

Qatar-UK Business and Investment Forum



Britain's Prime Minister Theresa May attends the Qatar-UK Business and Investment Forum in Birmingham, March 28, 2017. REUTERS/Darren Staples



Participants returning from the recent Qatar-UK Business and Investment Forum in Britain say its highlighting of numerous opportunities to expand economic relations between the two countries should help to allay concerns about the impact of Brexit.

The forum took place in London and Birmingham on March 27 and 28, just before the United Kingdom invoked Article 50 of the Treaty on European Union, officially notifying the EU of its intention to leave the bloc. The prospect of an end to

unfettered British access to European markets has underlined the need for the UK to develop its bilateral trade and investment ties with other countries around the world.

Energy expert Roudi Baroudi, CEO of Doha-based Energy and Environment Holding, an independent consultancy, took part in the London activities. He says that while the general mood in Britain's business community is one of uncertainty, the forum could not have come at a better time.

"In many ways, Qatar and Britain are made for each other, and not just because of the historical links between the two," he explained. "Now more than ever, British companies and investors will need to find new partners outside Europe, and Qatar has spent much of the past decade transforming itself into a global player with increasingly diverse relationships with key economies around the world. It's a perfect fit."

Baroudi says that while much of the media focus in recent years has been on Qatari investments in British assets of over £ 60 Billion, there also is great potential for funds flowing the other way, and from European and other countries as well.

"Qatar offers an incredibly attractive climate for British and other foreign investors, everything from high standards of regulation and transparency to impressive sociopolitical stability and world-class credit ratings," he enthused. "And this is not to mention the fact that it has the world's third largest natural gas reserves and highest per capita GDP, both of which rightly inspire great confidence."

"On top of all that, the government welcomes foreign investment with open arms and on business-friendly terms, and its development program is proceeding at a torrid pace, especially in terms of infrastructure and tourism," he added. "There are opportunities for everyone – architecture, engineering and construction firms, project managers, retailers, hotels and restaurants, and anyone who deals in the

expertise, equipment and materials required to carry out such projects.”

Indeed, Qatar is in the midst of a construction boom driven by its far-reaching Vision 2030 development plan and its hosting of the 2022 FIFA World Cup. The centerpieces include extensive upgrades of the ports country’s road, rail, water, and sewage networks, as well as several new stadiums to accommodate the world’s most widely anticipated sporting event.

All this is taking place, too, despite less-than-ideal exogenous conditions. Public finances have slightly deteriorated because of falling global commodity prices, and 2016 saw the Qatari government run its first budget shortfall in 15 years. Given the virtually bottomless revenue well supplied by the country’s gas reserves, however, many analysts dismiss the current fiscal situation as a temporary aberration. In addition, the Finance Ministry has won accolades for its prudent management of the impact from falling oil and gas prices, and currents forecast predict a return to surplus in 2019 if prices continue to recover.

Baroudi said he was not worried about Brexit, arguing that British businesspeople were savvy enough to reorient their activities to find new markets for their exports and new destinations for their investments. As for Qatari investors, he noted that they have been diversifying into British and other assets for a long time, so they know the market well.

As for the interactions he witnessed at the Qatar-UK forum, he said they indicated a “true sense of partnership” among and between the two countries’ business and investment communities.

“From what I saw there was great understanding of both the challenges that lay ahead and their potential to spur greater cooperation and therefore generate more opportunities,” he concluded. “And the word is getting out. These are people who do their homework, many are already aware that Qatar’s capital markets are growing by leaps and bounds, and if they’re not,

the Qatar Financial Center Authority is letting them know with a series of roadshows to increase awareness and generate greater outside interest.”

The QFCA recently sent a high-powered delegation to Germany, and several other stops are planned for Asia, North America, and other European countries later this year.

Overall, Baroudi concluded, “the combination of pro-growth economic policies, a constructive foreign policy, and significant investments in other countries has helped to make Qatar a genuine player on the world stage, both politically and economically. And now that Britain is looking beyond Europe a little more, the outlook couldn’t be better.”

