QATAR’S FOREIGN POLICY ENGAGEMENT WITH THE EUROPEAN UNION: EVOLVING PRIORITIES OF A SMALL STATE IN THE CONTEMPORARY ERA

El compromiso de la política exterior de Qatar con la Unión Europea: las prioridades en evolución de un Estado pequeño en la época contemporánea

Rory Miller and Khalid al-Mansouri

Rory Miller: Professor of Government
Georgetown University – School of Foreign Service, Qatar
Khalid al-Mansouri: Senior Visiting Research Fellow at Institute of Middle Eastern Studies
King’s College, London
E-mail: rdm81@georgetown.edu; khalid@almansouri.com

This chapter addresses Qatari-European Union (EU) relations from the perspective of current and future Qatari priorities and interests. In doing so, it examines Qatar’s evolving bilateral and region-to-region cooperation with Europe. It also analyzes recent trends in trade relations and the opportunities and constraints that Qatar faces in increasing gas exports to Europe. It examines how and why Qatar also greatly values Europe for the role that it plays in non-traditional areas of socio-economic cooperation including technology transfer, sustainable diversification, human capital development and investment (both overseas and inward).

This article concludes by arguing that despite the Eurozone financial crisis and the Arab Spring, American dominance of the security sphere, and increased competition from Asia in the economic sphere, the EU and its constituent member states are important partners for Qatar. They are of particular importance to Qatar as key stakeholders in the country’s efforts to achieve socio-economic development through economic diversification.

European Union (EU); bilateral; region-to-region; diversification; socio-economic development
Unión Europea (UE); bilateral; región-a-región; diversificación; desarrollo socioeconómico

The European Union (EU) and its constituent member states are important foreign policy partners for the State of Qatar. Prior to 2000 there existed some scholarship on the narrow history of Qatar in the pre-and-post independence eras (Said Zahlan, 1979; al-Mallakh, 1979). There was also some comparative scholarly work on citizenship and labor markets (Nakhleh, 1977) and political authority and government structures in the country (Ballantyn, 1986; Crystal, 1989, 1995). There were, however, few works dealing with Qatar as a foreign policy player, economic actor or small state in the international system. Though Qatar gained independence in 1971 at the same time as the European Economic Community (the forerunner to the EU) had already launched the mechanisms required for a coherent unified foreign policy approach, over the next three decades there was an almost total absence of scholarship addressing Qatar’s relationship with the European regional bloc.

From 2000 onwards Qatar’s transition from an economic and political backwater into a relatively significant small state player in the international system was reflected in a growing body of literature on the country. On the domestic front this included notable contributions from Rathmell and Schulze (2000) and Kamrava (2009) on political reform, political liberalization and political participation; from Berrebi, Martorell, and Tanner (2009) on citizenship; and from Abdulaziz al-Ghorairi (2010) on the development of the Qatari financial sector and its impact on economic diversification. Two recent book length contributions from Fromherz (2012) and Kamrava (2013) added to this burgeoning literature on the country’s domestic development, its evolving identity and its transition to modernity.

Kamrava’s volume also builds on his earlier research on Qatar as a “civilian power” (2009) to examine the ways the country has used “subtle power” to attempt to influence events beyond its borders. In these terms, Kamrava’s recent research is also part of an extensive body of academic scholarship and policy-oriented work on the country’s external engagement over the last decade and a half. Abadi (2004), Peterson (2006), Cooper and Momani (2011), Ulrichsen (2012), Wright (2012), Woertz (2012), Roberts (2012) and Khatib (2013) amongst others have also made contributions to our understanding of this.
However, with the exception of Woertz’s 2012 policy paper on Euro-Qatari relations in the context of European neglect of the wider Gulf region, very little of this substantial body of work has directly examined Qatar’s foreign policy relationship with the EU. Even Kamrava’s recent comprehensive volume on Qatari foreign policy only rarely, briefly and indirectly examines this important relationship (2013). Instead, those wanting to learn about the Qatari-EU relationship must still rely on the general literature on EU-GCC region-to-region relations that is all too often framed in terms of European drivers and interests. This chapter moves away from this broad and euro-centric approach by examining Qatari-EU relations from the perspective of current and future Qatari priorities and interests.

The fundamental objective of Qatar’s engagement with all its external partners in the contemporary era is to promote its interests in two priority areas: socio-economic development and security and defense. For Qatar, three important considerations make security and defense relations with the EU of secondary importance to cooperation in the broad area of socio-economic relations. The first is Qatar’s vital strategic relationship with the United States. The second is the EU’s position as the world’s leading regional economic bloc and the Gulf Cooperation Council’s (GCC) number one trade partner. The third stems directly from the second. Qatar’s ties with the EU across a wide range of economic areas has taken on even more importance since the Arab Spring underscored the vital inter-relationship between socio-economic progress, strategic stability and domestic security in the contemporary Middle East.

