ENABLING THIRD PARTY LOGISTICS

In the Kingdom of Saudi Arabia

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Critical examination of current practices in relation to third party logistics with a view to supporting Saudi employment.

The role of the Ministry of Labor and Social Development is to supervise labor relations, manpower planning and employment; as well as issuance of work visas; monitoring labor disputes, inspections and health safety; as well as providing vocational and on-the-job training.
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Executive Summary

This paper focuses on the enablement of sectorial growth within the freight forwarding and logistics industry in the Kingdom of Saudi Arabia (KSA), with respect to the potential to increase the employment rates of Saudi Arabian nationals in the private sector, while supporting increased productivity and GDP output, as per the ambitions outlined in Vision 2030 for Saudi Arabia. The paper examines the current transport and logistics landscape in KSA, including its value to Saudi employment (through analysis of manpower capacity and capability), the current barriers which exist in relation to industry practices, as well as examining government regulations and legislation, which in many is cases non-conducive to trade and has the potential to limit growth within the sector.

Research findings are presented based upon a review of the relevant literature surrounding the logistics sector in Saudi Arabia, as well based on interviews held with global industry experts and business owners. In addition, comparative qualitative and quantitative research has been compiled to identify a number of international benchmark examples which exemplify government best practices in relation to the logistics sector. Furthermore, the following specific recommendations are put forward in order to support the achievement of successful growth and progression within the sector in KSA:

- A manpower framework should be established for the logistics sector in order to map workforce requirements to ensure manpower readiness for prospective growth within the sector.
- A specific Sector Skills Council (SSC) should be established for the logistics sector in order to promote an increased rate of Saudization. This should be achieved through the development of strategic partnerships between the Ministry of Education (MoE), Ministry of Labor and Social Development (MLSD) and key private sector employers through the logistics supply chain.
- The image and perception of the logistics industry should be enhanced through raising awareness of the sector and its career options; a focused promotional marketing campaign should be introduced. MoE and MLSD should support the upskilling of the Saudi workforce, while the analysis should be conducted on the potential to introduce a minimum wage to reduce the dependency of employers on non-Saudi nationals, changing the perception that poor working conditions and low pay are the existing norms within the sector.
- Ministry of Commerce and Industry (MCI) should collaborate with Ministry of Transport (MoT) in order to define and overcome existing regulatory and infrastructural barriers in relation to import/export practices in the Kingdom. This should be focused on improving Saudi Arabia’s position within the global logistic performance index (LPI) to promote higher productivity.
- Investment should be made in enhancing the technological capabilities of Saudi Customs, relative to imports and exports. Investment in research by the Ministry of Economic & Planning (MEP) should focus on how technology can enhance the efficiency of import/export practices while also identifying the ways in which new technology can enable an increase in the representation of Saudi nationals in certain job roles.
- Regulations around Customs licensing should be fully reviewed and overhauled to enable third party logistics entities in Saudi Arabia to be licensed as corporations, reducing the reliance of customs brokers and agents. MCI should communicate these regulations transparently, while other identified ministries and agencies (MoT, Saudi Ports Authority, and Saudi General Authority of Civil Aviation etc.) should have clearly defined accountability in relation to customs clearance.
- Saudi Arabia’s General Investment Authority (SAGIA) should be engaged support the preparation of redefined pricing policies at Saudi Arabia’s ocean ports, in order to reduce congestion and to enhance the attractiveness of Saudi Arabia as a logistical route to foreign freight forwarding/logistics companies shipping through the Arabian Peninsula.
- International third party logistics businesses should be enabled to own assets in Saudi Arabia (for storage and warehousing) for the purpose of providing end-to-end supply chain logistics, without the condition of being majority owned by a Saudi company. Criteria for land allocation at ocean ports should be devised based on the highest relative contribution made to Saudi GDP by investors.
- Current practices of bonded logistics should be reviewed in line with the GCC customs union agreement. Ensuring effective implementation of the measures set out for bonded logistics and its adherence by customs authorities will result in improved customs clearance and freight forwarding practices. This will support the creation of an attractive environment in which to invest.

