QATAR

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World Cup Construction frenzy has put labour conditions under scrutiny **Page 3**

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Wealthy state with a big presence

Michael Peel and **Roula Khalaf** consider the prospects for a state that is flexing its diplomatic, financial and media muscles

Modern metropolis: some say modernisation is going too fast Getty

The bay at the heart of Doha, Qatar's capital, is a striking sight after dark. Across the water from the blocks and curves of the a rapidly multiplying skyscrapers downtown, the softly lit Islamic art museum sits next to a huge sports stadium, long boat docks for arriving spectators trailing elegantly from its sides.

Like much about this small country with big ideas, the nocturnal image is part fact, part fantasy. It is the product of an artist's impression of what the area might look like by the time the 2022 football World Cup, which Qatar won against the odds, comes to town.

The museum and the skyline are real enough, but the stadium – like most of the rest of the massive infrastructural development planned over the next decade – is still just a twinkle in a designer's eye.

It is the next stage of the extraordinarily ambitious journey planned by Qatar, the world's largest exporter of liquefied natural gas and a growing regional political force, to establish itself as a leading Middle Eastern country and a big actor on the world stage.

As Hamad al-Ibrahim, a young Qatari who has just started a local think tank, puts it: "We are small but we are everywhere."

Since winning the World Cup bid just over a year ago, Qatar has had a spectacular ride, pushing forward with its development plans at home, as if unaffected by the world economic downturn.

Analysts are looking for the next moves of its sovereign wealth fund, estimated at $80bn, which earlier snapped up stakes in western banks such as Credit Suisse and Barclays.

Transcending its tiny size and population of only 1.7m (most of them foreigners), Qatar has also sought greater political influence by championing this year's Arab revolutions, flexing its diplomatic, financial and media muscle in support of protest movements.

While the widely popular Al Jazeera channel, owned by the government, celebrated – if not contributed to – the collapse of autocracies in Tunisia, Egypt and Libya, Qatar's independent-minded emir, Sheikh Hamad bin Khalifa al-Thani helped finance and train Libya's rebels, providing the Nato-led mission with a necessary Arab cover. He has since been leading the charge in the Arab world to raise the pressure on the Syrian regime.

Sheikh Hamad bin Jassim bin Jabr al-Thani, the prime minister, says Doha had no choice but to back the popular struggles. "It was very clear for Qatar – when we saw bloodshed … we could not sit back and not say something, especially when excessive force has been used," he says.

Qatar's rise to the status of world's wealthiest country by some measures, with an average annual income per head of more than $100,000 at purchasing power parity, is confirmation of its status as a leading power in one of energy sources of the moment: gas.

While it has been conservative in its exploitation of its golden egg, the giant North Field, it has benefited from high prices for gas among the emerging Asian economies to which it is conveniently close.

It has just reached its production targets for liquefied natural gas production and is now focusing on diversifying into areas such as petrochemicals and liquid derivatives of natural gas.

Using the World Cup as a fulcrum, Qatar is planning a transformation of a capital city and hinterland that has already begun to feel small and congested, cars regularly clogging the main bay road and highways leading to locations such as the new national convention centre. In the coming years, a metro, a railway system and an airport are among the many projects due to be completed.

Yet for all its economic and foreign policy ambitions, Qatar's enthusiasm for political reform at home has been wanting. Most of the politics that take place in the country seems to centre on rivalries within the ruling family. Like elsewhere in the Gulf, the lines between the finances of the monarchy and that of the government are often blurred.

While few in Qatar are clamouring for revolution, there are local grumbles about a modernisation that is going faster than a largely conservative society would like and complaints about the influx of expatriates that are making the locals an increasingly small minority. Questions are also raised about the priorities of government spending.

Abdallah al-Athbah, a columnist and local blogger, says Qataris want more representation and more of a say in how resources are directed. "Qataris want more hospitals than stadiums," he says.

The emir, who took power in 1995 after pushing his father aside and promised a modernisation drive, made waves in the Gulf back then when Qataris voted on a constitution.

But a planned vote for a two-thirds elected advisory council has been repeatedly delayed – and even that will probably maintain real power in the hands of the al-Thanis.

As protests have raged all year elsewhere in the Arab world, the Qatar government has moved to ensure that a pampered population remained content, raising public sector salaries by 60 per cent. It has also set 2013 as the date for the advisory council election.

As the country gears up for those polls, the potential strains now facing it are familiar from other oil-rich Gulf nations and made more acute by its small size. Analysts point out that Qatar is essentially run by a handful of people, which allows for decisive action but provides limited ability to follow up on policy edicts.

One political analyst says: "The biggest vulnerability for this country is the gap between its capabilities and its ambitions. They could be self-contained like Brunei. But they want to project themselves as a model in the region – and wider than that."

Qatar's increasing assertiveness internationally also carries risks. There is the danger of retaliation, through terrorist attacks or other means, from supporters of regimes it opposes.

Qatar has already succeeded in imprinting itself on the international consciousness and it has the financial power to act independently and aggressively. The tasks it faces are to socialise that wealth without wasting money, and to bring political reform without changing society faster than people want. For an emir apparently committed to social activism at home and curbing abusive leadership abroad, the greatest test could yet be not in how he wields power, but in how he gives some of it up.

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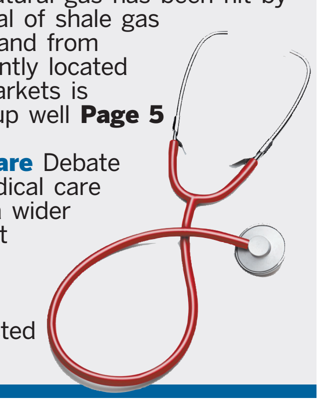


Pragmatic pursuit of regional interests

Foreign policy

Roula Khalaf finds that the country is treading a fine line

The sudden outpouring of rage against Arab autocracies over the past year sent shudders through the corridors of power in the conservative Gulf.

But while some of the absolute monarchies were confronted with popular protests and others sought to placate opposition with financial handouts, Qatar stood out with a typically individualistic attitude.

It aligned itself with the revolutionaries, using its financial and media power to promote their cause, in the region as much as abroad. This attitude might have come as a surprise to some of Doha's neighbours but it was in line with the country's pragmatic pursuit of policies that can safeguard future interests, even if they appear at odds with other long-held positions.

A state that has juggled relations with Israel while supporting some of that country's enemies and that has hosted a large US military base while keeping lines open to Iran, was this year offered a rare opportunity for a higher profile on the world stage. Standing alongside France and Britain, it went further than most Arab countries in backing international intervention in Libya.

