U.S.-Saudi Business Council
مجلس الأعمال السعودي الأمريكي

October 2020
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USSBC Economic Brief
Logistics Sector Update

Overview

Saudi Arabia's strategic geographic location at the intersection of Europe, Asia, and Africa positions itself to become a leading global logistics hub by promoting the ease of movement of people and goods across the Kingdom. Enhancing the financial sustainability of logistics development in part through attracting the private sector is a key objective of the National Industrial Development and Logistics Program (NIDLP). NIDLP aims to create 1.6 million jobs and attract investments worth SAR1.6 trillion ($427 billion) over the next decade. Of that total, SAR135 billion ($36 billion) is earmarked for a mix of government and private spending across a range of logistics development projects.

There is significant scope for private sector participation in the development of ports, airports, rail, and road infrastructure projects. Additional opportunities include the construction of new facilities including cargo terminals, customs bonded zones, industrial clusters, new shipping lanes, and expanded airport and seaport capacity. Furthermore, a cross-cutting digitization agenda has driven state-led and private sector logistics innovation in the areas of licensing, registration, passenger and cargo flow, import and export financing, and internet of things (IoT) technology that have boosted the sector's operational efficiency.

Macroeconomic Developments

The Saudi government's budget for infrastructure & transportation has increased significantly since 2017, growing at a compounded annual growth rate (CAGR) of 12.5 percent through 2020. Despite the COVID-19 pandemic, infrastructure & transportation spending is still set to outpace pre-2019 levels. Through Q3 2020, SAR38.4 billion ($10.2 billion) has been spent on infrastructure & transportation projects, including the development of more than 2,000 km of new roads and the continued expansion of local airports and seaports. By the end of 2020, the Ministry of Finance projects infrastructure & transportation spending will reach SAR56 billion ($14.9 billion). While these allocations remain high relative to past years, capital expenditures (CAPEX) are down 26 percent YoY through Q3 2020 due to fiscal consolidation stemming from the dual shock of the pandemic and lower oil prices. CAPEX includes allocations for various long-term investment projects in the infrastructure and logistics sectors, which have witnessed several project delays or cancellations.

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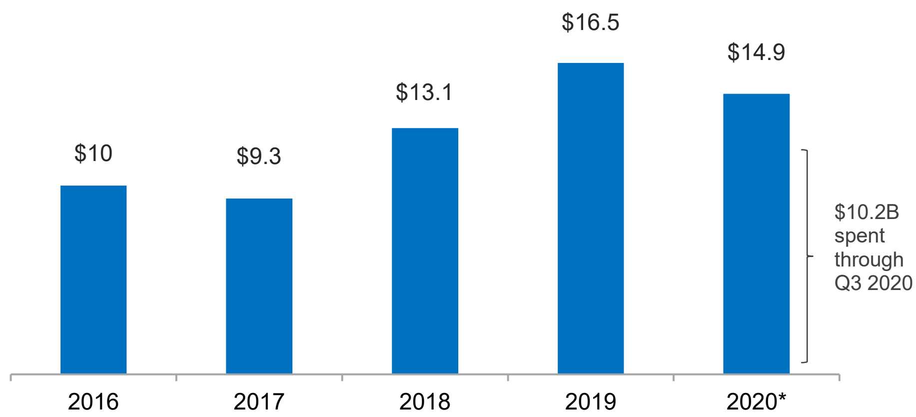
Government Infrastructure & Transportation Spending
(USD Billion)