1. Bilateral versus region-to-region cooperation

Qatar is committed to engagement with the EU both on a region-to-region basis as a constituent member state of the GCC and bilaterally within the GCC framework. Since 2011, for example, there have been five annual rounds of high-level strategic dialogue between Qatar and the EU. The Qatari European Friendship Association, founded in late 2012, was also the first of its kind to be established between a GCC member state and the EU. Addressing the opening session of the 24th session of the Joint Council and Ministerial Meeting of the Gulf Co-operation Council (GCC) and the European Union (EU) in May 2015, Qatari Foreign Minister Dr. Khalid bin Mohamed al-Attiyah described the EU as “a strategic trade partner” of the GCC, noting how the volume of two-way trade between the two blocs had risen by €38 billion to €138 billion between 2010 and 2014. On this basis, Qatar continues to support the long-time efforts of the GCC to sign a Free Trade Agreement (FTA) with the EU and has continued to participate in informal contacts with the EU on this matter since the suspension of negotiations by the GCC in 2008.

Qatar is also committed to developing GCC-EU efforts to expand further region-to-region cooperation in the realm of energy security. It also continues to support the establishment of GCC monetary union and a single currency along the lines championed by the EU despite the withdrawal of Oman and the United Arab Emirates (UAE) from the process in 2007 and 2009 respec-

---

1 For a very recent example of this tendency see Barnes Darcey (2015).

2 Qatar has a resident embassy in Brussels that represents its EU interests. Only Saudi Arabia and the UAE amongst the GCC member states play host to a resident EU representative. The EU office in Riyadh is responsible for relations with Qatar, as well as Kuwait, Bahrain and Oman.

tively. This commitment to monetary integration has endured the damage done to the credibility of the EU model of economic and monetary union since the start of the Eurozone financial crisis.

Qatari officials have acknowledged that the “current problems” affecting the Eurozone have raised many challenges for Qatar and its neighbors. At the same time they have argued that these same problems have made it even more necessary for the GCC to push forward with plans to establish a single central bank and common capital markets. This official position has not changed in response to the ongoing financial and political crisis in Greece and the consequent stand off between Greece and its major European creditors, the European Commission and the European Central Bank (ECB).

For Qatar, engagement with Brussels on a region-to-region basis as a member state of the GCC also provides another, more abstract, benefit. It allows policymakers in Doha to draw on the decades of EU experience on issues that preoccupy Qatari concerns (as they do all of its GCC partners) as the country attempts to re-define its evolving role inside the GCC, as well as its interactions with its regional partners on a bilateral level.

Of particular relevance to this are the lessons that the EU provides for Qatar on how to pursue institutional harmonization and integration, the management of trade and regulatory reform, and cross-border cooperation in the sensitive areas including intelligence gathering and counter-terrorism, and the regulation of border controls and migration policies. In February 2015, to take one recent example, Ali bin Jassim Al Thani, Qatar’s ambassador in Brussels, met with the European Commissioner for Migration & Home Affairs, Dimitris Avramopoulos to discuss ways to “open up new horizons for joint cooperation” (Information Office, 2015).

At the same time, Qatar is also increasingly committed to developing bilateral relations with individual EU member states (as well as non-EU European nations) across its priority areas parallel to, independent of and beyond, any joint GCC approach. This is evident in its cooperation with France (and the United Kingdom) in the realm of security and defense, particularly in the area of arms purchasing. As this chapter will show, it is even more evident in Qatar’s pro-active bilateral engagement with a host of individual EU (and non-EU) states on socio-economic matters. These include interactions in such traditional areas of cooperation as trade and energy relations, as well as the increasingly important areas of technology transfer, sustainable diversification, human capital development and investment (both overseas and inward).

Currently, forty-eight nations fall under the jurisdiction of the Europe division of the Qatari foreign ministry. They include all twenty-eight EU member states (the EU-28) as well as twenty non-EU European nations. All forty-eight are separated on the basis of geography into two groups – “Europe West” and “Europe East”. Of the twenty-four nations included in “Europe

---

West,” sixteen are EU members and eight are not. Of the twenty-four nations included in “Eu-
rope East,” eleven are EU member states and thirteen are not.5

This leads us to a further point. Qatar’s diplomatic engagement with Europe is not primarily pri-
oritized in terms of relations with the EU, the world’s premier regional bloc. Instead, the focus
from an organizational and bureaucratic standpoint is on geography and the two core themes –
socio-economic development and security and defense. Practitioners like Jazbec (2010) have
argued that the organization of a foreign ministry department on a geographical and thematic
basis predisposes it toward bilateral rather than multilateral engagement. This observation is
given credence in the case of Qatar by the fact that the Europe division of the foreign ministry
lists its number one task as the “development of bilateral relations between the State and Euro-
pean countries in the political, economic, cultural, technical and other fields”.

One consequence of this is that Qatari policymakers measure the importance of individual Eu-
ropean nations not in terms of membership or non-membership of the EU but in terms of how
they contribute to Qatar’s interests in the areas of security and defense and socio-economic
development. One sees this clearly in terms of Qatar’s evolving relationship with the “Europe
East” group. Though currently a majority of members of this grouping (thirteen out of twenty-
four) are not members of the EU, this bloc is becoming an increasingly important factor in
Qatari thinking on its engagement with Europe.

