

# Auto production: Kingdom has bright scope to be powerhouse



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Published — Wednesday 3 December 2014 | Last update 4 December 2014 2:31 am

There is definitely a bright future for the manufacture of automotive components and establishing full assembly of cars in Saudi Arabia, says Ali Husein Alireza, managing director of Haji Husein Alireza & Co. Ltd. (HHA).

“Our market is reaching a critical mass in size, which would make it very attractive for many carmakers to

consider setting up regional production in the Kingdom,” Alireza told Arab News in an exclusive interview. This would start from encouraging the set up of suppliers to the industry instead of importing components and only assembling them here, thereby only adding the labor component to the production process and, also, we need a good transport and distribution system to get the product to market, etc. “I expect our market will soon pass the one million vehicle mark in sales within the next two or three years, making local assembly a really attractive proposition to many companies,” said Alireza.

Alireza, who had his early education in Lebanon and the UK, aside from Saudi Arabia, attended in a US college and received a bachelor’s degree in business administration from the University of Southern California in Los Angeles and a Masters in business administration from Pepperdine University in Los Angeles.

HHA is the Kingdom’s oldest automobile distributor and currently the importer and distributor of Mazda vehicles from Japan, Geely and Yue Jin vehicles from China, Peugeot from France, MAN trucks from Germany and Aston Martin from the UK.

He is a member of the board of directors and executive committee of SAMBA Financial Group, and chairman of a number of organizations, including the Bahrain-based Gulf One Investment Bank, Hertz Rental and Leasing, Saudi Arabia (Al Wasilah Rent A Car Co. Ltd.). He is also actively connected with petroleum and insurance companies, and Palestine Children’s Relief Fund (PCRF). He is the vice president of the Jeddah Chamber of Commerce and Industry’s commerce and industry committee and international relations committee, and Council of Saudi Chambers’ national automobile dealers committee.

Text of the interview:

Q: As a Saudi businessman operating in a diversified field in the Saudi market, what is your assessment so far of the economy for 2014 and what is your outlook for 2015 given the 30 percent oil price drop just this year?

A: 2014 has been a relatively strong year for us and, I believe, for Saudi businesses in general. As has been the case in the last few years, the government has taken advantage of strong oil prices and has had a succession of record budgets to invest in the country’s infrastructure and raise the standard of public sector services to all Saudis. The private sector naturally benefited from this strong government spending for nearly a decade. Nevertheless, we are cautious going forward as we realize that the size of our gross domestic product (GDP) is largely driven by public sector spending, which in turn, is financed by oil revenues. Government revenues will almost certainly be less next year if oil prices do not move back to above \$90 a barrel. However, we do not expect the 2015 budget to be much affected by the drop in oil prices as there are commitments to be met and a year’s deficit will be easily covered through the government’s sizable financial reserves. As a businessman and investor, my concern will be for the longer term outlook as the Ministry of Finance will surely have to reconsider government spending if the drop in oil prices becomes a longer term issue rather than a short-term challenge.

Q: Saudi Arabia has signed a memorandum of understanding with over 30 international automakers with a presence in Saudi Arabia, establishing corporate average fuel economy standards (CAFE) similar to that of the United States and European Union (EU). How will this agreement change the landscape of the Saudi auto market?

A: This is very big step toward both better fuel efficiency and a more environmentally friendly fleet of vehicles on our roads. The program mandates automakers selling passenger cars and light duty trucks in Saudi Arabia to commit to gradually improving the fuel efficiency of vehicles sold in our market. Hundreds of thousands of barrels of oil are required on a daily basis to fuel our gasoline-hungry cars, which are far below European and US vehicles in mileage efficiency. For instance, we achieve approximately 12 km per liter of fuel in Saudi Arabia on average while the current standard should be 18 km/liter as achieved in other markets. Similar to the United States and Europe, carmakers will now look at the model offering and engine technology; they will market in Saudi Arabia to ensure a gradual, but sure, improvement of average fuel efficiency of their whole lineup of models here. This is, of course, a very good thing for Saudi Arabia as we have one of the fastest growing car markets in the world and where savings created by better fuel efficiency in our cars will certainly reflect positively on the cost of transportation here, as well as helping to address pollution issues.

Q: The Ministry of Commerce and Industry (MOCI) has been tightening on automakers and dealers through new and updated regulations designed to protect the consumer. How has that impacted local dealers and how do they cope with tighter rules on customer service, etc?

A: Indeed the Ministry of Commerce and Industry recently changed many outdated laws and regulations governing commercial activities in the Saudi market from new regulations affecting foreign companies working here to new rules and regulations governing buyer-seller relations. Most of what the ministry has done was much needed updating to old rules to reflect today's market realities and to bring the Kingdom's regulations in line with today's world standards in various sectors of business. In the automobile business for instance, new rules were introduced to raise the level of service to be expected by the Saudi consumer, and lay down minimum levels of service to be delivered by car dealers. Most of this effort was well received by the automobile sector in Saudi Arabia. The principle of continually raising the level of service and management is a must for any business operating in a competitive environment as we do here. However, as in any case where regulation is quickly introduced and applied, we faced some serious challenges in implementation and we are currently in discussion as auto importers and distributors with the ministry to address these issues. One important subject is where new regulations will add to the cost of doing business, and thus reflect on the price of the product or service to the end user. It is a fallacy to assume that mandating higher levels of services in any market will not come with a certain cost to be absorbed somehow.

