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Policy Brief
February 2013

Qatar as a financial investor

By David Roberts

Executive summary

The three major Qatari investors are the Qatar Investment Authority (the country's sovereign wealth fund), the Qatari Sports Investment fund (which undertakes sports-related investments), and various private individuals and organisations, including members of the royal family. Investments are designed to make money, prepare for a post-hydrocarbon age, acquire personnel and skills for the country, and establish Qatar's reputation as a global financial power. Deals are often based on hard bargaining to get the best deal for the country, but at other times Qatar is prepared to pay high prices for what it sees as worthwhile investments. Personal connections with elites in France and Britain in particular are also a feature of Qatar's investment policies and programmes.

Who does Qatar's investing?

By far the largest Qatari investor is the Qatar Investment Authority (QIA). This sovereign wealth fund, established in 2005, has undertaken an array of high-visibility acquisitions throughout the world to the tune of several tens of billions of dollars. The QIA is overseen by the Qatari prime minister and foreign minister, Sheikh Hamad bin Jasim Al-Thani, even though the Qatari crown prince, Sheikh Tamim bin Hamad Al-Thani, is the chairman. Hamad bin Jasim is Qatar's premiere businessman and has a reputation of having an interest in practically all business sectors in Qatar apart from energy.

Aside from the QIA the other significant Qatari-based fund is the Qatar Sports Investment (QSI) fund. Headed by the crown prince, this fund has been behind key acquisitions in the sporting world, including the Paris Saint-Germain football club, various football television rights and the rights to sponsor Barcelona FC.

In the Qatari context private individuals and private investment groups can also be significant investors, although not on the scale of the QIA or QSI. Recent acquisitions of stakes in high-end luxury companies such as Valentino and M Missoni have been undertaken by groups of private individuals, while elite members of the Qatar royal family have also created various companies (Challenger, Precision Capital, Delta Three, etc.) and occasionally invested alongside the QIA, such as in Barclays Bank in 2008. An example of a significant individual investor would be Sheikh Abdullah Al-Thani, who bought Malaga Football Club in Spain in 2010.

Despite the difficulty in unravelling exactly who is making particular investments, it is important to differentiate between the rationales for investment at play within the three broad groups as outlined above. While their motivations are often similar, one must be specific to discern wider patterns of investment, particularly when dealing with the QIA. Given the size and range of investments undertaken by the QIA, the rationale for its purchases will be the primary focus of this policy brief.

Why do they invest?

Curiously, in the Qatari case it needs to be plainly stated that the first goal of Qatar's investments is to make money. Qatar's prodigious wealth and tiny population (around 250,000 natives), concerns as to the role of particular strands of Islam in Qatari policy, opaque investments,

and investments and instances where the financial return seems questionable (e.g. the Parisian *banlieue* saga) all muddy the waters.

While there are other factors in play, primarily the QIA is a typical sovereign wealth fund looking to invest Qatar's hydrocarbon wealth for future post-hydrocarbon generations. A state like Qatar, which saw uncomfortable similarities between itself and Kuwait during the latter's Iraqi invasion trauma – i.e. a small, intrinsically defenceless, Sunni, Arab, prodigiously rich country bordered by two significantly larger antagonistic states – could not ignore the importance of the state's sovereign wealth fund. The role of the Kuwait Investment Authority in the aftermath of the Iraqi invasion in allowing Kuwait to rebuild its economy during a period of no hydrocarbon revenues is well known and will have been taken to heart in Doha and elsewhere. Moreover, members of Qatar's modern leadership are relatively young, savvy and business minded. Since they began accruing power in the early 1990s they have been instituting plans to diversify Qatar's economy, plan for the post-hydrocarbon age and establish a knowledge-based economy. Running a successful sovereign wealth fund is a prime way to diversify the state's resources, invest its earnings and develop a global reputation as a key player.

Indeed, the QIA's strategy is not only to invest in order to earn money, but to establish a financial industry in Qatar that will be successful at investing the state's wealth and that will also act as a catalyst for further financial activity as a crucial source of economic diversification. Deals struck with Barclays Natural Resource Investments (BNRI), EFG Hermes and CITIC Capital Holdings are not only a savvy way to invest several hundred million dollars in emerging market natural resources, Middle East-based equities and China (respectively), but also to transfer personnel and skills to Doha. For example, BNRI's new Middle East headquarters will be located in the Qatar Financial Centre (QFC), while EFG Hermes will open an office there too. Similarly, a mooted deal with Morgan Stanley would have the same repercussions in terms of a transfer of personnel, while the new Middle East headquarters of Iberdrola will be in Doha after the QIA's rescue package.

