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QATAR AND EUROPE'S NEGLECT OF THE GULF REGION

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Qatar is a 'pygmy with the punch of a giant,' as *The Economist* recently noted. It is the world's largest exporter of liquefied natural gas. Cash strapped Western banks and governments turn to its sovereign wealth fund in hope of bailouts. Above all it has acted as a relentless political intermediary in an unstable world region and has attracted media attention by ambitious projects like the hosting of the FIFA World Football Championship in 2022.

In comparison Europe is a giant with the punch of a pygmy when it comes to the world's largest oil producing region. As late as 2006 the European Union spent mere three lines on the Gulf in a Green Paper on energy security – after countries like Macedonia and Moldavia. There has been growing interest since then, but Europe tends to be overlooked and underestimated in a region of vital importance. One would expect otherwise, as it is the largest exporter to the Gulf and attracts a majority of its foreign direct investments. Yet foreign policy remains a realm of the respective European nation states and the advancement of economic policies has taken a hit when negotiations for a free trade agreement between the EU and the Gulf Cooperation Council (GCC) were put on hold in 2008. On their own, single European nation states will increasingly struggle to stand their ground against the established role of the US and the growing interest of Asia in the region.

Two thirds of the Gulf's energy exports go to Asia. Europe relies much less on the Gulf for energy than in the 1970s, but this will change as oil production in the North Sea peaked in 1999 and overt reliance on Russian oil and gas supplies is deemed imprudent. Europe has grown accustomed to take energy security for granted and leave this file to the US. Instead it has focused its attention on the 'old Middle East' and issues like the Euro-Mediterranean Partnership or Arab-Israeli peace negotiations. These are worthy causes, but in doing so Europe has not only underestimated the gradual shift of the Gulf towards Asia, but also the economic dynamic beyond oil that has unfolded in the region. It is high time for a more nuanced understanding of the Gulf countries and their varying economic and political agendas. Qatar with its vast natural gas resources, financial prowess, and political and cultural intermediation is of particular importance.

There has been relative neglect of the energy rich Gulf region by Europe. More traditional files in the Middle East like the Euro-Mediterranean Partnership or the Arab- Israeli conflict attracted more attention. As single nation states Europeans will have increasing problems to stand their ground against an established US and a rising Asia in the region.

Within less than two decades Qatar has become a linchpin of global natural gas markets, and has accumulated a considerable amount of soft power by projects in media, education, and culture. The satellite channel Al Jazeera, Qatar Foundation, or the hosting of the football world championship in 2022 are cases in point.

The small state Qatar appears to punch above its weight with a flurry of diplomatic initiatives with often contradictory partners, ranging from Israel, Saudi Arabia, and Iran to democratization movements and Islamists. Apart from personal ambitions, financial prowess, a power vacuum in the region, and the silent protection of the US, the most likely explanation is the need of a small state to maintain good relations in an unstable region.

As a regional mediator Qatar can play a helpful role for Europe. Engagement with Qatar cannot replace, however, engagement with larger states in the region like Saudi Arabia or the UAE that sometimes frown upon Qatari hyperactivity.

The Linchpin of Global Natural Gas

Liquefied natural gas (LNG) has changed global gas markets. Qatar is the largest LNG exporter in the world. Until a decade ago natural gas was predominantly transported by pipeline. This put buyer and seller into a relationship akin to a catholic marriage. In comparison, oil markets are more like speed dating. Unlike pipeline gas, oil is fungible and deliveries can be diverted from one country to another. Nowadays LNG makes up 30 percent of internationally traded volume. LNG is more expensive than pipeline transport, but over long distances this disadvantage dissipates. LNG is also less vulnerable to geopolitical disruptions. Yet even LNG is not as fungible as oil. As each LNG train has its own load specifications, the merchandise cannot be rerouted easily from one regasification facility to another. Hence, natural gas is still not a global commodity like oil and probably will never be, but its tradability has increased substantially.