Russia, a member of this eastern grouping, is important to Qatar as a permanent member of the
UN Security Council, a major player in the global gas sector and an influential actor in the geo-
politics of the Persian Gulf and the wider Middle East. Other smaller members of the eastern
grouping, including the twelve other non-EU members, are now also viewed as valuable emerg-
ing economic partners. They offer Qatar attractive investment opportunities across a number
of sectors and are also potential future customers for Qatari gas, an important consideration in
a constricting and increasingly competitive international energy market.

2. The small state factor in Qatari-EU relations

As the above underlines, Qatar will increasingly look to develop extensive and multi-faceted
bilateral ties with non-EU, as well as EU, states in Europe. It is also the contention of this
chapter that in the wake of the Eurozone crisis and the Arab Spring, small European states
inside and outside of the EU are becoming increasingly attractive partners, as well as valuable
role models, for Qatar in its attempt to consolidate stability through enhanced socio-economic
development.

When Qatar entered the United Nations (UN) in the last few months of 1971 it was one of
the world’s smallest states. It was so small that its entry into the UN engendered a passionate
debate over whether the international organization would have more credibility if it refused
entry to such tiny entities. As UN Secretary-General Thant remarked at the time, “micro-

5 The EU members of “Europe West” are Austria; Belgium; Cyprus; Denmark; Finland; France; Germany; Greece;
Ireland; Italy; Luxembourg; Malta; Portugal; Spain; Sweden, and the United Kingdom. The non-EU members of
“Europe West” are Andorra, Iceland, Liechtenstein, Monaco, Norway, San Marino, Switzerland and the
Vatican City. The EU members of “Europe East” are Bulgaria; Croatia; Czech Republic; Estonia; Hungary; Latvia;
Lithuania; Poland; Romania; Slovakia; and Slovenia. The non-EU members of “Europe East” are Albania; Armenia;
Azerbaijan; Belarus; Bosnia-Herzegovina; Georgia; Kosovo; Macedonia; Montenegro; Moldova; Ukraine; the
Russian Federation and Serbia.
states” like Qatar raised an “acute” problem (1971, p. 19). As Mendelson (1972), Harbert (1976) and Gunter (1977) have shown, paramount amongst these concerns was how to align voting rights inside the world body with the realities of power and influence in the international system.

Over four decades later Qatar continues to be defined in some of the literature as a “microstate” (Windecker & Sendrowicz, 2014). However, as Ulrichsen (2012) has noted, the country’s high levels of in-migration have moved it out of the “micro” category, which most observers, including the World Bank, agree is usually reserved for states with populations of less than one million. No less importantly, Qatar’s rapid domestic development, its ambitious program of state-branding, its position as a global gas power and its “hyperactive diplomacy” (Kamrava, 2013), have resulted in its transition from “micro” to “small” state status.

The emergence of Qatar as a “small” state of some significance in the international system in the last decade and a half has led it to pro-actively look to “expand relations in all fields” with other small states across the world, as a senior Qatari official recently explained. While the “big” EU member states of the “West Europe” grouping – primarily France and the United Kingdom and, to a lesser extent, Germany, Italy and Spain – continue to be the major EU partners for Qatar, small European states are also becoming more important.

This is reflected in the unprecedented deepening of relations in recent years with a group of small EU states including Austria, Belgium, Cyprus, Denmark, Finland, Greece, Ireland, Luxembourg, and Malta. It is also reflected in Qatar’s evolving relationship with Norway and Iceland, two small non-EU European states, both of whom have very extensive ties of their own to the EU and its member states.

It is notoriously problematic to generalize about the lessons that one small state offers for another because there is no agreement in the literature as to what constitutes a small state. Even if it is possible to agree on a common definition of what a small state is, differences in culture, geography, history, natural resources, and levels of development serve to differentiate small states from each another.

This becomes even more complicated when one is attempting to assess the lessons that a small state outside the EU can draw from the policies, actions and interactions of a small state inside the EU. As Panke (2011) has shown, small states have to operate in a EU political system that is both “complex and demanding”. While Fawcett (2013) has rightly reminded us of the dangers of assuming that EU experiences, institutions or structures are necessarily transferable elsewhere. For example, unlike Qatar, EU member states – big as well as small – are increasingly required to coordinate polices on many issues directly with Brussels rather than bilaterally with other member states.

There are also important structural limits to the lessons that Qatar can learn from small EU member states in terms of developing its own role inside the GCC. Traditionally, the European Commission provided small EU member states with a supranational counter-balance to the power of larger and stronger member states whose interests are often viewed to be represented by the Council of Ministers. The GCC has no equivalent to the Commission. The decision-making center of the GCC is the Supreme Council made up of the heads of member states. This body sets the domestic and foreign policies that the Ministerial Council is tasked with implementing. The function of the Secretariat-General is limited to providing administrative support and preparing the groundwork for cooperation and coordination between member states.
These important caveats aside, the small states of the EU are natural partners for Qatar. East (1973) long ago showed that the targets of small state engagement are most likely to be other groups or intergovernmental organizations that include other small states. While Kamrava has noted in his recent study of Qatar that European states in particular have reputations as “role models on certain norms and issues” (2013).

