



MEMORANDUM

October 16, 2014

To: Senate Energy and Natural Resources Committee

From: Jeremy M. Sharp, Specialist in Middle Eastern Affairs, Foreign Affairs, Defense, and Trade Division

Subject: **Yemen: Sabotage of Oil Infrastructure and Domestic Politics**

Per your request, the following memorandum analyzes attacks against oil infrastructure in Yemen. If you have additional questions, please contact me at the extension listed above.

Overview

In Yemen, both before and since its 1990 unification, domestic production and transport of hydrocarbons have been risky.¹ This is mainly due to the nature of Yemeni society, in which tribal law and customs predominate in rural areas where the government must negotiate with local leaders for access. Although the central government depends on hydrocarbon royalties for 60% to 70% of all government revenue, there are hundreds of non-governmental groups (tribes, separatists, terrorists) who are able to sabotage the country's energy infrastructure in order to extract concessions from either the government or foreign investors. For example, independent tribes periodically attack oil and natural gas pipelines in order to pressure the central government to provide jobs to tribesmen, settle land disputes, or free relatives from prison.

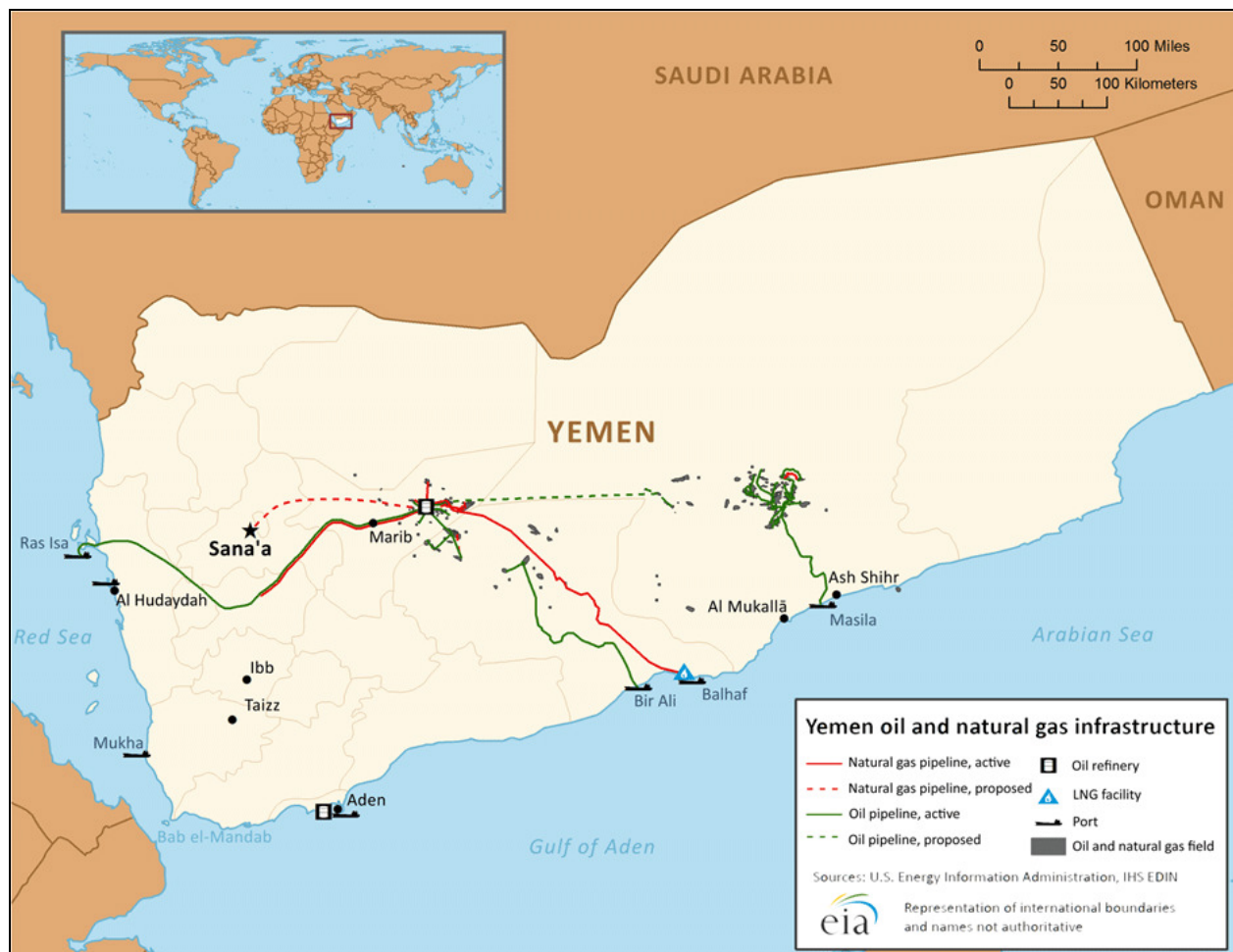
Over the past three years, as Yemen has experienced varying degrees of political unrest and transition, peripheral actors have been emboldened to challenge the center and have repeatedly attacked the nation's energy infrastructure. The Yemeni central government, as a result, has fallen further into a cycle of weakness and indebtedness; sabotage has led to declines in oil production, which has forced a government already in fiscal deficit to import oil at market prices it cannot afford. In need of funds, the central government has appealed to the international community to meet its most basic needs. Opposition leaders, some of whom may even be linked to these attacks, have then, in turn, accused the government of mismanagement and foreign dependence.