Beside long term buyer-seller relations, joint investments in pipelines, and oil linked formula pricing there is a growing spot market, interconnectedness of regional markets, and pricing independent from oil. Qatar is at the helm of these developments. It also houses the Gas Exporting Countries Forum (GECF) that organizes the world's leading natural gas producers, including Russia, Iran, and Algeria. It has been feared that GECF might develop into a 'Gas OPEC' as its members control over 70 percent of the world's natural gas reserves, 38 percent of the pipeline trade, and 85 percent of the LNG trade. Such fears are overblown, as the mentioned product characteristics of gas do not lend themselves easily to cartel like cooperation. But the institutionalization of GECF in 2008 after its launch in 2001 indicates that it is more than a talk shop and that Qatar is at the helm of developments in global gas markets.

Qatar's giant North field was discovered in 1971, but production for domestic purposes only started in 1989. The current ruler Sheikh Hamad Bin Khalifa Al Thani rapidly expanded the industry after he toppled his father in 1995. In 1997 first LNG exports went to Spain; South Korea and Japan were to follow as major clients. Faced with declining gas production in the North Sea since 2000, the UK has developed into a major client in recent years. In 2011 Qatar's LNG exports covered a staggering 52 percent of gas consumption in the UK, up from only 11 percent in 2009. Qatar also exports gas to the neighboring United Arab Emirates (UAE) via the Dolphin pipeline. It might be surprising for an energy rich region, but every GCC country except for Qatar has now a natural gas shortage. Industrial development and skyrocketing demand for electricity and desalinated water form the backdrop to this development. A system of very low, administratively set prices also discourages exploration and development of gas reserves. In Saudi Arabia for example the price for one million BTU of gas is set at $0.75, about a quarter of current prices in the USA. Beside the UAE, Bahrain and Kuwait have hoped for deliveries from Qatar. Yet, Saudi Arabia opposed a pipeline to Kuwait and Qatar announced a development moratorium of the North Field in 2005 to avoid overexploitation. At the artificially low gas prices in GCC countries, the motivation to export to overseas market or use the gas for domestic heavy industries like petrochemicals, aluminum, and fertilizer is great.

Globally, international gas prices have come down since 2008. More LNG capacities have come on stream and new technologies have enabled the commercial exploitation of unconventional gas reserves like shale gas and coal bed methane. The unconventional natural gas revolution is currently spreading from the US to other parts of the world and in the middle run there is an LNG glut according to the International Energy Agency (IEA). Fears about gas shortages have subsided. Yet gas demand will remain strong, its greenhouse gas emissions are more benign than those of coal or oil and after the Fukushima disaster additional natural gas deliveries had to make up for a loss in nuclear energy production.

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Qatar might gain some importance for Europe beyond LNG deliveries. It has signed a memorandum of understanding with Turkey about building a pipeline that would feed gas into the planned Nabucco pipeline of a European consortium. It is an open secret that Nabucco is at pains to find gas to fill its pipeline: Deliveries from Azerbaijan will not be enough, from Turkmenistan and northern Iraq they are uncertain, and a development of Iranian gas reserves is out of reach because of sanctions and the nuclear standoff. The approval of transit countries like Saudi Arabia to a pipeline from Qatar to Turkey is less than sure, yet the plan itself underlines Qatar's ambition to develop new export markets.

Gas is at the center of economic development plans in Qatar and gives it crucial importance in global energy markets. But a majority of government revenues in Qatar continues to come from its oil production of around 800,000 barrels per day. The rent component in the gas price that

accrues to the state as owner of the resource is smaller than in the case of oil. Natural gas production is very capital intensive and gas prices have developed less dynamically than oil prices.

Finance and Sovereign Wealth

Another field where Qatar has made headlines in recent years is finance. With an estimated $85 billion of assets, its sovereign wealth fund (SWF), the Qatar Investments Authority (QIA) trails behind comparable funds in Abu Dhabi and Kuwait, which have around $627 billion and $296 billion respectively, according to estimates of the Sovereign Wealth Fund Institute. But the QIA has earned a reputation for being daring and taking relatively high equity stakes. It has undertaken multibillion investments in Barclays, Porsche, and the London Stock Exchange just to mention a few. It tried unsuccessfully to take over British retailer Sainsbury of which it is the largest shareholder and it owns large chunks of prime real estate in London.