Why Europe’s energy policy has been a strategic success story

For Europe, it has been a rough year, or perhaps more accurately a rough decade. The terrorist attacks in London, Madrid, and elsewhere have taken a toll, as did the Iraq and Afghanistan wars. But things really got tough beginning with the Great Recession—and its prolonged duration for Europe, including grave economic crises in much of the southern part of the continent. That was followed by Vladimir Putin’s aggression against Ukraine, as well as the intensification of the Syrian, Libyan, and Yemeni conflicts with their tragic human consequences, including massive displacement of people and the greatest flow of refugees since World War II. The recent attacks in Paris and Brussels have added to the gloom and fear. This recent history, together with the advent of

nationalistic and inward-looking policies in virtually all European Union member states, makes it easy to get despondent—and worry that the entire European project is failing.

To be sure, these are not the best of times. Europe is perceived by some, including Republican presidential candidate Donald Trump, as failing to invest enough in its own security, since NATO allies spend less than 1.4 percent of GDP on their armed forces while the United States spends twice that. However, we must not lose sight of the key structural advantages—and the important policy successes—that have brought Europe where it is today. For example, Europe's recent progress in energy policy has been significant—good not only for economic and energy resilience, but also for NATO's collective handling of the revanchist Russia threat.

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For many years, analysts and policymakers have debated the question of Europe's dependence on natural gas from Russia. Today, this problem is largely solved. Russia provides only one-third of Europe's gas. Importantly, Europe's internal infrastructure for transporting natural gas in all desired directions has improved greatly. So have its available storage options, as well as its possibilities to import alternatives either by pipeline or in the form of liquefied natural gas. As a result, almost all member states are currently well-positioned to withstand even a worst-case scenario.

Indeed, European Commission analyses show that even a multi-month long supply disruption could be addressed, albeit at real economic cost, by diversification and fuel switching. Progress in energy efficiency and renewable energy investments also help. There is more to do to enhance European energy security, but much has been done already. The Europeans have

shown that, with ups and downs, they can address energy security themselves.

Already this energy success has contributed to a strategic success. Europe has been heavily criticized for not standing up more firmly to Russia in response to the annexation of Crimea and the conflict in eastern Ukraine. In fact, all EU member states have agreed to keep economic sanctions in place against Moscow. In addition, lifting the sanctions has been firmly attached to the implementation of the Minsk II agreement—and despite recent cracks in European solidarity, we hope that this stance will hold going forward.

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The notion that Europe is weak and dependent on Russian natural gas is a relic from the past. Europe has a strong regulatory framework with which commercial entities, including Gazprom, have to abide. For those who doubt the impact of these regulations, just ask Google or Microsoft. With the end of so-called destination clauses, natural gas can be re-sold whenever required, as long as sufficient infrastructure is in place. Just last year, Germany re-exported over 30 billion cubic meters of gas, mostly Russian, in particular to Central and Eastern Europe (including Ukraine). That volume exceeds the annual consumption of every European state with the exceptions of Germany, Italy, France, and Britain.

In theory, Europe could even substantially wean itself off Russian gas if need be. To be sure, that would come at a major expense: over 200 billion euros of additional investments over a period of two years or more, and then an annual 35 billion euros, according to some calculations. That will almost surely not happen. But as a way of bounding the worst-case scenario, it is still informative. One might say that Europe has escalation dominance over Russia; the latter needs to export to Europe more than Europe need Russian hydrocarbons.

The internal energy market is not finished, but Europe's energy security has significantly improved in recent years. Even though world markets are currently awash in resources, there is no time for complacency, and European leaders should finish the job, foremost by safeguarding the swift construction of the so-called Projects of Common Interest (key energy infrastructure projects that address the remaining bottlenecks in the EU market), so that the U.S. State Department can take new infrastructure projects like Nord Stream 2 off its priority list, and make energy policy another true European success story. It is already much of the way there, and Western security is the better for it.

Perspectives – Energy Policies in the United States and Europe: Divergence or Convergence?



Are United States and Europe, leaders in the developed world, diverging or converging on national energy policies?

