

Qatar Financial Centre Roundtable

With His Excellency Yousef Hussain Kamal, Finance Minister of Qatar

His Excellency **Yousef Hussain Kamal**, Qatar's Minister of Finance, met with leaders of the US financial community in New York on October 18. He was accompanied by **Phillip Thorpe**, Chairman of the Qatar Financial Centre Regulatory Authority; **Stuart Pearce**, CEO of the Qatar Financial Centre Authority; and **Rajat Gupta**, Senior Partner and former Worldwide Managing Director of McKinsey & Co. (and a nonexecutive member of QFC's board).

Other participants in the discussion were:

Lloyd Blankfein
CEO of Goldman Sachs

Jeffrey Culpepper
Head of Global Markets
at Merrill Lynch

Richard Frank
CEO of Darby
Overseas Investments -
Franklin Templeton

Marc Lasry
Chairman and CEO of
Avenue Capital Group

Michael MacDougall
Partner of Texas
Pacific Group

Amr Nosseir
Partner of Perella
Weinberg Partners

Rod Ringrow
Senior Vice President
of State Street and
Chairman of its Middle
East Steering Group

Stephen Schwarzman
Chairman and CEO
of Blackstone Group

Suhail Sikhtian
Head of Investment
Banking for Goldman
Sachs Middle East

James Zelter
President of Apollo
Investment Corp

Ernest McCrary
Editor and Publisher
of Special Projects at
Institutional Investor,
served as moderator

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Yousef Hussain Kamal,
Qatar's Minister of Finance

Moderator: McKinsey Global Institute recently came out with a report on how money flows differently today – going to the countries with petrodollar wealth, to the central banks of Asia, especially China, to hedge funds, and to private equity groups. What are your thoughts on this?

Rajat Gupta, McKinsey & Co.: It's a fundamental shift in capital flows and capital accumulation, and it's a new form of ownership that private equity represents. The liquidity in the world financial system – whether it's the derivatives market or CDOs and CLOs – has created this tremendous flow.

I relate this to the two fundamental trends in the world today: the emergence of markets and countries with very large populations – China, India, Brazil and others – and the scarcity of commodities. Oil, base metals and other kinds of resources are a lot more expensive now and will likely continue to be so in the near future. That has created a tremendous difference in the kind of flows in the world.

Moderator: Qatar is one of the countries that benefits from this favorable capital flow. What is your strategy for using that wealth?

Yousef Hussain Kamal, Minister of Finance: Our strategy is to optimize the utilization of any cash we have, to diversify our economy and to invest in different sectors of the economy – within and outside of Qatar. We are now producing almost 800,000 barrels of oil per day. It will reach almost one million by 2010. We are producing about 31 million tons of LNG per year. By 2011, it will be almost 77 million tons. And with an average price of \$61 per barrel of oil in the first half of 2007, the total income of the State of Qatar by 2011 will be in the range of about \$65 billion to \$70 billion per year. The size of the budget then will be around \$25 billion per year. This means that there will be a surplus of about \$40 billion per year, which we can invest.

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(left to right): Lloyd Blankfein, Goldman Sachs; Rajat Gupta, McKinsey & Co.; Michael MacDougall, Texas Pacific Group; and Stephen Schwarzman, Blackstone Group

Nobody will guarantee that the price of oil or gas in 10 to 15 years will be as it is today. We have to assume that perhaps one day, the price could be zero. So we need to be independent from oil and gas income. We have to invest in our human resources – in healthcare and education. As you know, we have built the Education City, which consists of Texas A&M, Cornell, Carnegie Mellon and Georgetown.

Moderator: What is your opinion of sovereign wealth funds?

Stephen Schwarzman, Blackstone Group: Sovereign wealth funds have been around for a while. But, starting with Dubai's attempted purchase of port properties in the US, they have begun to attract a lot of attention. The policy concern is that a country through its sovereign wealth fund will start competing with commercial enterprises by buying companies, using a different cost of capital, and for different objectives and reasons than private businesses would. Those of us in the markets know that sovereign wealth funds are not that much different from endowments or other familiar pools of capital in the US.