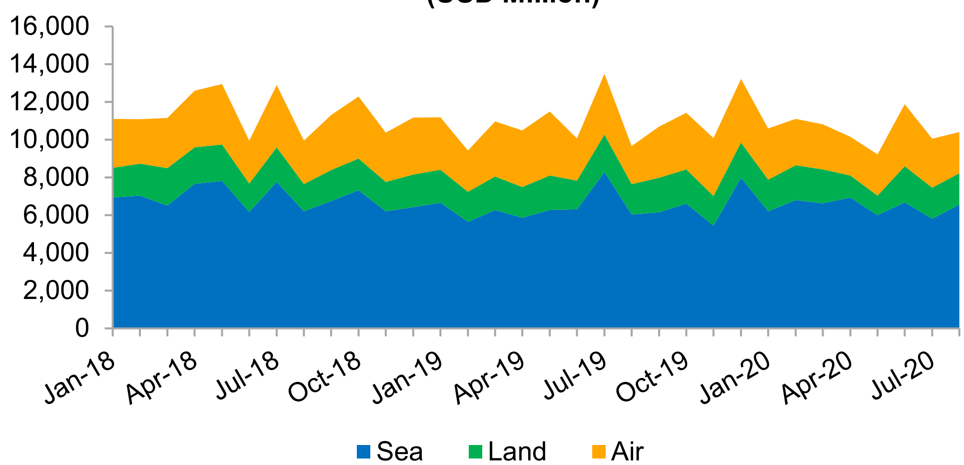


* Expected
Source: Ministry of Finance

'Transportation, storage, & communications', a sector that broadly encompasses logistics, warehousing, and cargo transportation activity has grown from SAR129 billion ($34 billion) in 2013 to SAR164 billion ($44 billion) in 2019, increasing its GDP contribution from 5.5 percent to 6.2 percent. The sector grew 4.2 percent YoY in the first quarter of 2020 before the impact of COVID-19, but declined 16.3 percent YoY in the second quarter, among the hardest hit by lockdowns that led to slowdowns in international trade and domestic travel.

However, there is early evidence of a bounce-back in the logistics sector as imports remain high and the value of non-oil exports has returned to pre-COVID levels in the third quarter. Jeddah Islamic Port (JIP), which handles the majority of cargo imported through Saudi ports, witnessed an 11 percent YoY increase in total throughput year-to-date in October 2020. The number of containers (TEUs) handled at JIP year-to-date increased 5.5 percent from 3.7 million to 3.9 million TEUs over the same period. However, Saudi Arabia's industrial ports are still recovering from the negative impact to oil and downstream petroleum trade. Jubail Industrial Port's year-to-date throughput by the end of October is down 5.5 percent while

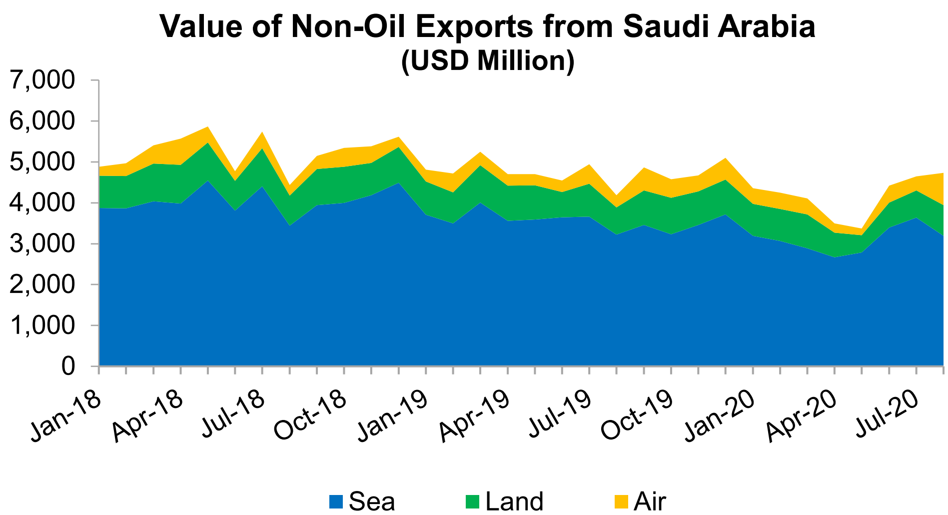
Value of Imports into Saudi Arabia
(USD Million)



Source: GAStat (through August 2020)

Yanbu Industrial Port's throughput is down 10 percent over the same period. Liquid cargo, primarily crude oil, constitutes the majority of goods handled at both industrial ports.