"Qatar has guile and determination and it champions causes," says Salman Shaikh, director of the Brookings Doha Center, a think-tank. "[The Qataris] want leadership and they want to project themselves. Their core interest is stability but they do it through active diplomacy, not by sitting in the middle."

Involvement in this year's uprisings provided something of an insurance policy, too. While other states that are still largely unaffected by the Arab spring dread the rise of Islamists as the new political power, Qatar is in good standing with many of these movements.

As its prime minister, Sheikh Hamad bin Jassim bin Jabr al-Thani, told the FT, Islamists should be "tried" to see if they can bring something to the table.

"Qatar's foreign policy is about pragmatism," says Abdallah al-Athbah, a local columnist. "Do you support good companies or bad companies? The Qataris read what is going on and they know Islamists are going to win, so why not support them?"

Policy analysts say that, ironically, it is the tight concentration of power in Doha that allows Qatar to project itself, making quick, sometimes ad hoc, decisions and reversing them rapidly if the need arises. Its leadership also uses a host of people it has welcomed into the country as mediators, whether they are intellectuals, Islamist dissidents, clerics or western think-tanks.

> 'The Qataris' core interest is stability but they do it through active diplomacy'

"If they have an inkling, a whim, they do it. The advantage is that they are quick and decisive; the disadvantage is that it could go wrong," says David Roberts, deputy director at the Royal United Services Institute, a military think-tank, in Doha.

But while Qatar's thrust into the limelight at a time of historic change might fit with the pan-Arabian ambitions of Sheikh Hamad bin Khalifa al-Thani, the emir, it also reflects a willingness to take gambles.

The Libya intervention, where Qatar provided funding and military advisers as well as diplomatic support to the rebels, paid off. But had Muammer Gaddafi survived – and for many weeks in the summer a dangerous stalemate had set in – he might well have tried to exact revenge on Doha.

In both Libya and Egypt, moreover, Qatar's prominent role has exposed it to accusations that it is favouring one group (the Islamists) over others – charges that the government says are unfounded.

"The higher your profile rises, the more room there is for a fall," quips an Arab official speaking about Qatar.

The country's relations with Russia have also been strained by the Arab spring. In early December, Moscow said that it was downgrading diplomatic ties with Doha after a bizarre incident in which it says its ambassador was attacked at the airport.

It is perhaps in Syria that Doha is taking its biggest risk yet, analysts say. Not long ago, Qatar considered Syria's regime a friend, investing in the country in support of its perceived economic reforms. It also appears supportive of the same groups that Damascus backs, including Lebanon's Hizbollah and the Palestinian Islamist Hamas.

After the outbreak of popular protests in southern Syria in March, Qatar tried to mediate, advising Bashar al-Assad to embark on a serious process of political reform.

Soon, however, as it became apparent that the Syrian president was unwilling or incapable of change, Doha switched policies, becoming one of the first Arab countries to turn against Damascus.

As the current holder of the rotating presidency of the Arab League, it also played an instrumental role in building up support for Arab pressure, taking small steps at a time but eventually reaching agreement within the group on a set of financial and economic sanctions on Syria.

Syria protest: Qatar condemned Damascus early on Reuters

Brookings' Mr Shaikh says Qatar is running the risk that its Syria policy pits it against Iran, one of Damascus's few remaining allies. Doha's longstanding position has been not to alienate Tehran.

The prime minister has spoken out against any military attacks on Iran's nuclear facilities, instead urging a return to the negotiating table with western governments.

Qatari and other Arab officials expect the crisis in Syria to play out over a long period, raising the risk of a broader regional confrontation or perhaps retaliation from a ruthless Damascus regime.

Syrian officials have been attacking Doha's role and have warned that Arab economic sanctions are considered a declaration of war.

Qatar's Syrian policy has also highlighted another important change of priorities in Doha – a much closer co-ordination with Saudi Arabia, the regional heavyweight that the Qatari leadership has long sought independence from. Indeed, much of Qatar's maverick approach to diplomacy has in the past been blamed on an obsessive rivalry with Saudi Arabia.

The neighbours have radically different views of the Arab spring – with Doha celebrating it and Saudi Arabia trying to protect the status quo. But it was by co-operating that other states in the region were convinced of the need to turn the heat up on Damascus.

Meanwhile, despite Qatari misgivings about the way the Shia uprising that erupted in Bahrain earlier this year was handled, Doha backed Saudi Arabia's strong intervention through the Gulf Cooperation Council in support of the ruling al-Khalifa family.

When asked about Bahrain, Sheikh Hamad points out that his country had tried to mediate between the opposition and the regime, and had only sent four observers as part of the GCC force.

Al Jazeera Heavy responsibilities of a powerful voice

At Al Jazeera's Doha headquarters, the security is a giveaway. Tighter than at a US embassy, passport details are required in advance to enter the compound, after which printed permission is granted, like a private visa.

As the Arabic-language news channel has grown in prominence over the past 15 years, it has earned many followers – and enemies. It has been banned from countries, a number of its international offices have been bombed and its reporters detained and killed.

Operating in the Middle East, a region known for its government control over the media, Al Jazeera has managed to break the age-old model of censorship, often using local journalists to get closer to the story. How it manages its relationship with the government at a time of increased scrutiny will determine whether it will be perceived as an independent media operator on the global stage.

There has always been an awareness that, if Qatar really wanted the channel to succeed, it would have to "keep out of any kind of interference in this institution", says Mostefa Souag, managing director.

The channel started as a project backed by Sheikh Hamad bin Khalifa al-Thani, the emir. The founding team was mostly taken from a discontinued BBC Arabic service. It began to broadcast from a country that few westerners could place on a map. Over the past decade, Al Jazeera has emerged as one of the most powerful voices in the Arabic-speaking world.

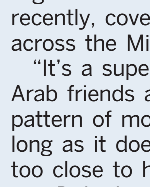
As social media and citizen journalism have burst on to the scene, Al Jazeera is not alone in struggling to pick the truth from the barrage of footage it receives every day, often from countries where it cannot get cameras on the ground.

Over the years, the channel has made a name for itself by exposing developments in the Palestinian-Israeli conflict, airing al-Qaeda videos after the September 11 attacks, providing in-depth coverage in the early days of the Afghan war and, most recently, covering the revolts across the Middle East.

"It's a superb way to win Arab friends and creates a pattern of modernity, as long as it doesn't criticise too close to home," says one Doha-based media expert.

In the past year, as revolutions have gripped the Arab world, the channel has come under increasing scrutiny over its coverage, which has varied in depth from country to country.

