

Oman: A Future Logistics Hub of the Middle East

Omar N. Omar - Partner, Head of Transport & Insurance - Insurance / Shipping, Aviation & Logistics
o.omar@tamimi.com - Dubai International Financial Centre

Arif Mawany - Head of Corporate Commercial - Oman - Commercial / Corporate / Mergers and Acquisitions / Capital Markets
a.mawany@tamimi.com - Muscat

While the road, air, port and rail sectors have all been prioritised for growth by the Government, it is the port sector that has benefited the most from external investment and recent political developments in the Middle East. Set out below is a description of recent activity which has taken place in the transportation sector in Oman along with key legislation that applies to certain specific sectors.

Sea

Historically, the prominence of the port at Muttrah in Muscat was acknowledged by the Greek geographer Ptolemy who saw Muscat's importance in acting as the last watering place for ships heading out of the Gulf to India, East Africa and beyond. Nowadays, the port at Muttrah is used predominantly for tourism purposes after commercial operations were relocated to Sohar.

The main commercial ports in Oman are situated in Sohar, which lies midway between Muscat and Dubai, and Salalah, which sits on the southern coast of Oman ensconced on the Arabian Sea. Readers will immediately recognise that the geographical locations of these ports offer quite different benefits to the transportation of goods by sea and these benefits were fully acknowledged when Oman was considered a pioneer in seafaring and maritime transportation during the 18th and 19th centuries. As the Government of Oman realigns various facets of its economy away from hydrocarbons, this historical feat may repeat itself with evidence in recent months highlighting that trade between Oman and Qatar has increased by 2000% since June 2017 as logistic companies continue to be attracted to Sohar.

The current major investment story in Oman is the development of the Port of Duqm which was established as a joint venture between the Government of Oman and the Consortium Antwerp of Belgium and recently attracted an \$11bn investment as part of China's One Belt One Road initiative. Although very much a long term project, the opportunities at Duqm are large scale and its key advantage is that it is not positioned near the Straits of Hormuz and consequently does not suffer from the usual problems which are associated with busy trade routes.

The Sohar freezone was created by Royal Decree No. 123 of 2010 and the emergence of Sohar Port as a serious logistical hub in the Gulf region is demonstrated by an 11% increase in container volumes and a 24% increase in dry bulk cargo during Q2 2017, when compared with the same quarter of 2016. Sohar as a city has received significant investment in highway development to enable it to be connected with the UAE and Saudi Arabia, attracting the attention of the region's third party logistics operators. It is also home to one of Orpic's oil refineries and Sohar Aluminium which has an annual production capacity of 375,000 tonnes of high quality aluminium.

Since opening in 1998, the Port of Salalah which has quietly remained one of the largest integrated ports in the region, recently jumped 14 places in the Lloyd's Maritime Intelligence List of the world's top 100 ports following a 29% increase in activity during 2016. As noted above, Salalah benefits from its unbridled location on the southern coast of Oman, joining India and the East with Africa.

To attract growth to the port areas, the Government has offered a range of business incentives including

100% ownership, low share capital requirements, corporation tax breaks, a single licence window and lower Omanisation requirements as well as a favourable customs framework. These and other incentives are set out in the Ministry of Commerce and Industry Ministerial Decision No. 35 of 2016 in relation to the Sohar Freezone and Royal Decree No.62 of 2006 in relation to the Salalah Freezone.

Air

For many years, capacity at Muscat International Airport was limited to receiving a few million passengers annually. From 2018 the Ministry of Transport and Communications (“MOTC”) expects the new Muscat International Airport to be fully operational and with the capacity to accommodate over 12 million passengers annually. Plans are already afoot to gradually increase annual passenger load to 48 million passengers per year so that the Government can fulfil its vision of having Muscat airport among the world’s top 20 airports by 2020.

Following the development of Salalah airport, which can be expanded to accommodate six million passengers annually, links will be enhanced with Duqm, Muscat and the wider GCC. Following the establishment in 2016 of SalamAir, Oman’s first low cost airline, Oman’s overall air transportation infrastructure has vastly improved for businesses and tourists alike.

The regulatory and legislative aspects of civil aviation matters in Oman are assumed by the Public Authority for Civil Aviation which was established by Royal Decree No. 33 of 2012 and is also the responsible body for issuing licences, enforcing bilateral air agreements between Oman and other countries and developing policies for the security and safety of airports and air transport.

Roads

Oman’s roads were recently ranked by the World Economic Forum in the top eight globally and second in the GCC which reflects the sizeable financial commitment the Government has made to achieve and maintain high quality road infrastructure. High quality road infrastructure shortens travel distances, facilitates movement of goods and people within Oman and to neighbouring countries and improves the efficiency of an economy.

Several large scale road projects have been planned which will have the effect of enhancing the transportation network, including the Batinah Expressway. Some of the projects involve linking roads to neighbouring countries, major cities and the air / sea ports in Oman as well as improving the overall network of road infrastructure inside the country. These initiatives, coupled with the creation of a public transport regulatory authority, are aimed at reinforcing Oman’s potential as a major logistics hub served by a strong road transport sector.

Currently the regulatory and legislative aspects of road transportation in Oman are assumed by the MOTC.

Rail

Although funding constraints postponed the plan adopted by the member states of the GCC to create a rail network linking each GCC member state, Oman recently announced through Royal Decree No. 24 of 2017 the creation of a 400km railroad to join the mineral mines in Salalah with Duqm. Both Salalah and Duqm are considered by the MOTC as central areas of development for the country. This project is only a smaller part of the wider Oman national railway network which is estimated at 2,135km in length and has been designed to serve mixed freight and passenger traffic connecting the major ports at Sohar, Duqm and Salalah to the rest of Oman.

Oman Rail is the body responsible for rail transportation in Oman under the overall supervision of the MOTC.

One Belt One Road Initiative

As outlined above, China has been working with Oman (among other countries) in an attempt to revive the Maritime Silk Road which was an ancient trading route created many centuries ago. The One Belt One Road initiative involves boosting trade by improving the infrastructure used to transport goods between China, Central Asia, Persia, Arabia, Africa and Europe. A total of \$150bn has been committed by China to countries that have agreed to be part of the initiative. In Oman, the prime beneficiary of this initiative is Duqm which recently received an \$11bn commitment from China to develop a port, a dry dock, refinery, storage house for construction material, methanol plant, vehicle assembly plant and a hotel.

The One Belt One Road initiative is a welcome catalyst to the Omani economy. Coupled with the Government's plan to move forward with the projects outlined above in the various transportation sectors, the future of Oman's logistics capability is promising.

Al Tamimi's Oman office regularly advises companies on tenders issued by Government bodies particularly in relation to the air, maritime, rail and road sectors. For further information please contact Arif Mawany at a.mawany@tamimi.com.