A penchant towards high profile deals and trophy assets has been ascribed to the head of QIA Hamad bin Jassim bin Jaber bin Muhammad Al Thani, who is also Qatar's Prime Minister, its Minister of Foreign Affairs, and a cousin of the ruler. It is not just eagerness to make a mark, but also a genuine interest in investing in industries that can contribute to the diversification of the domestic economy. The latter is regarded as a long term project in order to prepare the country for a future after oil and provide jobs for its young population.

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Compared to the international investment activities, the domestic financial sector is small. Capitalization of the stock market and banks is negligible by international standards. Like in Dubai highflying plans to develop into an international finance hub have not materialized. Contrary to the Dubai International Financial Center (DIFC), the Qatar Financial Centre (QFC) is an onshore market place that only guarantees tax exemption for a period of three years, after which listed companies are required to pay the predominant tax rate of 10 percent. In 2008, the New York Stock exchange (NYSE) took a 25 percent stake in the Doha securities market for $250 million and a technology and management partnership was set up. Qatar also set up an energy trading platform, the International Mercantile Exchange (IMEX), but it has not attracted any meaningful business and the plan to offer energy derivatives has fizzled out. QFC launched an overhaul of its business model in 2010. It downsized its staff and wants to focus on asset management, captive insurance, and reinsurance going ahead.

Food for Thought

Qatar has indentified food security as a matter of national strategic concern in the wake of the global food crisis of 2008. Food price increases were not so much the issue for a country with ample oil and gas revenues. What really disconcerted Qatar were the export restrictions that food exporters like Russia, Vietnam, Argentina, and India enacted out of concern for their domestic food security. Rich oil exporters faced a situation where markets fail and money does not buy bread. One of their reactions was the announcements of agro-investments abroad, at times in food insecure countries like Sudan or Pakistan. So called landgrab investments have been controversial and their actual realization has lagged far behind. As far as Qatar has started to implement them it has rather focused on developed markets like Australia.

A distinctive feature of the Qatar National Food Security Programme (QNFSP) is that it tries to achieve partial self-sufficiency with the help of domestic agriculture, right at a time when other countries in the region like Saudi Arabia are phasing out subsidized wheat cultivation in order to save precious water resources. Qatar currently only produces about 10 percent of its food and wants to increase this ratio to 70 percent by 2023 with the help of modern technologies like hydroponics and greenhouses that use water from solar based desalination. Thus, water will not come from exhausted aquifers, nor will it be produced from natural gas, which is needed for export, electricity production, and the petrochemical industry. Solar energy and water management are part and parcel of Qatar's planned expansion in food production, which will be very costly and only affordable for a relatively small and rich country. Qatar's population has trebled since the mid-1990s, but is still only 1.7 million people. Only 250,000 of them are Qatari nationals, the rest are expatriates. With $80,000 in purchasing power terms, Qatar has one of the highest GDP per capita in the world.

The food security drive will not only lead to enhanced technical cooperation and international investments, it has also led to a diplomatic initiative. Qatar has launched the Global

Dryland Alliance under the UN umbrella, which aims to enhance agricultural productivity in arid countries and facilitate technology transfer between them. The role of the UN and the response of arid countries to the initiative have not been entirely clear yet, but Qatar is determined to bring the organization to fruition over the next two years. The former Spanish Minister of Foreign Affairs, Miguel Angel Moratinos, has joined QNFSP to push the diplomatic initiative forward.

Media, Education, Culture, and Sports

Qatar spends vast amounts of money to highlight the country's global role and ambition. It has hosted the Asian games, bid unsuccessfully for the Olympics, and got the FIFA football world championship 2022. It hosted the WTO conference that marked the beginning of the Doha round trade negotiations and has built a prestigious museum of Islamic art by the star architect I.M. Pei. Qatar Foundation, the brainchild of Sheikha Mozah, the ruler's wife, sponsors various educational and cultural courses ranging from scientific research to the FC Barcelona. At Education City sister campuses of major US universities like Georgetown, Texas A&M, and Cornell have been built, each catering to a specific academic field.

