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USSBC Economic Brief
Saudi Logistics Sector 2023

Overview

Saudi Arabia's bold plans to develop its logistics sector stems from being the only country to have three major maritime straits, which contributes to approximately 30 percent of global seaborne trade passing its boundaries while positioned at the center of Asian and African trade and Europe's trade to Asia. At its core, the Saudi logistics sector is the economy's conduit that enables the flow of commerce and a chief facilitator of Vision 2030's goals. Consequently, that government set ambitious goals that will see the sector's contribution to GDP climb from 6 percent to 10 percent by the end of the decade. It will also fuel business growth, expand investments, and increase the sector's non-oil revenues to SAR45 billion ($12 billion) annually by 2030.

Key initiatives such as the National Industrial Development and Logistics Program (NIDLP), the National Transport and Logistics Strategy, and the Global Supply Chain Resilience Initiative (GSCRI), are spearheading the accelerated development of the logistics sector. NIDLP earmarked SAR135 billion ($36 billion) for a mix of government and private spending across a range of logistics development projects. The National Transport and Logistics Strategy is an all-encompassing plan that incorporates the development of infrastructure, the launch of a stated 59 logistics zones, the implementation of advanced operating models, and the fostering of growing partnerships between the public and private sector. The GSCRI will utilize a SAR10 billion ($2.7 billion) budget to provide financial and non-financial aid for global investors interested in incorporating Saudi Arabia into their supply chains.

The role of the private sector will be paramount to the success of the logistics sector's growth. An additional SAR550 billion ($147 billion) in investments into the sector are expected with the private sector accounting for 65 percent of that amount while 35 percent will be funded by the government through attracting growing shares of FDI, sale of state-owned assets, and joint venture partnerships with domestic entities. Opportunities for the private sector include 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, digitization enhancements have already 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.

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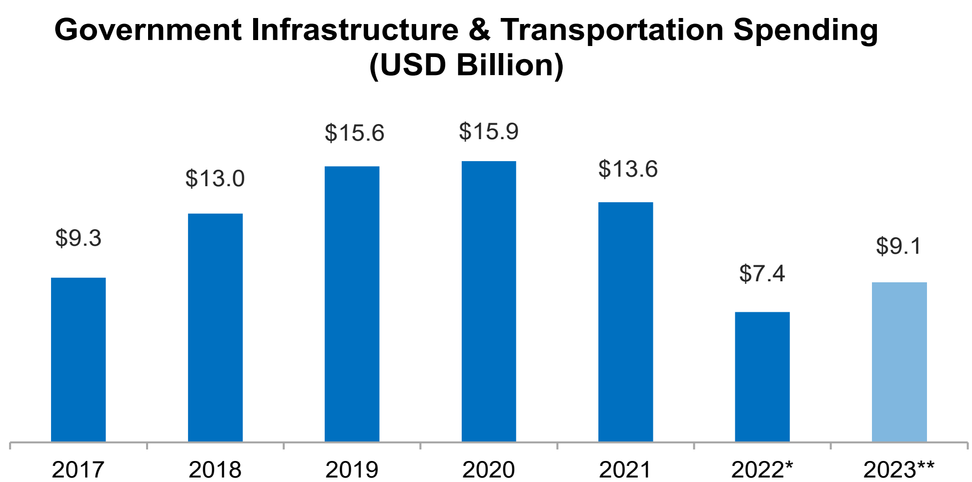
Macroeconomic Developments

The Saudi government's spending on infrastructure & transportation steadily decelerated by the end of the third quarter of 2022 after trending higher between 2017-2020. There are several reasons for the decline in government spending within the logistics sector in the last couple of years. First, the sizeable spending from earlier years delivered on a number of budgeted developments that required less spending over the last year. Second, the role of the private sector as an active investor has steadily required less financial commitment from the government. Third, the considerable growth of the Kingdom's Public Investment Fund (PIF) in recent years has accelerated the pace of investments across numerous sectors through partnerships with local players and the creation of newly established entities thereby lessening the burden on the government. The privatization of public assets and the increase in public private partnerships will further reduce the shouldering of major investments by the government from previous years.



* Through Q3'22; ** Budgeted
Source: Ministry of Finance

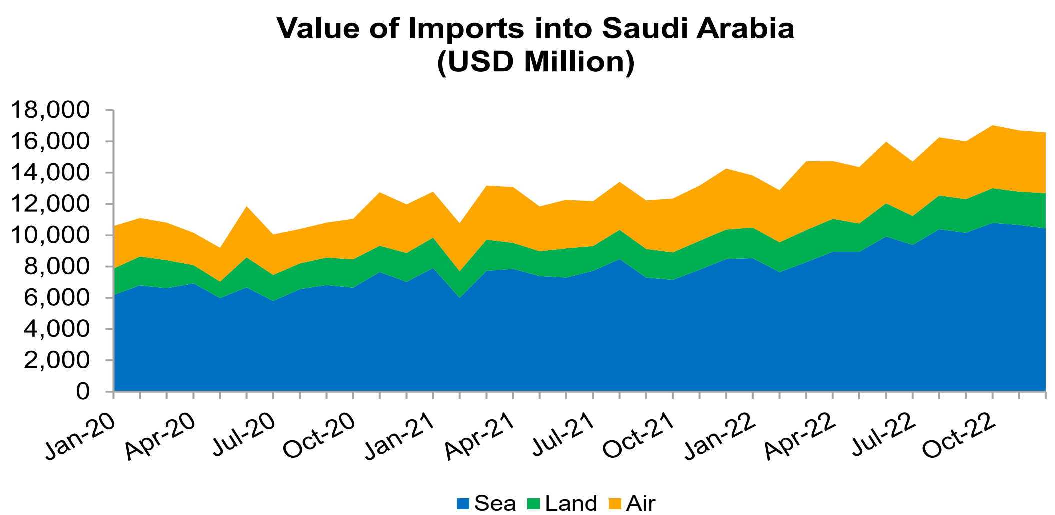
The Ministry of Finance projects infrastructure & transportation spending will further decline to SAR34 billion ($9.1 billion) in 2023 compared to its 2022 budget of SAR42 billion ($11.2 billion). However, the government's investments in the logistics sector during 2022 saw the launching of five public transport projects for buses across the Kingdom that included 42 lanes and 691 bus stations covering 1,668 kilometers. It also included 49 projects pertaining to road repairs and improvements spanning 3,690 kilometers. In 2023, the government has budgeted for the increase of freight capacity through railways to reach 12.8 million tons and 800,000 equivalent units to reduce the cost and duration of transportation that is dominated by the trucking industry.