While lower oil exports continue to put pressure on government spending, the Ministry of Finance's preliminary 2021 budget statement indicated spending will be maintained at previously planned levels, totaling SAR990 billion ($264 billion). The budget statement also outlined the government's continued pledge to pursue its Vision 2030 agenda, including industrial and logistics investment under NIDLP with plans to provide more opportunities for the private sector to participate in investment and infrastructure development projects.



Source: GAStat (through August 2020)

Market Overview

Saudi Arabia was ranked as one of the world's fastest economic reformers in the World Bank's Ease of Doing Business report, jumping 30 positions to 62nd globally. The Kingdom demonstrated improvement on 9 of 10 Doing Business indicators, including gaining 72 places for 'Trading across borders' to reach 86th. The World Bank credited enhanced electronic trade platforms, enablement of risk-based inspections, upgraded infrastructure at Jeddah Islamic Port, and the launch of an online platform for certification of imported goods. On each subcomponent pertaining to the time, cost, and documentation for both the importing and exporting process, Saudi Arabia outperformed its MENA regional competitors.

According to the World Economic Forum's 2019 Global Competitiveness Report, Saudi Arabia ranked 34th globally in transportation infrastructure with improved scores for road connectivity, quality of road infrastructure, efficiency of train services, efficiency of air transport services, liner shipping connectivity, and efficiency of seaport services. These improvements reflect ongoing efforts to address infrastructure, capacity, and efficiency challenges in Saudi Arabia's logistics sector. The NIDLP agenda identifies several key challenges such as processing speeds, lack of e-platforms, and lack of relevant regulations that have been addressed by a range of entities including government ministries, funding vehicles like the Public Investment Fund (PIF) and the Saudi Industrial Development Fund (SIDF), as well as the public-private partnerships to enhance the competitiveness of the logistics sector.

Saudi Arabia Logistics Sector Challenges

Challenge	Progress
1) Lengthy importation process	♦ Reduced numbers of documents required for import from 12 to 2 and export from 8 to 2
2) Lengthy clearance process	♦ Fasah e-platform 24 hours clearance in 2019 from 7-10 in 2017
3) High physical inspection rate	♦ Reduced manual inspection rate from 89% to 48% via Customs Targeting Center
4) Lack of qualified logistics providers	♦ Launched Authorized Economic Operator (AEO) program offering customs advantages to trusted business businesses. Launched logistics sector financing through SIDF for 75% of project costs
5) Lengthy and inconsistent licensing process	♦ License issuance and renewal procedure in ports sector reduced from 20 days to 1 day, licensing in land transport sector reduced from 2 months to 24-48 hour period. Meras e-services platform for licensing
6) Lack of regulations relating to warehouse standards	♦ Establish General Regulations for Shipping Agents, adopted new rules and conditions for establishment and operation of storage areas and warehouses
7) Strict security policies affecting operational efficiency	♦ Reduced restricted chemicals import list from 135 restricted substances to 35
8) Inadequate transportation infrastructure	♦ Completed 57 road projects for an additional 1,700 km, signed 88 road contracts worth SAR4.9 billion ($1.3 billion)
9) Limited intermodal integration for effective movement of people and goods	♦ GACA and Mawani partnership to introduce commercial routes (bonded corridors) linking ports and airports, Intermodal Center for 3PL companies at JIP
10) More communication needed between relevant entities to boost efficiency	♦ Launched five integrated logistics e-platforms under Elm/ Tabadul to expedite and unify registration, licensing, documentation, shipment tracking

Source: Saudi Logistics Hub, National Industrial Development & Logistics Program

Logistics — Sea

The Saudi ports network consists of 9 ports, 6 commercial and 3 industrial, which handle more than 90 percent of Saudi Arabia’s trade. During August 2020, oil exports were down 33.8 percent YoY while non-oil exports grew by 5.7 percent YoY. The value of crude exports handled at Saudi Arabia's main ports are expected to rebound in 2021, depending on global pandemic conditions and an OPEC+ decision over further supply cuts. Plastics, rubbers, and downstream petroleum products including petrochemicals have remained lower compared to last year while base and precious metals, machinery and mechanical appliances, textiles, and munitions have driven the rebound in non-oil exports. Over the long-term, port infrastructure investments will support an increase in Saudi Arabia’s manufacturing and industrial exports in line with broader investments in target industries such as mining and energy under NIDLP.

