YEMEN
POISED TO PROSPER

At the crossroads of Africa, the Middle East and Asia, the Republic of Yemen was a major trade route for thousands of years thanks to its key position on the ancient spice routes. Following the formal reunification of North and South Yemen in 1990, the country has been modernizing and opening up to the outside world. Today Yemen is a model for democratic transitions in the Middle East and is edging its way closer to World Trade Organization accession.

Saleh: Taming the Lion

On July 17th 1978, Ali Abdullah Saleh, at 36 years old, was elected President of a war-torn and troubled North Yemen by the Yemeni People's Assembly. The country was in a critical situation with pundits writing it off as ungovernable following the assassination of several of Saleh's predecessors and a spate of coups. Prior to Saleh assuming office, the longest serving president of Yemen had not even exceeded three years in the position and, at the time, the international press mischievously gave him no more than six months at the job. By 1990 however, Saleh had united a feuding South and North and was sworn in as President of the newly reunified Yemen.

It took more than a decade of intense diplomacy and a series of summits at home and abroad for Saleh to achieve this goal. With national unity, Saleh finally put an end to the many civil wars and internecine conflicts that dominated the modern history of the two Yemens.

Meanwhile, Saleh sought to carve out an international profile for Yemen and in 1988 brought North Yemen into the Arab Cooperation Council alongside Egypt, Iraq and Jordan.

But only one year after the reunification of North and South, the Yemeni government refused to join the coalition against Iraq in the Gulf War. As a result, Saudi Arabia imposed heavy sanctions on Yemen, wreaking havoc on the country's economy as hundreds of thousands of Yemeni expatriates were sent back home. More than a decade later, Yemen was keen not to make the same mistake twice.

The last 15 years have also seen the peaceful settlement of border disputes with Saudi Arabia and Oman. Although patience was severely tested when Eritrea invaded Yemen's Hunaish Islands in 1997, Saleh chose diplomacy over military action and the islands were peacefully restored to Yemen.

Yemenis have a proverb: "governing Yemen is like riding a lion: once you get on you cannot get off." Not surprisingly, over the years, President Saleh has been faced by many threats to the country's unity and has had to work hard to heal the rifts of a divided nation by resolving ethnic troubles mostly through dialogue and the use of mediation committees. Preservation of Yemen's unity has required a delicate balancing act and the President has been able to assuage the interests of tribal factions by bringing them into government and involving them in the democratic process. Respect for human rights, freedom of the press, women's participation and a constitutional amendment to include direct presidential votes and two terms of presidency are all changes swept in during this period of reform. A formal opposition now exists which President Saleh often describes as "the other face of government."

Economic growth has been relatively steady, and infrastructure, living standards and internal security have all improved considerably – a remarkable feat considering the enormous challenges facing a country ranked amongst the world's poorest. Thirty years ago, there were less than 300 miles of paved roads, today there are over 6,000 miles and it is said that the President is so proud of them he can reel them off one by one. Limited oil wealth has helped keep the economy afloat but also spared Yemen from "Dutch disease." Nonetheless, in recent years, and acting on the advice of the World Bank, President Saleh has pushed for diversification into other key sectors of the economy, namely tourism and fisheries.

Meanwhile, the President has been keen to push Yemen's economic reform agenda although, admittedly, progress has sometimes been slow due to political opposition. As a result, the World Bank and the International Monetary Fund have continued to work with Yemen in a number of areas such as structural reform, the establishment of a Yemeni stock market, debt reduction and poverty eradication. Today, Yemen has the largest portfolio of World Bank projects in the region. In addition, earlier this year, on World Bank advice, the government cut fuel subsidies and approved a new strategy for jobs, wages and salaries in the face of widespread public opposition. Saleh's government argued that these reforms, together with the lifting of tariffs on a list of goods and commodities, were deemed necessary for Yemen's proposed entry to the World Trade Organization.

In recent years, President Saleh has been keen to establish stronger ties with the United States, joining the fight against terror in the aftermath of 9/11. Meeting with George Bush barely months afterwards, Saleh reiterated Yemen's condemnation of the attacks. Of course, Yemen has first-hand experience of the devastation terrorism inflicts – following the bombings of the U.S.S. Cole in October 2000 and the French Supertanker Limburg in 2002, Yemen's economy took a bad hit. The need to reinforce security in the region encouraged the United States to help equip and train a fledgling Coast Guard in Yemen, as well as provide financial assistance.

Previous meetings between Bush and Saleh have naturally focused on security cooperation and Yemen's role as a frontline partner in the coalition against terror. As a result of this cooperation Yemeni authorities have prevented a number of terrorist attacks both inside and outside the country. Efforts commended by the United States' administration include the establishment of a counter-terror tribunal and assistance in the investigation of the U.S.S. Cole bombing and the government's commitment to uprooting terrorism at home. In September 2004 the two leaders discussed the United States' initiative for promoting democratic change and economic reform in the greater Middle East. Saleh's government maintains that Yemen, with its nascent democracy, could become a role model for the rest of the Middle East, but that, in order to achieve this, it needs more support.

