

Qatar: A Strong New Bridge In Global Energy

*By Paul Tempest**

Qatar, with 33 years of OPEC membership, is again poised to play a pivotal and enhanced role, both within the Gulf oil and gas export framework and beyond, in the global energy producer/consumer dialogue. Some geo-political implications of these developments are outlined briefly in the conclusions to this paper.

The current and prospective massive expansion of natural gas production in Qatar is already securing leadership status for Qatar in the international trading of liquefied natural gas (LNG) and technological frontier status in gas to liquids (GTL) innovative technology

Qatar is no stranger to the politics of oil and gas. Qatar first produced oil in 1949. Its representative, Hassan Kamel, was present at the inaugural conference of OPEC in Baghdad in 1960 and Qatar joined the organisation in the following year. For two significant years (1977 and 1978), between the two oil-price shocks of the seventies, it provided a most distinguished OPEC Secretary-General in the person of Ali Jaidah. Indeed throughout the history of OPEC, it has, from time to time, contributed mature and considered advice to the organisation and loyal support to its Arab neighbours in the Gulf. The most recent OPEC President, Abdullah bin Hamad Al Attiyah, Qatar's Second Deputy Prime Minister and Minister of Energy, has vigorously upheld this stance.

Qatar is now a second-tier global oil producer. Oil production is at present only 1% of the global total and the global oil reserve share is only 1.5%. Outside attention today is focussed on the vast natural gas reserves (9.2% of the global total at end-2002, see Table 1) and the extensive development currently underway to bring this gas to new and old gas export markets.

LNG production and exports in Qatar are expected to triple in the next ten years. Already in 2002 (see Table 2) exports exceed the combined total of the other two Gulf LNG producers, UAE and Oman, and represent 12.4% of total global LNG exports. By 2010, under most scenarios, Qatar's global share will have surpassed that of Algeria today (17.9%) probably reaching 20% and in some scenarios 25% of the global market. No other LNG producer is exhibiting anything like the same scale of growth.

*Paul Tempest first worked on Qatar while he was in the Bank for International Settlements, Basle in 1963/4. He and his wife first visited Qatar in 1967 while at MECAS, Lebanon studying Arabic. On a third secondment in from the Bank of England, he was resident in Doha in 1970-71 as General Manager of the Qatar and Dubai currency authority. He has returned regularly to Doha first on behalf of the Bank of England, the World Bank and British Gas, then in 1985-91 on behalf of Shell International and most recently with a British trade mission in 1992 and in connection with the World Petroleum Congress Asia Regional meetings in December 2003. He has served as President of the IAEE(1984), Director-General of the WPC (1991-99) and is currently Vice-President of the BIEE. He is CEO of the Windsor Energy Group and Senior Consultant of MEC International and PTA London.

Qatar is, therefore, well on the way to becoming the giant of the global LNG market, still small alongside its counterpart in the oil market, the Kingdom of Saudi Arabia, but nonetheless endowed with a growing power of market leverage, based on abundant gas resources, competitive, state-of-the-art and highly efficient production and processing technology and on high ratings for political, economic and social advancement

A fundamental difference between oil and gas in international marine trade is that, whereas all oil, whether crude or product, can be traded and sub-divided more or less freely once it is on the high seas, the development of Liquefied Natural Gas is still dependent on long-term supply contracts to dedicated markets for the bulk of the supply. Only on the back of these long-term supply contracts can the gas industry secure adequate front-end finance for this high-cost technology. Further, the importers must be able and ready to absorb regular shipments of gas through a pipeline network to dedicated end-users. Creating such a network and market is also expensive and takes time. Qatar is well ahead of its competitors in developing these long-term relationships and in ensuring that the industrial infrastructure and markets are adequately developed to take new Qatari gas. In addition Qatar is in the strongest position among LNG producers to stimulate the development of a global LNG spot market, still in its infancy at present.

Qatar is also in the technological forefront in developing other outlets for its gas, most notably in ground-breaking Gas To Liquids (GTL) technology, where its latest projects are among the largest in the world and also in the use of natural gas as feedstock for the production of methanol, ammonia, urea, ethylene and other petrochemicals.

