

# The qatar oil and gas industry economics essay



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The interest for a Major in the oil & gas industry in gaining a foothold in Qatar goes far beyond mere geological considerations. While Qatar's natural resources are attractive, the recent and massive investment in science and education is a more important incentive for potential investors. The natural resources are finite and when extinguished new energy sources will be required. Qatar is a world leader in researching these new sources and gaining access to this knowledge is a key objective for every company ready to compete on the future energy battlefield.

Besides, in order to promote scientific research and education on its soil and to attract FDI and skilled labour, Qatar is implementing a whole new business environment, through the reshaping of its legal system and multiple financial incentives. Therefore, not only a company wishing to invest in Qatar would benefit from a state-of-the-art research environment, it would also enjoy a much safer political and legal framework than in the majority of other producing countries.

## **Introduction**

Since the 1980's Qatar has experienced huge changes, with rapid economic development and dramatic FDI increases. A thriving financial centre has grown out of nothing and world class sporting, scientific and educational facilities have been developed.

This report will evaluate the changes in the Qatar business environment and consider several policies and their impact. The focus will move to the oil and gas industry, with key challenges and advantages in the industry identified, before advice will be given for any prospective new firms.

## Qatar at a Glance

Qatar is an unusual and unique setting for operations. It is important not to group Qatar with other gulf countries enjoying similar economic and social developments or as another generic Middle Eastern nation. Qatar is not a new Dubai or an Arabic-oriented Miami.

So while Qatar leverages its natural resources, it understands they are finite and can't be relied on indefinitely. A 2008 document, Qatar Vision 2030, set the Emir's objectives for Qatar up until 2030; to build tomorrow's Qatari economy and society by attracting foreign investments and knowledge, diversifying its economy, investing abroad and promoting education and culture; to compete in the knowledge based international business environment.

Qatar natural resources give it the ability to fund this economic diversification. As a wealthy country the main issue is not how to finance a Science Park: it is attracting leading scientists and academics to develop projects there.

Therefore, the Qatari government has launched projects in partnership with foreign companies and universities. Instigated in 1995, after the peaceful coup by the current Emir, a crucial element of these development programs has been Qatar's paradigm: a small country with huge financial and natural reserves, with complete economic control by the Government.

A Qatari elite comprising of Royalty, government officials and businessmen control the political, economic and business landscape. For instance the

Prime Minister is also Qatar Investment Authority (QIA) CEO and the Deputy Prime Minister, Abdullah bin Hamad al-Attiyah, Qatar Petroleum (QP) Chairman. This is relevant as Qatar is an Arabic country. So when a deal is concluded and a contract written, the relationship goes beyond mere economic cooperation.

The possibilities available in Qatar are becoming clearer: Qatar's energy industry is radically different to elsewhere, such as say Russia. By gaining a foothold in Qatar, a Major in the energy industry doesn't only drill oil for short term profit to satisfy shareholders; it also has access to a unique environment for building future business models and investing in "flexible options" by benefiting from the Qatar scientific and educational revolution.

The Oil and Gas Industry in Qatar.

The Qatar economy relies upon its energy industry, especially to generate Government income (70% of total). Despite attempting to diversify the economy the energy industry accounted for 50% of GDP and approximately 85% of export earnings.

Qatar is integral to the worldwide energy industry and can become essential, as despite their large reserves they are currently the 22nd largest exporter of oil and 5th in gas production (Exhibit 1).

Exhibit 1

## **Qatar Oil and Gas Figures**

### **Factor**

### **Barrels**

### **World Position**

#### **Oil – Production (A Day)**

1. 213 million

21

#### **Oil – Consumption (A Day)**

0. 142 million

69

#### **Oil – Exports (A Day)**

0. 753 million

22

#### **Oil – Imports (A Day)**

0

209

#### **Oil – Proved reserves**

2. 541 billion

12

## **Factor**

### **Cubic Metres**

#### **World Position**

#### **Natural gas – Production (A Day)**

76. 98 billion

11

#### **Natural gas – Consumption (A Day)**

20. 20 billion

33

#### **Natural gas – Exports (A Day)**

56. 78 billion

5

#### **Natural gas – Imports (A Day)**

0

144

#### **Natural gas – Proved Reserves (A Day)**

25. 47 trillion

3

Qatar's North Gas Field, discovered in 1971, is the world's largest non-associated gas field. Accounting for 14.4% of world reserves and is sufficient to support planned production of natural gas for 200 years.