After riding the lion for so long, President Saleh now looks set to defy the famous Yemeni proverb. In June he said he would like to step down when the next elections are held: "I am tired, I would like to rest, it's time for the country to be ruled by younger leaders."

Oil and Gas in Yemen: Keeping Up the Pace

Oil income makes up an estimated 70 percent of total Yemeni government revenue. With proven crude oil reserves of four billion barrels (according to the Yemen Ministry of Oil and Mineral Reserves - MOMR) and 16.9 trillion cubic feet of proven gas reserves, the country produces some 405,000 barrels per day (bpd). But with ink still fresh on the signing of a $3.5 billion liquefied natural gas plant, Yemen is also set to become a player on the global liquefied natural gas (LNG) market with the completion of a two train plant by 2008 exporting 6.2 million tons of LNG annually to the United States and Korea.

Crude oil reserves are concentrated in five areas: Marib Jawf in the north, Jannah and Iyad in central Yemen and East Shabwa and Masila in the south of the country. Yemen is divided into 84 blocks, of which only half have been licensed for exploration and production. Production has been declining slightly over the last few years, yet the MOMR believes that there is much more potential than the proven four billion barrels. Pundits point to the oil industry's experience in the North Sea where 15 years ago experts were predicting the demise of reserves by the end of the 1990's and where today, production is even higher than it was then. The MOMR hopes to see similar or even better results in Yemen and may soon be proved right. A company that is optimistic about its future here is France's Total. Although only producing 38,000 bpd, Total has increased production by 50 percent in the last year alone and recently discovered basement oil, so called because of the unusual formations it is stored in. The last round of bids for blocks on offer proved more successful than ever, in part because of this new discovery. The MOMR is fully supportive of those wishing to invest in the sector and the Deputy Minister of Oil and Minerals, Eng. Abdulmalik M. Alama states "The government is ready and willing to give and take objectively any new and pioneering proposals even if it leads to making a new legal framework in itself."

After the 1994 civil war, many big name oil companies withdrew and the government has had to rely on much smaller independents like Hunt Oil and Canadian Nexen. There are over 20 foreign companies operating concessions with Production Sharing Agreements (PSAs).

Nexen is the largest and the longest serving of the independents based in Yemen. After ten years of growth, Nexen are beginning to see the first signs of maturity, yet they still have some 150 drillable locations of which they will drill somewhere between 20 and 40 to offset the decline. The company's experience in Yemen has been rewarding and they have seen exceptional value; producing up to 30 percent of the company's annual cash flow until recently when new investments in North Sea fields yielded fruit.

Yemen's refining needs are met by two refineries with a capacity of 130,000 bpd between them. The Aden Refinery Company (ARC) supplies the bulk of this with 120,000 bpd. The refinery was built by BP in the 1950's and although it had a design capacity of 170,000 bpd it sustained some damage during the civil war and was partially rebuilt operating at the slightly lower capacity of 150,000 bpd. "When we first started operations we were pioneers on the Arabian peninsula," explains Mr Fathi S. Ali, ARC's executive director. Today, with declining production on the horizon, the refinery faces a new challenge: "Within the next two to three years we must change our technology to suit Masila, Saudi or other types of processing, as this refinery only deals with Marib crude which is depleting." Looking to the future he says that the ARC is actively seeking a foreign partner and "looking for an investment of up to $200 million to upgrade the refinery to produce high octane gasoline and to build a 30 MW power station to supply us." In the meantime, a $300 million refinery is currently under production at Ras Issa on the Red Sea Coast. It should come online by 2007 and has a planned capacity of 50-60,000 bpd and is a private sector initiative involving the Hayel Saeed Group.

Meanwhile, President Saleh has also expressed concern that Yemen must do more to diversify its dependence on petroleum resources before reserves - in the absence of no significant new discoveries – are exhausted by 2012. With Yemen's economy at a crossroads, the IMF has welcomed the government's plans to develop a strategy for diversifying the economic base, and the inclusion of reform measures in the 2005 budget. One critical measure recently adopted was the reduction in the fuel subsidy. This met with widespread disapproval but was seen as an important first step due to the fact that large quantities of the product is smuggled out of the country illegally and sold at a profit, costing Yemen around $900 million a year.

One company pulling out all the stops to stamp out fuel smuggling is the Yemen Petroleum Company (YPC). The company is the sole marketer of petroleum derivatives in Yemen and with 6,000 employees spread throughout 13 regions, is a force to be reckoned with and an important player in Yemen's energy sector. It is also the third largest employer in the public sector. YPC has an annual turnover of approximately $1 billion and operates on a six percent margin. Its General Manager, Mr Omar M. Al-Arhabi, is widely acknowledged as having turned the company around from a loss-making public company to profitability. By cutting out middlemen suppliers and dealing with consumers directly, YPC has made great strides towards wiping out fuel smuggling. "YPC is playing a very active role in the development of Yemen, and we project this participation to grow over the years to come," says Mr Arhabi, confident of his company's future.