'Transportation, storage, & communications', an economic activity that broadly encompasses logistics, warehousing, and cargo transportation activity has grown from SAR129 billion ($34 billion) in 2013 to SAR154 billion ($41 billion) in 2021, increasing its GDP contribution from 5 percent to 6 percent. According to the latest data from the General Authority of Statistics (GAStat), the year to date (through Q3 2022) value of this economic activity reached SAR120 billion ($32 billion), marking an 8 percent increase YoY compared to 2021.

Trade Dynamics

Since the dip in trade caused by the pandemic in 2020, the rebound of the logistics sector has supported the flow of goods through the Kingdom's sea, land, and air modes of transportation. Sea ports dominate the Kingdom's trade and in 2022 accounted for a total of SAR661 billion ($176.5 billion) or 66 percent, followed by air which accounted for SAR193 billion ($51.5 billion) or 19 percent, and lastly land which accumulated SAR145 billion ($38.6 billion) or 15 percent. Imports accounted for SAR689 billion or 69 percent of total trade, whereas non-oil exports accounted for the remaining SAR310 billion ($82.7 billion) or 31 percent.[1]

Total imports witnessed a sizable gain in 2022 as it grew by 21 percent compared to 2021. Jeddah Islamic Port, which handles the majority of cargo imported through Saudi ports, witnessed a 21 percent YoY increase in total value of imports. It also accounted for 28 percent of all imports by value. The number of containers (TEU) handled at JIP year-to-date, as of August 2022, reached 3.1 million while containers accounted for 87 percent of total throughput in terms of tonnage. Imports via air witnessed a 10 percent climb YoY in 2022 while imports via land jumped 15 percent YoY.

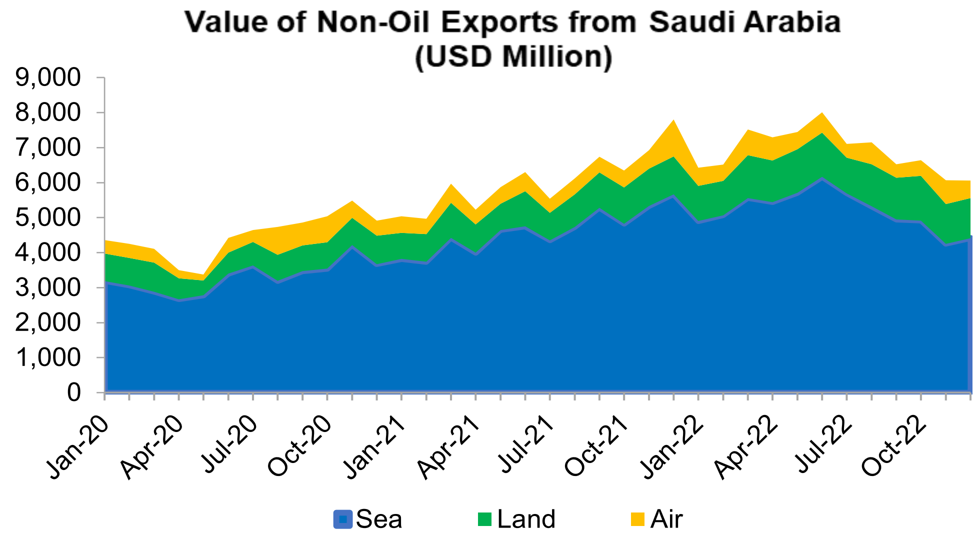


Source: GAStat

While oil accounts for a majority of the Kingdom's exports, which grew 17 percent YoY averaging 8.8 mbpd in 2022, the growth in non-oil exports remains robust on the back of increasing manufacturing across a diversified set of goods. The 'Made in Saudi' initiative has also promoted the production and export of products beyond manufactured plastics, fertilizers, aluminum and other downstream petrochemicals. The Kingdom has seen growth in its exports of textiles, precious metals, aluminum, dates, among others.

Non-oil exports in 2022 were led by sea trade accounting for 76 percent, followed by land and air at 16 percent and 7 percent, respectively. The King Fahad Industrial Port in Jubail accounted for SAR47.6 billion ($12.7 billion) or 20 percent of total non-oil exports in 2022, mainly due to the growth in chemicals, plastics, and rubbers. Through August 2022, the King Fahad Industrial Port in Jubail handled 11.5 tons of solid bulk cargo, reflecting a 19 percent increase YoY.

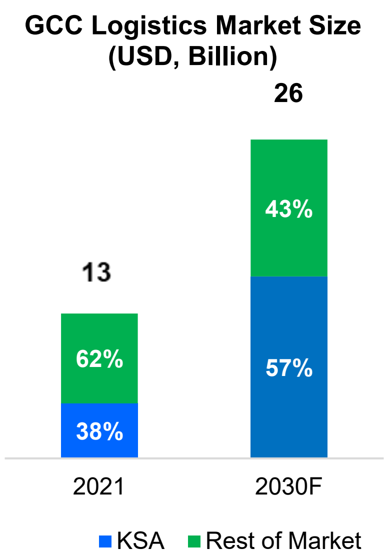
1. Oil trade data not included in this data from GAStat