The Saudi Ports Authority (Mawani) is the primary government entity that oversees port operations in the Kingdom. Throughput at Saudi ports has grown at a CAGR of 3.6 percent since 2013, reaching 289 million tons of cargo during 2019, according to data from Mawani. The sector has seen substantial investments in infrastructure and capacity-building, including SAR1.6 billion ($427 million) in ongoing seaport construction projects. These projects include new cargo terminals, re-export zones, and a variety of public-private partnerships aimed at improving the efficiency of the Saudi port system. Mawani has also launched four new shipping lanes in 2020 to enhance direct import-export operations and broaden Saudi Arabia's regional trade capacity. These new shipping lanes include:

1) Direct shipping lane to **East Africa** through King Fahd Port in Yanbu and Jeddah Islamic Port (Operated by France's CMA CGM)

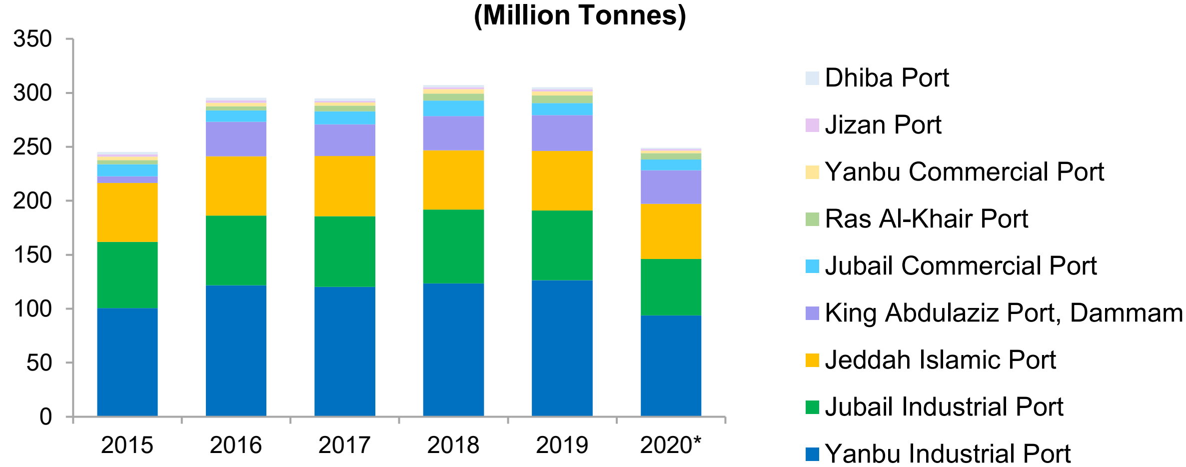
2) Direct shipping lane to **East Asia** through Jubail Commercial Port, serving industrial companies in Jubail and Ras Al-Khair (Operated by Hyundai Merchant Marine)

3) Shipping lane connecting **Jordan**'s Port of Aqaba and **Egypt**'s Port of Sokhna with Jeddah Islamic Port (Operated by Maersk)

4) Direct shipping line connecting **UAE**'s Jebel Ali Port and **Egypt**'s Port of Sokhna with Jeddah Islamic Port (Operated by DP World)

Jeddah Islamic Port is the busiest commercial port in Saudi Arabia, handling more than SAR110 billion ($29.4 billion) of non-oil cargo during 2020 while the King Fahd Industrial Ports, comprising Jubail Industrial and Yanbu Industrial Port, are the top industrial ports by total throughput. Jeddah Islamic Port handles about 60 percent of Saudi Arabia's sea imports and serves as a strategic hub connecting global East-West cargo trade. Jubail and Yanbu Industrial Ports primarily handle liquid cargo such as crude oil, liquid gas, and petrochemicals. Liquid cargo throughput at Saudi Arabia's top two industrial ports is down 7.4 percent YoY through October. Demand in China and the wider Asia region has provided support for Saudi Arabia's crude exports as oil demand remains low in major economies in Europe and the United States.