The risk for sovereign wealth funds is if they are viewed as political, not economic. When a sovereign wealth fund starts getting involved with change-of-control transactions, for example, alarms go off. In a way, the sovereign wealth funds can create their own inhospitable environment by their decisions about what to purchase in change-of-control transactions. They're not seeing their purchases in the context of globalization and the resulting insecurity some people feel in the West as a result of economic dislocation. Depending on what type of assets a sovereign wealth fund decides to purchase, additional concerns can be raised. Every country has different criteria of what is a sensitive asset.

Kamal: In Qatar, our investment strategy involves the transfer of knowledge. For example, if I want to upgrade my stock exchange, I have to partner with someone who has the experience and the technology. We have increased our stake at the London Stock Exchange to almost 23 percent, but we are not doing this to control. We want to benefit from our investment, not only through dividends but through a transfer of knowledge.

Schwarzman: It's quite normal now for sovereign funds to buy a minority stake, sign a cooperation agreement and negotiate that kind of knowledge transfer. China Development Bank did that in their deal with Barclays. In that case, we advised the Chinese government to have no votes and have no one on the board of directors, because we wanted to make sure there wasn't any negative perception. And they agreed. They just wanted help on certain things and were glad to be a passive investor. There was no criticism of that deal.

If you had a policy and you're willing to explain what you're trying to do, that you're not interested in control, then people would look at that deal in a benign way. But if you don't speak up, people might perceive that you really want to buy the whole thing over time. That starts making people nervous.

Michael MacDougall, Texas Pacific Group (TPG): Each country has a different way of looking at its assets. What constitutes a sacred asset? Is it natural resources and energy? Is it the stock exchange or the ports? For those businesses, rightly or wrongly, the perception and the politics can overwhelm the reality.

That being said, in some businesses you can act like an investor and there aren't any political ramifications. When GE sold its plastics unit to Saudi Arabia's Sabic, there wasn't any great alarm. Sabic got 100 percent

control, but they came in like a private equity buyer. They approached their investment like a Blackstone or TPG. That's a very interesting example where there's no issue about a full change of control.

Gupta: In relation to that is how convincing you can be that some of these funds actually are not instruments of government. For instance, nobody views Temasek as Singapore's instrument of foreign policy. It's 100 percent government-owned, but it functions as a normal commercial entity.

Lloyd Blankfein, Goldman Sachs: From the perspective of contributing to the overall health of global markets, sovereign wealth funds have played an important and positive role. These funds have been a source of the nimble risk capital that has gone to fill some of the holes in the system. And far from creating problems, they've done a lot to relieve the strains on the system. I don't think, for example, that they've exacerbated the credit crunch. I think they very well may be helping to relieve some of the pressure in today's markets. I understand the fear that these funds could be operated to maximize a sovereign's objective – in other words, not operating to maximize the revenues and the return. From our experience, we've seen these funds make their investment decisions on risk and return metrics, just like any other pool of capital.

James Zelter, Apollo Investment Corp: Whether it's the credit crisis or the markets right now, we always find that the public markets are the real competition for the private funds, whether it's hedge funds or private equity.

For a sovereign investor, it's important to have the ability to take a long-term perspective. Investments that are done over time and are somewhat contrarian but are done

with a very, very long view of things are usually the ones that pay the greatest dividends over time.

So while liquidity has been abundant – and there still appears to be some right now – in the future, capital may be lacking for buyouts in the US, which could limit our ability to act as a partner in many of these transactions. I see that as a theme that's coming up. We may already be in that environment right now.

Jeffrey Culpepper, Merrill Lynch: The emergence of sovereign wealth funds in the Middle East is a positive development. They are bringing a level of transparency and governance in their investments and strategies. Before, they typically invested via fund managers and you were never quite sure who was behind the investment. Now you know in advance who is the ultimate investor and what their long term strategy is.