Continued growth is expected in the global logistics sector which grew to $750.7 billion to 2014. ‘Third Party Logistics’ is provided by companies which outsource logistical services for part or all of their customers’ supply chain management functions. The global third party logistics industry expanded to $750.7 billion in 2014 (Armstrong, 2015), with the U.S. alone contributing $157.2 billion (a total 7.4% market growth from 2013). The highest numbers of logistics contracts in the entire Middle East region have been secured by countries in the GCC, due largely to significant investments, high consumer spending and rapid economic growth. The logistics sector is expected to experience continued growth in the GCC with industry experts estimating that a growth rate of 6.9% was achieved in 2015. Saudi Arabia should seek to secure its proportionate share of this market, directly related to the scale of Saudi imports and exports.
Due to the relative infancy of third party logistics in Saudi Arabia, the industry is still highly fragmented with very few providers offering complete end-to-end logistics solutions. Rather, many businesses offer specific logistical components such as freight forwarding, warehousing or transportation services. The inability of domestic and international providers to offer nationwide end-to-end logistics is underpinned by the lack of a capable and willing workforce, as well as issues such as asset ownership, sophisticated IT requirements, in addition to structural and legislative trade restrictions. Despite these challenges the market size of logistics in Saudi Arabia has been valued at $19 billion in 2016, and the market value has grown by $2 billion between 2014 and 2016.

Saudi Arabia has demonstrated a significant commitment to growth with an $80 billion investment in the King Abdullah Economic City (near to Thuwal on the west coast) which includes a deep-sea port with capacity for 10 million TEU (twenty-foot equivalent) containers per year (Gonzalez, 2009). One-third of the 63sq km Economic City will be used as a Free Trade Zone.

The Prince Abdulaziz Bin Mousaed Economic City is another project which is set to become one of the largest transportation and logistics hubs in the Middle East. Set within the Hail region it has plans for a new international airport, a railway station and dry ports, as well as operations centres capable of handling over 1.5 million tons of cargo annually. With such large-scale investment and the documented commitment of Saudi Arabia to achieving the 2030 Vision, MLSD has a role to play in assessing the impact potential on employment and supporting the alignment of workforce skills with any emerging labor market opportunities.

In order to understand the potential impact on Saudi employment of growth within the logistics sector, it is important to understand the current employment landscape in relation to the types of job categorizations in the sector and the volumes of workers occupying those employment types. Employment in third party logistics includes five industries. The sectors are Land transport and transport via pipelines, Water transport, Air transport, Warehousing and support activities for transportation, Postal and courier activities. These industries combined employed over 251,039 individuals in Saudi Arabia, according to the latest Annual Economic Establishments Survey. However, Saudi nationals only represent 33.8% or 84,962 workers of overall individuals employed in the logistics sector. Therefore, there is a potential to employ more Saudi nationals in the sector through a long-term strategy that focuses and analyses two factors; the potential to nationalize more jobs within each sector and the skills required to fill those jobs.

With job roles varying between strategic and senior management roles, as well as operational frontline and supervisory roles (those that typically require low and semi-skilled workers), Saudi Arabian nationals are represented disproportionately at many different levels within these industries.

Operational/frontline and supervisory roles occupy a high ratio of all jobs within the logistics sector (KPMG, 2015); this is one factor which limits its attractiveness to Saudi Nationals. For example, in the latest Annual Economic Establishments Survey, a total of 104,828 workers were employed in Warehousing and Support activities for transportation in; however, only 24.6% of jobs in the industry were held by nationals.

While slightly higher than Warehousing services, Saudization rates in Land and Water transportation services are still low, with nationals accounting for approximately 29.5% and 26.4% of total workers in these industries, respectively.

Air transportation has the highest Saudization rate of 75.4%, with 25,678 nationals working in this sector, while the 2nd highest sub-sector is the Postal and courier activities with 52.1%, but it employs a smaller number of nationals, estimated at 1,733.

Interestingly, the high concentration of nationals in industries such as Air transport and Postal services coincides with the fact that workers in those industries earn higher salaries on average than other logistics industries such as Warehousing and Water transportation services. For instance, the average monthly wage for a worker in the Air transportation industry is around SR12,863, while the average monthly wage in Warehousing services is around SR3,401, almost one-fourth the monthly earnings of workers in the Air transportation industry.

However, the representation of nationals working at private sector entities operating in the Logistics industry remains low, at 20%. This indicates that while nationalization rate is high in Logistics sectors such as Air transportation and Postal services, it appears the case that expats still dominate sectors within Logistics such as Warehousing, Water, and Land transport, particularly in private sector jobs. The higher representation of non-Saudi Arabian nationals in certain logistics related industries, particularly in roles considered to require low and semi-skilled workers, is characterized by both a shortage in supply of suitable Saudi Arabian workers, as well as a low demand from employers for Saudi nationals.

There is a low appetite for Saudi nationals to work in certain industries within the logistics sector due to the working conditions and low wages (KPMG, 2015). In addition, there is a mismatch between the demands of the job market and the supply of Saudi nationals with appropriate vocational training, which is often required in the logistics industry. In 2015, only 7% of high school graduates enrolled in a vocational training program; however, the government intends to raise this figure to 12.5% by 2020.

