

QATAR

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The contender

Over a year has passed since the Qatar Financial Centre officially opened for business, but what makes Qatar different from other financial centre contenders, wonders Robin Wigglesworth.

For decades, Beirut was the undisputed financial hub of the Middle East, a situation that was abruptly ended by the civil war that raged there for many years. Sensing an opportunity, Bahrain leapt forward, and established a regulatory framework that would be the envy of the Middle East, thereby attracting hundreds of financial institutions.

However, the new-found wealth and dynamism of Dubai and Qatar means that Bahrain no longer rules the roost as undisputedly as it has over the past few decades. Dubai was first in line, establishing the Dubai International Financial Centre (DIFC) in 2004, but Qatar was not far behind.



Phillip Thorpe

The attraction of Qatar is clear to everyone. Underneath its land and shores lie 900 trillion cubic feet of gas, an astonishing 5% of the world's known reserves, which will last for around 200 years at present rates of consumption. This gas is converted into liquefied natural gas (LNG) at one of the many plants, and shipped across the world. By 2010, Qatar will be the single largest producer of LNG in the world, with a projected yearly production of 77 million tons, three times larger than current production.

This will require billions of dollars of investment in production, transport, and all auxiliary infrastructure, and has made Qatar the second largest market for project finance in the world after China. Over the next few years, just one company, Qatar Petroleum, has financing requirements of around \$18 billion. There is also vast investment going into a new, state-of-the-art LNG port, what will be the world's largest LNG fleet, and a new airport with a 12 million capacity. According to Stuart Pearce, the CEO and director general of the Qatar Financial Centre (QFC), Qatar is fast changing itself from a basic hydrocarbon-based country into an industry-based country. "This sets itself apart from all the other countries in the Gulf."

The government estimates that approximately \$130 billion will be invested in the next five to seven years in a whole range of different sectors, not only in the hydrocarbon sector, but also in health, social welfare, education, transport and others. "This will spin off a lot of investment that the state can make in its own name," says Stuart.

Thanks in large part to the vast hydrocarbon wealth that Qatar sits on, it is one of the world's fastest growing economies, with real GDP growth of 9.9% in 2004, an estimated 8.8% in 2005 and 9.3% in 2006. Credit rating analysts have praised the prudent fiscal policy of the government, and Qatar's risk rating leads the region, with Standard & Poor's rating at A+ and Moody's at A1.

The Qatari government decided that to assist and aid the development of Qatar's economy further by attracting multinational corporations, an onshore financial centre where international financial institutions could be based was needed, and the QFC was born.

The government reportedly did consider using the services available a short flight away in Bahrain or Dubai, but according to Phillip Thorpe, the chairman of the Qatar Financial Centre Regulatory Authority (QFCRA), studies showed that Qatar would not be able to get the same "intellectual resources or facilities needed for businesses here if you had them serviced out of Bahrain, Dubai or London for that matter". Quite simply, " we need the people here".

"WHILST SOME COMPANIES, SUCH AS MORGAN STANLEY, HSBC, STANDARD CHARTERED AND CREDIT SUISSE HAVE ALL INDICATED THEY WILL BE OPENING OFFICES IN ALL THREE CENTRES, THE SIZE OF THEIR OFFICES WILL BE A VITAL INDICATOR OF THE RELATIVE IMPORTANCE ATTACHED TO EACH CENTRE."

The Council of Ministers of Qatar passed the necessary legislation, enshrining both the QFC and the independence of the QFCRA in the Qatari constitution. Phillip was instrumental in the establishment of the Dubai Financial Services Authority (DFSA), and one of the lessons he took away from Dubai was the need to ensure that every regulator had proper independence, not just in theory but in practice. "One of the attractions of the Qatar proposition is that they are right on that issue, and have produced a legislative framework which delivers the goods," says Phillip.

The need for a legislative and regulatory framework that international financial institutions are comfortable with cannot be underestimated. There have been booms in the Middle East before, but what compels blue chip institutions to set up a physical presence is mainly due to two factors.

Firstly, whilst the region has been well-served by suitcase bankers and financiers in the past, for most governments, a true commitment is necessary if institutions want to benefit from the lucrative potential of Qatar and elsewhere. Whilst nothing is said formally, it is clear that if a bank wants to do business in Qatar or Dubai, a firm commitment is needed, and fortunately for the region, the banks are listening. "As the market solidifies and matures, it develops into an industry that has to be served locally rather than an industry serviced by expatriate 'fly-in' professionals. It becomes offensive to tell your clients that you are going to serve them from London or New York," points out Dr. Georges Makhoul, the regional head of Morgan Stanley in the Middle East and North Africa, based in Dubai.

Secondly, as Phillip observes, being interested in Qatar is one thing, but actually moving there is another altogether, and it comes down to the regulations. International financial institutions want to feel confidence in what they are getting into, and operate in an environment that generates trust and confidence. The QFC regulations are therefore "quite deliberately" modeled on the approach of regulators such as the Financial Services Authority (FSA), says Phillip, simply because "the FSA model is the one that most people understand and accept".

