

Shipping in the Middle East: Ready and Willing

Shipping in the middle East is changing rapidly and largely for the better. This is due to the increased disposable income of local populations and the rapid and massive expansion of logistics centers. Governments throughout the region are predicting a surge in both import and export volumes and are responding by revamping ports; shipping companies are taking note of the changes as well and are rerouting shipping lines to reflect the changes. Despite the potential of political instability in the region, strong economies continue to shine and show no signs of weakening soon.

Cargo volumes in the Middle East have grown by a compound annual growth rate of 11% since 2000, compared with 8.8% for the rest of the world. The trend has been to utilize transshipment services rather than direct deep-sea routes; basically, smaller ports would ship their goods to a larger port, such as Dubai's Sharjah port, which would then be distributed to the world at large. It works largely like a regional airport hub works: the large capacity of the port, for sea or air, draws smaller vessels from outlying hubs to be more efficiently distributed.

What's more efficient than that, however, is if the previously outlying regions develop enough capacity, as well as supply and demand, to make direct trade routes feasible. This is what is happening throughout the middle East. Maersk, the world's largest shipping line, has recently added three new ports in the region to one of its key shipping lines: Saudi Arabia's Dammam and Jubail ports, and the UAE's Abu Dhabi. This is not without reason. Dammam and Jubail have been posting tremendous numbers. Although Dammam experienced 8.5% growth last year—certainly nothing slouchy—since 2010 its trade has grown by a far more impressive 21%. Jubail's 2012 numbers are not out yet, but between 2010 and 2011 it witnessed an astounding 34% growth in trade, helped largely by growth in exports.¹

Shipping hubs are still somewhat concentrated, for now. The UAE is Middle East's largest processor of containers, handling half of all container-based trade in the region last year; Saudi Arabia was second, though far behind, managing 15-16% of shipments.² Traditional shipping hubs have also seen massive growth in recent years. Khor Fakkan, the UAE's second-largest port, expanded its trade by an astonishing 28% in 2012. Tellingly, 95% of its trade comes from transshipments due to its convenient location outside the Persian Gulf. Khor Fakkan recently handled the world's largest container ship, the 16,000 TEU Marco Polo, demonstrating its deep-water capacities.

Other nations in the region are moving quickly to catch up. Qatar has invested \$7 billion to create the world's largest greenfield port, which will be large enough to accommodate a naval base and will be capable of handling half a million vehicles a year. Omani ports are beginning to shine as well: its Salalah and Sohar ports are registering high numbers in growth, due in part to the closure of the Sultan

¹ <http://www.hellenicshippingnews.com/News.aspx?ElementId=b4fb4860-2e4a-4034-a8ea-f199bcb94b64>

² <http://shipping.seenews.com/news/middle-east-container-growth-lures-ocean-carriers-to-launch-regional-direct-loops-drewry-341036>

Qaboos port. Salalah is a major shipping hub for the Indian Rim Ocean Rim due largely to current transshipment services.³

Shipping companies are reaping the rewards of increased volumes of trade in the region. The Persian Gulf-based company Gultainer reported a 24% growth on the previous year in trade from 2012, handling a whopping 3.3 million TEU. It has operations at three major ports in the UAE and has recently acquired a spot in the port of Tripoli in Lebanon.⁴ Maersk acknowledges the importance of the UAE as the shipping and trade hub of the region, and has a large presence there accordingly.

Instability in the region may pose threats to trade; fortunately, for the time being, instability is largely contained within nations and is not as contagious as it was during the tumultuous Arab Spring. Cash-strapped Egypt has recently raised the tolls for ships traveling through the Suez Canal. Although the increase in tolls won't be that large—from 2 to 5 percent—a return voyage through the canal can still cost a large container ship as much as a million dollars in toll fees. That combined with delays due to worker strikes at Port Said and the potential for piracy may force companies to choose other routes.

There are other basket cases in the region. Iran has been targeted for sanctions and companies are responding responsibly. Maersk announced that it would stop shipping services to Iran in response to sanctions, in order to protect its reputation.⁵ The good news here is that Maersk, and companies like it, are demonstrating their willingness to play by the rules and their commitment to integrity. It also shows that there's bigger fish to fry, and that there's other options in the region. Syria is clearly out of the picture for international trade at the moment, and only time will tell when that situation will be resolved.

Largely, however, most people in the region are becoming wealthier, reflecting maturing economies and improvements in infrastructure. The UAE boasts one of the world's highest purchasing power parity per GDP, despite the fact that PPP there has shrunk by a third since 2006.⁶ Saudi Arabia and Oman are consistently becoming wealthier, and their citizens are demanding more goods; the same may be said of Qatar, Bahrain, and even Jordan. Wealthy Israel broke up its centrally-run Israel Ports Authority; Haifa and Ashdod combined handled around 2.5 million TEUs in 2012.

There are three key elements to take away from developments in the region. First, strong economic performers will continue to be shipping hubs and will further develop their infrastructure. Second, nations that are stable—notably for now the Gulf nations, excluding Iran—can be expected to post good numbers for growth and smaller ones, such as Oman, will become more competitive as they update their infrastructure. Third, political instability, though a real threat, is currently contained to certain nations, and seems unlikely to spill over into neighboring countries. Shipping in the Middle East is set to boom and nations are preparing themselves for the changes.

³ <http://www.apmterminals.com/africa-mideast/>

⁴ <http://www.marinelink.com/news/gulftainer-reports-middle351840.aspx>

⁵ <http://www.bbc.co.uk/news/business-19888998>

⁶ [http://www.indexmundi.com/united_states/gdp_per_capita_\(ppp\).html](http://www.indexmundi.com/united_states/gdp_per_capita_(ppp).html)