An additional barrier to high Saudization in the sector is caused by the preference of employers to pay much lower levels of compensation for the hiring of expat labor. The average monthly salary of hiring a Saudi in the private sector was SR 5,516 in 2014, compared to the average salary of hiring a non-Saudi in the private sector which was SR 1,636 (CDSI, 2015). According to the Wage Rate Report published by GASTAT in 2016, the average wage of a Saudi male in the logistics sector is SR11,095, while the average wage for an expat male is SR3,067 which indicates a significant earnings differential between nationals and expats in the logistics sector. This wage gap further suggests that companies might still favour the hiring of expat workers from a cost-driven perspective, even if Saudi nationals have the skills necessary to perform job roles. Finally, the extent to which this wage disparity is due to the over-representation of expat labor within certain industries in the logistics sector is unclear and warrants further research.

"Saudi logistics market set to continue strong growth trend" (2016)
GASTAT: Annual Economic Establishments Survey 2016

Focus on the logistics sector by Saudi Human Resource Development Fund should be re-prioritized in terms of supporting Saudization"
The low appetite of Saudi Arabian nationals to work in logistics has been a contributory factor to the low prioritization placed on these sectors by the Saudi Arabian Human Resource Development Fund (HRDF), in terms of a concerted effort to promote Saudi employment. The factors considered by HRDF in determining the priority sectors for Saudi employment include; the preference of Hafiz recipients to work in these sectors, as well as the potential for female employment and the projected growth of the Saudi workforce.

Of the fifty three industries identified, six industries contribute specifically to the sector of transport and logistics (transport of goods outside of cities, road transport of goods within cities, storage, shipping and air transport), yet just one of these industries was placed within the top twenty focus industries for employment by HRDF - Air transport (Ernst and Young, 2014). This underlines a further challenge in utilizing employment growth to leverage reforms within Saudi third party logistics, particularly given the very low representation of key target unemployment demographics in the key industries identified. Job roles within the logistics sector must be mapped out and reprioritized to determine the highest potential areas for increasing employment outcomes for Saudi nationals in the short, medium and long term, while the identification of specific roles which can be made attractive to and filled by Saudi females must be supported by targeted cultural awareness programs.

In 2016, Saudi Arabia was ranked 52nd out of 160 countries, representing a decline of three places from its ranking in 2014, when the country ranked 49th out of 160 countries, according to the World Bank Report on global logistics performance index. The report assesses the logistics industry in each country based on six dimensions; in the evaluation of the Efficiency of the customs clearance process, Saudi Arabia’s (ranked 68), the Quality of the trade and transport infrastructure (ranked 40), Tracking and tracing (ranked 49), International shipment pricing (ranked 48), while Operators and customs brokers (ranked 54), and Shipment delivery timelines (ranked 53) – (LPI, 2016).

**Current Logistics Landscape in Saudi Arabia**

As a major global trade hub, Saudi Arabia must accelerate its position in the global logistics market in order to support increased employment and to boost the economy through increased foreign investment. The targets of Vision 2030 are to reduce Saudi unemployment from 11.6% to 7% and boost FDI from 3.8% to 5.7% of national GDP. A number of factors have been identified to support improvements in the performance of logistics in Saudi Arabia. These are considered below in relation to the regulatory and infrastructural reforms needed, as well as the evolution of human capital in order to promote trade and invest -ment in the logistics sector while enhancing opportunities for Saudi employment.

Saudi Arabia seeks to improve its global position in the logistics performance index from 52nd in 2016 to 25th in the world by 2030, while establishing the smoother flow of goods, people and capital through the Kingdom. In order to achieve this Saudi Arabia must leverage its strong strategic geographic position in order to capitalize on the flow of major trade through logistical networks from around the world. Shipment timelines characterized by long delays, well below the best-performing global economies, as well as expensive and tedious bureaucratic customs procedures, reduces the attractiveness of Saudi Arabia to global haulage businesses as a viable trade route through the Arabian Peninsula. This has led some traders to avoid shipping goods through the Saudi ports as a consequence of recurrent delays and the high costs associated (Arab News, 2012).

