

Central Intelligence Agency



Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

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NORTH YEMEN: IMPLICATIONS OF
A SIGNIFICANT OIL DISCOVERY

Summary

Embassy reporting suggests that a US firm may have discovered oil in North Yemen near the border with Saudi Arabia and South Yemen. If North Yemen should discover oil reserves comparable to those in southern Oman, it would have a substantial impact on the country's economy, internal politics, and relations with Saudi Arabia and the United States. It would be at least three to four years, however, before substantial quantities of oil could be exported because North Yemen would have to develop the oil field and build oil pipelines and shipping facilities. [redacted]

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This memorandum was prepared by [redacted] the Office of Near Eastern and South Asian Analysis in response to requests for our preliminary assessment of the implications of an oil discovery in North Yemen. Comments are welcome and may be addressed to Chief, Persian Gulf Division [redacted]

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Economic Implications

A US firm is drilling for oil in the eastern portion of North Yemen in the Ma'rib desert. The US Embassy in Sanaa reports that already there has been a significant show of hydrocarbons, including a gas flare of several hundred feet, according to other reports. Further testing will be required to determine the quantity and quality of the reserves. According to the Embassy, the company's break-even point would be the discovery of a quarter of a billion barrels of oil and daily production of around 100,000 barrels. We speculate that the size and type of oil deposits in North Yemen would resemble those found in southern Oman. Proved, recoverable reserves in the Dhofar region of Oman are about 1 billion barrels and consist mainly of heavy oil. Reserves of this magnitude would support a production rate of 120,000 barrels per day for 20 years.

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Although such a discovery would be insignificant as far as the world market is concerned, it would be of major significance to North Yemen. Once the oil revenues started flowing, Sanaa would be less beholden to foreign aid suppliers, and President Salih's development program would no longer be threatened by the country's precarious financial position. (See box.) New employment and trade opportunities would develop from the boom in the oil and construction industries. Smuggling and black market trade probably would decline as import controls could be relaxed once oil revenue begins to mount.

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North Yemen's Economy

North Yemen is one of the world's least-developed countries--per capita income was less than \$500 in 1982. In addition, Sanaa has one of the world's worst trade imbalances, with exports typically covering less than one percent of imports. With worker remittances declining, foreign exchange reserves have fallen from \$1.5 billion in 1978 to \$313 million in October 1983, and are sufficient to cover only two or three months of imports. Inadequate revenues forced Sanaa to abandon its 1983 budget and cut back imports.

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North Yemen has little prospect of improving its economic situation without an oil discovery. Foreign aid, on which Sanaa relies for economic relief, was \$900 million in 1983, about half the 1982 level, and new commitments for 1984 are unlikely. If more foreign aid is not forthcoming, and the current drought continues, we expect that economic growth in 1984 will be negligible.

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Although the construction of oil facilities might take three to four years to complete, North Yemen's economy would still

benefit in the interim. We believe Sanaa would obtain foreign aid and loans more easily as its ability to repay debts improved. In the early stages of construction, contractors might provide their own financing and the need for infrastructure and building materials probably would stimulate imports and foreign trade.

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The repatriation of Yemenis working abroad would be a mixed blessing for the government, in our view. We expect that many of the estimated 700,000 North Yemenis who work in Saudi Arabia and the smaller Persian Gulf states would return to North Yemen in anticipation of oil boom jobs. Their return would provide a ready supply of labor, but also would burden North Yemen's economic and social infrastructure and reduce the income from worker remittances.

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Internal Politics

President Salih almost certainly would use an oil find to strengthen his hold on power by taking credit for the discovery and the resulting economic growth. We believe economic modernization based on oil revenues would reduce the political importance of Yemeni tribes and increase the importance of Western-educated technocrats in the central government. We believe a major oil find would also increase the already substantial political influence of North Yemen's military, because the military is Salih's power base, and he would spend some of the early oil revenues on weapons.

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North Yemeni-Saudi Relations

We judge that an oil discovery would lead to reduced Saudi influence, as North Yemeni dependence on Saudi financial aid declined. Even before a discovery would be exploited, North Yemen would seek greater independence from Riyadh, although Sanaa would still be constrained by its need for Saudi financial aid until oil revenues began to flow.

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The Saudis could try to retain their leverage by increasing the subventions they currently pay to prominent North Yemeni tribal leaders and politicians, or by increasing project aid. Riyadh might also press for immediate concessions on outstanding issues, such as border demarcation, out of concern that its bargaining position would deteriorate as North Yemen became more financially independent.

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The Saudis' longstanding fear of an independent North Yemen could lead Riyadh to overreact to a discovery. Riyadh might attempt to persuade Washington to encourage the US firm to cease its operations, arguing that the exploration was in territory claimed by Saudi Arabia. Alternatively, the Saudis might move troops to North Yemen's borders, as they did after an incident in late December, although Riyadh probably would not seek a major military confrontation. It is possible, though unlikely, that

the Saudis would tacitly encourage North Yemeni military and tribal leaders to move against Salih in the event that Salih pursued policies inimical to Saudi interests, such as greatly expanding ties to the Soviet Union. Riyadh almost certainly would feel threatened by the inevitable North Yemeni purchases of sophisticated weapons systems, especially if they came from Moscow.

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North Yemeni-South Yemeni Relations

We judge that an oil find would encourage Sanaa to improve relations with Aden. A reunification of the two Yemens almost certainly would not result, although discussions of unity probably would increase markedly because Sanaa would seek to express its independence from Riyadh.

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We believe South Yemen would try to strengthen its recent rapprochement with Sanaa. South Yemen might offer to allow North Yemen to build a pipeline to Aden, which has a refinery and harbor well suited for oil exports. We doubt that North Yemen, however, would be likely to allow its oil exports to become dependent on Aden's goodwill.

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Aden would also seek to build goodwill with the US firm working the North Yemen concession. The same firm may conduct exploration in South Yemen, and the geology of the North Yemeni-South Yemeni border is such that an oil find in North Yemen would suggest the presence of oil in South Yemen as well.

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Implications for the United States

We judge that an oil discovery--and reduced Saudi influence in Sanaa--would help bring about a more direct US relationship with North Yemen. The US agreement in 1979 to supply arms to North Yemen has led to problems among Washington, Riyadh, and Sanaa. Spare parts and maintenance for North Yemen's US-made equipment are funded by Riyadh, and the Saudis hold back on parts and repair to influence North Yemen's policies. A more direct relationship with Sanaa, however, probably would require high-level discussions with Riyadh to define Washington's relationship with both countries. We would expect Riyadh to continue to discourage more direct ties between Washington and Sanaa.

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The extent to which the US is able to respond to Sanaa's desires for a relationship independent of Riyadh's influence largely will determine the future of North Yemeni-Soviet relations. An expanded US presence in North Yemen would reduce the possibility that Moscow could increase its already substantial presence at the expense of US interests. Moscow has about 500 military advisers in North Yemen, and most North Yemeni military officers are Soviet trained. We judge that any perceived reluctance by the United States to expand ties with North Yemen would cause Sanaa to turn to Moscow for increased technical aid, weapons, and political support.

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