Qatar is the world leader in Liquefied Natural Gas (LNG). Large investments have been made in gas to liquid projects, with \$20 billion invested in Ras-Laffan Industrial City. Qatar has ordered the world's largest LNG tankers and trains to help develop their distribution network. QP has stakes in the Qatari LNG operations; Rasgas and Qatargas.

QP is the state owned energy company responsible for all phases of the oil and gas industry in Qatar. It makes huge profits and has a wide asset portfolio (Exhibit 2 and 3). It is a crucial component in the Qatar economy.

Foreign energy companies in Qatar operate through a variety of special contractual arrangements with QP, including joint-ventures (JV) and production-sharing agreements (PSAs).

Exhibit 2

## **Qatar Petroleum- Selected Income Statement-Year End 2009**

**2009**

**2009**

**2008**

**2008**

**QR'000**

**USD'000**

**QR'000**

**USD'000**

Sales

118, 140, 863

32, 447, 388

168, 488, 206

46, 275, 286

Other Operating Income

6, 447, 876

1, 770, 909

5, 901, 367

1, 620, 810



## **Total Operating Revenue**

**124, 588, 739**

**34, 218, 297**

**174, 389, 573**

**47, 896, 096**

## **Net Income For The Year**

**35, 207, 204**

**9, 669, 659**

**55, 800, 103**

**15, 325, 498**

Exhibit 3

## **Qatar Petroleum Selected Balance Sheet – 31 December 2009**

**2009**

**2009**

**2008**

**2008**

**QR'000**

**USD'000**

**QR'000**

**USD'000**

## **Non-Current Assets**

**232, 604, 448**

63, 884, 812

185, 902, 097

51, 058, 011

### **Current Assets**

49, 703, 545

13, 651, 079

60, 132, 185

16, 515, 305

### **Total Assets**

282, 307, 993

77, 535, 890

246, 034, 282

67, 573, 316

## **Qatar Business Environment**

Since the 1995 coup, Qatar has continually strived to improve economic freedom, the taxation system and make it easier to set up businesses, attempting to attract FDI. With the most influential set of laws discussed later.

Qatar's main economic objective is to fund the diversification of its economy through growth in the energy industry. However, as discussed earlier, the <https://assignbuster.com/the-qatar-oil-and-gas-industry-economics-essay/>

country appreciates the need for technological support from international companies.

To attract FDI, especially the energy industry Majors, the country has implemented two major sets of policy: the reshaping the economic and legal environment, and the construction of a knowledge-based society.

A Changing Economic And Legal Environment.

Economic Snapshot

Since 2000 GDP growth has been strong and forecasts predict the economy will continue to grow rapidly (Exhibit 4).

Exhibit 4

### **Qatar GDP at constant prices**

Many of the reforms target the energy sector: the objective is to fund growth of other sectors through Government revenues from energy.

Exhibit 5 and 6 suggests that this appears to be succeeding as there is a correlation between the growth in the energy sector and other sectors.

Exhibit 5

### **Qatar Gross Domestic Product at Constant Prices by Economic Sectors (2006 – 2010)**

Exhibit 6

The recession affected all sectors and led to low 2008 and 2009 growth rates. This was due to low oil prices reducing the budget surplus, and thus

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government investment. However, Qatar recovered well in 2010 with GDP growth doubling to 17. 4% in 2010 from 8. 6% previously.

