KCS Country Risk & Threat Advisory

KCS Group Europe
Risk & Threat Advisory Paper

Political Risk Advisory Briefing: Qatar
October 2019

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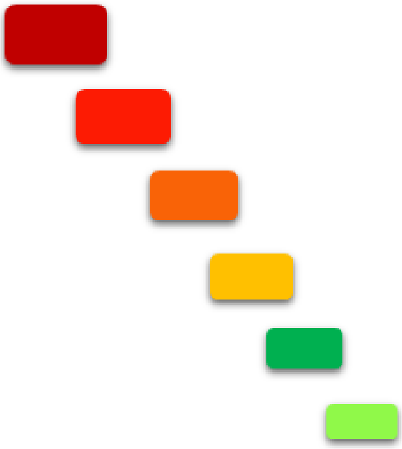
Country:	Qatar
Population:	2.36 million
Source:	CIA World Factbook

Qatar has a Possible risk rating of 4

6	**Very High**	The assorted threats described in the report are almost certain to have a derogatory effect.
5	**High**	The threats are extremely likely to negatively affect the business.
4	**Very Possible**	There is a strong likelihood of problems arising in this country.
3	**Possible**	There is a fair chance of problems arising in this country.
2	**Low**	There is a low likelihood of any threats impacting business.
1	**Very Low**	There are virtually no impediments to successful business in this country.



Introduction

Qatar is somewhat unique in the Middle East. An emirate which rejected the chance to join the UAE, which is far more comfortable with ties to Iran than its neighbours, and which has only 10% of its entire population being domestic. This tiny state is nevertheless a major player in global affairs, sometimes through no desire of its own. It will be hosting the 2022 World Cup – which will significantly raise its global profile – and is looking to become a global financial hub to rival Dubai, but at the same time is facing accusations of human rights abuses for its treatment of migrant workers and a near-total moratorium on relationships with almost every other state in the region.

Politics

Qatari politics is impossible to disentangle today from its wider complications. In June 2017, Saudi Arabia accused it of promoting and funding terrorism – most notably through the Taliban and Muslim Brotherhood – and immediately set about throwing out citizens, blockading trade and cutting diplomatic ties. The UAE, Egypt and Bahrain later followed suit. The expectation was that Qatar, isolated from all of its neighbours, would give in eventually.

But this has not happened. Instead, Qatar has embraced its forced isolation to circumvent the rewards and threats alternately posed by the coalition, and has forged its own path. It has doubled down upon its relationships with Turkey and Iran (with the latter being the most controversial), creating new deals to nullify the dependencies on Arabia and the UAE and remaining a key country on the world stage. Although the blockade has gone on for two years, and Saudi Arabia is now making noises about digging a radioactive trench to turn Qatar into an island, in practical terms any serious effect would have been felt by now. Qatar remains sovereign and powerful, despite attempts to constrain it, is arguably flourishing in the two key areas where its opponents would have wished it to be weakest: energy and finance, not least as a direct consequence of the isolation.

The wider question is of Saudi Arabia's motives. Clearly there was no chance that their laundry list would ever be accepted – it was something designed to be rejected to then give KSA the self-justification to intensify their blockade. But by forcing such hopefully crippling measures on Qatar, the Saudis calculated that the pressure would ultimately force Qatar to bow to their demands and become essentially a vassal. This was misjudged. Instead, Saudi has arguably unwilling cooperated in making Qatar a stronger state than it was before, one less than ever reliant on its bigger neighbours and which has the confidence and credibility to strike out on its own terms.

What we have therefore is a confident state, secure (against all odds) in its position both economically and politically, and one that is striving to present itself as the *'alternative choice'* for those interested in the region. That its trade surplus hit $52bn USD in 2018 and the IMF declared the effect of the ban to be *'fading'* signifies that it is succeeding.

Economy & Business Environment

Qatar is of course heavily biased towards the energy sector, as one would expect from a country in the Middle East, but the focus is on liquefied natural gas much more so than oil, which again makes Qatar an outlier. In 2019 it withdrew from OPEC in order to concentrate efforts on LNG (although once again the political dimension comes into play given that OPEC is dominated by Saudi Arabia). Its LNG efforts in the near future are in expanding the storage capacities and infrastructure for the LNG industry as a whole, and in securing international prestige and expertise in the field (most notably the construction of an entire LNG export terminal in Texas).

The benefits are threefold: Qatar can focus on an industry in which it specifically excels but which its neighbours do not, giving it a uniqueness that others will need; it deepens relations with partners worldwide to provide new sources of income and a further safety net against the machinations of the coalition; and it enables Qatar to defy the Saudis and remain independent. It is difficult to say which will please the al-Thanis most.

