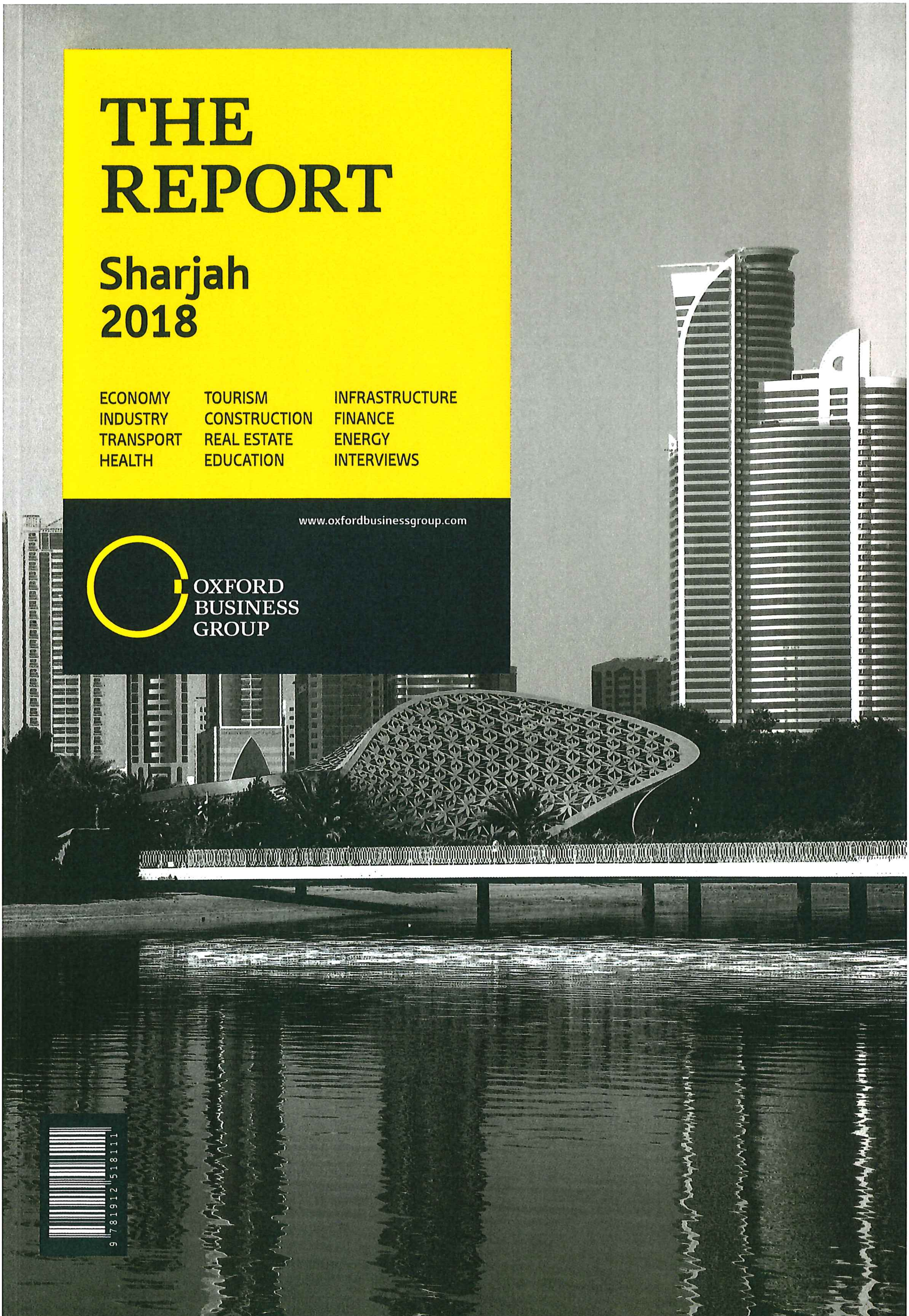

THE REPORT

Sharjah 2018

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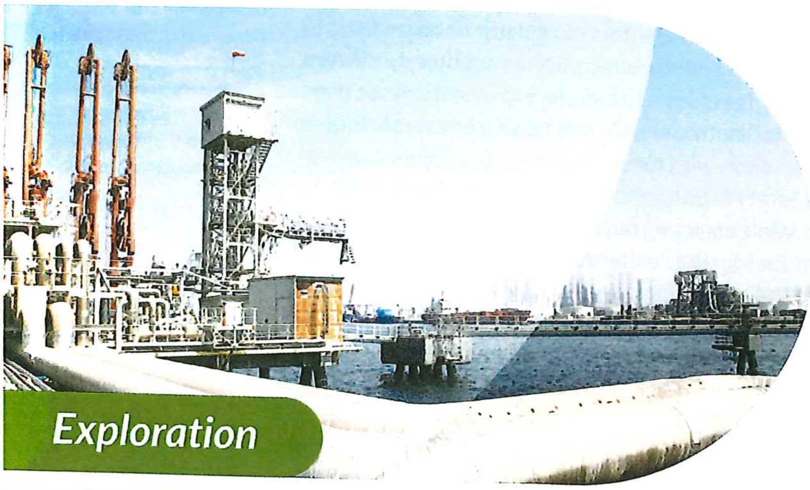

As the UAE's energy demand continues to grow Sharjah National Oil Corporation (SNOC) continues to look for innovative ways to secure new supply for Sharjah & the Northern Emirates. In order to meet the challenge SNOC is investing in Exploration, LNG import and Gas Storage, with a focus on our vision to be the gas supplier of choice in the Northern Emirates.

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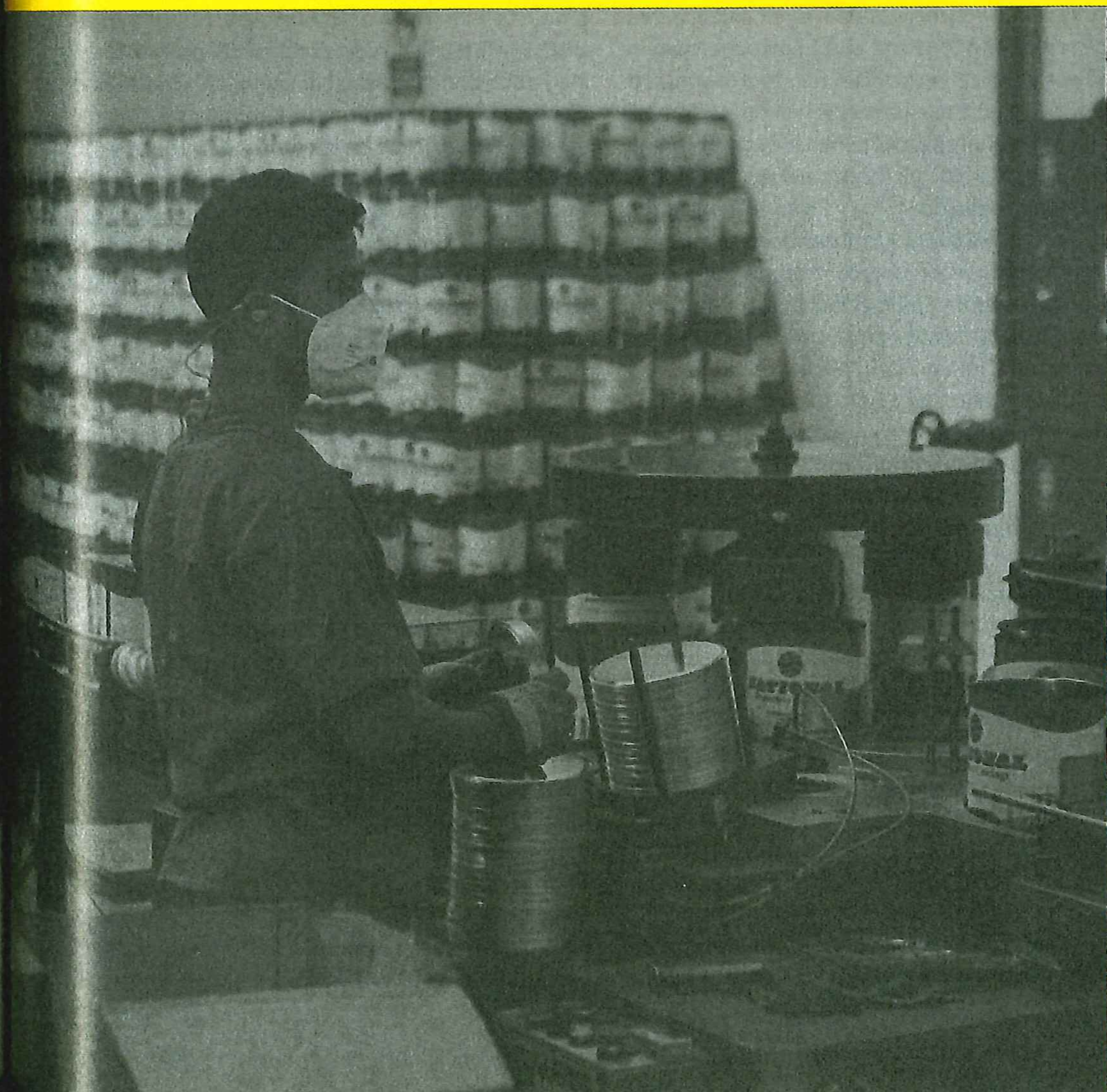
Industry & Energy