3. Qatar’s European priority: developing socio-economic relations

3.1. The security and defense exception

As noted above, the main Qatari priority vis-à-vis Europe in general and the EU in particular is in the area of socio-economic development rather than security and defense. Qatar’s unstable and dangerous external environment has shaped its strategic approach in the contemporary era around pro-active regional diplomacy and the development of a deep bilateral security and defense relationship with the United States, the dominant regional security actor. It is even arguable that the neglect of Qatari-EU relations in the literature is in part a function of Washington’s status as Qatar’s dominant external security and defense partner over the last two decades. US-Qatari relations are addressed elsewhere in this volume but Qatar’s embrace of US protection as a key pillar of its security and defense doctrine has served to diminish the importance of the EU and its member states as security providers. There is one exception to this. The two “big” EU military players – France and the United Kingdom – both play an important role for Qatar as “balancers” to the United States, as evidenced in the major security cooperation agreement that Qatar entered into with the United Kingdom in 2014.

Qatari ties with both are particularly robust in the area of arms purchasing. As Handel (1990) has shown, for a small state there is always an important strategic and political dimension to arms purchasing policy because it raises the vital issue of “operability”, as state-of-the-art military equipment requires integration into existing capabilities. This in turn results in further reliance on foreign technology and technicians, which in turn further entrenches small state dependence. For these reasons, whenever possible, Qatari policymakers have looked to diversify sources of arms imports away from the United States. This strategy is most apparent in the case of France, which by some estimates has been the source of over 70 percent of Qatar’s military hardware purchases over the last four and a half decades.

In 1998, at exactly the same time as the new Emir was employing a strategy that made relations with Washington the “backbone” of his country’s national security doctrine, Qatar signed a defense agreement with France. It built on a 1994 military agreement and it included a significant arms purchasing component (Andre, 1999). The May 2015 Qatari announcement of the decision to buy 24 Rafale fighter jet from the French manufacture Dassault Aviation for US $7.1 billion, as well as to employ the French Air Force to train dozens of pilots and maintenance mechanics, underscores the fact that the recent change in leadership has not changed this strategy.7

6 See Al-Arabiya, 2013.
7 See Al-Jazeera, 2015.
3.2. Europe and the Qatari socio-economic model

Over the last two decades infrastructural development and economic diversification have been at the center of Qatar’s evolving socio-economic model. For its part, the Arab Spring served to make socio-economic development an increasingly important conception of security. In particular, it highlighted the extent that social and economic disparity is one of the biggest drivers of social unrest. This made it increasingly important for countries like Qatar to address the causes rather than the symptoms of future instability. As Qatari policymakers have increasingly come to acknowledge the link between effective strategies and polices for socio-economic development, domestic stability and regime security, Europe has become an even more important partner.

Both “big” and “small” EU and non-EU European states have played an important role in these processes. “Big” countries, notably the United Kingdom and France, are not only Qatar’s key security partners besides the United States. Along with Germany, Italy and Spain they are also Qatar’s major European trading partners, its leading recipients of investment, some of the main providers of vital technology and know-how and, in the case of the United Kingdom, its most important European liquid natural gas (LNG) customer.

3.3. Trade: trends and implications

Over the last decade Qatari exports to the EU have increased significantly from €983 million in 2004 to €7.48 billion in 2014. These figures underscore the ongoing importance for Qatar of trade with the EU. They also point to a massive rise in bilateral trade ties with individual EU member states over the same period. Most notably, in 2011 Qatar recorded a 160 percent rise in the total value of exports to the United Kingdom, which had replaced Germany as Qatar’s number one European trade partner a few years previously. However, two factors need to be considered in any analysis of this rising trade relationship between Qatar and the EU.

The first is that Qatar’s exports to the EU peaked in 2011 at €13.57 billion. Since then they have fallen every year, dropping to €7.48 billion in 2014. This fall off in the value of exports over the last four years is due primarily to a fall in the sale of energy and related products, which make up the vast majority of Qatari exports to the EU. In 2011, the year Qatar exports to the EU peaked, this sector accounted for €12.89 billion out of €13.55 billion of total sales. Most recently, in 2014, they accounted for €6.17 billion out of total exports of €7.48 billion (Eurostat, 2015).

Directly related to this is a second point. The EU (on 2013 figures, the most recent available) now only stands fourth in the ranking of Qatar’s top export markets behind Japan, South Korea and India. Together these three Asian markets account for €60.39 billion of Qatari annual exports, which equates to 57.6 percent of total annual Qatari sales (compared to the EU at €9.77 billion, a 9.3 percent share of total sales).