Exhibit 7

## **Heritage 2010 Index of Economic Freedom- Qatar**

Year

Overall Score

Business Freedom

Trade Freedom

Fiscal Freedom

Government Spending

Monetary Freedom

Investment Freedom

Financial Freedom

Property Rights

Freedom From Corruption

Labour Freedom

2002

61. 9

55

77

87.5

56.7

81.2

50

30

50

70

—

2003

65.9

55

73

87.5

70.2

87.1

50

50

50

70

—

2004

66.5

55

76.6

87.5

69.7

90

50

50

50

70

—

2005

63.5

55

76.6

99.9

75.5

81.7

30

50

50

56

60

2006

62.4

60

74.6

99.9

71.7

75.7

30

50

50

52

60

2007

62.9

60

76.4

99.8

71.4

72.4

30

50

50

59

60



2008

62.2

60

70.8

99.8

72.1

69.4

30

50

50

60

60

2009

65.8

75.7

81.6

99.9

69. 1

67. 3

40

50

50

60

64. 7

2010

69

73. 7

82. 2

99. 9

73. 7

65. 9

45

50

65

65

69. 1

When all the aspects of economic freedom are considered, Qatar is ranked 2nd regionally and 39th in the world with a score of 69 (Exhibit 7 and 8).

Qatar ranks 50 in the ease of starting a business, as well as showing a rapid improvement in its Business Freedom score (Exhibit 7, 9 and 13).

Exhibit 8

Exhibit 9

Overall freedom to start, operate and close business is relatively well protected in Qatar. The new 2010 procedure to register for taxes and obtaining a company seal, increased the number of days required for starting business from 6 to 12 (Exhibit 10), but this is lower than the world average of 35 days. The Heritage Business Freedom score has also improved, especially since 2008 (Exhibit 7), and is above the international average; however there is room for improvement to be a world leader.

Exhibit 10

## **Setting up a Business in Qatar**

Procedures (Number)

8

Time (Days)

12

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Cost (%of income per capita)

9. 7

Minimum Capital Required (% of income per capital)

79. 8

Exhibit 11

## **Qatar Global Competitiveness Report**

While most economic freedom indicators have improved since 2000 the property rights, business and fiscal freedoms have experienced tremendous improvements (Exhibit 7).

Exhibit 12

Exhibit 13

## **Selected Producing Countries Doing Business Score**

### **Country**

### **Doing Business Rank 2011**

### **Doing Business Rank 2010**

### **2011 Reforms**

Saudi Arabia

11

12

4

United Arab Emirates

40

37

2

**Qatar**

**50**

**39**

**0**

Kuwait

74

69

0

Algeria

136

136

0

Nigeria

137

134

0

Angola

163

164

1

Equatorial Guinea

164

161

0

Iraq

166

166

0

Venezuela

172

170

1

Those evolutions (partly due to changes in the legal systems discussed later) have attracted an increasingly number of foreign companies, as shown by the increase in FDI and Net Foreign Assets (Exhibits 14 and 15).

Exhibit 14

## **FDI into Qatar 2000-2010**

Exhibit 15

## **Qatar- Net Foreign Assets**

As already mentioned, FDI and Foreign Assets are crucial for Qatar: to increase energy industry revenues and to create its knowledge-based society, it has to attract skilled labour and technology-based companies.

### **An Evolving Legal Framework**

These improvements of its business environment have been possible thanks to the reshaping of its legal framework.

### **Financial Liberalisation**

The 2000 investment law is a milestone in Qatar history: it has turned the country from a hostile-environment for FDI into a magnet for investors.

It is also important to note that the Articles 2, 5 and 8 of this law directly target the energy industry (Exhibit 16). By creating the opportunity to own oil “ blocks” and to settle for 50 years in Qatar, the government expect foreign companies to bring their technology and skilled labour to undertake

long-term projects that will be mutually benefit. The effect of this has been seen with the large increase in FDI since the law was enacted (Exhibit 14).

Exhibit 16

## **Qatar 2000 Investment Law**

### **Article 2**

Foreign investors may invest in all the sectors of the national economy provided that they have one or more Qatari partners whose share is not less than 51% of the capital.

The Minister may issue a decree allowing foreign investors ' share to exceed 49% up to 100% of the project's capital, in the sectors of agriculture, industry, healthcare, education, tourism, exploitation and development of natural resources, energy or mining.

### **Article 5**

Required real estate may be leased to the foreign investor to establish his investment project, for a period not exceeding 50 years renewable.

### **Article 8**

The foreign investments shall not be subject, either directly or indirectly, to expropriation.