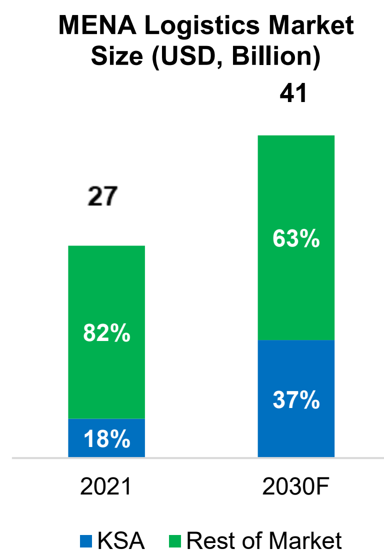


Source: GAStat

Sector Market Size and 2030 Targets

The scale of investments by the government coupled with a growing share of private sector participation has resulted in a logistics sector that has steadily grown over they years and is expected to surpass regional countries by 2030. According to the Ministry of Transport and Logistic Services, the MENA market size in 2021 is estimated to be approximately SAR99 billion ($26.4 billion), of which Saudi Arabia captures SAR18 billion ($5 billion) or an 18 percent share. Within the GCC, Saudi Arabia controls 38 percent of the market's SAR46 billion ($12 billion) market size. The Kingdom's current market size trails Turkey and the U.A.E. to capture the third largest market. However, Saudi Arabia is forecasted to witness a sizeable increase in market share by 2030, accounting for SAR57 billion ($15 billion) or 37 percent of the SAR153 billion ($41 billion) of the MENA market and 57 percent of the GCC's SAR101 billion ($27 billion) market. By 2030, Saudi Arabia is expected to rank first in market size, surpassing Turkey and the U.A.E.





Source: Ministry of Transport and Logistic Services, USSBC analysis

In order to achieve these milestones, the Kingdom has adopted targets (please see Appendix 1) across the logistics sector that will see it increase its capacities over a number of categories. For the aviation sector, the strategy seeks to improve the air cargo's capabilities by doubling its capacity to more than 4.5 million tons per year while increasing the number of transit passengers to rank fifth globally. It also envisions increasing the number of international destinations served by the country to more than 250 along with launching a new Riyadh-based national carrier. For the maritime sector, the Kingdom is expected to increase its container capacity to reach 40 million annually. The rail sector is expected to grow its current network of passenger and freight services from 5,300 kilometers to 8,080 kilometers, which will include a land bridge project that will span more than 1,300 kilometers and connect the Kingdom's ports on the coast of the Arabian Gulf with the Red Sea. It will have the capacity to transport more than 3 million passengers and 50 million tons of freight annually.

By 2030, the logistics sector is further anticipated to create six port zones, four air cargo centers, 10 dry port zones, 10 land border crossings, 18 industrial logistics zones, 50 in-country distriparks, and eight international distriparks and special economic zones. These interconnected projects will be handled by state of the art digital integration platforms and services featuring sustainability focused emission controls.

Sector Dynamics and Challenges

Saudi Arabia's Macroeconomic and Logistics Sector Rankings

Saudi Arabia's diversification strategies have seen the Kingdom improve in a number of global rankings regarding its economy in general and within its logistics sector in particular. Saudi Arabia rose eight spots in a 2022 ranking of economic competitiveness, according to International Institute for Management Development's "World Competitive Yearbook." It placed 24th in the world, ranking seventh among its G20 peers and ahead of countries like Japan, India, South Korea, India, Italy, France, Argentina, Indonesia, Brazil, and Turkey. The Kingdom particularly scored well in areas including economic performance, government efficiency, and business efficiency.

The Kingdom also achieved high marks in a number of logistics based rankings. It achieved the sixth position overall in the "Agility Emerging Markets Logistics Index 2022 Survey," which measures the business climate, digital readiness, and investment opportunities in 50 emerging markets. Saudi Arabia saw its ranking climb in the United Nations Conference on Trade and Development (UNCTAD) "Liner Shipping Connectivity Index" for Q4 2022. UNCTAD scored Saudi Arabia at 71.33 out of 100 points, which placed it at 21st place in the world for connectivity.

According to the World Bank and S&P Global Market Intelligence's most recent "Container Port Performance" for 2021, the Kingdom had three of its ports rank in the top 15. The survey score is a function of five components including the total number of shipping lines serving a country, the largest vessel size calling on the country in TEU, number of services a country has to its counterparts, the number of deployed vessels in a country, and total vessel capacity in TEU. King Abdullah Port ranked first overall after ranking second in 2020. Jeddah Islamic Port rose 35 positions from 2020 to rank eighth overall in 2021. King Abdulaziz Port, Dammam ranked 14th overall. Those same ports ranked first, fifth, and sixth in the survey's West, Central, and South Asia region.

Challenges

In order to deliver on these ambitious targets by 2030, a host of challenges must be tackled. Numerous challenges that have slowed the passage of goods in Saudi Arabia have been addressed, which has significantly shortened time consuming procedures from weeks to mere hours. 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). The SIDF launched a program called "Logistics Land and Loan" in coordination with the Saudi Authority for Industrial Cities and Technology Zones (MODON), the Royal Commission for Jubail and Yanbu (RCJY), and King Abdullah Economic City (KAEC).

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 2 hour clearance in 2022 from 7-12 days 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	♦ Launching of 12 platforms in 2023 to enhance the quality and competitiveness while raising efficiency of goods movement
9) Limited intermodal integration for effective movement of people and goods	♦ Created a unified digital and instantaneous license for all 3PLs & 2PLs as a gateway for international companies into Saudi Arabia
10) More communication needed between relevant entities to boost efficiency	♦ Introduced a Single Unified Logistics Window to provide access to operational services across entities in multiple languages

Source: Saudi Logistics Hub, National Industrial Development & Logistics Program, Ministry of Transport and Logistic Services