When one includes the sale of gas and energy products to other Asian nations, notably China and Singapore, the Asian region as a whole purchases 63 percent of Qatari LNG and other related exports, compared to Europe’s 30 percent share. This gap is explained in part by the fact that South Korea and Japan established themselves as major customers of Qatari LNG in the late 1990s at an early stage in the development of Qatar’s gas export program; EU member states have traditionally purchased their gas from Russia, Norway and Algeria rather
than the Persian Gulf. More recently, it has also been the result of relatively weak European
demand at the same time as Asian economic growth has increased regional demand for Qa-
tari energy products.

3.4. Energy: opportunities and constraints

Since it launched its gas strategy in the 1990s Qatar has considered Europe to be an important
energy market. Though Asian nations were the largest early bulk purchasers of Qatari LNG,
Spain was actually the first country to buy Qatari LNG. In an era of falling oil prices, a rising
shale gas industry, increased competition in the LNG sector from countries like the United
States and Australia and shrinking demand in some key traditional markets (South Korea and
Japan), Europe (including EU and non-EU member states) remains an important and, to some
extent, untapped potential customer.

Russia is currently the top supplier of gas to the EU but its share of the market has fallen
from 80 percent in 2006 to 50 percent in 2013. This reflects a growing desire in both
Western and Eastern Europe amongst EU and non-EU member states to reduce their gas
dependence on Russia. Attempts to do this have become increasingly apparent since 2009
when Ukraine experienced first hand the financial and strategic costs of challenging Russia,
its major gas supplier.

This motivated European nations, first and foremost Moscow’s neighbors in eastern and central
Europe, to search for alternatives to Russian natural gas. Since long-time Russian-Ukrainian
tensions took on a military dimension in 2014 and EU sanctions have further soured EU-Rus-
sian relations, energy has been one of the most common topics of bilateral discussions between
Qatar and its European partners.

There are, however, a number of significant impediments to Qatar increasing its share of the
European gas market at the expense of Russia. The first is accessibility and price. Qatar relies
on the world’s largest and most sophisticated fleet of expensive to run state-of-the-art tankers
to supply its gas customers. Russia supplies Europe through a network of pipelines, like Nord
Stream, which came online in 2011 and delivers gas to Germany via the Baltic Sea. This allows
Russia to sell its gas to Europe at about half the price of Qatari LNG.

Even more prohibitive is the high cost of building the infrastructure required to receive LNG.
Some European countries have demonstrated a willingness to make this investment. Faced
with a notable decline in its gas production over the last decade, as well a rising consumption,
the United Kingdom has become a major customer of Qatari LNG in recent years. Qatar Pe-
troleum is also the main shareholder in South Hook liquefied natural gas terminal. Located in
Milford Haven in Wales, it has the capacity to provide up to a quarter of the United Kingdom’s
gas needs. In Eastern Europe, Estonia, Lithuania and Poland have also invested heavily in the
required LNG infrastructure. It is expected that Poland’s LNG terminal in Świnoujście will
become operational by the end of 2015 (Wagner, Cafiero & Bin Uzayr, 2014).

Even if other European nations are willing to pay a premium to move away from Russian
gas dependence, Qatar’s opportunity to capitalize on this may also be challenged in the
medium-term by competition from other gas suppliers including the United States, which
by some estimates could export as much LNG as Qatar, the world’s largest exporter, by 2020
(StreetAuthority, 2015).
4. Economic diversification: Europe as a lead partner?

The Qatar National Vision 2030, published by the General Secretariat for Development Planning (GSDP) in July 2008, set out economic diversification that “gradually reduces its dependence on hydrocarbon industries” as one of its “Four Pillars”. This is vital for Qatar as economies dependent on energy revenues suffer from higher growth volatility than nations with a high diversification quotient, and are inherently less competitive and less efficient than their non-energy counterparts. As Esty and Geradin (2001) and Besley and Persson (2011) have shown, this lack of competitiveness is often the result of very tight regulatory policies combined with the poor implementation of reforms.

O’Sullivan et al (2008) and Curmi (2009) have also shown that in order for small states to become competitive and achieve sustainable development they must prioritize programs that build up human capital and open the way for the easy and efficient growth of business activity. This usually requires states in the development phase to strengthen institutional frameworks, the rule of law and intellectual and physical property rights protection. They also need to adopt innovative approaches to tax policies, and invest heavily in research and development (R&D) capabilities, business processes, and training and education.

Qatar has made progress in some of these areas – the IMF classifies the country as “fairly good” in meeting transparency requirements and the IMF’s Article IV reviews of Qatar have been consistently positive about the country’s economic management overall. Nevertheless, Qatar still needs to make further strides in addressing issues like trade liberalization, regulatory reform and the privatization of state-owned enterprises. It also needs to do more to promote the growth of the private sector and to streamline laws, regulations and administrative practices affecting domestic and foreign investment.

In the current climate it is tempting to discount the contribution that Europe can make to Qatar’s future efforts to achieve all this. The Eurozone crisis has highlighted the lack of a viable European growth strategy. It also threatens the collapse of the Euro single currency and may even lead to the end of European monetary union itself. However, despite the profound challenges that the EU now faces it remains better positioned than any of Qatar’s other external partners to play a lead role in these processes.