The satellite network Al Jazeera is the earliest example of an investment that serves to convey some form of soft power. Since it burst on a scene of dull, censored, and mediocre state television in the Arab world in 1996 it has transformed the media landscape. It is an opinion maker all over the Middle East. Al Jazeera has certainly set new standards in terms of journalistic professionalism in the region, but there is no escaping that its reporting has also followed the foreign policy agenda of Qatar. One will not find critical reporting about Qatar, and critical issues in friendly countries like Bahrain will be swept under the rug. On the other hand Al Jazeera has pushed certain envelopes when it deemed them important, be it during the Arab Spring in Syria, Libya, and Egypt or during the US occupation of Iraq.

Political Broker in an Unstable Region

Qatar's soft power and financial prowess comes into focus when it plays its restless and at times controversial role as a power broker in the region. It has intermediated in conflicts in Darfur, Ethiopia-Eritrea, Lebanon, Somalia, Israel-Palestine, Yemen, Western Sahara, Afghanistan, and Indonesia. To this end it has entertained good relationships with often contradictory forces, but has also caused profound disapproval. It houses US Centcom, which oversees US military operations in the Middle East, North Africa, and Central Asia, including Afghanistan. At the same time Qatar is anxious to maintain good relations with Iran, whose undeveloped South Pars gas field belongs to the same geological formation as Qatar's gigantic North field. A military escalation in the Gulf would leave the sensitive above-ground gas installations of Qatar exposed to asymmetric retaliation. While Qatar relies on US security guarantees, it told the US that its territory could not be used for an attack on Iran. It has also reached out to Iran, inviting President Ahmadinejad to the GCC summit in Doha in 2007 to the great consternation of Saudi Arabia and other GCC members. Still the relationship is hardly cozy. Qatar's foreign minister defended dialogue with Iran to US officials by saying 'they lie to us and we lie to them' according to a WikiLeaks cable.

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Like Abu Dhabi Qatar tries to foster an image of open minded conservatism and tries to stay clear of the more seedy aspects of Dubai clamor and nightlife. After all, its religious establishment adheres to the fundamentalist doctrine of Wahhabism, although to a more benign version than in neighboring Saudi Arabia. Alcohol is not forbidden, but to get a drink at a bar one needs to go through a cumbersome process of ID registration. It has already been assured that at the championship in 2022 there will be exceptions. With Qatar Airways the emirate aims at transforming Doha into an international air hub, facilitate traveling to its various events, and attract tourism. The latter is a daunting task for a flat and barren land without obvious natural and archeological attractions. There are also concerns about overcapacities as Emirates Airlines in Dubai and Etihad in Abu Dhabi follow the air-hub strategy in immediate vicinity.

The same paradoxical stance can be seen with its relations to Israel and the Palestinians. Qatar caused a stir in the Arab world when it allowed Israel to open a trade mission in Doha in 1996, just stopping short of starting diplomatic relations. Deputy Prime Minister Shimon Peres participated in 2007 in the Doha Debates television program of BBC, and Minister of Foreign Affairs Tzipi Livni visited Doha in 2008.

At the same time Qatar has maintained close relations with the Palestinian camp. After the Gaza war at the end of 2008 it closed

down the Israeli trade mission and intensified its relations with Hamas. In February 2012 Qatar hosted a meeting between the Palestinian Authority's Mahmoud Abbas and Hamas leader Khalid Mishaal. In the Doha Declaration both men agreed on an interim unity government, in which Abbas would serve as prime minister. Israeli Prime Minister Benjamin Netanyahu criticized the deal, saying that Abbas had chosen to 'abandon the path of peace.' Qatar is also hosting the prominent Egyptian Islamic scholar Yusuf Al-Qaradawi who has been a spiritual leader of the Muslim Brothers and has a vastly popular TV program on Al Jazeera. He has been living in Qatari exile since 1961. Although he has been sometimes described as a 'moderate,' his highly controversial statements include an endorsement of suicide bombings against Israeli civilians.