The question is important since common policies are more likely to set global standards. But there is no single answer because the answer differs depending on which part of the energy sector one is talking about. Accordingly, I will try to answer the question sector by sector starting with oil and proceeding through natural gas, non-hydro renewable and energy efficiency, and ending with climate change. It should be noted that oil is used almost exclusively in the transportation sector; natural gas for electricity production and heating; and non-hydro renewables for electricity production. Energy efficiency and climate change involve both the transportation and electricity sectors.

Oil

With respect to oil, there is a broad convergence of objectives and a growing convergence of policies to achieve those objectives between the U.S. and Europe. Both are net oil importers in the aggregate, although individual U.S. states such as Louisiana or European countries such as Norway may be net oil exporters. Both are therefore concerned about protecting themselves from the effects of large price changes and supply disruptions in the short-term and becoming less dependent on foreign suppliers in the long-term. The U.S. and Europe both have strategic petroleum reserves and coordinate policy responses bi-laterally and through the International Energy Agency in Paris.

Since the 1970s the U.S. has become increasingly exposed to more price spikes and supply disruptions relative to Europe as its oil consumption has steadily risen and its domestic production has steadily declined. Over the last five years, however, these trends have reversed due the economic recession, increases in U.S. corporate average fuel economy standards (CAFE) and the opening up of new domestic oil reserves through hydraulic fracturing or "fracking." The resulting flattening of U.S. oil demand and fall in U.S. oil imports have brought the U.S. oil market more into line with

Europe's. This convergence will be further enhanced as more efficient and less oil-dependent vehicles like the Toyota Prius gain market share on both sides of the Atlantic. The one area where the U.S. remains behind Europe is in using fuel taxes to raise revenue and encourage efficiency.

The U.S. and Europe also face a common challenge in dealing with China, India and other developing countries whose oil consumption and imports are rising rapidly. Both developed countries have an interest in helping developing countries gain access to newly discovered oil reserves in Africa, the Arctic and other remote areas in an environmentally sustainable manner, keeping maritime and terrestrial oil supply lanes open, and managing price shocks and supply disruptions with minimum damage to their economies. Coordination of responses to oil spills, cooperation in protecting choke points like the Malacca Straits from terrorist attacks, and assistance to developing countries in building their strategic oil reserves are three excellent candidates for transatlantic cooperation. The Arctic Council provides a model of how such cooperation might be structured.

Natural Gas

With respect to natural gas, there is between the U.S. and Europe, a convergence of policy goals, but a divergence of means for achieving those goal. Both have an interest in securing reliable long-term natural gas supplies, avoiding excessive reliance on a single source of supply, and using natural gas as a transition fuel towards a low-carbon future. The U.S. has been better placed to achieve those objectives than Europe throughout the post-war period, and the gap between the two has recently widened due to the "fracking" revolution in the U.S. Europe remains uncomfortably dependent on a single supplier, Russia-based Gazprom, for its natural gas supplies and continues to pay prices pegged to the oil price under long-term contracts. In contrast, U.S. is benefitting from a surge of cheap gas from fracking that has

driven gas prices to their lowest level in decades and has put the U.S. in a position to be a net gas exporter (the U.S. price per mmBTU (one million BTUs) is around \$3.50; European prices are in the eight to twelve dollar range).

This low price has had the added benefit of attracting billions of dollars of new investment in the U.S. from petrochemical and other industries using natural gas as a feedstock. It has also helped to enable the U.S. to reduce its dependence on coal for electricity production from over fifty percent to thirty two percent (as of April 2012) and to increase its use of gas for that purpose from approximately twenty percent to thirty-two percent (also as of April 2012). This fuel-shifting has in turn reduced U.S. carbon emissions, with the result that the U.S. was one of only two countries in the OECD to actually reduce its CO₂ emissions last year (the other being Germany).

Europe has the potential of narrowing this gap by exploiting its own reserves of shale gas and by renegotiating its contracts with Gazprom to delink gas from oil prices. Neither will be easy. Europe combines greater population density and a strong green movement with exaggerated public concerns about the environmental consequences of fracking. As the U.S. gains experience in how to reduce the negative environmental impacts from fracking operations and how to strike the right balance between economic and environmental objectives, Europeans are likely to become more comfortable with at least limited fracking. Poland and other Eastern European countries are prepared to move more quickly, but early results have been disappointing. Gazprom, which is already experiencing erosion in its market share, knows that it will have to give ground on pricing, but will do so only grudgingly.