Sector Activities

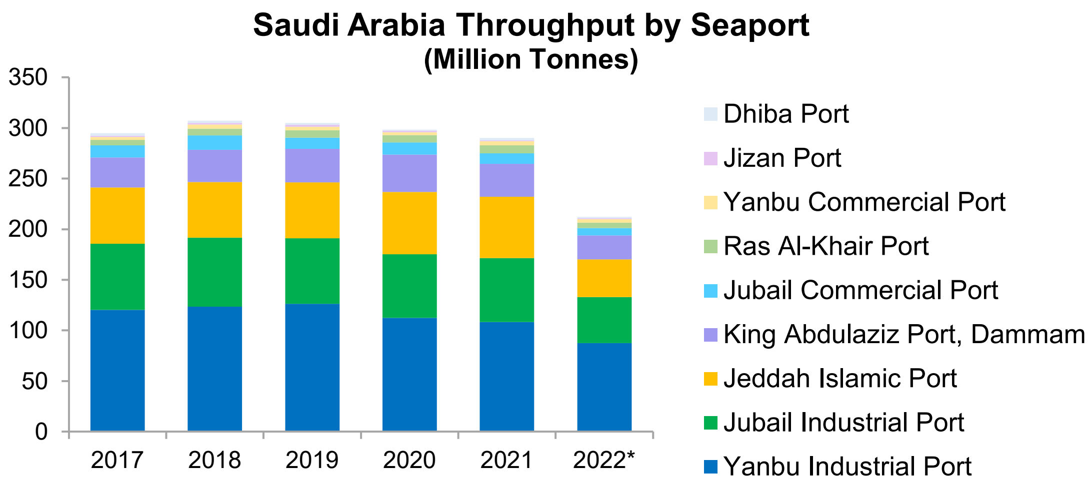
Maritime

The Saudi ports network consists of 10 ports, 7 commercial and 3 industrial, which handle more than 66 percent of Saudi Arabia's trade. The value of crude exports handled at Saudi Arabia's main ports have rebounded significantly after demand bottomed out in 2020. Plastics, rubber, and downstream petroleum products including petrochemicals have increased since 2020 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, automotive, defense, and energy under NIDLP and the National Transport and Logistics Strategy.

The Saudi Ports Authority (Mawani) is the primary government entity that oversees nine out of the 10 port operations in the Kingdom. Throughput at Saudi ports has grown at a CAGR of 2.9 percent since 2015, reaching 290 million tons of cargo during 2021, according to data from Mawani. The sector has seen substantial investments in infrastructure and capacity-building, including SAR2.4 billion ($636 million) in ongoing seaport construction projects, according to MEED Projects. These projects include DP World's South Container Terminal expansion, Jeddah Islamic Port Expansion, Upgrade of container terminals at King Abdulaziz Port in Dammam, and the expansion of Duba port at NEOM's Oxagon, among others. A total of 17 international maritime lines were launched in the Kingdom during 2021, which increased the interconnection of ports and increased the process of exports, imports, and transportation through the Kingdom to other countries. In early 2023, Mawani approved seven new shipping services that will link the Kingdom to 43 international ports. The five new services involve Jeddah Islamic Port, King Abdulaziz Port in Dammam, and Jubail Commercial Port. These new shipping services entail:

1) The "**India-Western Mediterranean**" operated by the Mediterranean Shipping Co. that will link Jeddah Islamic Port to 12 international ports
2) The "**Indamex2**" that will link Jeddah Islamic Port to six global ports
3) The "**Pakistan, India, and South Africa**" of the Mediterranean Shipping Co. shipping service from King Abdulaziz Port in Dammam to eight intercontinental ports
4) The "**India to East Med**" of the Mediterranean Shipping Co. connecting the Jubail Commercial Port to 11 international ports
5) The "**India Gulf Service**" linking Jubail Commercial Port to six global ports
6) The "**East Africa**" linking the ports of Jeddah Islamic and King Abdullah with the port of Djibouti, Kenyan port of Mombasa, and Tanzanian port of Dar es Salaam
7) The "**Red Sea Service-Sudan**" linking Jeddah Islamic Port and King Abdullah Port to Port Sudan

Jeddah Islamic Port is the busiest commercial port in Saudi Arabia, handling more than SAR223 billion ($59.4 billion) of non-oil cargo during 2022 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 43 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 reached 133 million tons through August 2022. China's re-emergence along with the wider Asia region from the pandemic as well as the conflict in Ukraine has lead to an increase in Saudi Arabia's crude exports as oil demand reaches peak demand globally and the Kingdom filling in for Russia's sanction based export curbs. The Kingdom's regional maritime transshipment share reached 32 percent in 2022, up 12 percent from 2019.



* YTD (August 2022)
Source: Mawani

In February 2023, Mawani signed an agreement worth SAR1 billion ($267 million) with the Jeddah Chamber of Commerce and Industry to develop an integrated logistics area in Al-Khumra region south of Jeddah. The integrated logistics zone will span over 3 million square meters and will be divided into three sub-areas of shared modular warehouses, single warehouses, large yards, and on-demand warehouses for re-export as well as subsidiary services consisting of commercial units, residential units, and resting places for workers.

Also in February 2023, Mawani established one of the regions largest logistical park at Jeddah Islamic Port in collaboration with Maersk at a cost of SAR1.3 billion ($346 million). The project will be built on 225,000 square meters and will have an annual capacity of handling 200,000 TEU. The project will include storage and distribution areas that accommodate exports and imports of general merchandise, warehouses to accommodate refrigerated foods, and special areas for transshipment, air freight, and cargo shipments. The development will help create more than 2,500 direct and indirect employment opportunities. The facility will rely on solar energy to power its units and will utilize technology to decarbonize its footprint with the use of electric trucks.

King Abdulaziz Port in Dammam also received a substantial investment in 2023 with the launching of a SAR7 billion ($1.9 billion) project to upgrade and develop two container terminals. Saudi Global Ports was selected to lead the project on a build-operate-transfer (BOOT) basis. In addition to expansion work, the project is expected to add a custom built sandbox to test cutting-edge technologies and conceptualize new processes prior to going online. The project will generate over 4,000 jobs and will raise the port's overall capacity by 120 percent to 7.5 million TEU.

King Abdullah Port is the Middle East's first privately owned, operated, and developed port. Opened in 2014, it now ranks as Saudi Arabia's fourth largest import destination by value 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. King Abdullah Port's throughput grew by 3.25 percent YoY in 2022 going from 2,813,920 TEU to 2,905,306 TEU. The port also facilitated the shipping of 288 trucks to Australia as part of its first roll-on roll-out (RORO) trial. It was awarded by Alphaliner in 2022 as the second fastest growing port in the world. In May 2022, it reached a milestone of handling 15 million TEU in record time since its container terminal started in 2014. Once completed, the port will be equipped to handle 25 million TEU, 25 million tons of bulk cargo, as well as 1.5 million CEU annually.