ExxonMobil, Shell and Total have all in recent months identified Qatar as a key market for wider and deeper expansion (not least because Qatar is looking to expand production to 110 million tonnes per year through construction of four new facilities), and to this end have courted the country assiduously. LNG has a special advantage in this situation because, unlike oil, it pollutes less and is seen as a more socially acceptable investment. The opportunities are also manifold across the supply chain: extractive, transportation, bunkering, and construction industries all have a role to play in the LNG business and Qatar is cognizant of the expertise that foreign firms have. While the big beasts named above may secure the biggest contracts, firms offering pipes, valves, vessels and all other elements of the LNG supply chain will find much opportunity in Doha. Competition will be fierce but given the scale of the opportunities (both in terms of volume of sale and the sheer number of possibilities), the Qatari marketplace has never been better.

Qatar is also making internal improvements to matters surrounding the industry. The Energy Bank of Qatar is intended to begin operations by the close of 2019 and will see up to $10bn USD raised to finance projects in LNG, petrochemicals, and renewables – with the possibility that these loans would be extended to Qatar's projects worldwide as well.

However Qatar has come around to the idea that natural resources are not everything and has been making massive jumps in diversifying its economy and offerings on the world stage. In late October 2018 it directed $2bn USD to the development and promotion of its Doha financial hub, to encourage multinationals worldwide to commit to Qatar for a decade in return for premises, tax breaks and investment – and the promise that Doha will be cheaper than Dubai.

And this is just the start – Qatar is looking to expand outwards as well into key regional markets including Kuwait, Oman and India, increasing its visibility and opportunity worldwide, not least the establishment of Qatari Financial Centres in Malaysia and Turkey. Thus the state offers opportunities both domestic and external for foreign investors to get involved in. While there is clearly a political dimension here – outdoing the rest of the GCC once again and proving Qatar's dominance of its sphere of influence – it demonstrates that Qatar is forward-thinking and diversifying, creating more opportunities for investment.

But this brings to light another serious question: is Middle Eastern business presently a zero-sum game between the two sides of the argument? Namely, will a company only be able to work with Qatar (and Iran), or the Saudi-UAE axis? It must be said that on the surface, such a clear choice made by international companies seems unlikely. No state on either side of the fight will want to turn down valuable, beneficial contracts and there is a sense that foreign companies are at a remove from the Saudi-Qatari spat. There could be downsides further down the line through – given the depth and nature of a joint venture with a Qatari company (particularly one with associations to the royals or other elite), they might be considered *'fair game'.*

Whatever one's business in Qatar, there are factors that make it a highly suitable investment destination. Foreign investment and ownership, while normally restricted to 49%, can now be raised to 100% should the Cabinet specifically approve, and the rules on repatriation of profits have been loosened. There are also efforts to streamline the establishment and processing of company documentation.

Corruption

Qatar's level of corruption is one of the lowest in the Middle East, although this is not to say that issues do not arise – especially in LNG, which as the country's biggest industry would be expected to be a particular focus for any corrupt or unethical practices. The biggest in recent months is undoubtedly the arrest of former Pakistani PM Shahid Abbasi, on a case that saw him accused of misappropriation of $2b USD equivalent in order to secure an $16bn USD deal of LNG export from Qatar, as well as a favoured-company backroom agreement. This was cited as the cheapest and most expeditious way to solve Pakistan's urgent energy crisis, but this excuse was not widely believed. While nobody from Qatar has yet been implicated by name, it is inconceivable that bribes were not paid at some level in order to secure these deals. But further to this, clear examples of corruption in the LNG sector are not apparent and the Qatari industry is a good deal less corrupt than those around it. While nepotism and bureaucratic patronage may be common at all levels, outright corruption itself is a lot rarer and Qatar enforces anti-corruption laws efficiently, giving it a rank of 30th globally on the Corruption Perceptions Index – far above its neighbours.

However, *baksheesh* and *wasta* are still present in Qatari society and must be managed with appropriate recourse to understanding that business is reliant on *'who you know'* and on a network of personal connections among the elite and the royals, and that the pace of business is more cautious.

Russia

Trouble could also be brewing on the horizon regarding the deepening ties between Qatar and the USA, with America asking the Qataris to become the predominant supplier of LNG to Europe, thus displacing Russia in the process. At best this could lead to a 'trade war' and extra tariffs, at worst state-sponsored actions by Russian cyber groups to damage the Qatari industry and any firm involved in it.

How can companies take advantage of the Qatari situation?

- Promote the Qatari-centric nature of business: hiring local employees, education programs, joint venture
- Illustrate how an offering is the best value proposition not only in terms of price but in the benefits to the wider Qatari industry/company
- Be prepared for flexibility and adaptability in what is a changeable market
- Ensure a local partner or overseer to open doors and provide support

Snapshot overview

Strengths

- An economy undamaged by the Saudi blockade
- Strong desire by government to modernise, improve and expand on the international arena – and funding to match

Weaknesses

- Business can sometimes be at the whim of the controlling sheikhs
- Domestic workforce comparatively small in number and untrained in variety of industries

Opportunities

- The single largest regional business opportunity in Qatar's LNG expansion plans
- Diversification into the financial arena

Threats

- Still corruption present throughout Qatari society
- Possibility that the Saudi coalition will take physical punitive action
- Increasing risk of shadow involvement from Russia and China