As in the case of oil, the U.S. and Europe have a strong interest in cooperating to help China, India and other developing countries use natural gas to achieve common objectives. In particular, continued exploitation of abundant

coal reserves in China and India for electricity production will make it almost impossible to protect the global climate from serious disruption. Both the U.S. and Europe have a vital interest in helping those countries switch from coal to gas in the electricity sector to mitigate climate change. In the longer-term, all countries will need to develop non-carbon energy sources, but in the meantime natural gas is a critical transition fuel.

Non-hydro Renewables

With respect to non-hydro renewables, there is a basic convergence of policy objectives between the U.S. and Europe, but a substantial divergence in meeting those objectives, this time in Europe's favor. Europe, and particularly Germany, is well ahead of the U.S. in developing wind and solar resources, largely because its combination of high feed-in tariffs, ambitious targets for the percentage of electricity produced from renewable sources (EU 20% by 2020 and Germany 25% by 2020), and government support for green technology development. These European stratagems have proved far more effective than short-term and undependable U.S. federal tax credits and state subsidies and a kaleidoscope of state renewable portfolio standards in the States. Low natural prices in the U.S. have also disadvantaged U.S. renewable energy developers relative to European counterparts.

The gap in non-hydro renewable energy penetration between the U.S. and Europe is likely to narrow somewhat over the coming decade as the U.S. develops a more consistent and effective policy framework (a federal renewable portfolio standard, multi-year tax incentives, new transmission lines from high prairie wind production sites to consumption centers) and U.S. natural gas prices rise from their current level of approximately \$3.50 per mmBTU to \$5 per mmBTU or more. The gap, however, will not be eliminated absent a change in U.S. climate policy. The long-overdue cornerstone of such a change

would be putting a meaningful price on carbon. Another Sandy or two may be required to bring this about.

As with oil and natural gas, the U.S. and Europe face a common challenge from China on non-hydro renewables. The Chinese renewable energy industry has experienced explosive growth over the last ten years, and China is now the world's largest and lowest cost producer of solar photovoltaic (PV) modules. This rapid expansion of the Chinese solar PV industry, driven in large part by central and provincial government subsidies, has put tremendous pressure on U.S. and European PV module producers, which have been unable to compete on price. A number of U.S. producers have gone out of business and Siemens has withdrawn from the market.

The U.S. and EU have responded to this situation by bringing major trade cases against China, both bi-laterally and through the WTO. China has responded by bringing cases against U.S. and European suppliers of polysilicon, alleging discrimination in favor of domestic suppliers. This trade war cries out for a negotiated solution involving U.S., European and Chinese governments and companies since all producers are suffering losses caused by global over-capacity, and all have an interest in an orderly expansion of the solar PV market consistent with trade rules. Close transatlantic cooperation will be essential to crafting such a solution.

Energy Efficiency

With respect to energy efficiency, both the U.S. and Europe recognize that improving the efficiency of energy production, distribution and use is the lowest-cost way of reducing energy demand and carbon emissions. Throughout the post-war period, however, Europe has been far more efficient in the distribution and use of energy than the U.S. as a result of historical, cultural and ideological factors. European countries introduced high fuel taxes and electricity tariffs decades ago to raise revenue and reduce dependence on imported

energy. The resulting high energy prices have had the collateral benefit of depressing demand and encouraging investment in energy efficiency.

Europe has a tradition of deferring to state power and high population density; the U.S. a tradition of individual autonomy, distrust of state power and dispersed settlement, all of which have encouraged urban sprawl and high individual mobility supported by low energy prices. Europeans are generally comfortable with state intervention in the market to achieve public goals; many Americans have a deep-seated ideological aversion to such intervention and regard it as a threat to the "American way of life." The result of these differences is that Europeans use roughly half the energy per capita as Americans and pay roughly twice as much per British Thermal Unit (BTU).