Qatar successfully intermediated in the Darfur conflict and a peace accord between the government of Sudan and the *Liberation and Justice Movement* was signed in Doha in July 2011. Earlier, Qatar's state minister for foreign affairs Ahmed Bin Abdullah Al Mahmoud said that the emirate had allocated $2 billion to establish a development bank for Darfur. A recent coup has been the opening of an office of the Taliban in Doha in order to facilitate peace talks with Western powers that look for a way out of the Afghanistan quagmire. The deal had been prearranged by representatives of Mullah Omar and the US during secret talks in Germany. Qatar is appreciated as an international diplomatic service provider. Its role as a neutral meeting ground and mediator is not dissimilar to the role of Geneva during the Cold War when East and West had to talk but wanted to avoid too much publicity.

Not all intermediation efforts of Qatar have been soft sailing, though. Qatar has been accused of following its own agenda and has met with opposition. In the North of Yemen it tried to broker a peace deal in the Al Houthi rebellion and was accused by the Yemeni government of funding the rebellion, which Sana'a also linked to Iran without much evidence. After a decade of close relations Qatar broke with Syria in the wake of the Arab Spring and withdrew its ambassador from Damascus. Recently Sheikh Hamad even contemplated the intervention of Arab troops in an interview with the signature program *60 Minutes* on US television.

Qatar also vocally supported the protest movement in Egypt. Relations with the Mubarak government had been strained before and the Egyptian regime was incensed by Al Jazeera's reporting. Egypt boycotted the Arab League summit in Doha in 2009. It accused Qatar of helping the Hamas takeover of Gaza in 2007 and complicity in an alleged plot of the Lebanese Hezbollah to stage attacks in Egypt. Qatari intermediation efforts in Sudan were perceived as meddling in an Egyptian sphere of interest. Similarly, Saudi Arabia and Syria resented Qatar's engagement in Lebanon as intrusion in their foreign policy turf.

Qatar was the only Arab country that actively participated in the Nato campaign against Gaddhafi in Libya. Six of its fighter jets flew sorties over Libya and it provided weapons, financial aid, and military advisors to the rebels. Yet, after the fall of the Gaddhafi regime members of the provisional Libyan government objected to Qatari interference in domestic politics and what they saw as a one-sided support to Islamists among Libyan rebels. Observers also suspected that Qatar might hope for preferred access to Libyan energy deals and improved access to European gas markets. The liberal oil and finance minister in Libya's ruling national council, Ali Tarhouni, was clear: 'Anyone who wishes to come to our house should knock on the front door first.'

On the Arabian Peninsula Qatar has mended its fences with Bahrain when both countries accepted an international arbitration over the contested Hawar islands in 2001. But with Saudi Arabia Qatar has had a rocky relationship for a long time that only improved recently. In 1992 border clashes led to three deaths and in 1996 Saudi Arabia supported an attempted counter coup against Sheikh Hamad by forces loyal to his father whom he had deposed. Both sides agreed to demarcate their borders in 1996, but this process would only be finalized by 2008.

In 2000 Crown Prince Abdullah who would later become Saudi king boycotted a summit of Islamic states in Doha out of protest to the Israeli trade office in Doha. Two years later Riyadh withdrew its ambassador from Qatar after Al Jazeera had given airtime to Saudi dissidents. Sheikha Mozah in turn sued a Saudi owned newspaper in a libel suit in London in 2005, arguing that it was 'controlled by Saudi intelligence paymasters who used the newspaper as a mouthpiece for a propaganda campaign against Qatar and its leadership.' In 2006 Saudi Arabia protested the Dolphin pipeline saying it

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would cross offshore Saudi territory, a claim the UAE and Qatar denied. The same year Qatar's energy minister said that a multibillion-dollar project to supply Qatari gas to Kuwait stalled because Saudi Arabia refused to give clearance. The deal was telling of the vicissitudes of the mutual relationship. When the Qataris proposed the deal in 2001 the Saudis denied permission, only to grant it in 2003 and withdraw it again in 2006. They also protested a planned causeway from Doha to Abu Dhabi.