The first place, according to 2013 figures (the most up-to-date data available) EU imports to Qatar stand at 5.62 billion, making up 27 percent of goods and services flowing into the country. This dwarfs the level of imports into Qatar from the United States (2.49 billion) and China (2.04 billion), the second and third biggest importers respectively, who between them only make up 20.8 percent of imports. The EU is not only the biggest importer of goods and services into Qatar, it is also a major supplier of the cutting-edge technology, technical support and know-how required to foster the type of diversification needed for socio-economic progress. On top of this, over the last two decades European energy firms have played an important role in Qatar’s hugely ambitious and ultimately successful attempt to diversify out of oil and into gas. This provides an important basis for future involvement in the next phase of Qatar’s plans for diversification out of the energy sector into other areas of economic endeavor.

---

8 See European Commission (2015), section “Top trading partners 2013”.
4.1. Europe’s key role in Qatari energy diversification

In the course of prospecting for oil in 1971, Royal-Dutch Shell, the Anglo-Dutch multi-national, discovered the North West Dome (North Field), the world’s largest known offshore non-associated gas field off the north east coast of Qatar. Soon after, in 1974, the Qatar Petrochemical Company (QAPCO) was established in a joint venture with Chimie de France CdF (subsequently renamed Total, currently France’s largest company, in which Qatar has a small shareholding).

During the 1980s, in the face of an oil glut that drastically restricted the affordability of oil exploration, British Petroleum’s US subsidiary, BP-America, played a key role in Qatari exploration activity. Shell, CFP (now Total) and BP were all offered 7.5 percent equity stakes in a joint venture with the Qatar General Petroleum Corporation (QGPC) to develop the North Field in 1982. Shell would subsequently withdraw from this project in order to focus its gas exploration in Australia. However, in 1984 a joint-venture agreement signed between QGPC, BP, and CFP officially established Qatar Liquefied Gas Company (Qatargas) with the function of managing, operating, marketing and exporting liquid natural gas (LNG) from the North Field.

In 1991, the Qatar Europe LNG Company was formed as a partnership between QGPC and the Italian conglomerate ENI’s Snamprogetti, with shareholdings of 65 and 30 percent respectively.9 The consortium planned to construct two liquefaction trains at the largely Italian-built port of Ras Laffan, and to ship LNG through the Suez Canal to a new terminal in Ravenna on Italy’s northern Adriatic coast. Snam SpA, an Italian natural gas infrastructure company, and the Italian state power generator Enel were to be the main gas buyers.

During the 1990s, joint ventures and innovative production-sharing agreements (PSAs) with Italian, Dutch, British, Danish and French energy companies proliferated, with Total and Royal Dutch-Shell in particular undertaking further major investments in projects across the rapidly expanding gas sector. Though US giant Exxon-Mobil is now the largest foreign investor in Qatar, Shell can claim the single largest investment in the country at the Pearl Gas to Liquids (GTL) plant at Ras Laffan. This is also the company’s largest investment anywhere in the world.

4.2. Investment in Europe: a key component of Qatar’s diversification strategy

Qatar was relatively spared from the global economic crisis, and could boast the world’s fastest growing economy during the period 2008-2012, at 12 percent. This enabled Qatar to play an important role at the height of the crisis in buying European sovereign debt, and rescuing struggling financial institutions. As Kamrava has noted (2013, 99) it also allowed Qatar to take advantage of what the then Emir described as investment opportunities that “will not be repeated in the next 20 years”. This opportunity was not squandered and resulted in extensive Qatari purchases in a variety of deflated economic sectors across EU economies. It is estimated that various investment funds controlled by the Qatari government spent about US$5 billion on Greek assets during the worst years of the crisis. This included a half a billion dollars for the restructuring of major Greek banks. The importance of this back-

---

9 The US company, Hunt Oil, held the remaining 5 percent share.
ing was underscored by the Greek president of the time who described Qatari support as a key factor in any future Greek recovery.\footnote{See \textit{Gulf News}, 2011; \textit{Athens News Agency}, 2011; \textit{Global Times}, 2011; \textit{Athens News Agency}, 2013.}

Important as Qatari investments in Greece were, they were dwarfed by parallel investments in the United Kingdom and France, currently the number one and two recipients of Qatari investments in Europe. Qatari holdings in these two economies, particularly those made in high-profile, blue chip companies, properties and products have been listed many times in the literature and have attracted much media attention. They serve to underscore just how deeply Qatar’s financial health is connected to Europe in terms of investment, as well as energy and trade.

In the case of the United Kingdom, where Qatari investments are currently valued at over £40 billion, they include Harrods department store, and a significant shareholding of BAA, the owner of London’s Heathrow airport, as well as one of the largest and fastest growing property portfolios in London. In France, Qatar has major holdings in companies like the Suez Energy Group, Dexia Bank, Paris Saint Germain football club, as well as smaller holdings in the country’s largest company, oil giant Total, and Vivendi and LVMH, the owner of several of the world’s most renowned brands including the fashion designer Christian Dior and Dom Perignon champagne. Similar investments were made on a smaller scale in Germany (where Qatar is the third largest investor in Volkswagen AG) and numerous other European countries.