Fortunately the U.S. is beginning to narrow the gap with Europe on energy efficiency as it follows the example of California, which has an average annual per capita electricity consumption of about 7,000 kilowatt hours compared with about 6,000 for Germany and about 13,000 for the rest of the U.S. In the electricity sector, minimum energy efficiency standards for appliances and other products at the federal level, stricter building codes at the state level and LEED (Leadership in Energy and Environmental Design) requirements developed by the U. S. Green Building Council are all improving end-use efficiency, particularly in new buildings. In the transportation sector, higher CAFE standards, more efficient diesel engines and growing sales of hybrid vehicles are likewise improving end-use efficiency. One area where the U.S. remains far behind Europe is the use of combined heat and power technologies for district heating and power generation.

Climate Change

On climate change, the U.S. is deeply divided in a manner that Europe is not. A majority of Americans, particularly those

living in big cities and “blue states” such as California, New York and Massachusetts, regard climate change as a serious problem and believe that the U.S. should do more to address it. A substantial minority, however, particularly those living in rural areas and “red,” energy producing states, believe that the threat of climate change is exaggerated and may even be a hoax perpetrated by liberal elites to gain control of the U.S. economy and make it more like “socialist Europe.”

This minority relies on the opinions of “climate skeptics” disseminated through Fox News, talk radio and other conservative media outlets. Most members of this minority, which is centered in Appalachia and the other areas governed by the old Confederacy, used to be Southern Democrats but have now become Republicans in response to the civil rights revolution of the 1960s. The result of this shift is that climate change has become a partisan issue dividing Democrats and Republicans.

The blocking power of conservative Republican members of Congress representing this minority has made it impossible for legislation putting a price on carbon either through a cap-and-trade system such as the one contained in the Waxman-Markey bill passed by the House before the 2010 elections or through a carbon tax to be passed by Congress today. (Waxman Markey would be roundly defeated in the current House). It is interesting to note that American industry has for the most part dropped its opposition to putting a price on carbon – Waxman Markey was largely drafted by Jim Rogers, Chairman of Duke Energy, with the support of the Edison Electric Institute, and Rex Tillotson, the Chairman of Exxon-Mobil. We are now left with the Jacobins of the Right and their representatives in Congress.

In the aftermath of hurricane Sandy and the re-election of President Obama, the U.S. will move further towards Europe on climate change, however slowly. Blue states like California

and cities like Chicago, Los Angeles, New York, Seattle and Portland are already setting emissions targets similar to Europe's. The Obama administration's Copenhagen target of a 17% reduction in emissions from 2005 levels by 2020 can be accomplished through the aggressive exercise of existing authority under the Clean Air Act. Unfortunately German commitments to phase out nuclear power plants could help narrow the gap in the reverse direction. Whatever progress is made in the U.S. and Europe, however, will be overwhelmed by emissions growth in China and other rapidly growing developing countries. Therefore the world is already committed to a significant increase in average surface temperature by 2100 (estimated by the Executive Director of the International Energy Agency at six degrees Celsius).

Brexit and European energy policy – the case for engagement

With a few honourable exceptions, the debate on British membership of the EU has so far consisted of a contest between the outs and the half outs – that is, those who want Britain to leave completely and those prepared to stay only if the country is protected from further incursion by immigrants or European policy makers. The other approach – active engagement to change and improve what happens – has barely been articulated. In several areas positive engagement is much needed and offers substantial benefits. Energy policy is a good place to start.

The EU has only limited competence when it comes to energy

policy. The mix of fuels and the tax system under which they are traded remain matters of national choice. That isn't likely to change. It would be a waste of time to try to force France to accept fracking or to tell the Germans that they are going to have to keep nuclear power. Any attempt to centralise such emotive decisions will fail.

In any case it is unnecessary. What matters is that European citizens have safe and secure supplies of energy when they need it at a price they can afford and that the different energy policies of the 28 member states contribute to the progressive reduction of emissions which is a clear common policy objective.

Those three objectives – energy security, competitiveness in a world where energy prices can influence employment as well as living standards, and environmental protection – are not always easy to combine. But there are things European countries working together could and should do that would help.