Another challenge is where the ministry mixes between the manufacturer's responsibilities and the dealer's duties, in many instances not treating them as separate entities, thus adding further to the local cost of doing business which, again, will eventually have to be accounted for at the end user stage. Most consumers are oblivious to the real cost of the new regulations, some of which will prove unnecessarily burdensome and costly to the buyer. Also, dispute resolution remains an unclear process in our market whether it is between private parties or even where the ministry is involved. Here, we see punitive action taken against businesses without due process as a means of official "arm twisting." Again, while the ministry's efforts cannot be faulted for their purpose and intent, and we do have a very capable and effective minister of commerce and industry, there remains many areas that need to be addressed for all parties working in the Saudi market to feel protected and their investments to be secure.

Q: There are some auto assembly plants operating in the Kingdom. How do you rate these plants, and are they comparable to the highest international standards?

A: Auto assembly in Saudi Arabia today is limited to truck assembly plants and not passenger vehicles. This is due to market considerations and the level of assembly required for each type of vehicle. The Japanese assemble Isuzu in the Eastern Province, while we have in the Western Province assemblers for the three major European truck brands — MAN, Mercedes and Volvo. Haji Husein Alireza is the franchisee for MAN trucks in Saudi Arabia and we recently won a worldwide contest between all MAN assemblers outside Europe, winning the first place prize ahead of the two other finalists from South Africa and Malaysia. The contest measured the quality and efficiency of the production process at MAN assembly operations around the world. Winning this prize proves that Saudi Arabia can produce the highest quality products and manage the assembly process to the highest world standards. We are indeed very proud of our MAN assembly operation in Jeddah where our production is equal in quality to what is assembled in Germany according to MAN, which is why MAN is one of the leaders in the heavy duty truck market in Saudi Arabia.

Q: Haji Husein Alireza (HHA) represents many famous automotive brands; can you tell us which are your top selling brands and how the new Geely from China is performing in the market?

A: Our top selling passenger car brands are Mazda and Geely as they compete well in the market's biggest segments for the small to midsize passenger cars and SUV's. Mazda's quality is second to none, mostly because Mazda's production base is Japan and not anywhere else. This Mazda quality, coupled with its competitive pricing has meant that Mazda Motor Company has not been able to keep up with our order demand in Saudi Arabia. Still, we have managed to expand our market share in each of the last three years. While Mazda is our oldest franchise, Geely is our newest. We have been pleasantly surprised by the strength of demand for Geely vehicles since we introduced it to Saudi Arabia three years ago. Geely is currently the 8th most popular brand in Saudi Arabia, according to sales results, and we expect the brand's strength to continue rising as we introduce new models in the market. Geely is the vanguard of a new generation of

automakers about to enter Saudi Arabia from China. After becoming the world's largest automobile market and after building the biggest automobile industry in the world, Chinese carmakers are now looking to expand overseas with their sights set on the Middle East and the GCC in particular. I expect to see many new Chinese nameplates on our streets in the future.

Q: What future do you see for passenger car assembly in Saudi Arabia?

A: I think there is definitely a bright future for the manufacture of automotive components and establishing full assembly of cars in Saudi Arabia. Our market is reaching a critical mass in size which would make it very attractive for many carmakers to consider setting up regional production in the Kingdom. In fact, I believe there is a study under way now by Jaguar/Land Rover to consider local assembly. But we do need to create an environment that will first be friendlier for businesses to be established in Saudi Arabia as I mentioned above and, second, we do need to invest in infrastructure specifically to support mass production and distribution of vehicles (as well as export) in Saudi Arabia. This would start from encouraging the set up of suppliers to the industry instead of importing components and only assembling them here, thereby only adding the labor component to the production process, and also, we need a good transport and distribution system to get the product to market, etc. I expect our market will soon pass the one million vehicle mark in sales within the next two or three years, making local assembly a really attractive proposition to many companies.

Q: Do you think Saudis are well equipped to accept jobs in the auto industry?

A: Saudis already embrace the opportunity to work in the auto sector. The Saudi Japanese High Institute in Jeddah for automotive technology is a major destination for the technically inclined youth to receive their training in the automotive sciences. Also, we see many Saudis working in the various truck assembly plants around the Kingdom, including a good proportion of the MAN work force in Jeddah. So, I firmly believe that if other business challenges are addressed, we will not have any problems in attracting Saudi youth to work in the auto industry.

Q: We always read news about major car recalls by manufacturers around the world to repair defects. How is Saudi Arabia affected by these recalls?

A: Manufacturers occasionally recall vehicles from customers when a manufacturing defect is discovered after the car has been sold and delivered to customers anywhere in the world. Regulatory bodies around the world demand that a recall takes place when the defect can potentially compromise the safe operation of the car. In addition, manufacturers, on their own, may decide to recall vehicles for other reasons such as enhanced customer satisfaction, etc, even if the defect is not safety related, such as a poorly operating sound system. These same conditions apply to vehicles sold in Saudi Arabia. It is important to note that recalls are not the same worldwide as equipment on vehicles will differ sometimes from country to country, so a recall in one country may not affect another if the specifications of the car is different and the affected component in the recall is not installed in another market. This is why we see that some recalls don't affect the Saudi market, while other recalls may affect the Saudi market and not others. People who privately import their vehicles to Saudi Arabia and not through an authorized dealer can check with their local dealer regarding any recall issues affecting their car. The local dealer, with the manufacturer's cooperation, should be able to handle the recall issue even if the car was not imported through him.

Q: You recently launched the highly acclaimed new Mazda3. How has the car performed in the Saudi market?

A: Indeed the Mazda3 has received many accolades from the automotive press worldwide. True to Mazda's tradition, it is a superbly engineered car delivering quality and performance at a very competitive price level. It is larger and sportier than the preceding model and maintains its stance as a sporty family sedan. We have been very pleased with the reception of the car in Saudi Arabia.

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