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MEED-Mashreq Logistics Business Leaders Club

Navigating the Disruption

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MEED
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Foreword

The UAE logistics sector is poised to lead the country's stance on economic diversification

As the UAE seeks to cement its position as a global investment hub, logistics and transportation emerge as a likely route to achieve economic diversification goals defined at a national level.

The UAE's prowess in logistics and warehousing is already evidenced through its geographical location, existing logistics operations and specialised trade zones.

Business is further bolstered by existing and emerging economic reforms, maturing ownership laws and government efforts to drive inward investments.

But what steps can players in the UAE take to capitalise on investments directed into the country? And what are the challenges they might face while doing so?

In an exclusive, closed-door session, organised by MEED and Mashreq, UAE's leading logistics and transportation service providers gathered in Dubai on 29 June, to discuss the challenges facing their industry as they seek to contribute to a productive and sustainable economy.

Participants at the Logistics Business Leaders Club delved into the state of logistics and transport in the UAE, while addressing the country's competitive advantages, the path ahead for innovation and the role of digitalisation.

Experts further discussed the need to decarbonise the sector, highlighting examples of best practice and efforts to align with the UAE's net-zero targets.

This report summarises key themes discussed at the event and presents an outlook on the way forward for the sector, discussing the role of future disruptive opportunities such as Etihad Rail, bilateral trade agreements and the scope for public-private collaboration.

Mitigating the disruption

The UAE logistics industry is taking on lessons from the pandemic to reshape its business models

E-COMMERCE DELIVERIES

25%

RISE IN CONSUMER E-COMMERCE DELIVERIES IN 2020

Source: World Economic Forum

Logistics and warehousing sectors are an integral part of the business value chain, ensuring a seamless link between the storage and transport of goods across local and international hubs.

up front, but the benefits will undoubtedly be reaped in the long-term.

But recent years have been a true test of resilience for the sector and its multi-layered service providers.

In the beginning of 2020, the industry faced the brunt of the Covid-19 pandemic when cities lurched to a halt overnight. A sharp rise in container rates and congestion at key trade ports multiplied problems for businesses and consumers alike.

The impact was extensive in segments such as e-commerce, where heightened customer expectations pushed retailers and their logistic providers to the limits. Analysis from the World Economic Forum highlights a 25 per cent rise in consumer e-commerce deliveries as a result of the growth in online shopping in 2020.

"The modern consumer is the one disrupting the way supply chains operate," says Raman Kumar, managing director at Al-Futtaim Logistics, during the Logistics Business Leaders Club organised by MEED and Mashreq on 29 June.

"The UAE is already an established and leading logistics hub, but it is shifting consumer demand that is testing the limits of its capabilities."

Pandemic-led disruption also influenced a massive spike in demand for warehousing space. In a survey published by real estate consultants JLL in 2021, 74 per cent of respondents expect growth in demand until 2024 at least.

In Dubai, property consultants Knight Frank report that rents have risen in various industrial pockets during 2021. This is said to be driven by a permanent shift in consumer shopping habits, resulting in greater demand for warehousing and distribution facilities.

However, many of these challenges are not new for the industry.

Even prior to Covid-19, the industry was feeling the heat of evolving consumer expectations on the back of growing internet penetration rates and the surge in online ordering. And perhaps, the pandemic has forced companies to adopt digitalisation for the better – for many, digitisation meant the difference between staying afloat and going bust.

"The face of supply chain logistics has changed during the pandemic," states Mohsen Ahmad Alawadhi, CEO – Logistics District at Dubai South. "And it was perhaps the best story for e-commerce, propelling it to new heights in the past two years."

The pandemic also saw organisations restructuring their business models by adopting a more agile and flexible approach towards inventory management, working capital and labour.

For example, ports and shipping organisations turned to expanding in specific business verticals, to provide end-to-end solutions to their customers.

"We saw consumer demand for more inter-connected solutions, which is what prompted us to enable a more collaborative ecosystem," says Abhinand Madireddy, vice president – strategy and growth at Abu Dhabi Ports Logistics.