Security would be improved if supplies were diversified – so an accident or some act of political hostility by one supplier could easily be resolved by the provision of supplies from elsewhere. Emergency stocks could be held collectively – a much cheaper solution than expecting 28 different countries to each keep stocks of their own. And, most important of all, infrastructure could be built to ensure that no individual state is isolated, and that back up networks especially for the supply of gas and electricity are available to everyone. The European Commission has talked and written a good deal about the last point but nothing has happened. Diversity has been promoted as a concept but German policy in particular now seems to be working to strengthen the role of Russian gas supplies, which will benefit Germany at the expense of the common good.

As a result, in a period when imports are growing as

production of oil and gas from the North Sea declines, Europe's energy supplies are becoming less secure year by year.

In terms of competitiveness current policies are not working. Electricity prices across Europe, with the exception of France, are materially higher than those in the US because of the cost of subsidised renewables. Gasoline prices for both business and ordinary consumers are also higher because petrol is used as a way of extending the tax base. In the UK almost 80 per cent of the pump price motorists pay is accounted for by taxes.

On the environment, the European approach has been to set targets – for instance for emissions reductions. Many such targets are regularly missed – even Germany will not meet its own 2020 targets because of continued support for coal-fired power generation. The gap between targets and performance undermines the credibility of public policy generally. The greatest contributor to the reduction in emissions is low growth and austerity – a pyrrhic victory bought at the price of high unemployment and social dislocation.

None of this is a reason for writing Europe off, or for giving up on the objectives. European policy could and should be much more practical and productive. Let's take three practical suggestions.

- First, the key infrastructure links should be built – particularly to areas such as the Baltic states which remain uncomfortably dependent on the energy networks of the old Soviet era Comecon economy (the communist version of Europe's common market). European structural funds should be combined with the proposed Juncker investment fund in a way that would materially help the local economy. The proposed lines linking the Baltic states to western Europe are not the only important project but they are a symbol of what could be done and

would represent a confirmation of Europe's commitment to the full integration of its eastern member states.

- Second, Europe should proceed step by step with the development of an ultra-high voltage grid which could eventually be connected across the continent. The Chinese have mastered the technology – why can't Europe do the same? A new grid would allow power to be moved over long distances with minimal losses. The greatest beneficiary would be the renewables sector, where production is often located at a long distance from the main centres of consumption. A grid that could access supplies from all areas would reduce the costs of intermittency arising from the fact that the sun does not shine all the time and the wind does not blow continuously. In particular, a strong grid would remove the burden of maintaining high-cost back-up supplies in the form of power stations usually fired by gas which are used for only a fraction of the day.
- Third, and perhaps most important of all, Europe could refocus its response to climate change away from self-indulgence. A clean, carbon-free Europe is irrelevant if other parts of the world remain dependent on energy sources that produce high levels of emissions. Climate change does not recognise national boundaries. The key challenge for the next 20 years is to find a way of enabling the world's poorer countries to raise living standards without creating a global environmental disaster. India, and other emerging economies, cannot afford high-cost renewables as an alternative to coal. They need energy supplies that are simultaneously low cost and low carbon. The scientific and engineering challenge of achieving that should be at the heart of European policy.

None of these are impossible goals. But they are not being achieved. Current European policies are too rigid. Britain has a long history in energy development and trade and great

strengths in technology and science but the UK government has stepped back from the development of energy policy in Europe because anything that requires co-operation has been seen as toxic in the narrow terms of the country's political debate. That means that the potential gains are lost and the real possibilities of progress are left out of the debate at a moment when as the former UK prime minister Gordon Brown argues in his new book, *Leading not Leaving*, "people need to hear a positive message about what Europe can deliver for them".

On the current opinion polls, the UK will vote to remain part of Europe on June 23. But that is not enough. Once the current crazy exchange of threats and fears is over, there needs to be a serious engagement so the key policies can be shaped by British experience and skills as well as those of other member states.

A vote to remain should not be a vote for the status quo, or for a Europe in which Britain is a reluctant, whining member who stays only under sufferance. Europe can do more and Britain can help to lead the process.