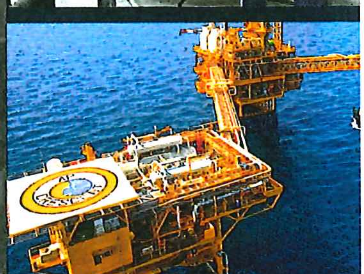
The emirate builds its status as a manufacturing centre

Free zone expansions improve offerings for investors

Hydrocarbons production slows as economy diversifies

Gas deals to make electricity generation more reliable





Total investment in Sharjah's manufacturing activities – from both domestic and foreign investors – totalled Dh6.4bn ($1.7bn) in 2016, according to the DSCD. The majority of this came from UAE investors with Dh4.9bn ($1.3bn), while Dh652.3m ($177.6m) was sourced from other GCC nations and Dh810.5m ($220.6m) originated outside of the region.

FREE ZONES: Sharjah is home to two industry-focused free zones: the Hamriyah Free Zone (HFZ) and the Sharjah Airport International Free Zone (SAIF Zone). The two are under the same state-backed management and together account for a large proportion of industrial activity in the emirate.

Such zones have a number of unique advantages, including the allowance of 100% foreign ownership; full repatriation of profits; and exemptions from taxes, such as the newly introduced value-added tax (VAT), on the condition that commercial activity is primarily export-oriented.

The Sharjah authorities are in the process of developing other non-industrial free zones, with plans to have areas that will specialise in publishing, media, health, and research and development. "The building of new and more specialised free zones will add value and positively effect exports," Abdelaziz Mohamed Shattaf, director at the Sharjah Exports Development Centre – part of Sharjah Chamber of Commerce and Industry – told OBG. "It will give us the opportunity to develop new products and increase the percentage of exports, which is currently around 40% of Sharjah's total manufacturing output."

HAMRIYAH FREE ZONE: HFZ is the largest industrial free zone by area in the emirate and one of the largest in the UAE. It was launched in 1998 and built in two phases. The first phase, which has since been completely filled, covered some 15 sq km. The second phase spanned 8 sq km and was approximately 60% occupied as of early 2018. HFZ's main infrastructure facilities include a port with a draught of 14 metres, a 7-metre inner harbour and an 80-MW power station.

Activity in HFZ is dominated by industrial and manufacturing businesses, though some other sectors are present as well. Oil and gas, and steel-related businesses are the industries that are most heavily represented within the zone. There are companies of all sizes working in HFZ, ranging from small operations to large manufacturing and heavy industrial facilities, with a fairly even split between the two.

Although the first two phases have concluded, there are new expansions under way at HFZ. For example, a third phase that aims to add 7 sq km of space is in the pipeline. According to Rakesh Ranjan, chief development officer of the Hamriyah Free Zone Authority, there are hopes that this expansion will be fully approved by the end of 2018. "The area for the third phase has been identified and we are currently in the process of building the infrastructure and obtaining the necessary approvals," Ranjan told OBG.

Also of note, HFZ launched the Sharjah Food Park in March 2017, a 1-sq-km zone specialising in food production, processing and packing. The park is separate from other parts of HFZ to prevent food contamination. The park will consist of 136 warehouses, 68 of which were already complete by early 2018, with the remainder scheduled to be ready for tenants by the end of April 2018. More than 100 companies had already commenced operations in the park as of February 2018.