Saudi Arabia Throughput by Seaport
(Million Tonnes)



* YTD (October 2020)
Source: Mawani

In late 2019, Saudi Arabia announced the launch of Al Khomra Logistics Zone just south of Jeddah Islamic Port which would comprise primary and secondary manufacturing facilities, storage and cooling facilities, and constitute the largest logistics zone in Saudi Arabia. It would also offer a customs bonded zone, re-export zones, and offer 1-million square meters to investors for leasing. The Ministry of Transportation estimates the project will create 10,000 direct jobs and expects to attract business investments exceeding SAR3.8 billion ($1 billion), including strategic partnerships with the private sector to enhance Saudi maritime trade capacity.

During October 2020, Saudi Arabia executed the largest build-operate-transfer (BOT) agreement in its history to transfer development and operations of the container terminals at King Abdulaziz Port to Saudi Global Ports Company (SGP), a joint venture between Singapore's PSA International and the Public Investment Fund (PIF). The size of SGP's investment is an estimated SAR7 billion ($1.9 billion) and represents a major public-private partnership in the Kingdom's trade & logistics sector. The deal follows similar BOT agreements such as the SAR1.9 billion ($500 million) agreement for Dubai-based DP World to replace Mawani as the sole operator of Jeddah South Container Terminal in December 2019.

King Abdullah Port, located at King Abdullah Economic City (KAEC), represents another notable development of Saudi Arabia's logistics agenda as the first privately owned, operated, and developed port in the Kingdom. Opened in 2014, it now ranks as Saudi Arabia's third largest import destination and one of the fastest growing ports in the world. King Abdullah Port became a top receiver of pharmaceutical and medical supplies during the COVID-19 pandemic due to its high-efficiency, refrigerated storage facilities. Leading international maritime shipping companies Maersk and MSC Americas chose King Abdullah Port in August as a logistics station on the Red Sea for two new shipping lanes connecting East Asia with 1) the United States and 2) Turkey and Greece through King Abdullah Port.

Top Seaports (2020 YTD, USD Million)

Imports			Non-Oil Exports		
Rank	Port	Goods Handled	Rank	Port	Goods Handled
1	Jeddah Islamic Port	$ 24,971	1	Jubail Industrial Port	$ 6,080
2	King Abdulaziz Port	$ 17,789	2	Jubail Commercial Port	$ 5,397
3	King Abdullah Seaport	$ 3,149	3	Jeddah Islamic Port	$ 4,404

Source: GAStat

The ports sector has benefited from a plethora of regulatory changes that have enabled cost reductions including container handling fees, original tariff rates for empty containers, and an overall reduction in the total cost for exporters by 53 percent. Time reductions for average truck stopover time from 3 hours to 25 minutes and dwell time at ports from 14 days to 4 days reflect greater operational efficiency. Infrastructure improvements enabled an increase in transshipments and re-exports at Saudi ports, two additional berths at King Abdulaziz Port Dammam, one additional berth for container goods at Duba Port, and the first privately built and operated container terminal at Jeddah Islamic Port, Red Sea Gateway Terminal, which reported handling a record 265k standard containers in August as private sector participation in the ports sector has increased from 30 percent to 53 percent since the launch of Vision 2030.

Logistics — Land

Economic growth and urbanization are factors driving Saudi Arabia's investments in the expansion of its transportation networks. These investments include the introduction of urban metro and bus systems, in addition to inter-urban freight and high-speed railways enabled by public-private partnerships with leading global logistics companies. One aspect of the new approach is the increased promotion of special economic zones near transportation hubs, creating industrial clusters across a variety of sectors including chemicals, renewable energy, food processing, minerals, and pharmaceuticals with multi-modal freight links to a range of international destinations. King Salman Energy Park (SPARK), a joint megaproject between Saudi Aramco and MODON, will host a dedicated logistics zone and dry port handling 8 million tons of cargo per year and will be strategically located near highway and railway networks for ease of shipping. A total of SAR6 billion ($1.6 billion) was invested in the first phase of the project which is now 60 percent complete.