In addition, particular regulations around third party logistics in Saudi Arabia leave the industry vulnerable to inconsistent customs practices, an area identified as an obstacle to investment by foreign businesses (US Dept. of State, 2014). Furthermore, the potential for business growth and supply-chain diversification is restricted by the monopolization of customs clearance to a limited number of approved entities, this has led to the acknowledgement that there is a need to increase the number of entities currently equipped to conduct customs clearance practices (Arab News, 2012). These are challenges which must be overcome if Saudi Arabia is to achieve true traction against its 2030 Visionary objectives.
Existing customs licence regulations and procedures are limiting to the growth of the logistics sector within Saudi Arabia

Unlike other countries (United Arab Emirates, Australia, United Kingdom, Singapore, Netherlands etc.), in Saudi Arabia it is not possible for a third party logistics company to own a customs licence which would enable them to conduct their own customs clearance practices when importing/exporting goods to and from the Kingdom (Customs, 2016). As a result, businesses are forced to comply with complicated regulations, or to engage authorized customs brokers to act on their behalf when transporting goods across Saudi Arabia’s borders.

Regulations state that any individual possessing a customs licence must be a Saudi Arabian national, and they must comply with twelve licensing requirements in order to hold the license. This includes the requirement to provide a bank guarantee payment of SR100,000 as well as successfully passing exams in; customs tariffs, principles of accounting, Basic English, and Common Customs Law of the GCC States and its implementation rules (Customs, 2016). This, coupled with the exclusion of all individuals practicing import/export businesses from obtaining the license, poses a barrier to the emergence of third party logistics companies in Saudi Arabia.

There are a number of risk factors for international and Saudi Arabian third party logistics companies due to this legislation. Firstly, customs clearance can be expensive due to the need to engage with third party licensed brokers (Saudi Arabian sole traders), pay for expensive and lengthy training courses, or hire directly from a limited pool of approved personnel. If a logistics entity hires a customs licensed Saudi Arabian national, all international business trade is dependent on the effectiveness and reliability of that individual. It is difficult for a business to protect against any ineffective, inefficient or poor quality border practices by that licensed individual due to the need for their continued employment for the business to continue to operate customs clearance practices effectively.

As part of its commitment to take a zero tolerance approach to anti-competitive or restrictive business practices, through establishing leading international standards and administrative practices, customs brokerage practices should be studied intensely in line with international best practices in order to promote free and fair trade while eradicating any unprofessional agent behaviours. Examples of good practice in the domain of customs licensing for logistics have been demonstrated in the European Union (EU), Singapore and Hong Kong. Six of the countries ranked in the top ten in the world for the quality, speed and simplicity of their customs clearance processes are member states of the EU, while Singapore and Hong Kong ranked 5th and 9th, respectively.

In Hong Kong and Singapore, importers and exporters remain liable for the correct and timely declaration of all shipments; the individual making the declaration is expected to be registered and accredited to do so. However there is no explicitly recognised role for ‘customs brokers’, rather this is dependent on the importing/exporting entity. In addition, by accordance with Part XI of the Customs Act (1901) in Australia, an owner of goods may authorise a customs broker to act on his or her behalf for the importation of goods. As with Saudi Arabia this brokerage entity can be a sole trader or a nominee, but in addition the entity may also be a corporate broker. An additional measure which minimises the scope for inefficient and overly bureaucratic border practices is the full automation of the process through an electronic customs clearance system; such a system has been implemented in Dubai’s Jabal Ali Port. In all prior examples, there are no governing legislative requirements for the entity that holds a customs license to be native to the country to which they are importing/exporting goods.

Freight Forwarding Licensing practices in Saudi Arabia must be redenigned to support the smoother flow of goods in and out of the Kingdom, while enabling the growth of Third Party Logistics

In addition to challenges around customs licensing, a further barrier exists for third party logistics companies, or new business start-ups with the ambition of operating in Saudi Arabia; this is due to difficulties around obtaining freight forwarding licenses. A freight forwarding license enables a person or company that organizes shipments for individuals or corporations to transport goods from the manufacturer or producer to a market, customer, or a final point of distribution. In Saudi Arabia, industry experts have indicated that existing regulations currently restrict businesses from owning such a license to forward freight via ocean transit, unless the business owns the actual ship on which the goods will be transported, or unless they fulfil specific criteria by possessing a high level of experience within the industry. This regulation must be verified through further study as it has the potential to limit the emergence of small and medium businesses, as well as larger corporations unable to fulfil the required criteria, from trading internationally and providing end-to-end supply chain logistics.

There are currently less than fifteen third party logistics companies operating in Saudi Arabia (Logistics Saudi Arabia, 2016), significantly less than some of their GCC counterparts, with hundreds operators in Dubai alone. In addition, Saudi Arabia has the lowest seaborne trade per capita in the gulf (CIA, 2012), this despite seaborne trade accounting for 87% of customs revenues being generated in Saudi Arabia (Customs, 2013). The inability of third party logistics companies to obtain freight forwarding licences to operate end-to-end logistics in Saudi Arabia is a likely contributor to the low relative value of trade productivity in logistics in Saudi Arabia in comparison to other GCC states. Third party logistics companies provide huge potential to increase productivity in the sector through enabling access to international exports for small and medium enterprises in Saudi Arabia; supporting SMEs to export their products and services is a key strategic objective for Saudi Arabia.