Critics have charged that the channel has not paid enough attention to protesters in places where the Qatari government is supporting that country's government, namely Shia-led protests in Bahrain and Qatif, Saudi Arabia. However, in Libya, where the government openly supported the rebels, and now in Syria, critics say the channel is sticking too closely to Qatar's own expansive foreign policy.



Mostefa Souag is wary of government interference at Al Jazeera

As one analyst says: "It's not necessarily daily directives. But there have been too many instances – whether it's Bahrain or Libya or Syria – where things have been switched on and off. It would be silly to deny this."

Al Jazeera rejects any suggestion of government intervention in its reporting. "It just so happens that Qatar, during the Arab spring, has been supporting the people, rather than the dictators," says Mr Souag. "Al Jazeera has been supporting the people not the dictators since 1996 when it was created; it's not new for Al Jazeera."

As a new director-general takes the helm, he will have to tackle head on these criticisms that threaten the perception of the channel.

In the midst of the unrest, Waddah Khanfar, after eight years, was replaced by Sheikh Ahmed bin Jassim al-Thani, a little-known member of Qatar's ruling family, in a move that many criticised as an uncomfortable step towards government control.

Explanations regarding his replacement abound, with even Mr Khanfar himself tempting others to guess why he resigned on Twitter, the message-broadcasting network. Commentators have cited the need to place a Qatari at the top, the problems created by suggestions in WikiLeaks cables that Mr Khanfar was too close to the US government, and coverage of the revolutions. Others just say that, after eight years, his time had come.

As Al Jazeera's Arabic language channel has come under closer scrutiny, Al Jazeera English, now in 250m households worldwide, has earned its stripes in recent months with its reporting on the government crackdown in Bahrain, an important ally of Saudi Arabia, the largest country in the Gulf.

Its documentary on these protests, *Shouting in the Dark*, was one of the most detailed and pointed reflections on the situation. The video, available online, has drawn tens of thousands of viewers.

With a population of only 1.7m, Qatar has certainly raised its head above the parapet. As its voice gets louder, its relationship with the channel is bound to get ever more complicated. Neither the country nor Al Jazeera's ambitions are likely to be tamed.

In a region where making friends with the government can be an easy ploy for journalists, the channel is in some ways proud of the enemies it has created. "There are threats to Al Jazeera, there are so many people that don't like Al Jazeera, so many powerful governments who don't like Al Jazeera," says Mr Souag, explaining the reason behind the security.

Camilla Hall

Eager to counter football doubters

World Cup

Michael Peel reports on Qatar's charm offensive

In the Doha pavilion where Qatar produced the football star Zinedine Zidane from a cupboard as part of its successful 2022 World Cup bid, a wall montage tells the story of how the beautiful game took root locally. It describes how British oil workers posted to the Gulf started playing soccer in the 1940s, much to the amusement – and bemusement – of many Qataris.

According to Ibrahim al-Muhannadi, an industry employee quoted in the display: "We had no idea of sports like that … But we used to enjoy watching the strange spectacle."

The comment seems a gift to the sceptics who have attacked Fifa, world football's embattled governing body, for awarding the quadrennial tournament to a country they say lacks the footballing culture, the climate and the ambience to hold a soccer jamboree.

The remark's prominence also shows an awareness among the Qatar tournament organisers that this is an allegation they must tackle head-on – and do, arguing that what they dub the "compact World Cup" has the potential to energise a whole new constituency of fans as well as offering traditional supporters unparalleled convenience and spectacle.

Hassan al Thawadi, secretary-general of Qatar 2022 supreme committee, says: "Obviously when you first win the World Cup there is a little bit of scepticism. But I think if anyone

Qatar's entire population of nationals would fall short of filling the 12 stadiums

focuses closely on the bidding process and on the activities we have done and the effort that we have put in, then [Qatar] is a logical choice – or it's not a surprising choice."

Mr Thawadi, an engaging 32-year-old lawyer who is juggling his World Cup post with the job of general counsel at Qatar's main sovereign wealth fund, is open about the amount of work that needs to be done. He laughs about a photo taken when his country's victory was announced, in which he looked stunned and sober while colleagues erupted in joy around him.

Mr Thawadi reckons the two biggest fears his country must allay are that the tournament will not be fatally undermined by either the scorching summer temperatures or by the lack of variety inherent in all the matches taking place at stadiums in or near the capital city. He says Qatar 2022 hopes to take advantage of cooling technologies already in use at the Al Sadd sports stadium, while the flipside of the country's tiny size is much shorter than usual travel times.

He says he is equally confident that Qatar will be able to deliver full houses for matches, even though its entire population of nationals would fall well short of filling the 12 planned stadiums. The World Cup has been held before in countries where football was not as deeply embedded in popular culture as it is in Europe and Latin America, but in those cases – such as the US and Japan/Korea – the nations were big enough to still provide a large pool of local interest.

Mr Thawadi counters that Qatar has both a significant population of expatriates and the potential to attract supporters from across the region, as well as families – not a normal World Cup constituency – lured by his country's safe atmosphere.

He is also eager to move the debate on from allegations publicised earlier this year that Qatar bribed Fifa officials, claims he says were unfounded. "We won it fairly and squarely."

Archaic sponsorship system in spotlight

Labour conditions

Camilla Hall looks at life on a construction site

World Cup victory: securing the 2022 tournament has unleashed a frenzy of construction and provided a catalyst to the debate over the treatment of foreign workers Getty

Labour conditions in Qatar are set to move increasingly into the spotlight as the vast amount of construction required for the World Cup, pushes the gas-rich Gulf state firmly on to the radar of international human rights groups.

The number of labourers, mostly from countries such as India, Pakistan, Nepal and Sri Lanka, and whose population dwarfs Qatari nationals, are already being sought as construction companies prepare for projects, many of which have been stalled in other parts of the Gulf.

"The World Cup, with all the attention it has already brought to Qatar, will be a key opportunity to call attention to the conditions faced by migrant workers in the country," says Priyanka Motaparthy, a Middle East researcher for Human Rights Watch.

The World Cup, still a decade away, merely provides a catalyst to the debate over labour issues in Qatar and more broadly across the Gulf states; many of which still adhere to an archaic sponsorship system in which workers are forbidden from leaving a company without its permission.

Sheikh Hamad bin Jassim bin Jabr al-Thani, the prime minister said more than a year ago that the Council of Ministers was "seriously studying" abolishing the sponsorship system. "We are studying the issue very carefully to preserve the rights of citizens and foreign workers," he said, according to media reports.