The level of professionalism grows daily as these funds hire more world class managers and analysts. The new management teams are upgrading risk management systems and taking a hard-nosed view on returns in addition to strategic considerations. Sovereign funds have become equal partners along with financial institutions and governments in reshaping the financial landscape and competitiveness of the market. Qatar Holdings is one of the firms driving the change in the market.

Marc Lasry, Avenue Capital: An investor that is similar in some respects to a sovereign fund is the World Bank. Although it does not invest on behalf of a particular country, the World Bank focuses on important corporate governance, policy and environmental issues related to the global economy, as opposed to aiming exclusively to maximize economic gain. The globally altruistic World Bank has been a long-term, valued partner to a number of investment firms, and it has a great reputation. However, as a result of being relatively small in comparison to some

of the traditional sovereign wealth funds, and as a result of not being tied to the investment activities of a single sovereign state, the World Bank unfortunately gets far less press attention than it deserves.

Richard H. Frank, CEO, Darby Overseas Investments – Franklin Templeton: As a veteran of the World Bank, I have to say I never really thought of it as a sovereign wealth fund. You're right in that the objectives are developmental and the returns are lower than a profit maximum. But the pool of World Bank capital today is, of course, very small by comparison to private and sovereign sources. The annual lending of the World Bank is \$15 billion, and a lot of countries no longer need it.

Incidentally, a recent World Bank-related study, sponsored by the government of Sweden, found that ultimately the wealth of a country does not depend on natural resources. It depends on the quality of the people and the country's system of governance. Thus, Qatar's emphasis on education through initiatives such as Education City are very sound.

I can see how the London Stock Exchange investment can help you develop your own stock market in Qatar. Other strategic investments that would help develop your own expertise and bring about technological transfer would be in infrastructure services related to the LNG and petroleum areas. You could carry those investments out without people getting too concerned about your acting as a sovereign.

Suhail Sikhtian, Goldman Sachs Middle East: When working on M&A transactions for sovereigns, it's important what you say at the time of the acquisition, not just the price that you pay. It's important early on to identify the rationale, objectives and long-term goals that people will understand. If you don't, people jump to conclusions and assign various motives that may or may not be accurate.

Kamal: Let's say it's the other way around. We have a Science and Technology Park in Qatar, which we established for research purposes. I need someone to develop my water system to minimize the cost of producing drinking water. And I know that there are companies in the US that do these things, but they are not ready to come to Doha to do the research unless I buy some stake in their companies. In this case, I cannot clearly draw the line between what is commercial and what is sovereign. For the company, it is 100 percent commercial. However, from the point of view of the government, does this mean that I'm trying to control this company in the US?

Blankfein: If, because of your control of the company, you dictate where they do their work and not let the market approach them and get them to make another decision, people would say you are influencing that company. For example, in the case of the Stock Exchange, would you make decisions to drive it to do joint ventures that were in the interest of Qatar but antagonistic to the interests of the capital markets on which the US depends? The answer is you wouldn't, but that is what inspires anxiety. That's what you have to defeat, and I think you can nip that at the outset.

Amr Nosseir, Perella Weinberg Partners: Communicating the objective is a key point in these transactions, but size is also an important issue. The bigger the company that is being purchased, the more press you get. Whether it's a strategic national interest is a third consideration. At the same time, whether it's Qatar or some other sovereign fund, they all have to compete with each other. Qatar is trying to do something; Dubai, Abu Dhabi and Saudi Arabia are trying to do something else. They have developing economies that they need to diversify because their objective is to decrease their reliance on natural resources, so they have to create alternative income-



(left to right): Jeffrey Culpepper, Merrill Lynch; Richard Frank, Darby Overseas Investments - Franklin Templeton; Marc Lasry, Avenue Capital Group; Suhail Sikhtian, Goldman Sachs Middle East; and James Zelter, Apollo Investment Corp

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(left to right): Amr Nousseir, Perella Weinberg Partners; Stuart Pearce, Qatar Financial Centre Authority; Rod Ringrow, State Street; and Phillip Thorpe, Qatar Financial Centre Regulatory Authority

producing enterprises to achieve those goals.