Investment in Sharjah's manufacturing activities from both domestic and foreign investors was $1.7bn in 2016

The zone's authorities have embarked upon other initiatives to improve HFZ's offerings. For instance, a new department was created to provide a range of services for firms in the zone, including coordination with the municipality on issues such as product and layout approaches, laboratory and testing services, and halal certification on behalf of businesses. Expanding the capacity of Hamriyah Logistics Village – the logistics and distribution centre for companies in HFZ – is another priority for the authorities. As of early 2018, the logistics hub was around 80% full.

The construction of new worker accommodation facilities within HFZ in 2017 increased its housing capacity by 6000 labourers, and in the third quarter of the year a new road connecting the zone to the Sheikh Mohamed bin Zayed Road – the main link between Sharjah and Dubai – was also completed. The zone's authorities have further plans to develop a shopping mall inside HFZ.

AIRPORT ZONE: The SAIF Zone, located adjacent to Sharjah International Airport, hosts industrial activity, though the sector represents a minority of operations in the zone. Most companies based in the SAIF Zone are active in the spheres of trade or services, and what manufacturing does take place there is generally on the lighter side – with a focus on fast-moving consumer goods – in contrast to the presence of heavy industries, such as petroleum- and steel-related manufacturing, in HFZ.

The zone was founded in 1995 and now hosts more than 6500 companies, up from just over 5000 in 2010. Its facilities include an industrial park that

The Hamriyah Free Zone and Sharjah Airport International Free Zone, offer a range of advantages, including the allowance of 100% foreign ownership.

Industrial companies are increasingly moving their operations out of Sharjah City and into designated zones

has a minimum plot size of 2500 sq metres, pre-built warehouses ranging between 103 sq metres and 450 sq metres in size, and an accommodation complex that can house more than 14,500 workers.

ONSHORE ZONES: In addition to the offshore free zones, Sharjah hosts 19 onshore industrial zones. A major example is Emirates Industrial City, a 7.7-sq-km zone for light and medium industry launched in 2005. Some 75% of this zone had been leased by November 2017, according to local media, with authorities aiming for full occupancy by mid-2018.

The 1.3-sq-km Al Sajaa Industrial Oasis, another such zone, is located on Emirates Road, one of the two main highways connecting Sharjah with the rest of the country. This zone is still under development, led by state-backed investment body Sharjah Asset Management. Upon completion of its four construction phases, it will contain 353 plots for light and medium industry, as well as other activities. The first phase will comprise 34 plots for light industry, seven for medium industry, and 14 for retail activities and offices. In accordance with its onshore status, Emirati and GCC investors will be able to secure freehold plots in the zone, while other investors will have usufruct rights for 100 years.

RELOCATION PROCESS: Industrial operations are increasingly moving out of Sharjah City, as central industrial zones are progressively being redeveloped into commercial and residential areas. As a result of this trend, industrial businesses are relocating to zones outside the urban area and closer to new inter-emirate highways. This widespread shift is being encouraged by the government's objective of rezoning and redeveloping the city centre to improve commercial and residential areas.

Large-scale construction and real estate projects are driving up demand for locally manufactured materials, boosting a range of industrial segments.

However, some stakeholders have said this trend has had negative consequences for businesses. "The development of infrastructure and utilities in new industrial areas has led to higher prices for this type of space, with companies paying slightly more than they did in the city centre," Giri Dharmarajan, managing director at Multi-Tech Engineering Industries, told OBG. Furthermore, Dharmarajan found that such locations were generally less convenient for company staff and workers. "There are few public transport connections from a number of industrial zones to the city centre, meaning that workers have to take taxis or firms must provide them with some form of transportation."

Additionally, the relocation process itself can be problematic, as not all industrial free zones have the required infrastructure in place for moving companies. "The relocation of a capital-intensive manufacturing facility can be challenging in the UAE, as each industrial free zone is unique in its advantages, and not all have the necessary infrastructure for a business. A firm may require lots of power, large warehouses, manpower accommodation or port access, which not all free zones have. Thus, entrepreneurs must select and negotiate for services with the free zone," Suneel Aggarwal, CEO of local manufacturer GRP Industries, told OBG. "Additionally, the high capital expenditure in starting a new factory means that entrepreneurs want security of tenure with long-term options and transparent fixed costs. The SAIF Zone, for example, is offering revised rental leases every 10 years. This uncertainty adds another element of investor risk."