Another major shift was the creation of the QFC (Qatar Financial Centre) and QSTP (Qatar Science and Technology Park, studied in more depth later), two, tax free, free trade zones in which sponsors are not required and 100% foreign ownership is allowed. Improvements in fiscal freedom have also been



seen with the corporate tax rate slashed to 10% from 35% in 2010 for a foreign corporation in Qatar.

The QFC aims to attract banking and insurance companies while QSTP targets technology-based firms; they both have the same regulation. Therefore, from a legal point of view, both institutions share the same financial and legal incentives (Article 12; Exhibit 17).

Exhibit 17

## **Law No. (7) (2005) – On the promulgation of Law for the Qatar Financial Centre.**

### **Article 5**

The objectives of the QFC Authority shall be the following:

To establish, develop and promote the QFC as a leading location for international finance and business designed to attract international banking, financial services, insurance businesses, corporate head office functions, as well as other business.

...

### **Article 12**

Notwithstanding any provision to the contrary in any other law or regulation, entities that are approved, authorised or licensed to carry on their activities in and from the QFC will:

1. not be subject to any nationalisation or expropriation measures or any restriction on private ownership;

2. have freedom to repatriate profits and realise investments;
4. Not be subject to any taxes except those set by or determined in accordance with the Regulations.
5. Be owned up to 100% by persons, companies and other entities which are not nationals of, or resident in, the State.

### A Knowledge-Based Economy

As explained, Qatar has attempted to transform itself into a knowledge-based society by attracting foreign companies and universities to bring their skills and knowledge to Qatar and pave the way for the construction of a diversified economy and educated country.

For that purpose the Qatar Foundation was created in 1995. It then led to the creation, in 2009, of Education City within QSTP (Exhibit 18).

### Exhibit 18

#### Qatar Science and Technology Park (QSTP)

The idea underpinning QSTP is to attract foreign investors by providing them with world-class research facilities and a network of informal contacts that allow firms to benefit from each other's knowledge generation. The legal and financial incentives have already been discussed.

By entering QSTP, foreign companies, especially in the energy industry, may take a decisive option for the future of their business: the large range of

opportunities offered to them, through partnerships with other companies, can help them to shape their future business model.

Exhibit 19

## **Qatar Science and Technology Park Projects**

### **Firms participating in the project**

#### **Project**

ExxonMobil

ExxonMobil Research Qatar

ExxonMobil is working to develop automated remote gas-detection technologies to identify emissions at liquefied natural gas production and transportation facilities.

Airbus, Qatar Petroleum, Qatar Airways, Rolls Royce, Shell and Qatar Fuel

The consortium is working on developing a clean-burning aviation fuel derived from natural gas.

Shell

The programme builds upon Shell's extensive experience in the GTL field and focuses on catalyst testing, product development and GTL by-product research.

Total

The Total Research Centre

It will undertake R&D activities in: multiphase oil and gas production carbonate reservoir modelling, acid gas management, polymer production and air-quality management.

### Comparison with the USA

It is interesting to compare Qatar with the USA to identify areas of success and areas with room for improvement.

One key difference between Qatar and the US is that they epitomize two opposite political paradigms, while managing to both be magnets for technology-based companies.

### Two opposite Political Systems

The US is one of the biggest countries in the world, the economic powerhouse of the world and epitomizes the spirit of entrepreneurship.

Contrary to Qatar, each individual is expected to succeed through hard work and innovation. As shown earlier, in Qatar major scientific, economic or educational projects are launched by the government and individuals have little room for manoeuvre. For example, in the energy industry QP instigates projects. The US has little to no state ownership. The largest US company energy company, ExxonMobil, is the world's largest publically traded energy corporation. Government intervention in the market is limited to regulations. The Government intervention in Qatar means that selected individuals have large power and this encourages corruption. As Exhibit 16 shows 2004 was the high point, which coincided with Qatar's GDP growth and the availability

of profitable opportunities. Recent efforts by the authorities have reduced corruption and the situation is improving.