Top Seaports (2022, USD Million)

Imports			Non-Oil Exports		
Rank	Port	Goods Handled	Rank	Port	Goods Handled
1	Jeddah Islamic Port	$ 50,172	1	Jubail Industrial Port	$ 12,686
2	King Abdulaziz Port	$ 36,185	2	Jeddah Islamic Port	$ 8,476
3	Ras Tanura Port	$ 7,511	3	Jubail Commercial Port	$ 7,801

Source: GAStat

The Saudi ports sector continues to witness sizeable infrastructure investments along with regulatory enhancements that incentivize private sector participation. The value of total trade (imports and non-oil exports) within the Saudi ports grew by 14 percent YoY in 2022 to reach SAR628 billion ($168 billion) and is attributable to the growth in shipping lines, port berths, and the modernization of current infrastructure. Upcoming ports such as NEOM's Oxagon port, which will be situated on a 170 kilometer city is expected to handle 9 million TEU annually upon its completion.

According to market estimates, container throughput is expected to grow by approximately 10 percent in 2023. DP World's concession to operate one of Jeddah Islamic Port's two container terminals involves the commitment to invest up to SAR1.9 billion ($500 billion) to improve and modernize the terminal and increase the annual design capacity from 2.4 million TEU to 3.9 million TEU. The second terminal, Red Sea Gateway Terminal (RSGT), also recently signed a new 30-year concession. RSGT announced plans to increase capacity to 5.2 million TEU by 2023, with proposals calling for expansion to 8.8 million TEU, costing an additional SAR5.4 billion ($1.4 billion), to be completed by 2049.

These investments will expedite systemized port, rail, and road connections, and avoid an overdependence on free trade zones in the U.A.E., which has hindered growth. Jeddah Islamic Port and King Abdullah Port offer attractive opportunities in transshipments volumes, despite well established players such as Khalifa Port and Jebel Ali in the U.A.E.

Air

Saudi Arabia has 28 airports, split between 11 international, three regional, and 14 domestic. The air transport sector intends to deliver on ambitious targets that have been set by the recently introduced Saudi Aviation Strategy (please see Appendix 2). The sector is expected to increase its contribution to GDP by 235 percent from SAR75 billion ($20 billion) in 2018 to SAR251 billion ($76 billion) by 2030. Employment in the sector is expected to grow from 299 thousand jobs to 1 million during the same period. In terms of passenger traffic, the Kingdom anticipates increasing annual passenger traffic to 330 million by 2030 compared to 100 million in 2018, of which transit passengers will increase from 3 million to 30 million during the same period.

Total trade by value through Saudi Arabia's airports increased by 3 percent YoY in 2022, reaching SAR180 billion ($48 billion). Imports accounted for 90 percent of the value of trade by air in 2022, with King Khalid International Airport (KKIA) in Riyadh accounting for 52 percent. King Abdulaziz International Airport (KAIA) in Jeddah accounted for 26 percent of imports by value, while King Fahad International Airport (KFIA) in Dammam accounted for 15 percent.

In 2021, the total number of domestic and international flights across all airports in Saudi Arabia reached nearly 497,000 flights, marking an increase of 43 percent YoY. The number of passengers reached 49 million, which was an increase of 30 percent YoY. KKIA was the busiest airport as it accounted for 33 percent of international flights and 35 percent of domestic flights in 2021. KAIA recorded the second highest international and domestic passenger flights, accounting for 26 percent and 29 percent, respectively. The decrease in KAIA passenger flights was mainly attributed to the decrease in international religious tourism stemming from the pandemic. Air freight traffic witnessed a 53 percent jump YoY as 501,000 tons were transported internationally, while domestic freight grew to 79,000 tons. National carrier, Saudia, accounted for 360,000 tons or 62 percent while foreign airlines accounted for the remaining 360,000 tons or 38 percent.

The General Authority for Civil Aviation (GACA), which previously acted as both operator and regulator, fully transitioned in 2021 to solely become a regulator. As a result, GACA transferred 25 of the Kingdom's airports to private operator, Matarat Holding Company. The move allowed for increased privatization opportunities and improvements in operational efficiencies. In a regulatory move, GACA is curently in the midst of creating an operating environment that is expected to provide support services by reducing airlines' cost base through a pricing reform program.

Top Airports (2022, USD Million)

Imports			Non-Oil Exports		
Rank	Port	Goods Handled	Rank	Port	Goods Handled
1	King Khalid International Airport	$ 22,492	1	King Abdulaziz International Airport	$ 2,033
2	King Abdulaziz International Airport	$ 11,475	2	King Khalid International Airport	$ 1,796
3	King Fahd International Airport	$ 10,957	3	King Fahd International Airport	$ 758

Source: GAStat

In late 2022, GACA unveiled one of the region's largest Special Integrated Logistics Zone (SILZ) at KKIA. The SILZ introduced numerous regulatory and incentivization schemes that are aimed at attracting the largest companies from around the globe to set up a regional manufacturing hub. The SILZ is situated on 3 million square meters of land that is reported to provide access to more than 650 million customers across Africa, Asia, and Europe. In addition to being directly linked to KKIA, it will have access to the planned Saudi Land-Bridge Railway along with local dry ports. The SILZ's target industries will prioritize consumer electronics, computer products, pharmaceuticals, nutritional & medical supplies, aerospace spare parts, and luxury goods, jewelry, and precious metals. The SILZ's permitted activities will include light manufacturing repair, import and export, trade and distribution, logistics and value-added services, and recycling.

Financial incentives being offered by the SILZ include a 50-year tax holiday to include VAT suspension and zero-rated corporate, income, and withholding tax. It will also allow investors to benefit from 100 percent business ownership, 100 percent suspension of customs and import restrictions, and no restrictions on capital repatriation. Apple, Inc. has committed to develop a regional distribution center at the SILZ and will undertake activities that include assembly, repair work, and light manufacturing. Furthermore, a reported 20 additional multinationals have shown interest in operating alongside Apple, Inc.

A key initiative within the Saudi Aviation Strategy is the creation of a second national carrier based in Riyadh. A second national carrier will support the effort to increase regional competition and serve the Kingdom's growing demand for additional passenger and cargo capacities. It will also support the Kingdom's target of becoming the world's fifth largest center for air transit. The move will emulate the U.A.E.'s and Qatar's strategy of utilizing sixth-freedom rights to carry passengers and cargo between international destinations with stopovers and connections through Saudi airports.

Land

The growing demand for increased freight transshipment services via rail along with expanding the Kingdom's road network has allowed for the introduction of numerous initiatives. 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.

