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TOP 100 GCC COMPANIES 2012

THE REGION'S TOP COMPANIES WITH COUNTRY ANALYSIS

Bahrain	BD 1.50
Kuwait	KD 1.20
Oman	RO 1.50
Qatar	QR 15
Saudi Arabia	SR 15
UAE	DHS 15

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QATAR 2022 REPORT: WILL THEY MAKE IT ON TIME?

THE ECONOMIC SPRING

Majid Jafar, CEO of UAE-based oil and gas company Crescent Petroleum, believes the Arab world's economic revolution is only just beginning, and private sector companies are driving the change.

TEXT BY **JOANNE BLADD**

Few businessmen found a silver lining in the Arab Spring. The uprisings, which swept more than a dozen countries in the region, froze economies, damaged trade links and caused the loss of tens of thousands of jobs. In the first year alone, the cost to revolution-hit nations reached $55 billion, according to consultancy Geopolicity.

However, for Majid Jafar, CEO of UAE-based oil and gas company Crescent Petroleum, the upheaval signalled potential. As Arab nations look to kickstart their stalled economies and ramp up job creation, he predicts the process will unlock a wealth of new opportunities for private sector companies.

"Some foreign companies may look at the region and see enhanced risk, but we see opportunity," he says. "Governments need to encourage investment and make progress very quickly – there isn't a lot of time and expectations are high. Whether it's Egypt, Tunisia or Yemen, we see a lot of potential in these economies as they begin to open up."

Crescent Petroleum is well accustomed to being a first mover. In the early 1970s, it was the first privately-held regional firm to secure petroleum concessions in the GCC. In April 2007, while oil majors fretted over Iraq's unstable political climate, Crescent quietly signed a deal to develop two gas blocks in the northern Kurdistan region, in partnership with its sister firm Dana Gas. Five years and nearly $1 billion of investment later, the Khor Mor gas field produces 80,000 barrels of oil equivalent per day. This feeds into local power stations to churn out 1,750MW of round-the-clock electricity for four million people across the region. It's a sharp contrast to the situation further south in Baghdad, where blackouts remain a daily irritation.

In 2010, Crescent inked a deal with Russian state-backed oil major Rosneft to seek joint opportunities in the Middle East and North Africa. The deal, which saw Crescent sign over 49 per cent of its onshore gas concession in Sharjah, marked the first major push into the region for the Kremlin's oil arm. The contract was closed in less than three months.

"We pride ourselves on our ability to move quickly, to take decisions quickly and to manage local risks – whether security, logistical or political risks – at lower costs than some majors," says Jafar. "We understand the risk profiles and we're better placed to negotiate them."

Last year's uprisings highlighted the dangers for Arab economies dependent on petrodollars, dominated by the public sector and failing to keep pace with their swelling labour forces. The Middle East has twice as many government employees per head as the global average and a dearth of private companies; less than one-third of the number per 1,000 people in Eastern Europe and Central Asia. The risks have been exacerbated as regional governments have sought to restore order by bolstering spending on wages, energy subsidies and food, putting fresh pressure on stretched state coffers and driving the case for economic reform.

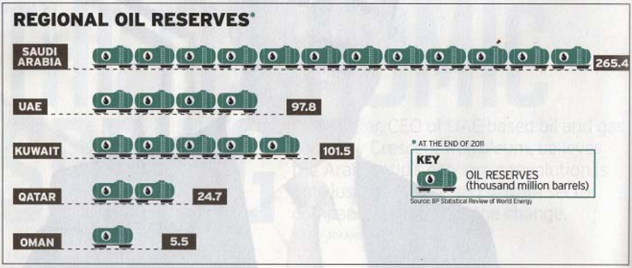
Middle East governments are arguably most dominant in the hydrocarbons sector, where a clutch of state oil companies control the bulk of regional oil and gas assets. But this, says Jafar, could be poised to change as the private sector picks up speed.

"We're now realising that the private sector is better able to manage any commercial venture more efficiently and cost-effectively and that creating monopolies of any kind creates waste," says Jafar. "The easy oil has been largely produced in the region. The new developments will require enhanced investment and there is no reason why the state should use its own money.

"The government's role, in my view, should be one of regulation. But it should resist the urge to be the operator and manager of commercial enterprises."

The end of so-called 'easy oil' in the Middle East bodes well for small and mid-cap players such as

PHOTOS: NAVEED AHMED



Crescent Petroleum. Companies are increasingly turning to enhanced-oil-recovery techniques to coax oil from geographically-challenging reservoirs and maintain production at mature fields. The cost can run into billions of dollars, making it a gamble for cost-conscious majors and potentially helping smaller, nimbler independents to gain a foothold.