Diplomats and human rights activists say the sponsorship system remains in place, although discussions over abolishing it continue. Not all are against the system, however; some employers argue that, without it, it would be very difficult to maintain staff.

Dubai the glitzy emirate only an hour's plane ride from Qatar, received its fair share of bad publicity as towers spurted up across the city, all built by a migrant labour force, many of whom arrived during the construction boom indebted and effectively enslaved to their employers. Abu Dhabi then took the spotlight as artists boycotted the planned Guggenheim Museum over labour conditions for construction workers. Now the attention is likely to turn to Qatar.

Large construction projects, including a metro, railway and tens of thousands of hotel rooms, will all be built by the guest workers. As companies subcontract to other smaller groups for various services, there is a risk that workers' rights will suffer.

Already, the World Cup organising team is facing close scrutiny from international rights' groups.

Last month, the International Trade Union Confederation, which represents 175m workers, met Jerome Valcke, the Fifa general secretary, to demand that, unless Qatar upholds workers' rights, the movement will campaign against the World Cup taking place there.

Mr Valcke said Fifa would work jointly over the next few months to address labour issues with the Qatari authorities. The World Cup organisers say the tournament will provide "a vehicle for the acceleration of reform" in a range of areas, including labour practices, adding that Qatar has been committed to change for some time.

A labourer in Qatar receives a basic salary of about 600 riyals ($165) a month, plus a 200 riyal food allowance. That is in stark contrast to Qatar's own national population, and the salaries of white collar workers propping up the country's financial services sector.

The workers often spend north of 4,000 riyals to

The World Cup organising team is already under scrutiny by human rights groups

recruitment agents to enable their trip, usually a sum that is borrowed from local villagers or loan sharks at extremely high rates of interest.

When payments are delayed by companies in Qatar, a knock-on effect then takes place back at home, creating stresses that many are unable to withstand.

Some of the migrant workers die as young men. The death rate among Nepalis in Qatar for example, is about 200 out of 300,000 each year, even though the migrant workers are mainly aged between 20 and 30, according to government statistics. Cardiac arrest, suicide and falling from high buildings account for 80 per cent of those deaths, according to the statistics.

Most of the problems hark back to the sponsorship system that prohibits workers from moving companies without the prior approval of their sponsor, even if they complain that they are not paid or are treated badly.

One 26-year-old restaurant worker says his company would not allow him to leave after three years of employment, refusing to return his passport. Another, who says his passport was stolen by the recruitment agency he moved with, is finally leaving the country after legal battles and 14 months with no job, forcing him to live off the goodwill of others.

Aside from their accommodation, the workers' complaints include delayed payments, a refusal to put stamps on visas that would allow them to get a health card and companies refusing to let workers to leave. .

For all the progress diplomats say has been made, much still needs to be done in a society where government and companies trade on the desperation of men who leave their countries to try to escape poverty.

"It's a real opportunity for Qatar to improve its record," says Rothna Begum, Middle East campaigner at Amnesty International. "It's worrying the way things work right now."

Contributors

Michael Peel
Middle East Correspondent

Roula Khalaf
Middle East Editor

Camilla Hall
Gulf Correspondent

Robin Wigglesworth
Capital Markets Correspondent

Stephanie Gray
Commissioning Editor

Steven Bird
Designer

Andy Mears
Picture Editor

For advertising details, contact:
Mark Carwardine on: +44 (0) 207 873 4880;
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Politics

Elections will test ability to keep people happy, says **Michael Peel**

As Arabs around the Middle East have hit the streets to bring down leaders and even take up arms against them, Qataris have been vigorous in their own distinctive kind of activism.

The country has seen a series of online social media campaigns whose targets have ranged from the alleged deficiencies of the national telephone company, to a Doha bookstore's decision to bow to westerners' calls for it to pull Adolf Hitler's *Mein Kampf* from its recommended reading list.

Analysts see the focus on consumer rights and cultural sovereignty as a Qatari sublimation of the energy of the Arab awakening, in a country where the ruling monarchy's authority is total and where there appears neither the scope nor wide popular appetite for radical change.

As Emir Hamad bin Khalifa al-Thani pushes forward proposals for political reform, including advisory council elections in 2013, the question is whether he can appeal during these restive times to a wide range of constituencies – from the apparent conservative majority to an educated minority who query Qatar's financial management and its lack of democratic institutions.

One political commentator says: "This society is not going through a political revolution, but it is going through a social revolution. They care about stability, especially when everything about them is in flames, they care about rising prosperity and they do care about keeping a certain identity."

It has become an analytical truism to depict Qatar as the last domino to fall in the Arab awakening, given its mammoth wealth and tiny population. Certainly it has seen none of the public demonstrations that have defined the year in the Middle East, nor are there any obvious signs of organised opposition to the emir and his absolute monarchy.

Abdullah al-Athbah, a Qatari columnist, says: "There are not many people who want a real change of scene. There are intellectuals who do. But ordinary people do not care very much about that."

Mr Athbah lists what he has observed people criticising online lately: the performance of Qatar Airways, the publicised availability of pork – a forbidden food in Islam – in shops in Doha, and the inclusion of a film about a gay man in the Doha film festival. Another campaign that has grabbed attention is no2nudity, an Emirati-originated protest against revealing outfits – a source of tension in Qatar, with its large invited population of non-Muslim expatriates.

Emir Hamad bin Khalifa al-Thani: pushing for political reform

Some observers argue Qatar has two striking features that make it almost the antithesis of Arab countries where there have been uprisings. On the one hand, its population who – according to opinion polls – care less about democracy and more about stability than a year ago; on the other, it has a leader who seems to be dragging his public towards political reform rather than the other way around.

One government adviser says: "In some countries, people fight for [change]. Here you get it for free. The emir has given democracy. It has come from the top."

While undoubtedly containing an element of truth, this sentiment is somewhat misleading in its simplicity. Even in Qatar, it is possible to hear murmurings about how the monarchy uses the country's money: however much is distributed to the population, there is little transparency about how much goes to the ruling family itself.

One journalist complains about self-censorship in a Qatari media that is – as one observer puts it – a constant "good news show", part of a broader lack of civil society institutions.

As for the reforms, sceptics point out that the emir is merely delivering on a longstanding promise. There is also no clarity yet on how powerful this body will be or who will be able to vote for it: at worst it could be an advisory council with no legislative teeth, and be voted on by a handpicked electorate.

One interesting imponderable about Qatar's political future is the impact of education reforms that are supposed to equip their recipients with greater powers of critical thinking. That carries risks as well as benefits for the government, as one business person points out: "Someone goes out and educates themselves, they become dangerous."