GROWING DEMAND: Despite these challenges, a range of dynamics taking place in the local economy and beyond appear set to boost demand for local industrial products over the medium and long term. In particular, large-scale construction and real estate projects will require a substantial amount of manufactured materials for years to come.

"Sharjah benefits from strong existing industrial infrastructure, including access to logistics and a strong and diverse labour pool," Lalu Samuel, chairman at Kingston Holdings, a manufacturer of electrical goods based in the SAIF Zone, told OBG. "This connectivity and access to quality infrastructure will help local industries benefit from upcoming projects in Sharjah, including new real estate developments, which have the potential to strengthen business for support services and products."

Ongoing local real estate developments, such as the 2.2-sq-km Aljada urban housing initiative, as well as the expansion of logistics capabilities, are bolstering the manufacturing sector by increasing the demand for a variety of quality construction materials, including electricity cables. "The local market for cables continues to rely primarily on residential and commercial construction projects, with both medium-sized developments and major infrastructure and utilities programmes driving demand," Salim Duybassi, general manager for sales and marketing at National Cables Industry, told OBG.

Similar dynamics are leading to more work across an array of other segments as well. "The market for industrial manufacturers remains highly competitive

Hatem Al Mosa

Stabilising influences

Hatem Al Mosa, CEO, Sharjah National Oil Corporation (SNOC), on the impact of new supplies in the oil and gas sector

How will the emirate maintain its energy security and reduce the gap between supply and demand?

AL MOSA: As Sharjah is an energy importer, lower prices globally have been beneficial for the emirate. Local demand for natural gas is expected to increase at around 4-6% annually for the next 10 years as the shortage of gas in recent years has constrained industrial growth. This is especially true of the energy-intensive industries, which have instead reduced consumption or switched to coal or diesel to generate power. Almost all local cement plants, for example, have converted to coal power due to the limited availability of natural gas.

Providing a stable supply of gas will guarantee Sharjah's energy security by closing the current supply-demand gap and allowing it to manage local demand and reduce its vulnerability to external influences. Sharjah has historically been a natural gas hub, and we can utilise existing pipeline infrastructure converging at our Sajaa gas complex to regain a role as a major supplier locally. Our upcoming liquefied natural gas project will address demand for natural gas in both Sharjah and the Northern Emirates for the next 10 years, as long-term supply contracts will allow us to offer secure prices and supply guarantees for customers.

Although the economic feasibility of our project has been based on locked-in agreements with major consumers, including Sharjah Electricity and Water Authority, we are also targeting consumers in the industrial sector as Sharjah is the only emirate with a full gas network covering both industrial and domestic areas. Sharjah already has the largest non-oil industrial sector in the UAE, so more reliable supplies of natural gas will promote industrial growth.

How will external fluctuations affect local capital investment in the upstream and downstream sectors?

AL MOSA: Although the global decline in oil prices severely affected the energy sector and resulted in a slowdown in investment, the industry must eventually maintain a certain rate of investment to sustain established production levels. We have been in the first phase of recovery since the beginning of 2017, reviving investment in oil and gas, especially companies in the engineering, procurement and construction segment.

New exploration activities will take a minimum of two years to positively activate other sectors through construction and production, so we expect other service companies to see a recovery by 2019. This recovery is logical because an indefinite slump will reduce production levels and therefore lead to an increase in prices. Although the sustainability and duration of this recovery is difficult to predict, local producers are optimistic about a healthy level of investment going forward.

Near-term output cuts by global producers have been relatively successful and are likely to continue, and have been relatively successful in improving prices and encouraging investment. However, expectations of investment in oil and gas is also being affected by investment in other competing energy sources, particularly renewables, which are becoming cheaper, more abundant and more technologically advanced.

What measures are being taken to develop further reserves and improve production efficiency?

AL MOSA: We have been in expansion mode and are actively targeting increasing production through our onshore exploration project in Sharjah's central region. The 3D seismic survey phase has been completed and we are now processing the data, with drilling expected in 2018. However, in terms of improvements in production efficiency, energy companies must always look to improve operational efficiencies to maximise production, regardless of pricing levels. As such, we have introduced some measures as key performance indicators. Our plant, for example, is still achieving high levels of propane recovery, and we are also addressing waste reduction through minimising flaring. We also monitor, measure and report our greenhouse gas emissions.