Smaller Gulf countries are concerned about a too tight embrace of the GCC heavy weight Saudi Arabia, which in turn is anxious to assert influence over its junior partners. In 2007 a surprise visit by Sheikh Hamad and Hamad bin Jassim bin Jaber Al Thani to Riyadh inaugurated a thaw between the two countries. Al Jazeera was put on a short leash in its reporting about Saudi Arabia, which has in turn given the green light for an office of the satellite channel in Riyadh. Border issues were finally settled in 2008.

During the decade of cold relations with Saudi Arabia, Qatar became close with Syria, which in turn has close relations with Iran, Hezbollah, and Hamas. Syrian President Bashar Al Assad and Sheikh Hamad visited each other on numerous occasions and Qatar invested massively into the ailing Syrian economy. Pro-Western countries like Saudi Arabia, Egypt, Jordan, and the UAE had misgivings about this maverick approach of Qatari foreign policy. In January 2009 Saudi Arabia and Egypt refused to attend a summit in Qatar that was supported by Syria and Hamas. Instead they organized a rival summit in Riyadh just one day before.

Given the decade of cozy relations with Syria, Qatar's recent about turn comes as a surprise. In April 2011 it still sent a message of support to the regime in Damascus, but then it sided with the Syrian opposition and was the first Arab country to withdraw its ambassador from Damascus in July 2011. Qatar's unequivocal support of protest movements of the Arab Spring is astounding as the country is hardly democratic itself. The ruler announced the first-ever parliamentary election for 2013, but has generally been reluctant to embark on democratic reforms over the last decade. Saudi Arabia has been much more conservative during the Arab spring and aimed at preservation of the status quo. It supported its ally Mubarak until the end and did not even call Gaddhafi to step down, although the mutual relationship was one of enmity, with Gaddhafi allegedly plotting the murder of then Crown Prince Abdullah in 2003. However, in Syria Saudi Arabia and other Gulf countries have increasingly converged on the Qatari position. Syria's ties to Iran are regarded as a threat. Saudi Arabia withdrew its ambassador in August 2011 and pushed for an end of the observation mission of the Arab League in Syria in January 2012.

Sometimes Qatar's diplomatic activities seem to be a conundrum. A monarchy that is vocally supporting democratic movements, accused for its support of Islamist groups. Relatively close to Iran and until recently Syria, but also host to US Centcom and an Israeli trade office until 2008. What could be the driving force behind all this? Boxed between Saudi Arabia and Iran, two neighbors with hegemonic ambitions, and situated in a notoriously unstable region the country is vulnerable. It has a vital interest in stability and good relations, at least with most of the states for most of the time. It is probably rather guided by such opportunism than by ideological or religious convictions. Qatar supports Islamists not because they are Islamists, but because they are a power factor, and for the same reason it has an interest in relations with the US, Israel, Arab Spring movements, or Iran. Financial endowments, personal ambitions of the rulers, a power vacuum in the region, and the quiet protection of America are additional factors that help to explain Qatar's diplomatic activities.

Conclusion

Qatar has developed into a diplomatic niche player since the mid-1990s and its services as an intermediary have been appreciated by Western powers and Mid-Eastern states alike. It carries considerable soft power via its satellite channel Al Jazeera, educational initiatives, and its hosting of various events and conferences. Yet the rationale of its reaching out to various opposing factions is not always clear and its diplomatic hyperactivity has irritated other governments whether in Egypt, Syria, Yemen, or Saudi Arabia. Its support for Islamist groups in Libya and possible agendas of its own have raised eyebrows. It is a crucial player in world gas markets and is self-confidently trying to expand this role. As such it is also of increasing importance for Europe, even though natural gas will be relatively abundant over the coming decade due to revolutionary changes in the production of unconventional gas. The Gulf region is of crucial importance to Europe and would deserve greater attention by its policy makers. Qatar as a small state with considerable convening power in the wider Middle East has proven to be a useful partner in the past. Conflicts of interest with Saudi Arabia have receded in recent years. It needs to be noted, however, that engagement with Qatar cannot replace engagement with other countries of the GCC that sometimes feel that the small emirate is punching above its weight with its ambitious foreign policy initiatives.