economy by playing a main role in the Kingdom's development plans. The government has provided the ports with all the necessary capabilities, services and facilities to develop and increase their capacity, thus contributing to strengthening its regional and international stance. The ports have undergone various stages of construction and development since the foundation of Saudi Arabia until the General Ports Organization was established in 1976. This was followed by the establishment and inauguration of several ports until 1997, during which the operation of ports was handed to the private sector.



Ports in Saudi Arabia - © ic.gov.sa

In 2018, the cabinet approved renaming of the General Organization of Ports as a public body under the name [Saudi Ports Authority, Mawani](#). The decision contributed to strengthening its services, raising its capacity, and supporting the process of construction and development in the Kingdom to fulfill the Vision 2030.

Mawani controls the operations of nine ports, four of which overlook the Arabian Gulf while the other five overlook the Red Sea:

- Jeddah Islamic Port,
- King Abdulaziz General Port,
- King Fahd Industrial Port in Jubail,
- King Fahd Industrial Port in Yanbu,
- Jubail Commercial Port,
- Yanbu Commercial Port,
- Port of Jazan,
- Port of Dhaha,
- and the Port of Ras Al-Khair.



Mawani has played a key role in providing the ports with the latest equipment to serve ships and facilitate freight forwarding. For this, Mawani prepared the ports docks to receive large ships owned by global shipping lines. It has also implemented many projects within all ports to increase their capabilities and improve performance.

[King Abdullah Port](#), Saudi Arabia's first port to be fully developed and operated by the private sector, is currently the fastest-growing and most advanced port in the region. The ports network consists of 10 primary harbors for non-oil trade, 200 piers, 216 berths and 6 leading container ports located along a critical intersection of the East-West shipping routes.

The state-owned Saudi Shipping Company (Bahri), with a capital of US\$ 6bn, is among the world's largest oil carriers, with 36 petrochemical transport vessels, making it the world's fifth largest petrochemical carrier. Bahri's income from the transfer of crude oil exceeds one billion USD annually. The company's plan to expand in gas transportation will be the key driver for Saudi Arabia's plan to become one of the largest gas exporters in the future.

Saudi Arabia aims to leverage the rapidly growing maritime needs in the Kingdom and build local manufacturing and design capabilities, while delivering a world-class facility that will provide an unprecedented mix of products and services in the region. Thus, the government is building a US\$ 5.2mn maritime and shipbuilding complex, King Salman International Complex for Maritime Industries and Services, on the east coast to increase its capacity to export oil and eventually have a shipping fleet that will match its oil capabilities. The Complex is being developed by a joint venture between Saudi Aramco, Saudi Bahri, South Korea's Hyundai Heavy Industries and Lamprell, with Aramco holding 50.1%. The majority of the cost (US\$ 3.5 billion) will be covered by the Saudi government, with the remainder funded by the joint venture.

In August 2017, the first contract of this project was awarded to a consortium of Saudi Archirodon Company Ltd and Huta Hegerfeld AG Saudia Company for dredging, reclamation and marine structures. Once completed, the 1.7 square mile complex will be the largest yard of its kind in the Arabian Gulf and will offer a range of services from large shipbuilding and ship repair, offshore rig fabrication, and offshore support vessel repair.

In June this year, Saudi Ports Authority (Mawani) has issued a unified license valid to operate in all Saudi ports for Maersk Saudi Arabia, the local subsidiary of Maersk International, the world's largest container shipping operator. This move comes as a continuation of efforts exerted by Mawani to improve the efficiency and quality of performance and services provided in Saudi ports, transfer international knowledge and expertise locally and adopt the best international practices in the maritime transport industry.



3. WEB RESOURCES

[Arab newspaper](#)

[Industrial Clusters](#)

[Argaam](#)

[Export.gov](#)

[Public Transport Authority](#)

[Invest Saudi](#)

[Saudi Vision 2030](#)

[Saudi Customs](#)

[Saudi Aramco](#)

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