Opportunities for increased Saudi employment are also limited by the small number of third party logistics operators in Saudi Arabia. These businesses are large employers of attractive senior level management personnel. For example, there has been an increased demand for recruitment into project logistics roles and senior positions to head new developments across the GCC, which has experienced a growth trajectory, fuelled by a surge in global import/export volumes (Anon, 2015).

Due to the monopolization of the global shipping industry by huge global transporters of cargo, and without the ability to obtain freight forwarding licenses, SMEs are dependent on third party logistics companies to support their exports out of Saudi Arabia. SMEs account for more than 90% of all businesses in the private sector in Saudi Arabia, yet their contribution to national GDP is just 30%, compared to 45% for economies of similar size. Furthermore, approximately 50% of SME entities operate in the retail and trade sectors, which heavily depends on

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imported goods from other countries, thus requiring a reliable logistics process at seaports.

The impact of trade restrictions around freight forwarding can be demonstrated to not only limit growth within the logistics sector, limiting employment, FDI and minimizing the direct value of imports/exports to GDP. While this is the reality, such restrictions also significantly impact private sector growth on a much broader scale in terms of new sector development through the contribution of SMEs. With the Vision 2030 target to increase the contribution of SMEs to GDP from 20% to 35%, inherent regulatory and structural access barriers within the cycle of logistics and freight forwarding must be overcome in order to facilitate growth.

As a part of their mission to enhance the readiness of SMEs to export goods from the Kingdom, the Saudi Exports Development Authority (SEDA) should engage directly with Kingdom, the Saudi Exports Development Authority (SEDA) should engage directly with 

**Saudi Arabia must capitalize on its geographical position in order to electrify import/export trade**

Saudi Arabia is in a geographically advantageous position in relation to global trade networks, based in the Middle East and supporting global logistics cargo transiting the Arabian Peninsula. Furthermore, Saudi Arabia has the highest demand among GCC countries in terms of international shipping. According to a report by Argaam, local demand for international goods is expected to grow in Saudi Arabia by 5% to 8% over the upcoming three years. The rising demand for international shipping in the Kingdom has been attributed to the development of free economic zones such as the King Abdullah Economic City at the Red Sea Coast. Another positive change in regards to the development of the logistics sector in Saudi Arabia stems from the increasing private sector infrastructure investment. For instance, DHL has built a SR100 million air and land transportation facility in Jeddah. When added to its facilities in Riyadh and Dammam, the facility will handle 4,000 shipments per hour. However, the general manager of DHL, has highlighted in a recent interview that some challenges remain persistent in the logistics sector in Saudi Arabia, such challenges include constant and abrupt changes in the customs legal procedures.

However, the challenge of customs and freight forwarding licensing has been explored in relation to existing regulations and trade practices, but the challenge of logistics in Saudi Arabia for foreign investors is much more dynamic. Issues around asset ownership, land allocation and bonded movement within the Kingdom, provide additional pressures which limit the attractiveness of the proposition to invest. With a target of Vision 2030 to increase non-oil exports from 16% to 50%, while also supporting the achievement of increased FDI, a strategy must be formulated which addresses such challenges directly to enable the promotion of an enhanced regulatory environment to potential investors.

**Land allocation, storage and pricing at Saudi ports should be revised and the ownership of assets for third party logistics companies should be enabled to promote increased trade**

Much of the freight in ocean transit from Europe to the Arabian Peninsula arrives to Saudi Arabia’s west coast ports (Jeddah Islamic Port and King Abdullah Economic City Port), before being transported across the Kingdom to the East. Currently, there are issues around congestion at Jeddah Islamic Port which is the more utilized of the two ports on the west coast. Lying on the Red Sea in the middle of the international shipping route between the East and the West, the value of exports from Jeddah Islamic Port was SR29.5 billion in 2013, accounting for 36% of the total export trade value in Saudi Arabia (Customs, 2013). In addition to exacerbating already lengthy clearance procedures, heavy trade volume leads to challenges with the storage of import/export goods due to a lack of available space at the port. With a total throughput of some 55 million metric tonnes in 2015 (Cargo Statistics, 2016), and due to the position of the port on the very fringes of the city of Jeddah, insufficient space is available to logistics companies in order to store goods and there is little scope for land development.

