



Qatar: What the diplomatic crisis means for regional business interests

JUNE 2017

BACKGROUND

- On Monday 5th June, Saudi Arabia, United Arab Emirates, Bahrain and Egypt officially cut diplomatic ties with Qatar, accusing the state of destabilising the region through links to Iran and Islamic groups in the region. Later in the day, the acting government in Libya, the administration in Yemen and the government of the Maldives followed suit.
- Most prominently, Qatar's alleged support of the Muslim Brotherhood has been a source of concern for a number of years. Leaked emails from the UAE's Ambassador to the United States to a former official in the Bush White House describing Qatar as a "poster child for corruption" give us further insight into the low esteem in which the small Gulf country is currently held by its neighbours.
- The high stakes political move marks an escalating dispute since late last month – which saw an alleged hack on Qatar News Agency attribute comments to the Emir of Qatar regarding his country's more supportive stance on Iran. Whilst some Gulf Co-operation Council (GCC) nations, such as Oman, do have some dealings with Iran, Saudi Arabia and the United Arab Emirates – the two most powerful countries in the GCC – have adopted a harder line towards Iran in recent times. They have been emboldened in this approach by the change in direction taken by the new White House administration.
- This diplomatic shift, led by Saudi Arabia, is being interpreted by commentators as an effort to eradicate any opposition within Sunni Muslim states to forming a united front against Shiite Muslim Iran. Meanwhile, Qatar's foreign policy with Iran, with which it shares one of the world's largest gas fields, is seen to be at odds with its GCC neighbours, most notably Saudi Arabia and the UAE.

Five things you need to know

- 1. WE'VE SEEN THIS MOVIE BEFORE.** In 2014, Doha was accused of violating an agreement to stop its interference in the domestic affairs of other GCC and other Arab countries – which resulted in the withdrawal of Saudi, UAE, Bahraini and Egyptian Ambassadors from Qatar for a period of eight months.
- 2. BUT THE SEQUEL IS MORE INTENSE.** In statements posted on their respective government news agencies, the countries taking action against Qatar said that in addition to severing ties, they would close off airspace, airports and seaports – a move that geographically, economically and politically isolates the world's richest country (per capita). In the UAE, multiple airlines confirmed they would suspend flights from Tuesday 6th June, and Saudi Arabia's General Authority of Civil Aviation has revoked the license of Qatar Airways and ordered its offices to be closed within 48 hours. Qatari diplomats and nationals have been given 14 days' notice to exit some GCC countries.
- 3. BUSINESS TIES BETWEEN THE GCC NATIONS ARE NOW UNDER THREAT.** Gulf countries co-operate in a number of different industries. Questions over the operation of projects such as the Dolphin Energy pipeline (a joint venture which supplies natural gas from Qatar to the UAE) will now be raised. We have already seen the severing of some business ties – one of the UAE's biggest football clubs has announced it intends to break its sponsorship deal with Qatar Airways, some Egyptian banks have halted ties with Qatari banks and some ports are now barring all vessels carrying Qatari flags.
- 4. INVESTORS DO NOT LIKE IT.** An initial spike in global oil prices has since been tempered, but serves as a reminder that uncertainty and surprise does not sit well with investors. Qatar's main stock index fell by more than 7% on the news.
- 5. AND NEITHER DOES THE WEST.** Despite the US's show of support for Saudi Arabia, including several tweets from President Trump, the West wants the GCC to address its differences and stay united in the fight against terrorism. A split in the GCC bloc is exactly what Iran and its supporters have been hoping for.



What next?

QATAR'S REACTION

Qatar appears to have been taken by surprise and initially sought to criticise the move, calling it “unjustified” and “based on claims and allegations that have no basis in fact.” Qatar highlighted its commitment to the GCC charter – a statement which underscores the country’s focus on remaining a member state, in the face of uncertainty over its future within the bloc. Now the country is offering to have talks to resolve the situation.

LONG TERM IMPACT

As business and organisations with interests in this region scramble to deal with what is an unprecedented move between GCC nations, the long-term impact of this decision is not yet clear. What we do know is that the point has been made in the most public way possible and those making it are unlikely to back down. Kuwait has offered to host conciliatory talks and, given Qatar is also keen for dialogue, what happens next is down to Saudi Arabia and its allies.

NEXT STEPS

At the moment, given the fluid nature of the situation, we are continuing to monitor developments for clients and provide ongoing analysis. If you require any more insights, please feel free to get in touch with the Finsbury Middle East team.



MEA@Finsbury.com