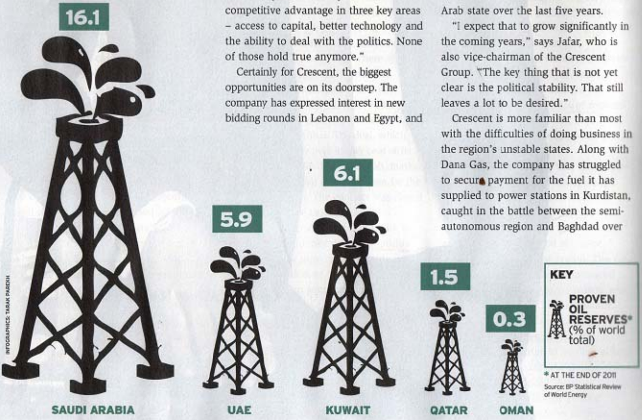
"The supermajors can't take advantage of moving quickly if it's not a billion barrels of oil. It doesn't make sense to them," says Jafar. "They used to claim competitive advantage in three key areas – access to capital, better technology and the ability to deal with the politics. None of those hold true anymore."

Certainly for Crescent, the biggest opportunities are on its doorstep. The company has expressed interest in new bidding rounds in Lebanon and Egypt, and is keeping a close eye on developments in Yemen and Sudan. In Iraq, the potential is "immense", says Jafar.

Crescent Group, the parent company of Crescent Petroleum, Crescent Enterprises and Gas Cities Limited, has invested more than $1.5 billion into the Arab state over the last five years.

"I expect that to grow significantly in the coming years," says Jafar, who is also vice-chairman of the Crescent Group. "The key thing that is not yet clear is the political stability. That still leaves a lot to be desired."

Crescent is more familiar than most with the difficulties of doing business in the region's unstable states. Along with Dana Gas, the company has struggled to secure payment for the fuel it has supplied to power stations in Kurdistan, caught in the battle between the semi-autonomous region and Baghdad over



Majid Jafar: "The youth bulge is both an opportunity and a threat."

INDUSTRIAL REVOLUTION

Industry is expected to play a key role in driving a new era of economic growth in the Middle East, and Crescent Petroleum has been quick to capitalise on its potential. In 2005, the company joined with Dana Gas to launch a series of gas-based industrial clusters across the region. The Gas Cities projects, which are still in the planning stages, are earmarked for Iraq, Yemen and Egypt, and potentially Libya. The aim is to utilise locally-produced gas to create downstream industries, drive job creation and attract foreign investment. It's in stark contrast to hydrocarbons deals with many majors, which focus on the export of oil and gas.

"Our priority is to address local needs first – we think that makes for good business, and it makes economic sense," says Jafar. "Even in terms of affordability, when you can get from industry versus exports, it's often the case that industry is the better option. It pays better, and it's easier to finance. Exports should only be considered when you've met local needs."

oil rights. Listed Dana said in its 2011 end-of-year results that trade receivables stood at Dhs1.74 billion (about $474 million), of which more than half was owed by Kurdistan.

Baghdad pledged in September to resume payment to foreign firms working in the region in exchange for the Kurdistan Regional Government guaranteeing oil exports. The deal is a small step towards resolving the political bickering that has crimped the growth of Iraq's oil and gas sector, but has been received cautiously by Jafar.

"It's good news, but we have to be prudent," he says. "We can't – based on previous experience – depend on it. In 2011 there were two payments and then nothing happened, and then one payment. It's not a reliable income stream."

Dana has also felt the pinch of receivables in Egypt. The operator, which is 21 per cent owned by Crescent Petroleum, is owed millions of dirhams by the Egyptian government after the crisis-hit state failed to keep pace with payments to foreign oil and gas companies. Dana's income woes raised questions over the firm's ability to repay a $1 billion sukuk that matured in October. The company had previously said it would seek a "consensual solution" on the bond but, at the time of writing, had yet to clarify details of the arrangement.

"The issue Dana Gas has faced is not one of solvency, but of liquidity," says Jafar, who is a member of the company's board of directors. "It's in discussions with bondholders on the best way forward."

For now, Jafar's sights are firmly on the long game. As a member of the World Economic Forum's Global Agenda Council on Youth Unemployment, he is keenly aware of the risk created by the Middle East's demographic time bomb. More than 100 million jobs must be created in the next 20 years if the region is to absorb its youth bulge, the bulk of which will need to come from the private sector. To enable this, Arab governments have much to do to. Pressing issues include reforming outdated bankruptcy laws, slashing red tape and closing the gap between inflated public sector wages and those offered by the private sector.

"My own hope as a businessman is that we will start to look at the underlying economic issues," says Jafar. "The role of government is to create the right policies and environment so the private sector can flourish and absorb the young people in productive employment. Using government funds to employ more within the public sector is not sustainable.

"I see opportunity and potential but I also see risk," he adds. "It's not Iran, or the Palestine peace process, or the revolutions per se. Our youth bulge is an opportunity and a threat."

"We're now realising that **the private sector is better able to manage any commercial venture more efficiently and cost-effectively** and that creating monopolies of any kind creates waste"