Other, less high profile, Qatari investments in Europe since the start of the global financial crisis may not have attracted as much attention but they are just as vital to Qatar’s socio-economic progress. They are part of a clearly defined Qatari strategy to invest in European companies and know-how that add value to plans for diversification and development. As current Qatari foreign minister al-Attiyah has explained, “as a nation we believe it is our responsibility to invest today in the technologies and practices required to build a healthy and prosperous future for the next generation”.\footnote{See \textit{PR Newswire.com}, 2012.}

In late 2008, for example, Qatari Diar, established in 2005 to support the country’s real estate development priorities, acquired the French firm Cegelec, an international group providing technological services to companies and public authorities in the areas of energy and electricity; automation, instrumentation and control; information and communication technologies. As Ghanim al-Saad, chief executive officer of Qatari Diar, explained at the time, “we intend to fully associate Cegelec to all of our development projects in the Middle East, in Europe and Africa, where Qatari Diar is strongly established”.\footnote{See \textit{Reuters News Agency}, 2008.} Similarly, Qatar’s 2010 investment of US$1billion in the heavily indebted CMA CGM, the world’s third-biggest shipping group and one of the leading private sector employers in the southern French port city of Marseille, was made to add value to Qatar’s planned maritime hub in the port of Doha.\footnote{See \textit{Agence France-Presse} (AFP), 2010.}

Another aspect of Qatar’s strategy is to make major investments parallel to the signing of important trade or political agreements with European partners. In the summer of 2009, for example, Qatar’s sovereign wealth fund, the Qatar Investment Authority (QIA), offered to provide the investment needed to rescue two struggling Polish shipyards. The move coincided with a

\begin{quote}
Qatari investments in Europe may not have attracted as much attention but they are just as vital to Qatar’s socio-economic progress
\end{quote}
long-term natural gas supply accord between Poland and Qatar, and with Warsaw’s expression of hope that Poland would become a EU hub for Gulf investment.\textsuperscript{14} As noted above, five years later Qatar now hopes to reap the rewards of these efforts once Poland’s almost completed LNG terminal in S\'{w}inouj\c{s}cie becomes operational.

A third aspect of this strategy has been Qatar’s prioritization of investment in cutting-edge global technology that fosters sustainable development. As Saleh bin Mohammed al-Nabit, Secretary-General of the GSDP has explained, “sustainable development is crucial to Qatar’s National Vision”.\textsuperscript{15} Within a few months of the launch of Vision 2030, Qatar had announced that in partnership with the United Kingdom it would establish a US$403 million fund to invest in pioneering clean-energy companies attempting to develop technologies that could help produce low-carbon-emitting energy. QIA pledged £150 million. In return, the United Kingdom’s Carbon Trust, a government body, pledged £10 million and a commitment to attract investment from private companies worth an additional £90 million.\textsuperscript{16} More importantly, the government in London also pledged to transfer technology to Qatar, allowing it to “develop and commercialize” these projects domestically.\textsuperscript{17} Subsequently, QIA made a further significant investment in the Carbon Trust, as part of its contribution to develop cutting-edge low carbon technologies.\textsuperscript{18}

To further facilitate sustainability, the government also established the Sustainability Development Industry (SDI) initiative, a pledge by companies to improve their environmental record, as well as their corporate governance, social progress and human development efforts.

The QIA has also become a lead partner in the Agreement on the Establishment of the Global Green Growth Institute (GGGI) – with a mandate to develop a new model of economic development by linking economic performance to sustainability. This commitment has influenced many of Qatar’s recent investments in Europe. In mid-2015, for example, it purchased a 100 percent interest from Hine, the international real estate firm that specializes in sustainable projects, in Porta Nuova, a transformative city-center development in Milan, Italy.

Qatar’s commitment to sustainable investment overlaps closely with the effort of the EU and its member states to promote such endeavors. The EU-28 is not only the world’s biggest trading bloc and leading foreign direct investor, it is also the biggest donor to the sustainability programs run by United Nations Conference on Trade and Development (UNCTAD), as well as the largest global donor of general development assistance and multilateral trade related assistance programs linked to sustainability.

\section{What role for small European states?}

As Cooper and Moami (2011) have noted, the Eurozone financial crisis highlighted the real vulnerabilities that small EU and non-EU European states face. Cyprus, Greece, Ireland, Portugal, Estonia, Lithuania, Latvia and Iceland, to name some of the worst affected, have all had to deal with huge financial and economic downturns in recent years.