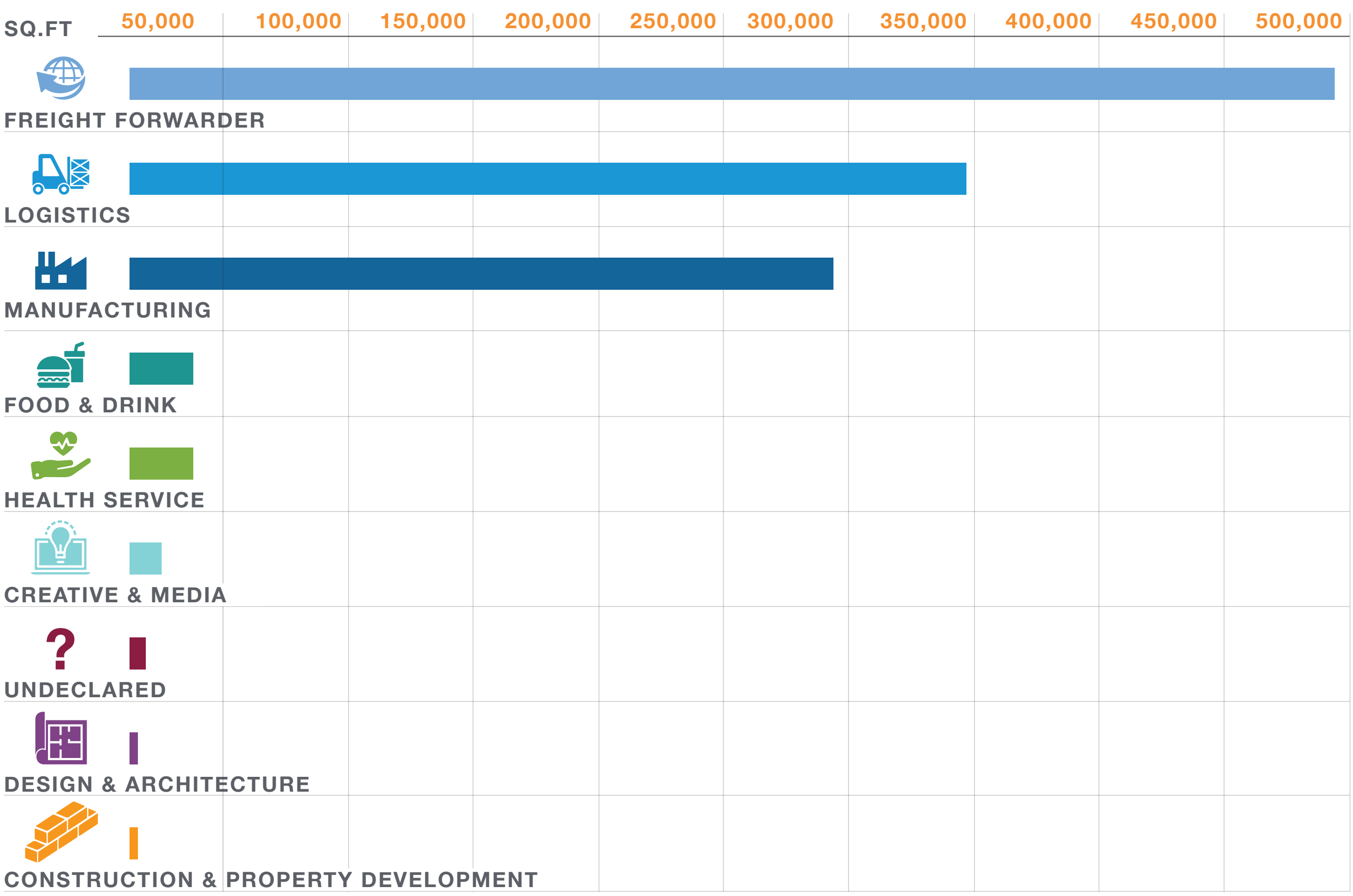
Another trend disrupting business is the approach to sourcing products.

"Where we were once dependent on a single source or factory for our goods, this has completely changed," says Alawadhi.

"Nearshoring and multi-sourcing have become prevalent trends – take the example of iPhone production moving to India during the pandemic to reduce reliance on China."

Nearshoring has allowed businesses, particularly capital-intensive ones, to reduce shipment lead-times and improve cash conversion cycles significantly. This in turn has led to higher working capital and stronger balance sheets.

Multi-sourcing meanwhile has allowed diversification of risk by reducing dependency on a single partner, supplier, or source.



Source: New industrial requirements by sector – Dubai Q2 2021 (Source: Knight Frank)

“Authorities and corporations have also turned to ramping up in-country logistics capabilities, building in links to wider distribution networks.”