The port at King Abdullah Economic City will alleviate some of the congestion at Jeddah Islamic Port and offers more available space to be developed for storage; however the current utilization of this port is insufficient to have this necessary impact and therefore requires a concerted effort to support trade import/export distribution on the west coast. The provision of storage could be utilized as a lever to divert trade to King Abdullah Economic City, potentially alleviating congestion at the west coast ocean ports, reducing import/export timelines, thus reducing cost and enhancing the efficiency of customs clearance.

Investment in the development of increased freight storage facilities at the port should be promoted in order to support reduced congestion, while the allocation of such storage space should also be carefully designed to support maximum GDP contribution. When selecting their day-to-day operations, third party logistics companies act on behalf on many other businesses across a broad range of services throughout the logistics supply chain. As a direct result of this, many small and medium enterprises, as well as larger corporations, are being supported to grow, while enhanced employment and inward investment in Saudi Arabia is being promoted. Therefore, by the allocation of land to third party logistics companies for the development of storage spaces for goods imported/exported to and from the Kingdom, the indirect impact on private sector growth and jobs must not be underestimated, particularly at the level of influence held by individual land owners.

In addition to storage availability, trade legislation around the ownership of storage facilities as assets to third party logistics companies should also be analysed, in relation to the appetite of the Saudi government to increase FDI which will significantly impact job creation. Currently, third party logistics licenses can be accessed by ‘asset light’ logistics companies, co-ordinating haulage transit through a supply chain of providers without actually owning their own vehicles, storage facilities and other assets. This is expensive and in many cases the non-preferred option for largescale companies offering integrated logistics services (ILS). However asset ownership for logistics companies operating in Saudi Arabia is contingent on having companies with majority Saudi ownership. Industry experts have highlighted the

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https://www.researchgate.net/publication/273291945_King_Abdullah_Economic_City_Engineering_Saudi_Arabia’s_post-oil_future

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unsuitability of this arrangement for many international operators who see this legislation as high-risk due, in part, to the lack of visible and/or appropriate partners in Saudi Arabia, and therefore restrictive to the growth in this sector.

Another important consideration regarding the promotion of a favourable distribution of trade between the west coast ports in Saudi Arabia is the redesign of fee structures. Pricing can be utilized as a key determining factor for maritime trade in transit through the Arabian Peninsula. Pricing at these ports should be re-assessed in line with international standards, given that the cost of exporting from Saudi Arabia is the most costly in the GCC region. According to World Bank (2014), the cost of exporting one TEU container from Saudi Arabia is $1,285. This compares unfavourably to $655 in the UAE, $765 in Oman, in addition to $810 and $927 in Bahrain and Qatar respectively. This includes costs for documents, administrative fees for customs clearance and technical control; customs broker fees, terminal handling charges and inland transport. If Saudi Arabia is to seriously compete as a global logistics hub within the Middle East, then a full review of the fees, charges and bureaucratic processes must be undertaken.


Saudi Arabia is part of a Customs Union established in 2003, implemented to support the provisions of the economic convention for the GCC member states. This includes the adoption of a common customs law, unified customs declarations (for import, export, re-export, temporary export, transit, bonded warehouses, and statistics), unification of internal administrative, financial and customs regulations and procedures pertaining to import, export and re-export in the GCC states (Ministry of Finance, 2016).

The unified commercial policy set out by the GCC countries legislates for the bonded movement of freight in ‘free zones’ in KSA and other GCC countries. This relates to the movement of freight that has not cleared customs on entry into the Kingdom, despite being in the possession of a non-government entity. This freight is considered to be in the custody of customs while under bond and can only be accessed by law by duly authorized parties while it is in bonded custody. Despite reaching this agreement, appropriate practices of bonded movement across borders into and out of Saudi Arabia have led to time-consuming and costly border compliance procedures. The time taken to import into Saudi Arabia due to border compliance is far lengthier than other GCC members and almost double the MENA average (World Bank, 2016).

Inefficiencies in the movement of freight across borders into and out of Saudi Arabia have led to time-consuming and costly imports/exports, making it more difficult for local companies to be competitive and to reach international markets (World Bank, 2016). This has also contributed to creating an unattractive market for foreign investors. Customs practices must be reviewed with respect to enabling bonded logistics in Saudi Arabia in order to create a favorable regulatory environment in which both domestic and foreign logistics companies are able to operate efficiently.