¹ "Targeting Oil in North Yemen: Dodging Missiles and Lesser Weapons, Texas Firm Strikes It Rich," *Washington Post*, January 2, 1988. In 1990, North and South Yemen united to form a single country after the end of the Cold War.

Attacks against Oil & Natural Gas Pipelines

Yemen’s main oil export pipeline is informally called the Marib (alt. sp. Ma’arib, Maarib) pipeline. The 272-mile pipeline begins at a refinery² in Marib province (east of the capital) and extends westward through difficult highland terrain until it reaches the Red Sea oil terminal of Ras Isa. Its capacity ranges between 70,000 and 90,000 barrels per day (bpd). Because of its financial importance as the main conduit for the country’s oil exports, the pipeline is frequently attacked by independent tribesmen or tribes allied with former President Ali Abdullah Saleh, who stepped down from power in 2012 but still wields influence as head of the country’s former ruling party. Yemen’s natural gas pipeline, which leads to its liquefied natural gas (LNG) terminal at Balhaf in the Gulf of Aden, also is frequently attacked. In 2012, LNG production was halted for nearly six months due to sabotage, damaging both exports and domestic electricity production generated from gas-fired power plants.

Figure 1. Yemen’s Energy Infrastructure



Source: U.S. Energy Information Administration (EIA), September 25, 2014.

² Yemen’s other and much larger refinery is in the port City of Aden.

Although Yemen's domestic production and export of oil have dropped for a number of reasons (lack of investment, theft, natural depletion of wells, lack of new exploration), sabotage has been a significant factor in the decline. In 2013, Yemen exported 124,000 bpd; a decade earlier it was exporting more than 350,000 bpd. According to the U.S. Energy Information Administration (EIA), "The combination of declining production in its mature fields and frequent attacks on its energy infrastructure has left Yemen's oil sector in poor shape. In 2013, there were at least 10 attacks on Yemen's oil and natural gas pipeline system, and some industry sources estimate closer to 24 attacks. In 2012, there were more than 15 attacks, and oil exports were completely offline for most of the first half of the year."³

Yemen's Oil Ministry estimates that sabotage has cost the government billions of dollars in import replacement and repairs. In December 2013, the ministry claimed that sabotage had cost the government \$4.75 billion over a two-year period between March 2011 and March 2013. The government said that bombings against the Marib pipeline alone had cost the government about \$400 million in lost revenue for the first quarter of 2014. According to one report, in 2013 Yemen actually spent more on oil imports (\$2.93 billion) than it earned from oil sales at home and abroad (\$2.66 billion).⁴

Impact of Domestic Politics and Internal Stability

Oil and the Al Houthi Conflict: The Al Houthi rebels⁵ have used popular discontent from higher oil prices and fuel shortages to increase public support for their recent military campaign against the government. During the summer of 2014, the government cut fuel subsidies in compliance with the conditions placed on a \$553 million International Monetary Fund loan at a time when the public had already been frustrated by fuel shortages partially stemming from sabotage. The Al Houthi marched into the capital protesting the subsidy cuts and then pressured the government into appointing new cabinet ministers partially of Al Houthi choosing. Currently, their military campaign continues as the Al Houthi have taken the port city of Al Hudaydah, putting their forces within range of the Ras Isa oil export facility. As a result, the group may threaten to target the facility unless it receives a greater share of oil revenue.

Oil and Terrorism: In recent months, the Yemeni affiliate of Al Qaeda (Al Qaeda in the Arabian Peninsula, or AQAP), has moved eastward into Hadramawt province, a huge area that accounts for half of all known Yemeni oil reserves and where the Masila pipeline (capacity of about 120,000 bpd) originates. In October 2014, AQAP carried out several bombings against government troops located in the province, and many observers expect the terrorist organization to sabotage hydrocarbon infrastructure there.

Oil and Southern Separatists: Since 2007, a group calling itself the Southern Mobility Movement has called for secession, charging the central government with neglect of the southern provinces, particularly when it comes to revenue sharing from oil produced or transited across southern areas. Many of the country's ports are located in the south, as are the country's main oil refinery and LNG facility.

³ <http://www.eia.gov/countries/cab.cfm?fips=YM>

⁴ "Tribal Attacks and lack of Investment Plague Yemen's Oil Industry, *Financial Times*, March 25, 2014.

⁵ For a decade, the Al Houthi family, a prominent Zaydi religious clan who claim descent from the prophet Muhammad, have led an armed revolt against the central government. The family seeks to redress historical grievances committed against Zaidis, expand their political base in their home province of Sa'da and beyond, and counter Saudi Arabian "Wahhabi" or "Salafi" influence in Yemen. More recently, the Houthi have been opposed to President Hadi's efforts through the the National Dialogue Conference to create six federal regions in Yemen, whereby the Houthi's home province of Sa'da would be absorbed into a region tied to the capital.

As Yemeni politicians draft a new constitution, one of the most contested issues is federalism. President Hadi has suggested dividing the country into six federal regions, four in the north and two in the south (the capital of Sana'a would be a seventh region all its own). Southerners who support federalism believe in a two-federal-region plan dividing the country between north and south, while more radical secessionists have held demonstrations calling on the United Nations to recognize the right of southerners to self-determination.⁶ So long as large portions of the southern population remains aggrieved and internal governance issues remain unresolved, Yemen's key hydrocarbon facilities will continue to remain at risk.

⁶ Charles Schmitz, "Yemen's National Dialogue," *Middle East Institute*, March 10, 2014.
