

THE WALL STREET JOURNAL.

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <http://www.djreprints.com>.

<http://www.wsj.com/articles/oil-companies-begin-to-give-up-on-yemen-1425480765>

BUSINESS

Oil Companies Begin to Give Up on Yemen

Firms including Occidental and OMV evacuate staff amid unrest



A Houthi fighter in front of the U.S. Embassy in San'a, Yemen's capital. PHOTO: ASSOCIATED PRESS

By **SUMMER SAID** and **HAKIM ALMASMARI**

March 4, 2015 9:52 a.m. ET

The political upheaval in Yemen has dealt a powerful blow to the country's oil industry, forcing companies to abandon productive oil patches and evacuate staff as a rebel group consolidates power.

Houston-based Occidental Petroleum Corp., which has been operating in Yemen for nearly three decades, flew its staff out of the country in January, executives and local officials said, after gunmen stormed its compound in the capital, San'a, where Houthi militants have tightened their grip on power.

Since then, executives and local officials said, Norway's DNO ASA, Dove Energy Group of Dubai and Nexen Inc., which is owned by China's Cnooc Ltd., are all moving to relinquish their rights to blocks that produce thousands of barrels of crude a day.

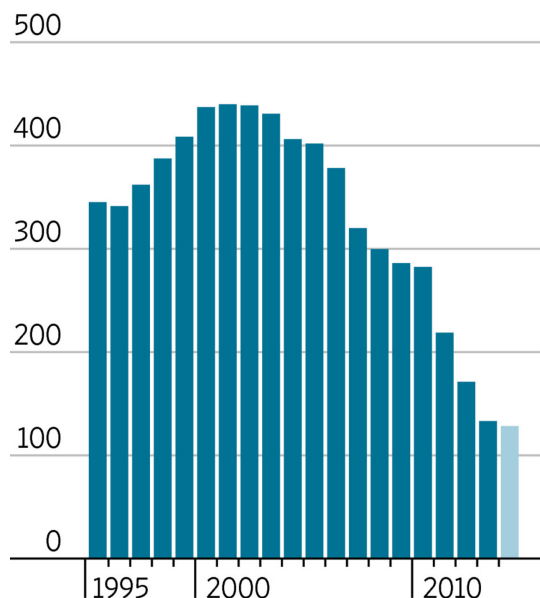
Meanwhile, Austrian energy company OMV AG, which produces about 22,000 barrels a day in Yemen, has evacuated most of its expatriate staff and scaled back its operations.

"Yemen at the moment is a very difficult environment," said OMV's head of exploration and production, Jaap Huijskes, in a call with reporters last month.

After nearly four years of violence and political fracturing in Yemen, company executives and experts said the security situation has reached a tipping point, especially for producers with smaller fields. Pipelines and oil blocks are under continuous attacks from

Downward Spiral

Total Yemen oil supplies, thousands of barrels per day, on average



Figures through October

Source: U.S. Energy Information Administration

THE WALL STREET JOURNAL.

tribesmen or groups affiliated with al Qaeda seeking to discredit the government and disrupt a source of revenue.

“It is difficult to see how Yemen’s oil industry can survive a descent into chaos or a breakup of the country,” said Robin Mills, head of consulting at Dubai-based consultancy Manaar Energy. “Avoiding the worst outcomes will require a radical rethink of how the oil industry operates and how its resources are distributed.”

The stakes have been raised since the rebel Houthis, who are at odds with al Qaeda, took control of San’a by force last year. Yemeni President Abed Rabbo Mansour Hadi, with support from the U.S., Saudi Arabia and other Persian Gulf countries, is trying to mount a comeback from the coastal city of Aden. Meanwhile, much of the country is under tribal rule.

The oil-company exodus has

hastened the decline of the petroleum industry in Yemen, where some saw the emergence of a new Middle East oil powerhouse in the 1980s. But the country’s oil fields peaked about a decade ago, and the industry has since been hampered by aging fields, corruption and sabotage.

Yemen, a relatively small oil producer by Middle Eastern standards, saw output fall to around 130,000 barrels a day last year from nearly 300,000 before the start of armed conflict in 2011, according to the U.S. Energy Information Administration. The country’s oil-export revenue—which accounts for 90% of its foreign-currency earnings—fell by \$1 billion in 2014, down 37% from 2013, according to the Central Bank of Yemen.

RELATED

- U.S. Ambassador to Yemen to Operate Out of Jeddah (March 4)
- Yemen Leader Suggests Riyadh as Possible Venue For Talks With Rebels (March 3)
- Houthi Leader Accuses Saudi Arabia of Destabilizing Yemen (Feb. 26)

Oil companies such as Occidental are leaving a country where they have longstanding relationships. Others, like Nexen, had

relatively small blocks. Nexen, which is based in Calgary, Canada, was producing only half of its block’s 6,000-barrel-a-day capacity and decided to hand over all operations in Yemen to state-owned Petro Masila last month, though the production contract in the country extended through 2023, officials said.

A Nexen spokeswoman said that the company’s Yemen block “is not economic” and that the company would work with its employees and government to “safely transition the operations.”

Several oil companies have decided to stay, including Total SA, the country’s biggest producer at about 40,000 barrels a day. Total has been talking to Houthi officials since October, two weeks after the rebels seized power in San’a, according to Houthi officials.

An official at another company staying in Yemen said smaller producers were leaving the country, but “companies with production exceeding 25,000 barrels would think twice before leaving Yemen.”

Adding to uncertainty for oil producers, the Houthis control the Bab-el-Mandeb, the strait connecting the Gulf of Aden to the Red Sea and a route for oil tankers heading to the Suez Canal.

Houthi leaders say they plan to keep the Bab-el-Mandeb open to shipping traffic and are looking to take over Yemen’s oil country in the north, including Marib, where the nation’s main pipeline carries up to 100,000 barrels a day to the Red Sea port of Ras Isa.

Houthi leaders say they can provide more safety from al Qaeda attacks, setting up a showdown with tribal leaders who say they will defend their territory.

“Foreign companies leaving Yemen is a political decision and not a security one,” Abdullah Shaban, the head of the Houthi Oil and Gas Committee, said in an interview. “We will not threaten or harm foreign interests in Yemen but rather ensure that their operations do not go against the Yemeni law.”

They also say Yemen’s oil industry is corrupt, with companies not only paying the central government for rights to drill and produce in the country, but also paying tribal leaders for security. In Marib, those payments total about \$1 billion a year, local officials said. Tribal officials say the Houthis simply want a cut for themselves.

Write to Summer Said at summer.said@wsj.com

Copyright 2014 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our Subscriber Agreement and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com.