**Recommendations**

- **Establish a Logistics Manpower Framework in Saudi Arabia for logistics:** In order to support the development of third party logistics in Saudi Arabia, and the growth of supply chain logistics more broadly, MLSD must work collaboratively with MoE in order to map the manpower requirements of the sector and plan for the future accordingly. Manpower readiness must be modelled in relation to the impact of any regulatory or infrastructural changes implemented to support the achievement of Saudi Arabia’s Vision 2030, including raising the share of non-oil exports from 16% to 30%, enhancing the contribution of SMEs to GDP from 20% to 35% and increasing FDI from 3.8% to 5.7% (Saudi Vision, 2030).

- **Establish a Sector Skills Council (SSC) for logistics:** In order to support increased and sustainable Saudization in the logistics related industries, the skills of the Saudi workforce must be aligned to the requirements of the sector. As part of the objective to establish Sector Skills Councils (SSCs), as set out in Saudi Arabia’s 2030 vision, an emphasis should be placed on working closely with domestic and international logistics businesses. A specific SSC should be established with these businesses, as existing and potential employers of manpower in Saudi Arabia. This would support employers to identify, develop and manage a national workforce, increasing Saudization through establishing a talent pool of individuals from which to recruit into the industry, supporting a private-sector led skills agenda and improving productivity and earnings.

MoE must also engage universities and colleges to ensure the provision of appropriate study courses relevant to vacancies within the logistics sector, where there is currently a skills gap. Less than 16% of Saudi Arabian nationals graduating with a Bachelor’s degree gained qualifications in the fields of Business and Administration in 2013 (MoE, 2013). These fields are typical of management positions within supply chain logistics - Supply Chain Manager, Operations Manager, Logistics Manager, Warehouse Manager, Planning Manager etc. In addition to the alignment of academic qualifications to industry requirements, investment in specific focused training institutions as route-ways to employment must also support increased Saudization in the logistics sector, such as the education and training offered by the King Abdulaziz University Faculty of Maritime Studies on safe and efficient ocean shipping. In line with the establishment of a logistics manpower framework, the appropriate institutions should be engaged to support training development. This will require a degree of alignment and co-ordination that does not yet exist within the sector, if the strategy is to be successful.

- **Enhance the image of the industry by raising awareness of the sector and its career options:** A cultural shift is required in terms of increasing the value of all jobs,
including certain lower skilled jobs to Saudi nationals in order to support their increased representation within each component of supply chain logistics. This must be endorsed by a focused marketing and promotional campaign targeted at Saudi nationals, demonstrating the many attractive roles and opportunities that exist within the logistics sector. This should be skills led and supported by MLSD and MoE, while effective job brokerage programs and the implementation of a targeted and direct employer engagement strategy.

A concerted effort must also be made to minimise the wage deficit between Saudi nationals and expat workers in the private sector to further promote employer demand. In order to support a reduction in this deficit, analysis into the impact of implementing a minimum wage should be considered, to reduce the incentive for employers in Saudi Arabia to hire non-Saudi Arabian nationals over the national workforce. It is also significant that, to be included in the Nitaqat formula, a Saudi national must be paid a minimum of SR 3000.

Reducing the wage differential would promote the relative affordability of employers to hire Saudi nationals over expat workers, while also supporting a phased exit to direct-hire employment subsidies which have been demonstrated to be expensive and ineffective in driving Saudization. Saudization ratios in the private sector have increased only marginally since the introduction of subsidies, although actual unemployment has increased, despite multi-billions invested by the Saudi government.

- MCI and MoT should work collaboratively to overcome regulatory and infrastructural barriers to improve Saudi Arabia’s position in the global Logistics Performance index: Saudization within the logistics sector in its current state is not a high priority of the Saudi government, although there are obvious benefits to demonstrating increased performance in this domain, such as reducing unemployment, reducing the reliance of the sector on non-Saudi nationals and supporting increased GDP contribution for the economy, while also increased earnings for households.

According to GASTAT 2nd Quarter Labor Force Survey (2017), expats represent approximately 81.7% of overall workers in the private sector, this is high in comparison to other global economies but still remains lower than many other countries in the GCC. For example, expatriate workers account for 93% of the total workforce in the UAE, yet Dubai rates significantly more successfully than Saudi Arabia in terms of logistics performance index. Therefore, efforts to improve in areas other than direct Saudi employment must be delivered in a coordinated manner in order to support increased efficiency and productivity. Severe and sustainable impact lies in the regulatory and infrastructural reform of the Saudi logistics sector. This requires a collaborative focus from MCI and MoT.

If Saudi Arabia is, along with all other countries, to improve its performance in border administration, as well as transport and communications infrastructure, achieving significant progress towards reaching even 50% of global best practice, global GDP would be increased by approximately $2.6 trillion (Anon, 2013). This demonstrates that increased performance in just one or two of the indicators of logistics performance can have a significant, positive and measurable impact on overall competitiveness, not limited solely to job creation.