As an example, Qatar has struck relationships with six universities in the US. But there has been no issue about Qatar importing their intellectual capital. Why is that not a big issue? It's not a \$10+ billion transaction and it does not grab headlines, but it's exceptionally important for the development of Qatar as a knowledge-based economy which is a strategy that sets them apart.

Moderator: I think it's another form of importation of intellectual capital when you bring in foreign financial institutions to operate in a new country. Is that part of your mission at Qatar Financial Centre Authority?

Stuart Pearce, Qatar Financial Centre Authority:

Yes. The reason why the QFC was formed, and why it has a unique legal and regulatory structure, was specifically to build capacity in Qatar, to support the development of the state. It could easily be misconstrued that this is giving unfair advantage to foreign financial firms to come to Qatar.

All firms that operate from the QFC operate in exactly the same cost space as other firms in Qatar. But we've never been accused of "stealing" intellectual capital from the countries from which these firms come. Quite the opposite, we are saying that these firms are targeted specifically because they have some form of expertise that would benefit Qatar as a whole.

We are targeting those firms we believe bring value in the long term to Qatar. And that value goes both ways, because if a firm comes in and does well, the value will go back to the shareholders of the firm in question.

Moderator: What is Qatar doing to distinguish itself from the others involved in this process?

Kamal: Are we competing with other GCC countries? Yes. But we have the advantage

because we are small. We can perhaps regulate our country better than the others. We have a leader who believes in change, and he has been doing it for the past 10 years. In addition, we have the natural resources that help us do a lot of things, especially in terms of energy.

Scheduled for completion by 2013 is our economic zone – about 82 square kilometers of land – that is linked to our port. It is going to cost us about \$6 billion dollars, to make the port handle almost two million containers per year. The overall budget is about \$140 billion to be spent in the next six years.

We will be the largest producer of petrochemicals and fertilizers. It will be the busiest port, even busier than Singapore. Six thousand ships to be loaded and unloaded every year from Qatar. So this means that we have to develop the whole sector of the economy of the State of Qatar. This is what we are embarking on. We think that we can compete with the others. And we think that we will be the biggest.

Moderator: Are there other elements that affect competitiveness, such as on the regulatory side? How is Qatar approaching this differently from its neighbors?

Phillip Thorpe, Qatar Financial Centre Regulatory Authority:

If you're doing your risk analysis and look at reasons to be in the Gulf, you ought to be looking at the inevitable when-it-all-goes-wrong question, and where will you end up? The Qatar government is committed to providing an environment that gives you as much certainty as possible.

The aim is to put in place a single regulatory regime for the financial sector of the State of Qatar early next year. That's probably something that cannot be done anywhere else in the Gulf, or certainly not with any ease, because it immediately begs a couple of questions. We are in a common-law jurisdiction with modern laws that we

have imported from all over the globe, and a court and tribunal system you would find in London or New York. That drives confidence. Once Qatar has done this – and I'm confident the government is committed to make this happen – other states in the region are going to have to examine how they structure their environments.

Gupta: Now that you're setting up the educational infrastructure, I'd like to hear your points of view on human resource development.

Kamal: Education City is not only for Qatar, but for the whole world. Right now, there are students from all over the world. The endowment, which has been put up by His Highness, doesn't distinguish between Qataris and non-Qataris. It goes to anyone who's looking for education. We have a lot of students coming from different nations, and we support their tuition from the endowment.

We are now in the process of negotiating with some institutions to invest in our education. We will buy a portion of their companies and then they will establish schools in Qatar. It's both an investment and an opportunity to bring the educational system in the US and other countries to Qatar.

Rod Ringrow, State Street: Qatar is fortunate in that it has a relatively small national population. But training is one thing; employment for those people is another. The role of Qatar in absorbing some of that labor force requirement from around the Gulf would be very helpful.

Recently, we saw Her Royal Highness Sheikha Mozah winning the Chatham House Prize for her role with the Qatar Foundation and the development of women in society. I think that is a recognition of what Qatar is trying to do, but it needs to be looked at and perhaps worked into a broader vision of what Qatar is trying to do for the region in general. ■