Another subtlety is the nature of contentment in a rich society such as Qatar: by pouring money into public sector salaries and pensions, the government is setting itself a high bar of popular satisfaction to continue reaching, vast oil and gas revenues or not.

If a Qatari's annual earnings shoot up from $10,000 to $100,000 in 10 years, then drop to $80,000 over the following two as government spending is tightened, that person may experience a visceral feeling of being 20 per cent poorer, rather than eight times richer, than before.

Unlike many of their Arab world counterparts, Qatar's rulers appear to have public support, time and money on their side as they push their own brand of reform amid the Arab world turmoil round them. The run-up to the elections will be a test of whether they can offer enough to keep most people happy in a country that is both less passive and more intellectually diverse than its tiny size and monolithic politics might suggest.

Building site: conscious of the throttling back by other Gulf states after they spent too much too widely and too soon, Qatar is taking its time Getty

Emphasis shifts to investment

Economy

Executives are salivating over projects, says **Michael Peel**

On the road into Doha, a huge billboard proclaims "Lusail: realising the vision", in a celebration of a planned new waterfront city whose forecast population of 200,000 is well over half Qatar's entire citizenry.

Further details of this development are harder to come by: the "facts and figures" section of Lusail City's website is blank save for the message "under construction" and some line drawings of cranes and diggers. The jokey aside reveals a truth about the economy of a country where excitement about the scale of big public works is tempered by uncertainty about what exactly they will look like and whether they are all wise.

Conscious of the throttling back by other rich Gulf governments after they spent too much too widely and too soon, Qatar is taking its time before committing fully to largesse that could transform the country – or fritter way some of its energy bonanza.

Trevor Bailey, chief business development officer at Aamal, a local conglomerate, says: "We have seen 2011 more as a year of planning than of implementation. We believe that projects will really kick start in the second or third quarters of next year – and that's what we are gearing up for."

Economists, business people and government officials say Qatar is moving from an era of very high oil- and gas-driven growth to a phase in which – while still notching up gross domestic product increases for the western world to envy – will shift its emphasis to investing some of the proceeds.

GDP growth is forecast to slow from almost 19 per cent this year to 6 per cent next, says the International Monetary Fund – hardly calamitous given that the country has suffered a severe real estate slump.

Executives are salivating over government-funded projects that include a new airport, a mass transit system and various schemes to promote entrepreneurship and small and medium sized companies.

One business person says: "People are planning on the most extraordinary expectations. The atmosphere is very bullish, it's a case of ever onwards and upwards."

But one looming difficulty is that Qatar may still make some flawed decisions because of its lack of legal frameworks and institutions seen in more industrialised countries.

> Excitement is tempered by uncertainty about whether projects are all wise

One example of a contentious project is the development of the new port that is scheduled to open in 2015, but faces the impact of the western economic crisis, competition from regional ports and a planned investment in regional rail networks. A national development strategy published in March says the case for a new port is still "compelling", but calls for the design and the phasing in of the project to be reviewed.

"Qatar is enormously wealthy but it doesn't really have the wherewithal in government yet to manage the process in ways that are directly linked to its own ambitions," says one economist. "Without the software, the hardware is not going to work properly – and without the software you might even invest in the wrong type of hardware."

Another potential inhibitor of the kind of economic development the government wants to see is the 60 per cent pay rise awarded this year to the country's vast cadre of public sector workers, further damping the push to be entrepreneurial and hardworking among many Qataris who are already rewarded generously.

Official statistics suggest public sector workers start winding down into retirement between the ages of 40 and 44, after which they will often devote themselves to business interests they are allowed to build up while in state employment.

Simon Cooper, chief executive of HSBC Middle East and north Africa, has attacked the steep pay increase, which he says makes it harder for financial institutions to compete with government counterparts and more difficult for private companies to hire more Qataris – which the government desperately wants foreign businesses to do.

One lawyer described interviewing a Qatari for a job as a junior analyst only to find out that the person was in the running for a director-level job in a state company, while the head of another organisation said he was forced to pay a Qatari administrative assistant, who was aged just over 30, 40,000 riyals a month – twice what a non-national in a similar job would get.

The lawyer says: "The thing is, there is no relativity now. They know that if you don't hire them, they can go and get a [public sector] job anywhere they want."

Qatar's income is very high – but so are its ambitions and the expectations of a population that is used to viewing government as a financial honeypot and may need persuading to look at it another way. Like the work on Lusail and the various other mega-projects foreseen over the next decade, the task of turning Qatar into a well-functioning diversified economy has only just begun.

Islamic finance Banks will be divided

As of next year, Qatar's conventional banks are no longer allowed to do Islamic banking. That much is clear.

However, the process of separating the Islamic banking business from the conventional, as stipulated in the central bank's regulations in February, is far from simple and is taking longer than hoped.

As the country moves to split its banking system, a shift it thinks will facilitate risk management for lenders, concerns are emerging as to how much progress the biggest banks will have made by the intended deadline of the end of the year.

Sheikh Abdullah bin Saud al-Thani, Qatar's central bank governor, says: "Banks have been making the necessary preparations in this regard and it is expected that their retail portfolios will be adjusted by this time frame, although the rationalisation of the corporate portfolios might take some more time."

When the announcement was made, bankers had expected Qatar's lenders to sell their sharia-compliant branches and assets to pure Islamic banks, a boon for the country's four fully fledged sharia-compliant lenders.

However, since then, only one deal has been done.

So far, only the International Bank of Qatar has completed the disposal of its relatively small Islamic banking operation, Al Yusr, to Barwa Bank.

The lenders with the most at stake, such as Qatar National Bank and Commercial Bank of Qatar, have yet to sell their Islamic assets.

"Given the complexity of disassembling for sale highly integrated operations, the banks may have found it isn't worth their while, especially given the very limited time horizon," says Raj Madha, an analyst at Rasmala, an investment bank in Dubai.

Mr Madha says that banks have tried to move as many of their client relationships as possible to their conventional operations.

Banks are loath to sell their Islamic divisions as they have been quite profitable over the years.

The timing is also hard to swallow, considering the Islamic banking industry in the Middle East and north Africa is expected to more than double to $990bn by 2015, according to Ernst & Young, the professional services firm.

The Islamic unit of Qatar National Bank, for example,

Sheikh Abdullah al-Thani

the country's largest lender, contributed 16 per cent of net profit last year, while sharia-compliant assets represented 14 per cent of the total.

The bank accounted for around a third of the Islamic banking industry in Qatar.

Commercial Bank of Qatar, another local lender with a sizeable Islamic finance portfolio, is also yet to sell its assets.