Other tangential benefits are not limited to establishing personnel in the QFC. Volkswagen, a recipient of significant QIA monies, opened an office at the Qatar Science and Technology Park, a project under the Qatar Foundation's auspices designed to encourage businesses to relocate key segments of their research and development activities to Qatar.

The QIA likes to take advantage of any opportunity to use one company to get to another, just as it did by buying a stake in Cegelec to get to the larger prize of a stake in Vinci. Exactly the same logic was used with the Xstrata-Glencore deal, whereby the QIA refused to take a stake in Glencore's initial public offering, reasoning instead that if it could buy enough shares in Xstrata, this would give it enough power to push through the merger on its own terms to get to the real target of the deal – Glencore – at a better price. This gambit worked. One may draw a similar conclusion regarding the QIA's acquisition of the troubled French company Lagardere, which is a key shareholder in what is arguably the ultimate target: EADS.

Just as with Cegelec and Iberdrola, the QIA likes a bargain and takes advantage of companies in financial difficulties, from whom it can demand a better price. The QIA entered the German auto-manufacturing business with Volkswagen and Porsche when they were engaged in a bitter takeover. The QIA's role in this process was to use this difficulty to augment its position vis-à-vis both sides to strike a hard bargain. Similarly with property in France (52 Avenue de Champs Élysées) or banking (Barclays), Qatar is eager to wait for prime assets to be more receptive to a bid.

The QIA does not always seek or get a bargain. Occasionally it is willing to pay "top dollar" for a thoroughly blue-chip company, name or brand. The prices paid for Harrods and for the shares in Shell were far from at a discount. Yet in these examples the QIA reasoned that the brands were so strong that they would provide long-term returns that were well worth the premium. Indeed, the Qataris' desire to accrue blue-chip companies on their roster as a solid long-term investment must not be underestimated.

The Shell investment is also indicative of another trend of reasoning behind Qatar's investments. Given that Qatar's gas via the mammoth gas-to-liquids Pearl plant in Qatar is making Shell huge profits, the QIA reasoned that it might as well get in on the action. In addition to the initial price demanded from Shell for the company to extract and sell Qatar's hydrocarbon resources, with the QIA stake Qatar makes money from this venture a second time from Shell's profits. Similarly, if Qatar is going to spend billions on infrastructure in the coming decade, keeping in mind its hosting of the 2022 FIFA World Cup, then the Qatari government may as well acquire a sizable stake in a large construction firm (Hochtief of Germany) so that to some degree Qatar is paying itself to do significant chunks of the construction. And if in the future Qatar is going to be dabbling in the international financial markets, then it may as well acquire a sizable stake in a large bank (Credit Suisse).

Lastly, one must not forget the importance of personal relations in the Qatari context. This means that deals can be suggested, devised and delivered via a particular personal tie. For example, former French president Nicholas Sarkozy's good relationship with the Qatari elite was a key factor in QSI's acquisition of Paris Saint-Germain FC. Strong elite-to-elite relations in France and Britain in particular have been the key conduit for Qatari investments, from the raft of property acquisitions in London to the misunderstood and now-cancelled *banlieue* project in Paris.

Another key aspect facilitating these relations in particular is the long-term familiarity of the Qataris with Britain and France. Moreover, the Qatari elite have been holidaying and living across Europe for decades; they know the key business elite and politicians alike. And, as one financial expert in Doha put it, "who wants to kick the tyres of a new acquisition in a random city in China when you can buy property on the Champs Élysées?"

The other side of this relationship is that a key Qatari state policy is to make Qatar centrally important to key actors. By virtue of Qatar's unprecedented investment in London, the Qatari elite by now know every key businessman and -woman in London, to say nothing of key politicians. As and when Qatar either needs advice, or should something happen and Qatar needs assistance, the country has years of contacts and goodwill to exploit.

In short, while Qatar's exotic foreign policy may distract attention and its conservative religious entanglements may confuse, it is simply an investor searching for value. Both in the short and long term, Qatar is seeking to ensure monetary revenue and the expertise and brand awareness from which the country will derive its post-hydrocarbon economy. Equally, while some investments may make questionable fiscal sense, they are not the result of the whims of sheikhs or part of some curious religiously inspired plan, but a reflection of Qatar's existing and burgeoning business-savvy brand.

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