Under NIDLP, the bulk of the SAR135 billion ($36 billion) set aside for the logistics sector will be spent on railway infrastructure. The rail sector in Saudi Arabia is overseen by two separate state-owned companies, The Saudi Railway Company (SAR) and Saudi Railways Organization (SRO). However, a major merger of the two entities is currently underway and "likely to be completed by 2020-end or Q1 2021", according to the Public Transport Authority. The merger would see SRO's project portfolio, including passenger and freight routes from Riyadh to Dammam, the 450 km Haramain high-speed rail, and the Gulf Railway Project merged into the operations of SAR.

Saudi Arabia has also looked to expand regional trade in the GCC through a dual-carriage motorway connecting Saudi Arabia and Oman where goods previously had to be moved by sea through the Strait of Hormuz and a new land port, Raqa'l on the Saudi-Kuwait border. The government is working with U.S. engineering firm AECOM and consultancy KPMG to explore the construction of a second causeway between Saudi Arabia and Bahrain on a public-private partnership basis. Saudi Railway Company also announced it would lead the construction of Saudi Arabia's 2,177 km portion of the planned Gulf Railway Project which would connect GCC countries via a new train and freight network.

Top Land Ports (2020 YTD, USD Million)

Imports			Non-Oil Exports		
Rank	Port	Goods Handled	Rank	Port	Goods Handled
1	Bat'ha	$ 5,415	1	Bat'ha	$ 2,679
2	Riyadh (Dry Port)	$ 4,764	2	Al Kaffjei	$ 594
3	King Fahd Causeway	$ 1,324	3	Haditha	$ 923

Source: GAStat

Logistics — Air

Saudi Arabia has 27 airports, split between six international, eight regional, and 13 domestic. According to the General Authority for Civil Aviation's (GACA) latest available estimate in 2018, Saudi Arabia's air transport sector supports 90,000 supply chain-related jobs and constitutes a SAR22.9 billion ($6.1 billion) contribution to GDP. Incorporating all aviation-related industries brings the total to 287,500 Saudi jobs and a SAR67.1 billion ($17.9 billion) contribution to GDP, according to the International Air Transport Association (IATA). IATA has estimated that revenues generated by airlines in the Saudi market will fall by

SAR10.1 billion ($2.7 billion) in 2020, 35 percent below 2019 levels due to the impact of COVID-19.

King Abdulaziz International Airport (KAIA) is the busiest airport in Saudi Arabia, handling around 36 percent of the 99.8 million passengers entering the country in 2019 while King Khalid International Airport (KKIA) accounted for 28 percent of passengers but nearly 40 percent of the air cargo. In 2019, Saudi Arabia recorded a 13.5 percent increase in domestic travelers compared to a 4.5 percent increase for international passengers. International travel conditions, particularly the suspension of Hajj and Umrah due to the pandemic, have negatively impacted the aviation, tourism, and hospitality sectors. Cargo-related air trade, which represents 24 percent of Saudi Arabia's imports, has recovered while passenger flows remain depressed by the ongoing pandemic. The launch of the tourism e-visa in September 2019, which was also suspended due to COVID-19, was a landmark step in Saudi Arabia's plan to grow the tourism industry's GDP contribution from 3 to 10 percent by 2030. Saudi Arabia's continued infrastructure and megaproject development is centered around increasing both domestic and foreign tourism activities in the Kingdom as a new pillar of a diversified economy.

Top Airports (2020 YTD, USD Million)

Imports			Non-Oil Exports		
Rank	Port	Goods Handled	Rank	Port	Goods Handled
1	King Khalid International Airport	$ 10,601	1	King Abdulaziz International Airport	$ 1,200
2	King Fahd International Airport	$ 4,908	2	King Fahd International Airport	$ 747
3	King Abdulaziz International Airport	$ 4,221	3	King Khalid International Airport	$ 619

Source: GAStat

GACA is expected to transition from an operational role to a more regulatory capacity as the private sector expands into airport ownership and operation. The Saudi Civil Aviation Company, which owns the Riyadh Airports Company and the Dammam Airports Company, is still fully owned by GACA. Under Vision 2030, Saudi Arabia indicated it will seek to raise SAR750 billion ($200 billion) through stake sales in airport sector assets. KKIA's Terminal 5, operated by Dublin Airport Authority, is the first privately run airport terminal in Saudi Arabia and the government has indicated a desire to accelerate privatization plans amid fiscal consolidation.

