

## YEMEN

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Yemen, now notorious as the birthplace of Osama bin Laden's father, remains one of the poorest Arab countries. Post-September 11 events have made Yemen newsworthy including the bombing of the USS Cole in Aden and the hunt for al Qaeda members. More recently, the October 6, 2002, terrorist attack on the French oil tanker Limburg as it prepared to receive crude oil from Nexen's Ash-shihr export terminal off the Yemeni coast has boosted insurance premiums 300% for vessels docking at a Yemeni port. Consequently, wherever possible shippers are bypassing Yemen for the rival ports at Djibouti and Oman. This has resulted in a 50% decrease in port activity and a loss of revenue of approximately US\$3.8 million per month. Meanwhile, the Bush Administration is keeping up pressure on Yemeni President Ali Abdullah Saleh for greater assistance with its anti-terrorism efforts.

With this backdrop, the Yemeni Government continues to implement an economic reform programme that it agreed with the IMF in 1995 as a condition for lending. The programme includes banking reform, privatisation of state-run industries, major infrastructure investment, and reduction or elimination of government subsidies. Yet, security concerns and high project risk have been a drag on investment -- Yemen's real gross domestic product grew 4.6% in 2001 and an estimated 3.6% in 2002.

Yemen's economy is dependent on its oil and natural gas resources as well as the country's strategic location at the Bab el-Mandab strait linking the Red Sea and the Gulf of Aden, one of the world's most active shipping lanes. With proven oil reserves of 4 billion barrels, Yemen's oil output of 452,521 barrels per day (bbl/d) in 2001 provides the main source of hard currency revenue. The Masila block is the country's most productive, followed by the Marib-Jawf; operators include Hunt Oil, Hunt/Jannah, TotalFinaElf, Nimir Petroleum, and Nexen (formerly Canadian Occidental) with Nexen and Hunt Oil being the largest. Nimir Petroleum is inclined to divest its interest since it has not been able to expand production. In 1999, Algeria's Sonatrach signed an agreement with Italy's ENI on sharing exploration and production in the south and in that year the government also signed a memorandum of understanding with Australia's Oil Search Ltd. and the UAE's Mohammed al-Otaibi Group to explore for oil in offshore Block 15 as well as with Adair International Oil and Gas of Houston on Block 20 and seismic survey work is being done.

DNO, a Norwegian independent, recently began production at the Tasour field that came on stream in November 2000, and Dove Energy of the UK reported a discovery in the next month in Block 53 in eastern Yemen. Yemen's border demarcation treaty with Saudi Arabia has opened up new exploration areas and Nexen signed a memorandum of understanding in January 2001 covering Block 59 next to the border.

Yemen has a crude refining capacity of 130,000 bbl/d based on two small, dated, and deteriorating refineries -- Aden Refinery Co. (ARC) in Aden with a capacity of 120,000 bbl/d and Yemen Hunt Oil Co. at Marib, with a capacity of 10,000 bbl/d. The Yemeni Government has backed away from plans to privatise the Aden refinery, but may offer a partial stake to private investors at some point. However, in November 2001 Yemen signed a contract with United Co. for Petroleum Investment (UCPI) for a new 100,000 bbl/d refinery in Hadramawt. UCPI represents a consortium of investors from Saudi Arabia and the United Arab Emirates. The US\$895 million project is to be built in two phases, and would eliminate Yemen's need for imports of refined petroleum products, as well as providing refined products for export. There are also plans for a refinery project for Ras Issa on the Red Sea. Most of Yemen's gas reserves of 16.9 trillion ft<sup>3</sup> are in the Marib-Jawf fields operated by Yemen Exploration and Production Co. While there is no production of natural gas, the gas extracted by Hunt Oil from oil production is re-injected. Natural gas reserves are 16.9 trillion cubic feet. Planned completion for a US\$5,000 million liquefied natural gas project to develop natural gas from the Marib-Jawf and Jannah fields, and transport it via pipeline to Bal Haf, is due to be completed in 2003.