Total trade via land witnessed a 9 percent increase YoY in 2022 after reaching SAR133 billion ($36 billion) by value. Land imports accounted for SAR93 billion ($25 billion) or 13 percent of all imports by value in 2022. Al Bat'ha was the busiest in 2022 as it accounted for 42 percent of land imports and 46 percent of land exports by value. Al Bat'ha's imports grew by 15 percent YoY as it is the main railway that connects Saudi Arabia with the U.A.E. The Riyadh Dry port accounted for 34 percent of land imports while Al Hadithah Port garnered 9 percent by value.

Top Land Ports (2022, USD Million)

Imports			Non-Oil Exports		
Rank	Port	Goods Handled	Rank	Port	Goods Handled
1	Al Bat'ha	$ 10,436	1	Al Bat'ha	$ 4,887
2	Riyadh (Dry Port)	$ 8,415	2	Al Hadithah	$ 1,781
3	Al Hadithah	$ 2,117	3	Al Wadiah	$ 989

Source: GAStat

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 was previously 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 in 2021 occurred in an effort to consolidate the Kingdom's railway development. The merger would see SRO's project portfolio, including passenger and freight routes from Riyadh to Dammam, the 450 kilometer Haramain high-speed rail, and the Gulf Railway Project merged into the operations of SAR. SAR currently oversees two additional lines, including the North Railway, which spans 2,750 kilometers and includes a passenger and freight line with trains that have capacities up to 16,000 tons. The second line is the East Train Network, which uses a 1,775 kilometer railway with separate tracks for passenger rail and freight. A portion of its 2,596 freight cars are dedicated to transporting grain, rock, and vehicles.

The Land-Bridge project is expected to be one of the largest developments in the region as it will span 1,300 kilometers. The project has been in the planning phase for years but is in late stage negotiations with Chinese developers. The estimated SAR26 billion ($7 billion) project is expected to take seven years to complete and comprises six lines. In total, 1,500 kilometers of new lines will be implemented, while 678 kilometers of existing lines will be upgraded. The project is expected to include seven logistic centers and improved roads between Riyadh to the Eastern Province.

The Kingdom continues to expand its roadway systems and announced a number of sizeable projects. A 400 kilometer dual carriageway between Hail and Al-Ula as well as a two lane highway called Al-Shimassi -Al Qor will span 63 kilometers in Makkah. The Makkah project will increase the number of pilgrims to access the city during peak periods. In February 2023, the Public Transport Authority signed contracts pertaining to the largest project to transport passengers by buses across the Kingdom. The buses will cover more than 200 cities and will serve more than six million passengers annually. It will have 76 routes for intercity services, using a fleet of environmentally friendly buses. This project is expected to add SAR3.2 billion ($853 million) to the Kingdom's GDP and is part of the strategy to increase public transportation from the current one percent to 15 percent by 2030.

In Focus:

Key Insights from Abdullah Al-Juffali, Honeywell President of Saudi Arabia and Bahrain

The logistics sector plays a pivotal role in the success of Vision 2030. How has Honeywell supported the Kingdom's diversification goals by supporting the logistics and transportation sectors thus far?

Transportation and logistics are fundamental enablers of the Kingdom's economic growth plans under its Vision 2030. As the country diversifies its economy into sectors such as tourism, and grows its industrial base beyond energy, the need for logistics routes across air, road, and sea is continuing to increase.

For companies like Honeywell that can offer a broad range of digital technologies designed to maximize operational performance and efficiency, this represents a significant growth opportunity and we are already heavily engaged in supporting the advancement of these key sectors in Saudi Arabia.

In warehouses and distribution centers we have a portfolio of solutions that improve speed and accuracy of supply chains. We are also involved in the expansion of the Kingdom's maritime infrastructure and are providing technologies to support the performance and growth of the country's airports and air operators. In fact, we have digital technologies deployed across virtually every part of the logistics supply chain, to maximize the efficiency of trade within and beyond Saudi's borders.

Honeywell has a longstanding commercial presence in Saudi Arabia that includes several major joint ventures and billions of dollars in investments. How has Honeywell's business relationship with Saudi Arabia evolved, particularly over the past decade?

Our journey in Saudi Arabia started in 1948 when we began working with Aramco, and today our presence encompasses seven sites across the Kingdom that are home to a workforce of around 500 colleagues – more than half of which are Saudi nationals. Our growth strategy in Saudi has been built on a foundation of localization, and that has increased exponentially as we have deepened our partnership with Aramco and other leading entities within the Kingdom.

Over the past decade we have opened advanced engineering and R&D hubs in Saudi, enabling us to localize a greater proportion of technologies for a broader range of critical sectors of the economy. We have focused on growing our Saudi workforce, including increasing the percentage of female hires into the team for consecutive years.

Honeywell has recently been awarded a contract to develop a suite of logistical based technologies at the King Salman International Complex for Maritime Industries, how do you see Honeywell's involvement in the maritime industry evolving?

Much like airports, maritime ports are complex ecosystems that are always on and highly connected. At their core is a vast amount of operational data that, if harnessed in the right way, can unlock substantial improvements in operating performance, safety, security, and efficiency.

Environments like this play perfectly to our core strengths because we have the know-how to integrate multiple disparate parts of an infrastructure, turn its data into insights that can be used to improve performance, and do this in close partnership and collaboration with local entities. As Saudi Arabia expands its maritime infrastructure, we will continue to support with technology that maximizes the safety, security and efficiency of their facilities

Honeywell is also actively involved in the aviation sector as evidenced by the recent MOU signing with the Riyadh Airport Company (RAC). How has Honeywell supported this sector given the increases in passenger travel post COVID-19?

The two key points for Saudi Arabia, and indeed the entire region, when it comes to aviation is that firstly, the sector is very much back in business after the pandemic. We see flight hours continuing to increase as people fly again to meet colleagues, family, and contacts that they have not had the opportunity to see in person for the past few years. The second is the continued growth of regional travel within the Middle East, with new routes opening that are driven in part by a rebound in regional tourism.