GACA continues to invest in operational capacity and infrastructure, including expansions at KKIA and KAIA and new airports including Neom Bay Airport and Red Sea International Airport. Earlier this year, Saudi Arabian Logistics Company inaugurated a new 37,800 square km air cargo facility at King Fahd International Airport. The facility offers advanced logistics services, including spacious and specialized facilities for chemically reactive goods, live animals, and heavy-weight shipments. GACA and Mawani recently announced a partnership to introduce commercial routes linking the Kingdom of Saudi Arabia's ports and airports to enhance its operational competitiveness. GACA is also constructing the Kingdom's first integrated logistics bonded zone adjacent to KKIA in Riyadh which aims to boost Saudi Arabia's re-export capacity and attract international companies to establish local operations within the logistics zone. The Riyadh integrated bonded zone would represent the first special economic zone of its kind in Saudi Arabia, offering financial benefits such as 100 percent VAT and customs exemptions, 100 percent foreign business ownership, and other regulatory incentives aimed at attracting international companies.

Digitization

The operational efficiency of the logistics sector continues to benefit from new digital solutions across a range of supply chain stakeholders. Public Investment Fund-owned companies Tabadul and Elm have played a leading role in developing digital solutions for the logistics sector to meet the challenges laid out in NIDLP such as lengthy importation processes, inconsistent licensing regulations, and excessive documentation. Tabadul launched the Fasah platform, an integrated import and export e-service, that links key government entities in a single digital space to enable financing, documentation, shipment tracking, and licensing. Saudi Customs recently partnered with Maersk and IBM to integrate blockchain technology with the Fasah platform to enable faster and more reliable authentication and documentation for international trade.

Elm separately developed the Wasl e-platform that links organizations in the land transportation sector with key government entities to streamline registration and licensing and enable real-time tracking of cargo. GACA and Elm launched the Washaj e-platform to link all relevant parties involved in air cargo to a single online platform for licensing, cargo tracking, reporting, and billing. The PIF recently moved Tabadul under the umbrella of Elm to further expedite new service offerings for the customs, ports, and aviation sectors.

The Saudi Industrial Development Fund (SIDF) announced a digital transformation partnership with global technology company SAP this year. SIDF is one of the key financial enablers of the NIDLP program, offering soft financing up to 75 percent of project costs for third-party logistics services, port handling services, and a range of cargo-related projects as part of its Vision 2030 mandate. SIDF provides specialized financing programs including “Tanafusiya” which stimulates production efficiency in the industrial and logistics sectors through new digital and 4G technologies and “Tawteen” which aims to increase the local content and localization opportunities for supply chains. SIDF’s partnership with SAP entails automated credit and banking interfaces as well as data migration for its financing services.