“These changes are also helping curb carbon emissions,” says Alawadhi. “As the source moves closer to the customer, the carbon footprint too reduces in proportion.”

Many major corporations such as American logistics giant Amazon have advanced with large renewable energy investments, indicating their commitment to reduce the emissions of their freight and logistics operations.

Authorities and corporations have also turned to ramping up in-country logistics capabilities, building in links to wider distribution networks. Storage hubs are moving as close as possible to the consumers while multi-modal transport modes are allowing goods to be moved through various channels.

For example, Amazon announced the launch of a 4,700 square-metre delivery station in Abu Dhabi in June, geared at enhancing and servicing same-day and next-day deliveries.

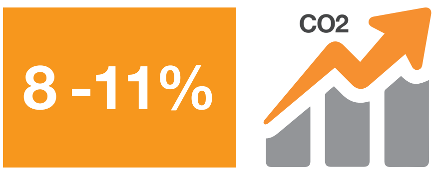
Moving forward, the bulk of investments are expected to be directed into digitalisation and improving green credentials within the industry.

“The UAE has laid the groundwork for a competitive logistics sector, in the form of ports, business parks and economic zones,” says Alawadhi. “Now it needs to catalyse the industry to invest in people and digital tools, while also thinking about the environmental impact.”

Channelling carbon reduction

Stakeholders are adopting ways to keep carbon footprint in check – but much more needs to be done

SOURCE OF C02 EMISSIONS



FREIGHT TRANSPORT, WAREHOUSES, AND PORTS

*Source:
International Energy Agency (IEA)*

Leading experts in the UAE have emphasised the need to reduce logistics-related carbon emissions to improve the efficiency and competitiveness of the sector.

Industry leaders at the club said that as sustainability rises higher on the business agenda across sectors, it is imperative for the logistics industry to take it more seriously as well.

The transportation industry as a whole is responsible for a significant amount of global greenhouse gas (GHG) output, with estimates suggesting annual emission levels between 16 and 24 per cent.

Freight (air, sea and road) makes up a sizeable portion of this total. Data from the International Energy Agency highlights that freight transport contributes nearly 8 per cent of global GHG emissions and up to 11 per cent if warehouses and ports are included.But the complex nature of the industry makes decarbonisation a task easier said than done.

Given the number of stakeholders involved and the multitude of checkpoints, it is challenging for a single entity to regulate its carbon footprint. There is also lack of clear data on the impact of carbon reduction programmes which could potentially incentivise logistics firms.

Larger organisations have already begun to pivot towards sustainable practices. Dubai-based logistics giant DP World has defined a decarbonisation strategy with the aim of becoming carbon neutral by 2040. It has also set an immediate target of a 28 per cent

> **"The industry is also seeing growing demand for decarbonisation from clients that are already actively regulating their emissions."**

C02 EMISSIONS REDUCTION

28%

CO2 EMISSION REDUCTION TARGET SET BY DP WORLD FOR 2030

reduction in carbon dioxide emissions by 2030 through practices such as replacing fossil fuels, investing in low-emission technologies and passive buildings, and offsetting its carbon footprint.

The industry is also seeing growing demand for decarbonisation from clients that are already actively regulating their emissions. For example, club panellist Raman Kumar, managing director at Al-Futtaim Logistics, highlights how they have altered their operations to align themselves with the green strategy set by their client Ikea, a Swedish home furnishings retailer.

"Since our client is conscious of their carbon footprint, we too are analysed as their supply chain partners," says Kumar.

"These changes will come at a cost for the logistics players," says Mohsen Ahmad Alawadhi, CEO – Logistics District at Dubai South. "For now, it is still in the early stages. But going forward it will become a pre-requisite, and service providers will have to reposition themselves if they want to remain in business. Ultimately, this brings in efficiencies and that is what we need."

Powering logistics

An area that readily lends itself to change is power generation.

Recent years have seen an increase in the installation of solar photovoltaic (PV) panels across the UAE's logistics parks and freezones. Located on the rooftops of vast warehouses and office spaces, these panels are used to generate electricity typically used to power the entire facility.

For example, in December 2021 nearly 2,000 solar panels were added to the Jebel Ali Logistics Centre with the aim of generating 2,088 MWh across 2022 and offset nearly 1,500 tonnes of carbon dioxide.