Saudi is well-positioned to support this growth and we are helping to establish its position as a major aviation hub in the region. As well as our work with Riyadh Airports Company on the deployment of automation technology to advance operational efficiency, uptime and continuity, sustainability, and passenger experience, we are also working with Saudia to localize maintenance, repair, and overhaul (MRO) services in-Kingdom. These speed up the turnaround time for aftermarket services and help limit unplanned grounding by providing greater access to services domestically, without having to send aircraft away or source parts from overseas.

The National Transport and Logistics Strategy entails a comprehensive program to make the Kingdom a global logistics hub. How competitive will Honeywell have to be to be a major player in supporting this strategy?

We understand our customers in Saudi Arabia have a choice in their suppliers and we highly value and appreciate our long-standing partnerships with companies across the Kingdom. We are committed to continuing our support of their growth objectives through technology and localization and are uniquely positioned in that regard through our long experience of doing business in the country, our technology capabilities and broad domain expertise in Saudi's key growth sectors including logistics. We have the right technology and knowledge mix to support the Kingdom's journey to become a global logistics hub and are excited about the future of this sector.

What key market factors will have the greatest impact on the Kingdom's logistics sector where Honeywell will be a major player in driving the success of this sector over the next five to ten years?

Technology is going to continue to be the key to the success of Saudi Arabia's logistics sector. You only need to look at the transport and logistics automation ambitions of NEOM for an example of how far Saudi Arabia is prepared to push the boundaries of what is possible through innovation. This investment will be pivotal because the Kingdom has set itself ambitious goals around economic development and prosperity for its citizens.

We expect Saudi to be world leaders in the use of innovative technologies such as AI and robotics and its continued focus on, and investment in, these areas will have significant impact on all sectors -- including logistics.

The other factor is the Kingdom's commitments regarding sustainability. Logistics is a sector that has traditionally been carbon intensive right along the length of the supply chain. Saudi Arabia has signaled its intent to change that through the deployment of technology from the point of energy creation right through to its consumption, and Honeywell is proud to be an important partner in delivering against this objective with ready-now technologies at every stage of the value chain.

Digitization and Sustainability

A key component of the rapid development of the logistics sector is growing investments in digitization across the supply chain and the modernization of current facilities. A recent agreement between King Abdullah Port and the Saudi Electronic Info Exchange Company (Tabadul) will provide cross-cutting digitization between smart fintech services from Tabadul to improve logistical services. The agreement will allow King Abdullah Port's smart gate system to incorporate Tabadul's transport management system. This will further integrate with primary government bodies to access logistics and supply chain data, which will accelerate the transit of goods and reducing delivery times substantially.

Another area that has witnessed growth in the digitization of the sector has been the implementation of smart warehouses. In early 2023, MODON announced its intention to build 14 new high-tech smart warehouses in Jeddah that will be operated based on a public-private partnership model. Following the statement, Starlink, a Saudi logistics and supply chain solutions company, announced the opening of a fulfillment center that will cater to the Kingdom's rapidly growing eCommerce sector. The 400,000 square foot facility with storage capacity for over 12 million units will deploy Geek+ robotics, which will carry out picking and order sorting tasks. The booming Saudi eCommerce sector currently boasts a remarkable 91 percent of Saudi consumers who shop online and 14 percent reported doing so at least once a day, according to a checkout.com report.

The Minister of Transport and Logistic Services, Saleh bin Nasser Al-Jasser, recently announced the launch of a new logistics platform that will include 70 services for government agencies, companies, and individuals. The new initiative, called "LOGISTI," will integrate all services related to transport and logistics under one platform. The new platform will support multiple languages with the addition of a navigation traffic map along with relevant information regarding import and export, port details, and shipping costs.

PIF-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 placed Tabadul under the umbrella of Elm to further expedite new service offerings for the customs, ports, and aviation sectors.

The SIDF announced a digital transformation partnership with global technology company SAP in 2020. 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 5G 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.

The environmental sustainability of the sector is a vital component to the Kingdom’s diversification plans. The logistics sector’s environmental and sustainability goals involve the reduction of fuel consumption by 25 percent by 2030. Through 2019, the Kingdom produced more CO_2 per capita compared to its G20 peers. However, the Saudi transport sector has witnessed the fastest reduction in CO_2 emissions between 2016-2021 as it witnessed a 23.7 percent decrease per capita compared to a 7.6 percent decline among G20 economies. One of the key components of reducing the Kingdom’s CO_2 emissions is to shift new car sales to electric vehicles (EVs), with a target of making 30 percent of all vehicles in Riyadh EVs by 2030. This also includes the electrification of public transport vehicles.

In 2021, the SAR entered into an agreement with SABIC to transport polymers via railways from Jubail Industrial City to King Fahad Industrial Port in Dammam for 25 years. SAR will also transport more than 300,000 containers annually, which will contribute to reducing the number of traffic accidents and CO_2 emissions by 19 percent. The agreement will cancel at least 300,000 truck trips from highways annually. Furthermore, the 2023 government budget includes plans to reduce CO_2 emissions resulting from land transportation via trains that will substitute approximately 36,000 tons away from trucks.

Outlook

The magnitude of ongoing investments within the logistics sector reflect the Kingdom's wider goal to become a leading economy by attracting FDI and increasing the role of the private sector. The Kingdom has set ambitious targets that it is expecting to achieve by 2030. The core focus on raising the level of efficiency of the sector will depend on sustainable economic growth, ease of doing business, and developing robust infrastructure to accommodate large scale investments.

Through the implementation of the National Transport and Logistics strategy and NIDLP, the Kingdom has adopted a holistic approach that tackles current challenges within the logistics sector to boost its rankings across a multitude of categories, with the most important metric achieving a top ten ranking globally in the logistics performance index. The success of these plans will aid in the growth of the sector's contribution to GDP from the current 6 percent to 10 percent along with increasing non-oil revenues to SAR45 billion ($12 billion) a year by 2030.

A key aspect to the success of the sector will depend on the implementation of productive human capital initiatives. The launch of the Saudi Logistics Academy in 2021 was created as an initiative by the Transport General Authority (TGA) to addressed this specific need. The academy's mission is to deliver distinctive professional competencies while also strengthening national human capabilities through a variety of specialized logistics training programs. Working with companies across all sectors, the academy has attracted 350 trainees since its inception with its associate diploma, and more than 540 trainees in specialized courses to develop talent. Recently, the academy has established an executive program to develop leaders in the logistics sector in partnership with LC-MIT Global SCALE, and is expected to increase in size over the coming years.