"There were always going to be issues over valuations," says one Doha-based banker.

"There's been a lot of conversations with a lot of people."

It was not just local banks that were affected, the decision also had an impact on international banks.

HSBC Amanah had only opened its first branch in Qatar a few months before the decision was announced. The bank said in May it would absorb staff into its conventional business.

The four Islamic banks that remain "should have the capacity to meet indigenous demand", says one banker. "The need is to have well-capitalised banks able to support the business."

There is still some confusion over whether bankers were prepared for the move, something that could explain why more sales have not yet taken place.

Though some maintain that they did not see the decision coming, the central bank has reiterated that talks were in place long before the announcement.

Because of that, the central bank is urging banks to comply as quickly as possible with the directive, to ensure the process progresses.

Sheikh Abdullah warns that he will not turn a blind eye: "We will do a stocktaking exercise after the stipulated deadline and take the process forward."

Camilla Hall

Huge infrastructure projects could develop banking sector

Finance

Camilla Hall says private lenders could benefit

Banks in Qatar have weathered the financial crisis better than many others around the world – not because they are particularly well run, but because the government has pumped money into the sector time and again.

Over the past three years, the government has bought the investment portfolios of local banks, their property assets and minority stakes in lenders.

On top of these measures, totalling 32bn riyals ($8.8bn), it has also sold billions of dollars in debt with generous yields to further bolster local banks.

Sheikh Abdullah bin Saud al-Thani, the governor of Qatar's central bank, says: "The measures were essentially proactive in nature and were structured to enable the authorities to address the issue in a sequenced manner."

As everywhere else, government intervention is a double-edged sword, staving off crisis at the price of holding back the development of independent financial institutions and a strong private sector.

As Qatar prepares to launch a huge infrastructure programme – not least for the 2022 football world cup – the question is whether the banks are in a position to be more than mere recyclers of state investment. The banks will have to strengthen their lending capacity, without government backing and at a moment when capital markets are extremely volatile.

Sheikh Abdullah says: "As credit growth picks up and the competition for deposits intensifies, banks will need to increase the proportion of market funding in their liability mix, a challenge that they will need to confront squarely amid the current problems affecting the eurozone."

Local lenders have expressed their intentions to tap the bond market. However, the government last month completed a $5bn international debt sale, a move that analysts fear may hinder other issuers' chances of immediate sales.

Qatari lenders, most of which are still too small for the government's multibillion-dollar deals, hope to benefit from increased business for local companies and subcontractors, who will rely on them for bilateral financing.

Martin Brown, a partner at SNR Denton, a law firm, in Doha, says: "The big Qatari banks have been bolstering – and continue to bolster – their balance sheets, initially with injections from the Qatar Investment Authority – during the worst days of the crisis – but, more recently, proactively in capital markets."

Although banks and contractors say there has been little movement on the infrastructure plans, lending to the construction sector is already picking up.

Bank lending to construction companies expanded by 8.4 per cent in the first six months of the year, compared with a contraction of 25 per cent in the same period a year ago, according to data from Qatar National Bank.

Even though many of the projects were announced before the granting of the hosting rights, there is a clear deadline now, meaning lenders can count on government projects getting pushed forward.

"Everything here is subcontracted," says one Doha-based banker. "As long as they're using local companies for some of the work, then there's definitely a benefit for local banks."

> 'As long as they're using local companies, there's definitely a benefit for local banks'

Whether it is the subcontractor providing vehicles to shift equipment, or the cable-laying company, it is at the broad end of the pyramid that the local banks are likely to cash in. An increase in personnel to manage and construct the projects may also form a new deposit base, helping to boost their retail operations.

The country's infrastructure plans span a railway system, a metro, tens of thousands of hotel rooms, and even a new city. However, the government has yet to lay out details of how all this will be financed, and whether it will favour local banks with bigger deals to help them grow.

With estimated annual hydrocarbon revenues of $27bn and economic growth of 21 per cent, the government could probably fund the majority of projects without the need for much involvement from the private sector.

"Given the projected budget surpluses, there is always the argument that Qatar doesn't need private investors to complete its vision," says Mr Brown. However, the government wants the private sector to play a role, he adds.

Expectations have been high for the past year, though, as yet, little new business has been created as a result of winning the bid, bankers say.

"Planning doesn't mean funding," one Doha-based banker remarks.

Despite the slow pace, international banks are also trying to position themselves to get their piece of the pie.

Standard Chartered is targeting what it expects will be an increased involvement of Asian companies in construction projects, whether through financing or on the retail side, says Charles Carlson, Qatar chief executive.

As banks of all shapes and sizes are set to reap the rewards of Qatar's infrastructure spending, most of those benefits can be traced to one fundamental.

As one local banker puts it: "Ultimately, it all goes back to the government as paymaster."

Gas status puts country at centre of global forces

Energy

Michael Peel looks at the strategy designed to compete with rivals

As the brass section of the Qatar Philharmonic Orchestra struck up *Fanfare for the Common Man*, it made an incongruous accompaniment to an occasion that was anything but ordinary.

The players' audience was thousands of oilmen and women gathered in Doha for the triennial World Petroleum Congress – the first time in the conference's 78-year history it had been held in the Middle East, and a recognition of Qatar's growing importance as a global energy operator.

As Issa al Ghanim, chair of the congress' organising committee, put it in a speech just after the musical interlude: "This industry has not only transformed the country in a short space of time. It's changing the world energy scene."

Mr Ghanim could be forgiven a touch of bombast over the extraordinary rise of Qatar as a gas power – although he might have added the coda that global trends are shaping the country, as well as the other way around.

While Qatar's energy industry is booming, Doha faces a number of strategic decisions over what to do about the emergence of rival gas sources, the rise of Asian economies – and the political balancing acts needed to survive in the energy industry as a small country competing with much bigger ones.

Doha needs to work out "what pace of development they have, what market share they want to keep, and how they can manage that," says Stéphane Michel, head of upstream operations in Qatar for Total, the French energy company.

Qatar's short-term energy boom is shown by the dramatic rise in natural gas revenues – oil is increasingly the lesser part of the mix – from $33.2bn last year to $51bn this.

While demand for Qatari natural gas in the US has been hit by the arrival of shale gas – which is chemically extracted from rocks – markets are holding up well in Asian countries conveniently located for Doha's exports. Qatar gas is also seen as having benefited from greater international suspicion of nuclear power after this year's meltdown at the Fukushima reactor in Japan.

Now, Qatar's energy industry stands at something of a crossroads in its development, having reached its production target of 77m tonnes of liquefied natural gas annually. It has also come to the tail-end of a long and large investment programme, notably an $18bn Shell project to turn natural gas into other chemicals used to make products ranging from detergents to aviation fuel.