Similarly, in March 2022, Maersk Kanoo UAE announced that it had installed solar panels on its Integrated Logistics Centre in Dubai, capable of producing nearly 434 MWh of clean energy annually and reducing more than 1,700 tonnes of carbon emissions.

However, the approach to solar powered systems is not so straightforward. In Dubai for instance, a cap has been instated on the amount of excess electricity generated that can be directed into the centralised power grid managed by Dewa.

In 2014, a framework was established in Dubai to allow residential and commercial buildings to generate electricity on premises and feed the excess to the distribution system. This was managed as a net metering scheme under the Shams Dubai programme.

But a cap was introduced in 2020, limiting the capacity of rooftop solar installation at 2MW and discounting ground-mounted solar projects.

"Germany did something similar with

"But even where the appetite to change exists, challenges limit the successful transition to environmentally-friendly solutions in the industry, including policy framework, costs, availability and maturity of technology."

$1tn

INVESTMENTS REQUIRED TO ACHIEVE FULL DECARBONISATION OF HEAVY DUTY TRANSPORTATION BY 2030

Source: Boston Consulting Group

their installed solar capacity, which in my opinion limited the potential of the industry," says Alawadhi.

"The limitation in Germany has since been amended, and perhaps it is worth for Dewa to look into its own regulations to enable greater investments in solar."

Logistics players are also turning to smaller but effective changes in everyday operations to minimise emissions, including the installation of LED lights, hybrid fleets and lithium-ion battery powered forklifts.

The use of alternative fuels could further help curb carbon footprint in the sector, including hydrogen fuel cells and biofuels.

Logistics stakeholders in the UAE recognise the role that technology has to play reducing carbon emissions, and investments are actively being made in areas such as electrification and autonomous solutions.

Forward looking

AD Ports' CSP cargo terminal is currently operating an autonomous port truck system to support loading and unloading activities within its container yard.

Apart from reducing the need for manpower, the electric trucks ensure business continuity.

But even where the appetite to change exists, challenges limit the successful transition to environmentally-friendly solutions in the industry, including policy framework, costs, availability and maturity of technology.

"It is difficult to even get an electric truck these days, because manufacturers are flooded by demand and lack the stock," says Abhinand Madireddy, vice president – strategy and growth at Abu Dhabi Ports Logistics.

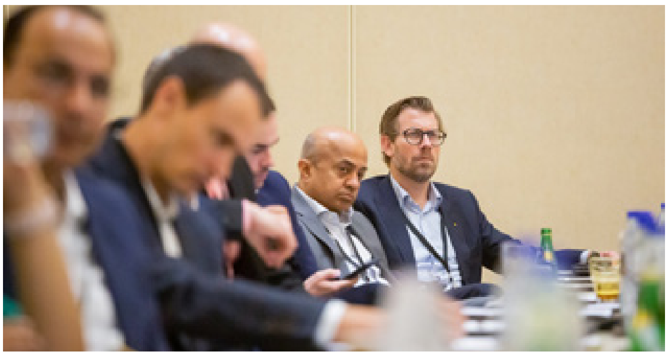
A 2020 report by Boston Consulting Group notes that full-decarbonisation of heavy duty transportation – aviation, heavy road transport, and shipping – by 2030 requires nearly $1tn in investments, assuming the technology to do so exists.

The cost is expected to increase by a further $400bn by 2050, emphasising the need to take action now.

Al-Futtaim's Kumar highlights how even though they faced challenges in upgrading their fleets in the UAE and Saudi Arabia to Euro 4 standards, they are seeing the benefits in the form of greater efficiency.

"We now want to further upgrade to Euro 6," he says. "The government should mandate this next, to make it the norm across the industry."

Industry players gathered at the Logistics Business Leaders Club held by MEED and Mashreq on 29 June



Logistics turns to innovation

Covid-19 has served as a catalyst for digitalisation in the logistics sector, according to industry players

To say that the Covid-19 pandemic presented unprecedented challenges for governments, healthcare systems, and businesses across the globe would be an understatement.

But it was the resilience and capacity of these stakeholders that determined the outcomes of this drawn-out battle.

Supply chain and logistics operators have played a crucial role in handling the crisis, ensuring the flow of essential supplies while overcoming transport disruptions, movement restrictions, and dramatic volatility in supply and demand.

This was not an easy task for an intrinsically complex and widespread industry, and gaps in the supply chain were further widened amid the challenges.