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. By providing an open market for operators and investors in maritime, railway, and air sectors, Saudi Arabia aims to encourage interconnection between GCC countries regionally while positioning the Kingdom as a leader among global transport economies.

APPENDIX 1: Saudi Arabia's Logistics Sector Strategy Targets

Theme	Strategic Objectives	KPI	2021	2030
Economic Growth	Activate the Kingdom's ambition to **become a global logistics hub**	Logistics sector market size (USD bn)	4.6	15.3
		Logistics performance indicator, rank	55	Top 10
		KSA population (mn)	30	60
		Population younger than 35 (%)	75	
Ease of Doing Business	Attract global and support local **contract logistic players** to drive expanded value offerings	Outsourcing level for CL (%)	13	27
	Increase re-exports across a wider set of destination markets and a larger product portfolio	Total value of re-export (bn USD)	11.2	138.5
		E2E re-export time reduction (%)	0	30
		E2E re-export cost reduction (%)	0	60
	Maximize KSA's transshipment potential	Total volume of transshipment (mn TEU)	3.7	16.7
	Enable **e-commerce** penetration & **last-mile delivery**	Percentage e-commerce penetration (%)	25	57*
Infrastructure	Activate a network of **best-in-class logistic zones, and drive enactment of SEZs**	No. of active logistic zones (#)	6	59
	Develop **best-in-class infrastructure**	KSA airports capacity (PAX)	~100M	300M
		TEUs handled in ports	~9M	40M
		Rail network (km)	4,650	~8,500

*2025 Target

Source: Ministry of Transport and Logistic Services, USSBC analysis

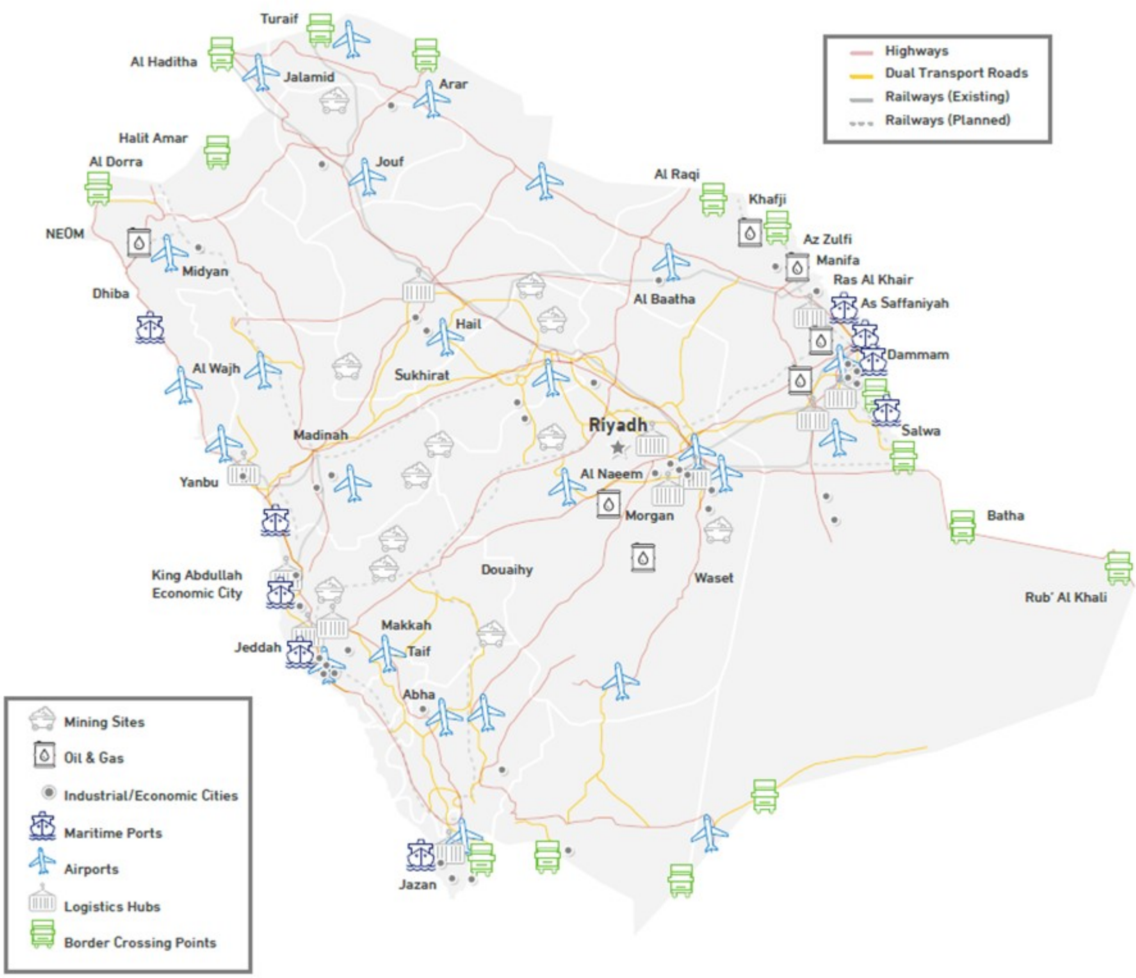
APPENDIX 2: Saudi Arabia's Aviation Sector Strategy Targets

Strategic Objectives	KPI	2018	2030
Enable Air Transport & National Tourism Strategy	Number of O&D pax	~ 100M pax	300M pax
Be a global connecting hub for international transit pax	Number of transit pax	3M pax	30M pax
	Number of destinations	~ 100	>250
Drive economic growth in KSA (both GDP and jobs)	Total sector GDP & Jobs	20B USD GDP 299K Jobs	67B USD GDP 1M Jobs
Grow a sustainable aviation sector with attractive returns to increase FDIs and private sector participation	Total sector GDP return on investments	–	6x

Source: Ministry of Transport and Logistic Services, USSBC analysis

Appendix 3:

Saudi Arabia Logistics Infrastructure Plan



Source: Saudi Logistics Hub

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