In the mid-1990s, Yemen formulated mining legislation guaranteeing the rights of private property in the mining of most mineral commodities. The royalty rate due to the government in any mining operation is 5% on precious metals and 3% on other minerals. The precious stone and hydrocarbon industries remained the exclusive domain of the government. In an effort to accelerate exploration and development, the government entered into multiple-exploration and production-sharing agreements with private companies offering both expertise and capital. Subsequently, the *Yemen Times* reports that recent geological surveys conducted in Yemen have identified prospects for gold, copper, iron and zinc. Significant gold resources have been discovered in the al-Harith area, as well as in the al-Faigh, north of sa'da and in al-Hamour sector in the Taiz district. Zinc has been identified in the Mareb district. However, the report concludes that local tribal fighting has discouraged further work and investment in the mining sector.

Consequently, there have been no further developments since Cantex Mine Development Corp.'s geochemical results for nickel, cobalt and copper from the sulphide/gossan horizons at Wadi Qutabah layered complex in 2001. The company was encouraged that the iron sulphides can contain potentially commercial nickel, cobalt and copper values, and started a programme of systematic gully and pit sampling for analysis. The Sadah region contains similar rocks to those that host the Saudi Arabian Al Masane and Dhahar copper-zinc mines some 100 km to the north. Cantex's Al Fayd gold project is located in the region and it has discovered several areas containing anomalous gold, copper, nickel, platinum group elements in heavy mineral samples. At Suwar, Canadian Mountain Minerals, Yemen Ltd, a subsidiary of Cantex Mine Development Corp., stated that scout mapping along a northerly trending anomaly obtained previously by Falconbridge, has identified gossans and malachite staining at various locations; the company suggests the nickel-

copper-cobalt mineralisation identified and drilled at Suwar extends more than 1,000 m north of the drill sites, hence the interpreted mineralised zone there is now more than 2.7 km long. No further activity has been announced.

Yemen has a modest mineral output that includes dimension stone (limestone, marble, basalt and granite), gypsum at Salif and Khulalah, and salt at Salif. Yemen's cement industry consists of three main factories -- Bajil Cement Factory (250,000 t/y), Amran Cement Factory (500,000 t/y), and Al-Burg (500,000 t/y). The total annual capacity of 1.25 Mt/y satisfies about 70% of domestic demand.

A tribal society with large areas outside the government's full control and in the north increasingly under the sway of a more puritanical Islam, Yemen is trying hard to co-operate with investigations into terrorism. (However, in April 2003, ten key suspects in the bombing of the USS Cole escaped from a prison in Aden triggering a massive manhunt in the country.) Yemen remains an unusual Arab state that integrates rather than suppresses its Islamists, who have their own political party and the largest opposition party. More troops have been stationed in three suspect regions and there has been a government crackdown on religious institutions, with numerous foreign students deported and stricter visa requirements imposed to prevent suspected militants from entering the country. This has given President Ali Abdullah Saleh a possible opportunity to exert his leadership and extend his authority over the mountainous tribal areas, as well as dealing with tribal kidnappers. The country's millions of firearms have also been banned from cities. He realises the country paid a heavy price for its verbal support for Iraq in the first Gulf War, yet he treads a fine line since he needs tribal backing and the country has been able to maintain something of a political balance with its old inclusiveness.

The north-south divisions also remain, despite President Saleh's conciliatory attempts. In the south there has been grumbling about senior posts in Aden falling into northern hands, while officials in Sanaa retort that south Yemen was over-represented in the old bloated civil service. The south still recalls the pre-eminence it enjoyed when the British ruled Aden for 128 years and it was the world's largest port after New York; and with Marxist rule it was a major Soviet naval base in the region unlike today, although the President has declared Aden a duty-free zone and is encouraging development. The new deepwater container terminal on the north shore of Aden has been seen as a way to restore Aden to its former glory and be a key element in the country's economic development.