Most importantly, Doha must decide what to do with its still-vast energy reserves concentrated in North Field, holder of 15 per cent of the world's natural gas.

Further immediate export expansion is seen as unlikely, with the government committed to a 2005 moratorium on new projects until at least 2013, to prevent possible damage to gas reservoirs.

Mohammed Al Sada, the oil minister, says the authorities want to take "utmost care" with the country's reserves and plan to take technical steps to maximise the lifetime of existing fields. He also emphasises that oil revenues are viewed as part of a wider plan for diversifying the economy.


Gas works: revenues from liquefied natural gas rose from $33.2bn last year to $51bn in 2011 Newscast

> Doha needs to work out 'what pace of development and what market share they want to keep'

The billboards around Doha advertising the part Qatari-funded film *Black Gold* – a retro epic about the tumultuous early days of oil in the Arabian peninsula – are a reminder that the country will still need all its political shrewdness to turn its energy bonanza into a rising and sustainable income stream for years to come.

In recognition of the changing international landscape, Qatar has been looking to deepen relations with both rival gas exporting states and consumer countries. Mr Sada said last month that Qatar was interested in buying a stake in Novatek, Russia's biggest independent gas producer, while Doha has been looking at increasing its supplies to India and has provisionally agreed to be part of a petrochemical and refining project in China.

Qatar this year spent €2bn on a 6.2 per cent stake in Iberdrola, the Spanish utility company, taking it into the European – and potentially Latin American – power generation markets. Analysts say future threats to Qatar's energy position include significant new production in Australia due to come on stream by the end of the decade – though industry insiders say the blow will be softened by the long-term supply contracts Qatar holds in Asia and the time lag until the rival output arrives.

A more pressing uncertainty is the security situation in the wider Middle East region, including not just the multiple uprisings but the growing tensions between the west and Iran, its neighbour across the Strait of Hormuz. While Qatar itself is seen as an unlikely candidate for revolution, protests in Oman and Bahrain are a reminder that Gulf oil-producing states are far from immune from the effects of the Arab awakening.

If not exactly at the mercy of international forces and events, Qatar's geographical position and status as the world's largest exporter of liquefied natural gas certainly puts it at the centre of them.

Shell GTL Masterstroke or a wrong turn

A measure of the vastness of Shell's new Pearl GTL chemicals plant in the Qatari desert is that it contains enough steel to build 40 Eiffel Towers. That figure – one of series of mega-stats gleefully thrown out by Andy Brown, managing director of Pearl GTL – is also a sign of the size of the gamble Shell and its government partner are taking on the potential of the myriad chemical products derived from the country's plentiful natural gas.

Conceived in 2006 at a time when oil prices were about two-thirds of today's $100 or so, the next few years will determine whether Pearl was a far-sighted and lucrative masterstroke or a wrong turn in an era when demand for raw gas in leading emerging economies is so brisk that it is pointless and expensive to fiddle around with it.

As a rival oilman puts it: "Shell took a big bet and went in with Qatar Petroleum. The question is: knowing what they know now, would they still have made the same decision?"

The project – a so-called gas-to-liquids production facility that turns gas into substances with uses ranging from chemical plant feedstocks to "clean" diesel fuels – has consumed $18bn and is now, says Mr Brown, "the most valuable asset Shell has anywhere in the world". Its concrete was sufficient for a pair of replicas of Dubai's Burj Khalifa, the world's tallest building, and it has broken a series of construction records, including housing the largest oxygen plant ever built.

The logic behind Pearl GTL is that, since natural gas has historically sold at a significant discount to crude in many parts of the world, the money is in turning gas into chemicals that sell for something close to the oil price. The case for spending on these projects has appeared more compelling as the oil price has risen and new sources of so-called shale gas have been discovered in the US, driving down gas prices there. So Shell would appear to be very handily placed now, having seen the oil price rise by at least 50 per cent since it gave the project the go-ahead five years ago.

But the situation has been complicated by high gas demand and prices in Asia, a convenient location for Qatari exports. If raw gas is selling so well in Asia, it risks making GTL less financially compelling, especially given the costly initial investment required – though Mr Brown says the Pearl project came within the Shell board's budget.

Despite the uncertainties, Mr Brown insists Pearl GTL is a strong venture, adding that the company is already seeing "good market demand and good uptake" for Pearl products. The project – together with an associated liquefied natural gas venture known as Qatargas 4 – is forecast to generate $4bn of revenues a year at an oil price of just $70 a barrel. Pearl GTL is expected to produce 3bn barrels of products over its lifetime at an operating cost of only $6 a barrel.

The fate of Pearl – which builds on technology first developed in the 1920s but only being polished now – will be an important indicator of whether large-scale GTL has a future in Qatar and elsewhere.

For all his bullishness, Mr Brown's hints at the risk his company and Qatar have taken in sinking so much money into Pearl at a time when the economics of gas production are in flux. He says: "Qatar is now the LNG and GTL capital of the world. It's delivering high quality, high volume products to the global energy markets. And it has done so in a spectacular way, pushing the boundaries of technology and size like no other country has dared to do."

Michael Peel


Andy Brown: is seeing 'good demand and uptake'

Medical care suffers from lack of capacity

Health

The sector offers quality but needs more basic services, says **Camilla Hall**


The Sidra Medical and Research Centre should relieve some of the burden

At the women's hospital in Doha, scores of ladies gather around reception, competing for the attention of the staff. Doctors in black *niqabs* and white coats sweep through rooms built more than two decades ago. Next door, at the main hospital, men are waiting for treatment, lined up in wheelchairs in a bustling corridor.

"We cannot carry the capacity of this population," says one doctor at the hospital. Doctors are forced to send patients home prematurely because there are not enough beds and some operations have to be cancelled, she says, withholding her name as she is not authorised to speak to the media.

The women's hospital alongside the mixed Hamad general hospital, mark what is arguably the frontline of Qatar's healthcare battle. Despite billions of dollars of government spending in this sector, the two hospitals are seemingly bursting with patients.

The debate over healthcare echoes a wider argument about how well Qatar is directing its gas riches for social spending.

The country has been widely praised for investing heavily in areas such as health and education, but many observers say it is still too early to pronounce these initiatives a success.

Despite a rise in the number of private clinics and the opening of new state hospitals outside the city centre, some of the country's doctors are still overloaded by what the government estimates is a near trebling of the population over the past 10 years.

In the same period, what was the health ministry has been reformed and renamed twice, to become the Supreme Council of Health.