The low level of corruption and the high property rights scores (Exhibit 22) mean that it much safer to do business, through easier contract enforcement and a more independent judicial system, in the US than Qatar; though Qatar is improving due to the 2000 laws.

Exhibit 20

Exhibit 21

## **Selected Comparison of Economic Freedoms available in USA and Qatar**

### **Economic Freedom**

**USA**

**Qatar**

Economic Freedom Ranking (Out of 179 countries)

**8th**

39th

Total Economic Freedom Score (Out of 100)

**78.0**

69.0

Property Rights (Out of 100)

**85.0**

65.0

Business Freedom (Out of 100)

**91.3**

73.7

Investment Freedom (Out of 100)

**75.0**

45.0

Freedom from Corruption (Out of 100)

**73.0**

65.0

Exhibit 22

One common objective: attracting skilled labour and fostering innovation, scientific research and education

Both countries encourage scientific research, creating partnerships between universities and companies and attracting technology-based companies.

A comparison of QSTP and Silicon Valley gives an indication of different approaches towards one objective. Silicon Valley has a location-specific advantage in the generation of knowledge related to the computer industry.

One may consider that QSTP is the Qatari equivalent to the Silicon Valley, except that it is specialised in the energy field. Indeed, both have similar

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characteristics: they foster innovation by clustering companies, universities and scientists. If they share similar objectives, they were built through opposite processes: while Silicon Valley was created bottom-up, QSTP was constructed top-down. Silicon Valley was built organically thanks to innovative entrepreneurs, while QSTP is an artificial government creation: if both places operate the same way to foster innovation, they also reflect the economic patterns of both countries and can be used as examples of the business environment as a whole.

## **PESTEL Analysis**

### **Political**

Some major families (Al Thani, Al fardan, al-Attiyah...) are at the head of the country's political and economic institutions.

The government is strong and active: Its intervention regards all the economic and social aspects.

### **Economic**

A booming economy: GDP growth averages 15% annually.

Skyrocketing FDI.

A developing stock market.

### **Social**

A three-strata society: Locals , Western expatriates, Asian (Indian) expatriates.

The Kafala system can cause maltreatments regarding blue collar Asian and Indian workers.

Education system developing under the Supreme Education Council and Qatar Foundation.

Development of health care provisions by Supreme Council of Health, and the Hamad and Sidra Medical and Research Centres.

## **Technological**

Attraction of foreign companies and skilled workers to foster technological headways.

Construction of research centers (QSTP).

Technological improvements are mainly undertaken in the energy and “green” industry.

## **Environmental**

A stable political and economic environment.

Protection of foreign investors.

Low corruption, through favouritism and political connections.

Qatar Vision 2030: Government initiative- fostering education, scientific and economic diversification through major projects.

A favorable tax environment (tax rate was reduced to 15%).



## **Legal**

Law No. (13) 2000: obligation to enter into a JV, as minority shareholder, to set up a business in Qatar, except for specific exceptions where 100% ownership is allowed.

Expropriation is forbidden.

Creation of free-trade zones (QSTP and QFC), with 100% ownership and no tax.

## **Advantages and challenges of doing business in the Oil and Gas Industry in Qatar**

### **Advantages**

A diversified asset portfolio

When entering in Qatar, a company has the possibility to create a diversified and audacious assets portfolio. In fact, Qatar is one of the only countries worldwide to have built LNG integrated supply chains and to have its own ships. Therefore, for instance, ExxonMobil has its most diversified asset portfolio in Qatar: it has taken positions in short, middle and long term options, with different levels of risks as shown by Exhibit 23.

Exhibit 23

### **Exxon Mobil Qatari Activities**

This possibility to invest in flexible options given by QSTP is almost unique. By providing scientific and educational facilities to address the exhaustion of natural resources, Qatar also offers foreign and domestic companies state-of-

the-art facilities to develop energy alternatives to fossil fuels. The programs developed for instance by Shell in QSTP (Exhibit 19) allows it to develop futuristic gas-to-liquids technology while producing LNG to finance this investment.

#### A safe business environment

The other major advantage of implementing an energy business in Qatar is the increasingly safe environment and the ease with business can be conducted, shown by independent ranking systems, compared to other producing countries. (Exhibit ?).