\textsuperscript{14} See Agence France-Presse (AFP), 2009.
\textsuperscript{15} See PR Newswire.com, 2012.
\textsuperscript{17} See Bloomberg News.Com, 2008.
\textsuperscript{18} See The Peninsula, 2009.
Despite such challenges these states, and their less badly affected small state partners – Luxembourg, Finland, Belgium, Austria and Norway – all offer Qatar valuable lessons in building a sustainable national development strategy. In the first place, they have all encountered and tackled exactly the same “small” state obstacles that Qatar now faces in its attempts to achieve sustainable diversification. They have all had to deal with the challenges posed by a small domestic market, high production costs, low economies of scale, and low levels of industrial production. The ways that they have adopted long-term strategic plans to overcome these limitations has challenged what Rothstein (1968) termed the “vaunted irresponsibility” of small states for their tendency to ignore long-range problems in order to ensure short-term stability.

Miller and O’Sullivan (2010) showed clearly how the Irish strategic decision of the early 2000s to harness an educated, English-speaking workforce to a number of progressive economic policies – most notably low tax rates, flexible business practices, and an enterprise culture – made it a global leader in attracting FDI. Prasad, Hypher and Gerecke (2013) have shown how other small European countries including Malta and Luxembourg have followed the Irish precedent.

The viability of this strategy has survived the Eurozone crisis. For example, despite a devastating property crash and the near collapse of its financial services sector, Ireland has maintained its position as one of the world’s top destinations for FDI over the last five years by continuing to adhere to its long-time, and proven, progressive economic strategy.19 In acknowledgement of this, in 2010, at a time when the Irish economy was in free fall, Qatar embraced the Irish corporate tax model and reduced corporation tax from 35 percent to 12.5 percent for foreign companies operating in the non-hydrocarbon sector.

Baldacchio (2005) argues that social capital or cohesion – the resourcefulness of a nation’s citizens to respond positively, collectively and responsibly to socio-economic challenges – explains positive socio-economic development in small states. The small European states mentioned above all have high levels of social capital. Human capital development is a key ingredient of social capital development, as well as a requirement for successful sustainable diversification. Every year since 1990, the United Nations Development Program (UNDP) has published the Human Development Index (HDI). This evaluates a country’s economic and social progress outside of traditional Gross Domestic Product (GDP) measures. In particular, the HDI takes into account education, in particular the literacy levels of the local population, as well as health indicators, notably access to clean water and electricity, and to basic health and sanitation facilities as well as life expectancy at birth.

Though the HDI does not take into account gender or income inequality or human and political rights it is nonetheless accepted as an important and valuable measure of socio-economic development above and beyond GDP. The UNDP classifies countries into three groups: (1) high human development; (2) medium human development; and (3) low human development. Qatar has seen a consistent rise in its ranking particularly since 2000 onwards. It moved from a ranking of forty-seven in 2000 to thirty-eight in 2010, at which time it moved into the High Human Development grouping, according to the UN. By 2014 it had risen to thirty-first place in the rankings.

19 For example, IBM’s Global Location Trends 2011 report ranked Ireland number one globally as a location for attracting high-level investment and ranked its capital Dublin as the top European city for investment.
Over the same period small European states have scored very highly. Denmark, Iceland, Ireland and Norway have all consistently ranked in the top five globally over this period with Norway topping the rankings on several occasions in the last decade. In fact, Norway, a major energy player and massive overseas investor, has successfully managed to achieve economic diversification in part because of high levels of social capital. Other small European countries inside and outside the EU, including Denmark, Finland and Iceland also provide Qatar with valuable lessons and examples of “best practice” in different areas of socio-economic endeavor. Olafsson’s analysis of the Icelandic model, for example, shows that while in objective terms small states are suboptimal as economic units there are “no serious disadvantages resulting from the small size of states” (1998).

5. Conclusion

This chapter conceptualizes Qatari-EU relations from a Qatari perspective. In doing so it provides an original contribution to a literature that remains extremely underdeveloped. Its main contention is that despite the Eurozone crisis and the Arab Spring, the EU and its constituent member states big and small, as well as other non-EU European states, are important partners for Qatar. They will continue to be so in the future as Qatar looks to build on its long-term bonds with key stakeholders, especially as its recent status as a regional diplomatic powerhouse and an enlightened model of good socio-economic practice come under increased pressure.

The Eurozone crisis may have damaged the credibility of the EU model but it also showed just how deeply interconnected Europe’s economic and financial wellbeing had become to Qatar by the start of the global downturn in 2008. The unprecedented levels of Qatari investment in Europe since then, in particular in areas that contribute to Qatar’s ongoing attempts to achieve sustainable economic diversification, have only served to further reinforce this state of affairs.

Bilateral security and defense relations between Qatar, the United Kingdom and France are strong. But neither the EU nor any of its individual member states can challenge the United States as Qatar’s key external partner in the area of defense and security. That said, in illuminating the centrality of socio-economic progress to domestic stability and security, the Arab Spring has also served to illuminate to Qatari policymakers the importance of relations with Europe.

For these reasons, Europe in general and the EU and its member states in particular are well placed to consolidate their existing position. Despite the ongoing financial and economic challenges at home and the growing importance of Asia as a market for Qatar’s gas-led exports and investments, they are on course to become Qatar’s leading external stakeholders as the country moves forward in its task of socio-economic development through sustainable diversification.

Reference list