Table 1
Qatar And Gulf Oil And Gas Reserves
% share of total global proven reserves

	Oil	Gas
Qatar	1.5	9.2
Saudi Arabia	25.0	4.1
Iraq	10.7	2.0
UAE	9.3	3.9
Bahrain	*	0.1
Iran	8.6	14.8
Total Gulf	64.3	35.1

Source: BP Annual Statistical Review of World Energy, June 2003

* less than 0.1

Table 2
Gulf/Arabia Exports Of Liquefied Natural Gas 2002
bn cu metres

	To--				
	USA	Europe	Japan	S.Korea	Total
Qatar	1.0	2.2	8.4	7.0	18.6
UAE	-	0.6	5.9	0.3	6.8
Oman	0.1	1.3	1.1	5.5	8.0

Source: BP Annual Statistical Review of World Energy, June 2003

In anticipation of this enhanced position in global energy, Qatar has, over the last five years, implemented a

policy of balancing market risk. Whereas the bulk of Qatar gas will be directed to Japan, South Korea, India, China and other Asian consumers, LNG supply contracts have also been signed with United States and European consumers and Qatari petrochemicals readily find markets in both the Atlantic and Pacific Basins.

The process has been accelerated by working in close partnership with leading multinationals such as Shell, Exxon-Mobil, ChevronTexaco, ConocoPhillips, Sasol and Total and by competitive tenders attracting the leading international supply and contracting companies.

Close bilateral relations with oil and gas consumer governments have led to a variety of trade and other bilateral agreements where no one government is in a position of dominance.

Liberalisation of trade and investment is already yielding major economic and political dividends. Overseas investors are promised a wide range of new incentives including a 10-year exemption from income tax.

Great efforts have also been made to settle outstanding border/frontier/median line issues with Iran, Bahrain, Saudi Arabia and UAE. There are also new projects in hand to supply Qatar gas by undersea pipeline across Bahrain and offshore Saudi Arabia to Kuwait and other proposals include a gas export pipeline running in the opposite direction through UAE and Oman to liquefaction and loading terminals on the Batina Coast outside the Straits of Hormuz. Another major project is to construct a road causeway to Bahrain thus providing an alternative road passenger and heavy goods route to and from Saudi Arabia and the Levant.

Qatar has also over the past few years taken the decision not to follow Dubai into mass tourism, but to provide four and five-star hotel and conference capacity (ten so far and another six being planned) to meet all major business international conference needs: recent highlights include the World Trade Organisation meetings, the second Asia regional conference of the World Petroleum Congress and, in prospect, the Asian Games in 2006. Qatar Airways has been rapidly expanded and from 2007 will be based in a new international airport, one of the first to be planned for the next generation of super-jumbo aircraft such as the double-deck Airbus A380.

A programme of new university, college and schools building and funding projects has attracted wide regional interest and an influx of students from Saudi Arabia, Iraq and UAE.

So much for the dynamism of the Qatar economy at present and its prospects. Already the indigenous Qatari population enjoys per capita income barely equalled anywhere else and can expect it to double within a decade and triple within another ten years.

Some Economic And Social Welfare Factors

Unlike the major and much larger states of the region, Qatar is likely to be able to satisfy the employment needs of its young population. There is no particular pressure to diversify industry and manufacturing. A rapidly expanding hydrocarbon sector is likely to provide adequate opportu-

nity and spill-over service jobs for most of the new Qatari graduates and school-leavers. The total population of about 620,000 has many expatriates on short-term contract. The governance of Qatar is, therefore, particularly enhanced in times of fluctuating economic growth by this degree of employment flexibility.

In social welfare, Qatar has become a regional trend-setter. A national referendum has recently ratified (by 96%) a draft constitution expounding the principle of universal suffrage. Women, although still largely embedded in their tribal and family structures, already have equal rights and improving employment opportunities.

Some Geo-Political Considerations

The Gulf producers hold 65.4% of proved global oil reserves and 36.0% of proved global gas reserves. The tapping of this resource is the key to ensuring adequate global energy supply for the next half-century: the International Energy Agency predicts a rise in demand of at least 60% and possibly over 100% over the next 20 years, most of the increment to be provided within this period by oil and gas. The central issue is to what extent can we rely on the Gulf producers to expand their capacity, production and exports on time.

Within the oil sector, there is still much doubt about the ability of the Gulf states to provide the perceived necessary increment. Competition between the Atlantic and Pacific Basin consumers is likely to be intense with China, Japan and South-East Asia holding the strongest cards. However, acceleration of gas exports will help to alleviate this problem.