At this juncture, digitalisation was able to prove its merits, and trends that were already underway in the sector were further accelerated.

In 2020 and 2021, logistics companies globally turned to innovative solutions with the purpose of maintaining operations even in the most challenging conditions. For some, it came in addition to tools they already had in place or were in the process of trialing. But for many, it was their first foray into the world of digitalisation.

Surveys conducted by McKinsey & Company find that when it comes to strengthening supply chain resilience, companies are focusing on data-led areas such as visibility, disruption monitoring and risk analytics.

"Traceability on the back of digitalisation has improved massively since the pandemic," says Raman Kumar, managing director at Al-Futtaim Logistics. "But this has also introduced greater scrutiny at every checkpoint. There is a need for stronger accountability across the chain."

Blockchain

A potential solution sits in the blockchain technology space. Blockchain allows for secure and transparent management of transactions through a decentralised network, which readily lends itself to improving the accountability of complex logistics operations.

But the success of a blockchain network comes down to stakeholder buy-in across the board, an issue that has prevented its widespread adoption.

"It cannot work if we're the only entity doing it," says Mohsen Ahmad Alawadhi, CEO – Logistics District at Dubai South. "Everyone in the supply chain must participate."

Priorities have also shifted since the pandemic, says Abhinand Madireddy, vice president – strategy and growth at Abu Dhabi Ports Logistics, emphasising that first-mile players – manufacturers – were hesitant to divulge sensitive details.

"The infrastructure for blockchain is already in place in the UAE – we're already paperless on so many fronts," he says. "And the successful distribution of Covid vaccines using blockchain are a testament of our capabilities.

"Because of how sensitive the situation became during the pandemic, manufacturers were more guarded about information on goods movement. This could limit the success of blockchain in the near-term."

Several players at the club see scope for other solutions such as drones, robots and further automation of supply chain processes in the UAE logistics sector. But the cheap cost of labour in the UAE dramatically reduces the need to opt for more automated systems.

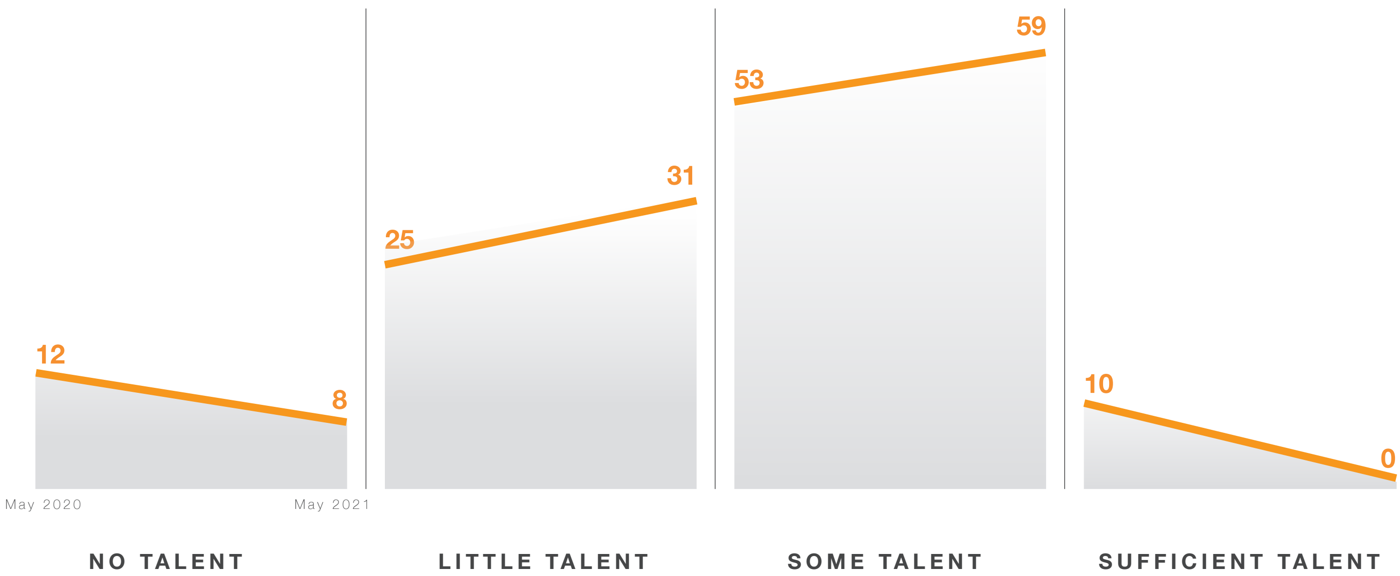
"We need to understand that digitalisation is not just about eliminating manpower, but using labour for more productive operations," says Madireddy.