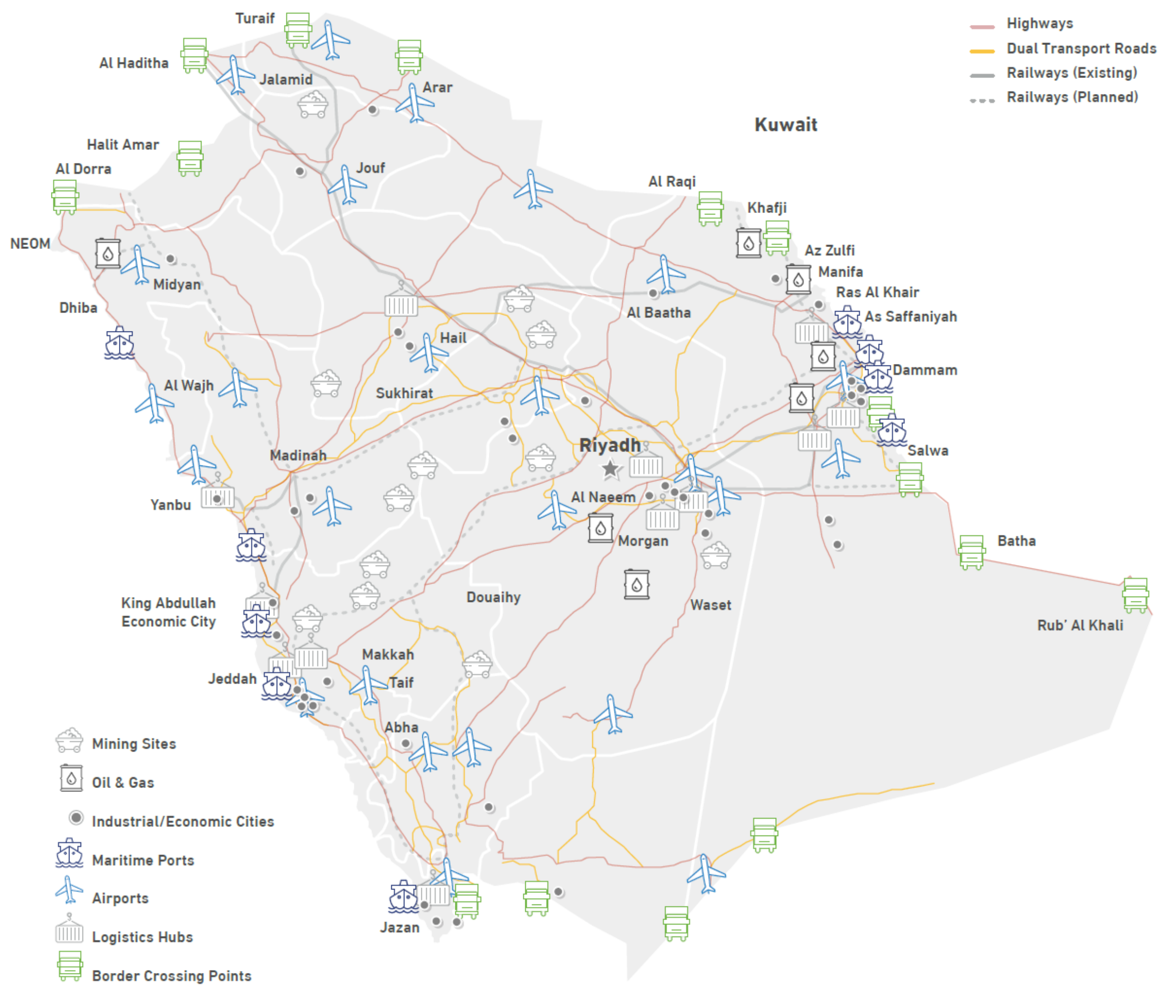
In the ports sector, Mawani has set up the Smart Gate and Port Community online systems that use big data to analyze vessel flows and automate berth management in the maritime sector. Mawani and Tabadul announced the expansion of Saudi Arabia’s Truck Management System at Jeddah Islamic Port after successful implementation at King Abdulaziz Port Dammam and King Fahd Causeway that reduced processing times. Meras, a digital platform set up under the National Transformation Plan, also provides licensing services across relevant regulatory entities including GACA, Mawani, and MODON.

Outlook

Despite the budgetary impact of the COVID-19 pandemic, the government remains steadfast in continuing to invest in physical infrastructure, streamline customs processes, and improve its logistics service quality to relevant stakeholders. As new industrial clusters and logistics zones are built, Saudi Arabia will attract and partner with international companies to invest in warehousing and fulfillment centers, manufacturing and assembly centers, staging and testing centers, and maintenance, repair, and re-export centers. Over the long-term, Saudi Arabia will move towards greater privatization in the airport and seaport sectors. As part of its privatization plans, the transportation sector will witness improved efficiencies over the long-term.

Appendix:

Saudi Arabia Logistics Infrastructure Plan



Source: Saudi Logistics Hub

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