Middle East rivalries remain but are somewhat diminished. In 2003, the US/UK intervention in Iraq unsettled the markets, particularly the finance markets and placed a sharp brake on petroleum exploration and development investment, resulting in more cautious international financing of such projects. Yet the clouds now appear to be clearing with progress in the elimination of weapons of mass destruction, the reconstruction of Iraq and a friendlier climate emerging between Iran and the United States.

An important point today for the rest of the world is to identify the current leading role-models in the Gulf. In the nineteen thirties and forties, Bahrain, seat of the British Political Residency and an oil producer from 1934, performed this leadership function, ceding the role to much more affluent Kuwait through the fifties and early-sixties. By the mid-sixties, Saudi Arabia had taken over as undisputed leader of the new Gulf Co-operation Council and prevailed in the eighties as the 8-year Iran-Iraq war sapped the strength and influence of the two rivals.

Beyond these three giants, Saudi Arabia, Iran and Iraq, the leadership of the ten Emirates passed from Kuwait to Abu Dhabi/UAE on the Iraqi invasion of Kuwait in 1990. Abu Dhabi had enjoyed very fast growth once Shaikh Zayyid had taken over in 1967 and the booming UAE attracted the attention and became the envy of the entire region.

Saudi Arabia will continue to dominate the oil market but, preoccupied with its own precarious domestic economy and turbulent internal politics, the Kingdom is less able or

willing to project a leadership role within the Gulf Co-operation Council states. For a start, the perceived threats of Saddam Hussein's Iraq and the Ayatollah's Iran have almost vanished: there is much less need for such leadership.

Within the nine Gulf Emirates plus the Kingdom of Bahrain, the baton of regional role-model is again passing to the fastest-growing, namely Qatar:

- Qatar's central location in the Gulf, roughly equidistant from Kuwait and the Straits of Hormuz is a significant asset. In geographical terms, Qatar makes the perfect Gulf hub for regional military defence, civil aviation, marine services, education, and maybe ultimately finance and petroleum technology;
- Qatar's traditional alignment with Saudi Arabia remains stronger than that of any other Gulf state;
- The part privatisation of the gas industry and extended

welcome to the foreign investor has yielded vast economic benefit, a point not lost on some of the more closed economies of the region.

- External military support is close at hand.

Conclusions

Qatar has already today a significant part to play as lead role-model in the economic development and political stabilisation of the Middle East. As income from gas exports expands, the security of the gas installations, sea-lanes, choke-points and stability of the consumers becomes a much higher priority. The development of gas, much less divisive than oil, points towards strong durable relations with Japan, South Korea, India and China and also with the USA and Europe. Qatar, therefore, has the potential to become a most valuable political and economic bridge in the future geo-politics of energy.

Czech Association for Energy Economics International Association for Energy Economics **1ST ANNUAL CZAEE INTERNATIONAL CONFERENCE 2004**

The Municipal House, Prague, Czech Republic

November 22-23, 2004

Conference Theme

CRITICAL INFRASTRUCTURE IN THE ENERGY SECTOR: VULNERABILITIES AND PROTECTION

On behalf of the Czech Association for Energy Economics, we would like to invite you to Prague for the 1st Annual International Conference hosted by the CZAEE. The conference will take place in the magnificent Municipal House, which held the Gala Dinner of the 26th IAEE Annual Conference in June 2003.

The theme of the conference is of utmost importance today. In the words of IAEE President Tony Owen: "The resilience of energy systems to extreme events is a major problem confronting industrialized society. The **Critical Infrastructure in the Energy Sector** conference is a major initiative by the CZAEE to address key issues and challenges in providing reliable energy services in a world of uncertainty."

CALL FOR PAPERS/SESSION PROPOSALS

Abstract Submission Deadline: July 31, 2004

Abstracts for papers should be 200 words or less. At least one author from an accepted paper must pay registration fees and attend the conference to present the paper. The lead author submitting the abstract MUST include complete contact details (mailing address/phone/fax/email).

There will be approximately twenty sessions addressing the problem. Those interested in organizing sessions should propose topics, motivations, and possible speakers.

All abstracts, session proposals, and related inquiries should be directed to:

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IMPORTANT NOTE: ALTHOUGH THE WEATHER MIGHT BE RATHER COLD AT THIS TIME OF YEAR, LUNCHES AND DINNERS WILL BE WARM AND TASTY. A SELECTION OF THE FINEST CZECH BEERS AND WINES WILL ALSO BE AT YOUR DISPOSAL, AND THE CHRISTMAS SHOPPING SEASON WILL BE IN FULL SWING.