- MEP should invest in research to identify the ways in which technology can enable enhanced border efficiency, as well as increased Saudization in the logistics sector: A key action in the ambition to promote the recruitment of Saudi nationals into the logistics sector is through the enablement of certain job roles by significantly increasing existing levels of technology, and also introducing new technology within the industry. Investments in research will identify where new technology can be implemented to support the modernization of the sector while also contributing towards increased productive efficiency. This will also enhance the skills requirement and prestige of existing low and semi-skilled jobs within the industry.

While technology can increase the attractiveness of certain job roles, it is also to a large degree necessary for logistics companies in Saudi Arabia to adapt to evolving technologies, particularly given the rise of e-commerce and digital platforms which are utilized to secure global reach for businesses exporting goods from the Kingdom. Digitally enabled logistics will help in trade growth through the creation of digitally enhanced cross-border platforms (World Economic Forum, 2016). However, in order to satisfy the delivery expectations of their customers, any investment in technology by logistics companies must be supported by enhanced efficiencies in customs practices.

- Regulations around customs Licensing should be overhauled: Regulations around customs licenses should be fully overhauled in order to allow third party logistics entities to possess corporate licenses and authorize representatives (individuals, employees and agents) to act on their behalf for the purpose of customs clearance approval. The responsibility for ensuring representatives are properly trained and accredited with the relevant practices should be borne by the third party logistics entities, while complying fully with all relevant and specific governmental regulations, processes and procedures. This will reduce the scope for any inefficient and unprofessional practices, as well as speeding up the customs clearance process and reducing operating costs for logistics providers, thereby fostering a more competitive environment. When such measures were introduced in Algeria in order to accelerate the approval of license applications, a 40% to 50% reduction in customs clearance fees was achieved, increasing the attractiveness of the country to investors (World Bank, 2013).

The process for obtaining customs clearance licenses should also be simplified in line with international standards, and the requirement for the licensee to be a Saudi national should be removed to promote increased foreign direct investment in the Kingdom. Justified and transparent regulations should be communicated appropriately by MCI to all stakeholders and an updated governance structure should be clearly defined under the umbrella of the Saudi government, with designated international, regional and domestic agencies assigned to the license accreditation, issuance and audit process. This process can work smoothly and efficiently as long as each entity, including MCI and MOT, as well as the Saudi Ports authority and General Authority of Civil Aviation (GACA), fully understands the entire process and their individual roles and responsibilities within the process.

- Pricing at ocean ports should be redesigned to attract foreign investment: In order to promote the utilization of Saudi Arabia as a shipping route for global third party logistics, a thorough evaluation of port fees should be conducted and fees should be adjusted where required, in line with international standards. Port fees should also be considered in relation to accelerating the volume of shipments through King Abdullah Economic City Port in order to reduce
congestion at Jeddah Islamic Port. Discounts may be considered in order to leverage pricing to create favourable distribution on the west coast. As part of their vision to create a highly competitive economic climate and modern infrastructure that will lead to greater social prosperity throughout the nation, the Saudi Arabia General Investment Authority (SAGIA) should be engaged in the process. SAGIA can support the preparation of pricing policies at Saudi Arabia's ocean ports, as well as supporting implementation planning and monitoring and evaluation practices to study the overall economic value of any proposed reforms.

• **Regulations around asset ownership for foreign third party logistics companies should be re-evaluated, and criteria should be implemented for land allocation at ports:** As part of an overall strategy to enable the third party logistics sector in Saudi Arabia, regulations around the ownership of land and warehousing should be reviewed by the MEP to support foreign and domestic investors to provide end to end integrated logistical services. Legislation that restricts the ownership of assets for majority owned foreign companies should be amended to enable foreign third party logistics companies to make valuable investments in Saudi Arabia. Rather than prescribing that businesses must be majority owned by Saudi nationals, operating in Saudi Arabia for foreign companies could be more closely linked to the requirement to employ a majority Saudi workforce. Alternatively, criteria could be established for evaluating the overall contribution of foreign companies to Saudi GDP, this could support land allocation practices to maximize productivity in the sector while also indirectly supporting SME growth in the logistics sector.

• **Bonded logistics should be promoted in Saudi Arabia:** Bonded logistics should be enabled in Saudi Arabia as per the GCC customs union agreement. The effective implementation and onward adherence of this agreement will support the creation of an attractive trade environment in the Kingdom while enhancing the efficiency of customs clearance practices and supporting reduced operating costs for third party logistics companies. This will create a competitive market place that is more efficient, less costly and of direct impact to job creation in the private sector, achieving economic growth of the labor market.
References


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