"Sometimes, when you have too much money, it's as bad as having no money because you can actually send it in the wrong direction," says Faleh Mohamed Hussein Ali, assistant secretary-general for policy affairs at the council.

Per capita health expenditure even fell slightly last year, from $1,579 in 2009 to $1,561, even though gross domestic product increased by 16 per cent. This was because of an increase in the population, according to a recent government report. That compares with the Organisation for Economic Co-operation and Development average of $2,984 per capita.

This year, the council has initiated a five-year plan to boost the number of hospital beds, while improving the primary healthcare system in order to reduce the number of people who rely on hospitals for basic services.

In the past, the authorities have focused on tertiary healthcare, which involves buying expensive equipment and technology. Now, "the whole drive is to push everything to prevention, to screening, to what we call a self-care model", says Dr Ali.

> 'Sometimes, when you have too much money, it is as bad as having no money'

The first step has been to analyse where and how the state's funds are being spent. According to the report, about 77 per cent of government healthcare expenditure is managed through the Supreme Council of Health, followed by 14 per cent through the Qatar Foundation, a non-profit organisation established by the emir.

Critics say the foundation, which has aimed to develop elite healthcare, has spent vast sums on advanced technology and ambitious projects in a Gulf state that has yet to tackle the basic needs of the population.

The foundation, for example, has invested in Virgin Health Bank, a company that parents can pay to harvest and store stem cells from their baby's placenta to use in case of illness in later life. However, there is little capacity in Qatar to perform the operations that would reintroduce the extracted cells.

The government has also invested in the Qatar Robotic Surgery Centre. "It's like building a cathedral dome before you've built the foundations," says one observer. "They would rather have something ambitious and do it half way" than embark on a more pragmatic project.

More basic, and potentially more helpful, projects promoted by the foundation include the Sidra Medical and Research Centre, a project announced seven years ago and touted as "an ultra-modern, all-digital academic medical centre". It should relieve some of the burden on the government's current medical facilities, officials say.

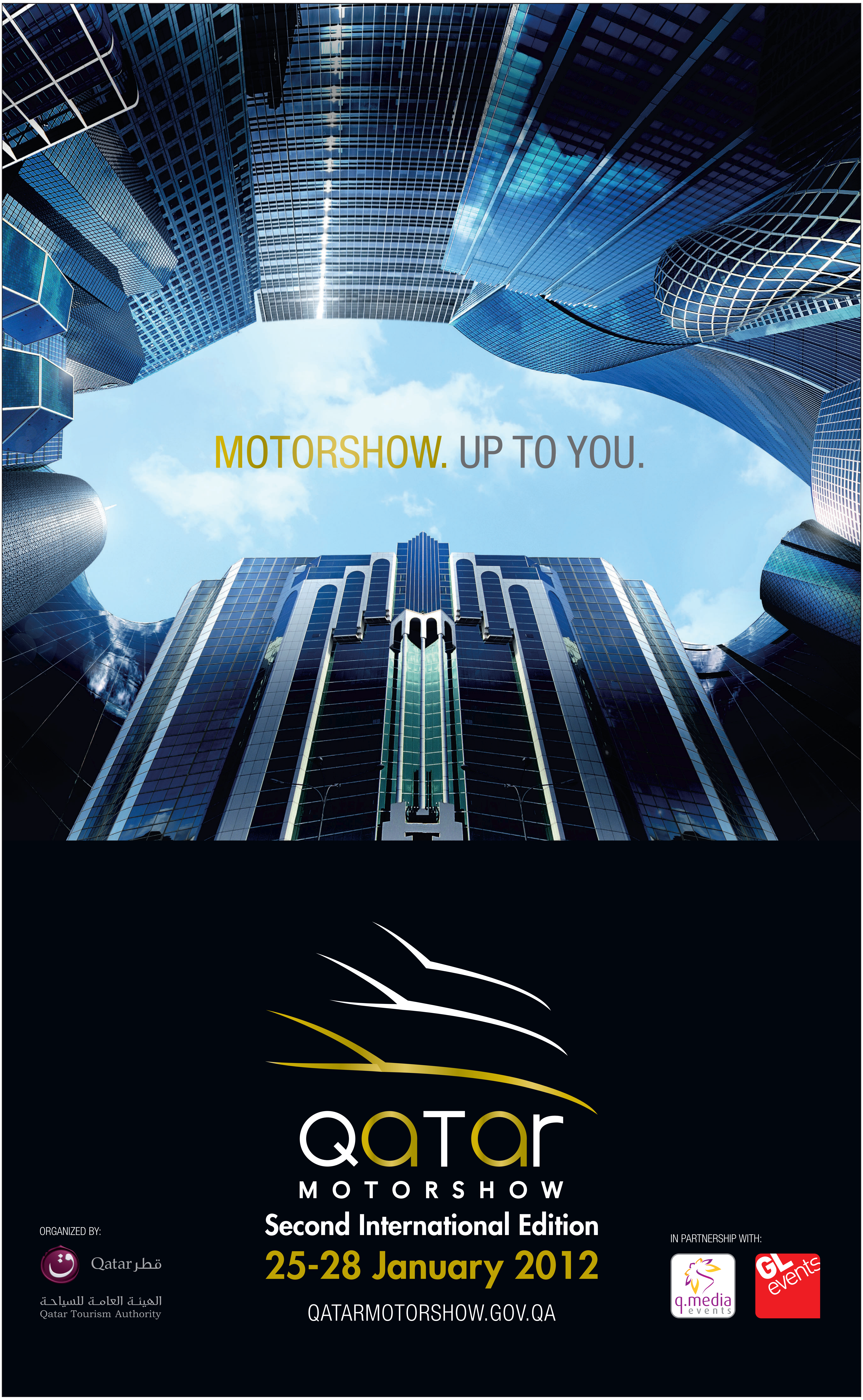
The foundation has also brought in some of the world's top medical institutions, with Weill Cornell and the University of Calgary-Qatar offering programmes to train local healthcare professionals and attract foreigners.

"Hospitals are not buildings and machines, they are the people," says Dr Ali.

The country is moving towards full insurance of nationals and expatriates. Companies will be encouraged to cover the cost for their staff, while nationals will have their policies funded by the government. Citizens currently receive funding for treatment abroad if they cannot get it at home.

The staff at Hamad general hospital can see the new building they will be moving into across the road. Parts of it are said to have been unoccupied since the Asian Games in 2006, for which it was built. They will have to wait until next year or the year after before they get the extra space.

"It's actually how the money's been spent, not how much – it is enough," says Dr Ali.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