It is also equally important to invest in training and upskilling when it comes to digitalisation. Studies by McKinsey & Company further report that only 1 per cent of the companies surveyed had sufficient in-house digital talent to manage supply chain optimisation.

"Companies are actively investing on the digital front," says Dubai South's Alawadhi. "It may not be moving as quickly as people want, but it's happening. And as decision-makers, we need to prepare ourselves as well as our employees for this disruption."

SUPPLY-CHAIN DIGITISATION INCREASES THE NEED FOR DIGITAL SKILLS, BUT ONLY 1 PERCENT OF COMPANIES REPORT HAVING SUFFICIENT TALENT.

REPORTED IN-HOUSE DIGITAL-SKILLS TALENT, % OF RESPONDENTS



Source: McKinsey survey of global supply-chain leaders (May 4 - June 16, 2021, n=71)

BLOCKCHAIN IN UAE LOGISTICS

Dubai-based cargo and supply chain operators including dnata and flydubai Cargo, together with Emirates Innovation Lab and IBM completed a proof-of-concept test for a blockchain-enabled logistics platform in 2017.

In 2020, DP World announced early stages of its integration with TradeLens – a blockchain-based digital container logistics platform co-developed by Maersk and IBM.

Maqta Gateway, a subsidiary of Abu Dhabi Ports, launched its blockchain technology Silsal in 2020 to provide clarity on transactions and freight status to forwarders and their customers.

Dubai Customs introduced a cross-border e-commerce platform based on blockchain technology, to streamline and automate operations between customs, free zones, logistics, and courier companies. The platform links players including Dubai Airport Free Zone Authority, JAFZA and Dubai South.

In 2021, Abu Dhabi's Covid-19 vaccine distributions efforts under the Hope Consortium were fortified using blockchain technology. Developed in-house by Maqta Gateway, the mUnity platform allowed authorities to track the storage and supply of temperature-sensitive vaccines globally.

The UAE- India Comprehensive Economic Partnership Agreement (CEPA) signed earlier in 2022 plans to explore economic synergies between the two nations in innovation focused areas such as AI, blockchain and fintech.

Eyeing future opportunities

Opportunities in UAE logistics are emerging on the back of evolving freight solutions and bilateral ties


Image for representational purposes only

Logistics players in the UAE are setting their sights on strategic avenues of growth to overcome the challenges of recent years.

From tapping into bilateral trade agreements through to being more competitive, the UAE's logistics sector is remaining cognisant of emerging market opportunities, according to experts at the Logistics Business Leaders Club.

Etihad Rail

Described as a "gamechanger" by one attendee, the UAE-wide railway network is expected to transform connectivity between different emirates and their ports, oilfields, and aviation hubs.

"With the introduction of railways, the UAE logistics landscape is set to become truly multi-modal," says Abhinand Madireddy, vice president – strategy and growth at Abu Dhabi Ports Logistics.

"We've got all fronts covered – air, sea, road and rail."

Etihad Rail will provide passenger and cargo services across the UAE, across a 1,200km stretch from Abu Dhabi through to Fujairah. According to estimates, a single freight train can transport the same amount of goods as 300 trucks, producing 70-80 per cent less emissions than the trucks required to transport the same tonnage.

Etihad Rail is signing agreements with global railway players to improve knowledge and capabilities around freight and passenger rail services. In May 2022, MoUs were sign with Renfe, Spain's national railway operator; High Speed 1, the first high-speed railway in the UK; and British rail freight company GB Railfreight.

The rail operator is also working with local entities to enhance services. For instance, in March 2022, Etihad Rail and Dubai Industrial City signed off plans to launch an advanced freight terminal with a capacity of 5 million tonnes. A similar facility is set to be built in the Industrial City of Abu Dhabi (ICAD).

"Industry players see partnership agreements such as the one signed between India and the UAE in February 2022 as highly beneficial for the industry moving forward."

"In regions such as Europe or India, railways are a normal part of life," says Raman Kumar, managing director at Al-Futtaim Logistics. "In the UAE too, logistics firm need to look at it as an opportunity, further supporting the speed and efficiency with which we get products to our clients."