According to Phillip, the "quality and independence" of the appointments in the QFC have also been "critical" in the government's mind, as evidenced by the heavyweight team that sits on the QFCRA board. Stuart admits that whilst there is still work to be done, "around 85%" of the regulatory and legal structure necessary is already in place, a feat that was achieved "over six months, not two years".

Interestingly, the QFC also has provisions for insurance companies, a notable missing area at the DIFC. Due to reported wrangling between the various government bodies, the DIFC is only allowed to operate with reinsurance, whilst the much larger insurance space is off limits. According to Phillip, the QFC legislation allows "the full spectrum of insurance to occur; life, non-life, reinsurance, captive, in fact anything you want to do within insurance".

Stuart says that a large number of insurers and reinsurers are talking about managing their Middle East operations out of Doha, and Phillip admits that the QFCRA has had "to get our skates on and draft detailed regulations for this type of business".

"ARE THE QFC, DIFC AND BFH COMPETITORS, OR COMPLEMENTARY FINANCIAL HUBS, MUCH LIKE EUROPE HAS FRANKFURT, LONDON AND MILAN?"

The business proposition appears to have worked, and Morgan Stanley is not the only high profile arrival to the QFC. Since accepting license applications, Ansbacher, the wholly owned subsidiary of Qatar National Bank, BDO Jawadhabib, Arab Jordan Investment Bank, Credit Suisse Financial Services (Qatar), United Gulf Financial Services, the Arab Law Bureau, AXA Investment Managers, Oryx Bank Holding Corporation - a subsidiary of the Qatar Investment Authority - and Kuwait Financial Centre, have all been granted licenses, and HSBC has confirmed it will be opening offices there soon.

There are reportedly many more institutions in the pipeline, but the QFC has a 'chronic disposition not to deal in numbers", says Phillip. Stuart makes the same point, stressing the fact that the QFC not "a 'Wal-Mart', trying to get as many institutions here as possible to pay the rent. We want to attract the high-quality institutions".

An indication of the interest can be found in the staff expansion at the QFCRA, which deals in the applications from interested financial institutions. According to Phillip, it initially expected to expand the regulatory staff to around 40 by the end of 2006, but has now revised that to 72, most of that in "front-line" staff that deal directly with applying companies. The QFC Tower will be able to house 38 firms when it is

completed in September 2006, but Stuart estimates that it will be full by next March. The QFC has therefore already looked at further premises around the tower.

However, the birth of the QFC has not been without controversy. Sheikh Mohammed Al Thani, the former minister of economy and chairman of the QFC, an ardent supporter of the centre, was removed from his positions recently, replaced by His Excellency Yousef Hussain Kamal, the minister of finance.

Though Sheikh Mohammed was a great asset to the QFC and played an important role in selling the QFC internationally, he was a junior minister in the Council, and HE Yousef Kamal is a more authoritative figure, and as finance minister, controls both the purse strings and carries a lot of weight, both in Qatar and internationally.

Whenever the QFC is discussed, one question often rears its head: Are the QFC, DIFC and BFH competitors, or complementary financial hubs, much like Europe has Frankfurt, London and Milan?

Taken at face value, and despite many official protestations, they certainly seem competitors. Stuart is dogged about the QFC not being "about selling property", a clear swipe to the DIFC, and Phillip says that "in all likelihood, there will be one centre that emerges more effectively" than the others, and that they are "determined" that it will be the QFC.

However, though all the centres are keen to become the dominant financial centre of the Middle East, much like London is the undisputed financial capital of Europe, they are developing in different ways. The DIFC has a strong focus on the capital markets space, Bahrain is leading the way with best Islamic banking and finance practices, whilst the QFC is not a free-zone, off-shore centre. Georges stresses that Morgan Stanley's move to the DIFC before the QFC should not be overanalysed, and thinks that the various centres will "glide together" until they find the right fit. "It might be tight for one or another in some areas, but over time they will gel together."

"Why can't Bahrain host the central bank for the unified GCC currency, and Qatar be the place to do commodities or writing LNG contracts?" he speculates, pointing to the fact that both Europe and the US have complementary mercantile and equity exchanges that don't necessarily rival each other.

Will they 'glide together'? Will one centre emerge as the dominant one, and if so, will it be the QFC? Whilst some companies, such as Morgan Stanley, HSBC, Standard Chartered and Credit Suisse have all indicated they will be opening offices in all three centres, the size of their offices will be a vital indicator of the relative importance attached to each centre.

The immense wealth of Qatar is an effective guarantee that its economic development will continue for many years to come. Whilst Bahrain and Dubai are doing tremendous job in establishing themselves as service-based economies, they lack the great natural resource advantages of Qatar, which is transforming itself into a fully industrialised, developed economy. And the QFC is there to help it.