As already mentioned, it is possible to run oil and gas operations in Qatar through two main options: either a JV (minority shareholding) with QP or a 100% ownership of a hydrocarbon “ block”. In many countries, like Russia, in which BP experienced difficulties in a JV, the political instability and the lack of protection of minority shareholders make a participation in a JV very risky. In Qatar a company involved in a JV is well protected (Exhibit ?).

Regarding the ownership of a “ block”, we have seen that companies are well protected against expropriation and since the mid-1970s and the nationalization in of Shell and Dukhan Services there have been no cases of expropriation of foreign investment in Qatar. Qatar is vastly improving in regards to its respect of property rights with a 30% increase in their property rights score from Heritage in 2010, ranking it well above average.

So Qatar is a safe country to invest in, especially when comparing with other producing countries (Exhibit ?).

## Challenges

### Doing business in Qatar involves high costs

There are extra costs caused by the political and economic structure of the country combined with the already expensive nature of the industry.

First, as already mentioned, the political and economic scenes are completely intertwined in Qatar, therefore to succeed in Qatar excellent relationships must be maintained with influential individuals and families. Regular reporting and contact increases administration costs.

Maintaining good relationships with some of the richest families in the world has a price. In the Arabic culture gifts are a token of appreciation, and to reciprocate the gift must be of similar quality. As the Emir-related families in Qatar are known for offering expensive gifts, a company that operates in Qatar has to reciprocate. Therefore in Qatar complying with these social conventions are as important, if not more so, than the contractual obligations.

A program called Qatarization imposes employment targets of Qataris, they are highly paid and have a reputation for underperforming. This situation should improve as the education system does.

Finally costs are increased by the need for extensive legal support and advice. In Qatar confirming watertight contracts is crucial in protecting business deals and opportunities. Therefore sufficient legal representation is an essential, if costly, requirement.

## A lack of transparency and clarity

As discussed earlier Qatar is attempting to create a safe and welcoming environment for FDI, Qatar has instigated heavy fines and prison sentences for corruption.

Qatar is well ranked in the Corruption Perception Index Ranking, 22nd in the world, and has an improving freedom from corruption score (Exhibit 7).

However, despite The Amir, his Heir, and the Minister of Energy all fighting corruption it still exists. With favouritism and returning of political favours causing the major problems. Therefore, one of the major issues of foreign companies when they do business in Qatar is the lack of information and transparency regarding certain decisions.

## **Suggestions for a MNC entering the Qatar Oil and Gas industry**

### Positive Relationships

It is crucial to develop good relationships with high-ranking QP and government officials and the influential families. As discussed earlier there is little divide within Qatar between government and business. It is the Qatar Investment Promotion Department (QIPD) that liaises between businesses interested in FDI into Qatar and local businesses and government. With their support doing the process is easier.

This leads into the collaboration with QP, which is normally necessary.

Several different options are available and the strategy selected should be dependent upon internal expertise, industry and the acceptable risk and

reward relationship. The JV terms must be carefully selected as once an agreement is reached it cannot be cancelled. In Qatar no deal is complete until the document is signed; it is therefore advisable to only deal with companies that are happy to commit everything to paper. While this may not be an issue with QP, it could be with local suppliers.

While these relationships are crucial it is advisable to not become over reliant on local partners. Creating internal local connections and knowledge is crucial. Having internal Arabic speakers will allow a better understanding of the local environment as news and tender announcements can be released in Arabic four days before English.

#### Extensive Feasibility Research and Contingency Planning

A thorough feasibility study prior to entry is essential. Entering Qatar has high levels of uncertainty with asymmetrical knowledge, favouring locals. Therefore an exhaustive study will reduce this and identify possible problems and allow contingency planning to cover most eventualities.

An important consideration following on from this when entering Qatar is that while large profits are possible, it is a capital intensive process. Cost of living is high and expatriates are necessary, due to the shortage of local skilled labour. Therefore, before market entry the necessary resources must be available to complete the project, and that the expected returns are worth the risk.

#### Appropriate Representation and Support

A key piece of advice upon entering Qatar is to have legal representatives fluent i