Bilateral partners

Industry players regard partnership agreements such as the one signed between India and the UAE in February 2022 as highly beneficial for the industry moving forward.

By providing duty-free access for several categories of exports from India, the Comprehensive Economic Partnership Agreement (Cepa) is expected to boost bilateral trade between the two nations to $100bn within the next five years.

Categories expected to immediately benefit from the agreement include oil and gas, petrochemicals, minerals, textiles, agriculture, jewellery and gems, and metals.

"We see the agreement as a very positive move by the UAE," says Madireddy. "Logistics is a key industry in the UAE, and we can serve nearly a third of the world from here given our geographical location and capabilities."

The UAE is India's second largest export destination, while the emirates is the third largest trading partner of India. Bilateral trade between India and the UAE stood at $73bn in 2021-2022.

Experts expected to see plenty of demand from a contract logistics and freight forwarding perspective, as a direct result of the UAE-India partnership.

"It provides an incentive for manufacturers in India to use the UAE as a vantage point and to store inventory," says Madireddy. "We can see the physical borders between the UAE and India almost blurring – they are working on collaboration in so many ways."

Recent months have seen the UAE sign similar agreements with Israel and Indonesia, with another one expected with Colombia. According to the UAE Ministry of Economy, these partnerships are expected to help the national economy grow by 2.6 per cent by 2030.

Even playing ground

An attendee at the club raises a question about competition between government-backed logistics firms –which several of the other attendees see as crucial to create a healthy market for clients.

"Ultimately, the decision of which logistics firm they opt for is made by customers," says Madireddy. "Customers have more options to choose from when competition is higher."

Mohsen Ahmad Alawadhi, CEO – Logistics District at Dubai South, notes that even where government players may benefit from certain advantages, their appetite for risk is different.

"Private firms are also much better at costing, are more efficient and have greater agility, because they're not bound by the same rules as a government or semi-government player," he says.

"We have to stay competitive and continuously improve our processes," says Al-Futtaim's Kumar.

"We need to innovate, reduce our delivery times and provide the best possible services. Ultimately, this is what will set us apart from others."

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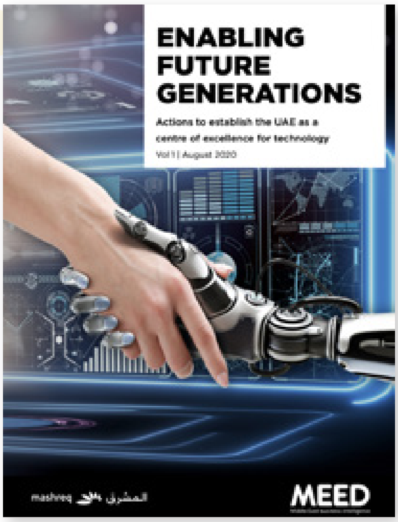

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Hind Salim Eisa
EVP, Managing Director-Head of Services & Manufacturing at Mashreq Bank

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Established in 1967, Mashreq is the oldest privately-owned bank in the UAE, with award-winning financial solutions and services. Through its 50 year history, Mashreq has differentiated itself through innovative financial solutions, making it possible for its customers to achieve their aspirations.

Today, Mashreq has a significant presence in 11 countries outside the UAE, with 21 overseas branches and offices across Europe, the US, Asia and Africa. Mashreq launched its new Vision and Mission recently, outlining its commitment towards its clients, colleagues and the community.

In line with its vision to be the region's most progressive bank, Mashreq leverages its leadership position in the banking industry to enable innovative possibilities and solutions for its customers across corporate, retail, international, treasury and Islamic banking.

Mashreq is proud to be the first financial institution in the UAE to be awarded the Gallup Great Workplace Award for four consecutive years from 2014-17. Mashreq also continues to invest in recruiting, training and developing future generations of UAE national bankers.

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About MEED

MEED has been integral to delivering business information, news, intelligence and analysis on the Middle East economies and activities for over 65 years.

Attracting a key senior management audience through its content and activities, MEED is a media brand, publication and data business that covers a spectrum of services which inform, engage, connect and ultimately support our subscribers and partners in their business development and strategic growth.

Acquired by GlobalData Plc in 2017, MEED is now part of one of the largest data and insights solution providers in the world with the capacity to build global communities for our clients.

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