Touting Tourism

Reputed birth place of the Queen of Sheba, burial place of Cain and Abel, launch-port of Noah's Ark and location of the Garden of Eden – Yemen has much to offer holiday-goers. According to the World Tourism Organization, arrivals to the Middle East grew by an estimated 20 percent in 2004 making the region the fourth most visited in the world. The first four months of 2005 showed a further 17 percent increase, with international tourist arrivals worldwide reaching an all time record of 763 million. By 2020, the organization estimates that tourism numbers will reach 1.6 billion. Many countries are keen to get a slice of this lucrative action, and Yemen is no exception. The Yemeni government is starting to tentatively shift its gaze from oil and gas towards the world's number-one economic activity – tourism.

In April a new strategy for cultural development in Yemen was announced by the Ministry of Culture and Tourism in conjunction with the United Nations Development Program. Under development since 1998, the strategy has embarked upon one of its first goals – to build a general inventory of heritage in Yemen. This may take some time. Yemen's heritage is as rich and diverse as most people's general knowledge of the country is poor and limited. Archeological sites, museums, historic cities and manuscripts abound. Yemen boasts three spectacular world heritage sites: the old city of Sana'a, the city of Shibam in Hadramout and Zabid – an ancient town – declared cultural capital of the Arab world for 2004. Unlike many countries that enjoy high visitor numbers, Yemen's cultural attractions extend beyond bricks and mortar-type tourism, it is also apparent in the music, oral literature, customs and rituals, languages and dialects and handicrafts that make up part of everyday Yemeni life.

Despite its impressive attractions, as holiday destinations go, Yemen is not likely to be featured on most people's wish-list of "places to see." While the Middle East is growing as an overall travel destination, figures from the World Travel and Tourism Council (WTTC) show that Yemen accounts for only 1.1 percent of the market. A combination of factors have stunted the industry's growth, one of the most damaging being the United States' travel warning. "It is damaging not only for American tourists that are very hesitant on coming to Yemen but for other countries as well, because they copy what the Americans do," explains Mr Alwan S. Shaibani, chairman of Universal Group of Companies – one of the largest private operators in the tourism sector whose company accounts for 30-35 percent of visitors on organized tours. "Many American organizations are coming to Yemen and traveling even to very remote areas...and they have never faced any security problems, so I don't really understand the existence of the travel warning in the USA." Mr Shaibani is still confident about the future of Yemeni tourism. He is so confident in fact that he is currently putting the finishing touches to a $7 million hotel, a restoration of an ancient Sana'a palace dating back to the mid 15th Century which will be called Bir Alazab. Like many other countries, including the United States, Yemen has had to adjust to the terror threats that have accompanied the global geopolitical shift over the last decade. Security concerns tend to focus around past incidences of kidnappings, however, following the introduction of an anti-kidnapping law in 1998, these incidences have declined dramatically – no foreigner has been kidnapped in Yemen since November 2001. In a regional context, Yemen fares far better in the security stakes than many of its peers in the holiday business. Egypt remains one of the most popular tourist destinations in the Middle East despite a series of terror attacks, the most recent hitting Cairo in April. Why then has Yemen's industry not bounced back with the same vigour? Until now one of the biggest challenges facing the industry in Yemen was a home grown one – lack of funding for a hard-hitting tourism campaign. Little money has been directed towards countering the negative impact of these security concerns specifically and, on a wider level, promoting the country as a holiday destination. In contrast, Egypt has pumped millions into promoting its tourism industry – increasing the figures exponentially following April's attack. But this too is changing. "We have a budget for promoting Yemen," says Mr Taha A. Al-Mahbashi, executive director at Yemen's Tourism Promotion Board, "We are looking at a campaign on CNN and we will be advertising in the tourist magazines and newspapers as well as attending fairs." Marketing needs to be upgraded, especially with American and European tour operators, but this requires a concerted effort in government policy towards the support of tourism including a substantial increase in funding for tourism promotion. "We are going to succeed in creating a good image for tourism in Yemen," asserts Mr Al-Mahbashi, confidently, "tourism in Yemen will definitely increase."

Yemen's national carrier is Yemeni Airways. The airline has been in operation for more than 50 years and has built up a good reputation for itself over this period and an excellent safety record. Its service – covering 30 international and domestic destinations and spanning three continents – is continually evolving. "We are taking steps to make our operations more efficient and therefore have invited aviation consultants," says Captain Abdulkalek Al-Kadi, Chairman of Yemenia. With a fleet of 12 aircraft, Yemenia Airways is expecting its services to expand as more people become aware of Yemen's promise as a tourism destination of choice. "Yemen is not isolated, you can reach Yemen at anytime," enthuses Captain Al-Kadi.

Yemen has several tourist products that are competitive and have the potential for increased exports: cultural tourism, health tourism, nature/adventure tourism and city tourism. But perhaps Yemen's true charm lies in the fact that it has been spared the mass tourism other countries have worked hard to attract. In the words of the Minister of Culture and Tourism, Mr Khalid Abdallah al-Rowaishan, "Yemen is an unwritten poem whose story has yet to be told."

Joining the Ranks of the Regional Gas Giants

The sweet smell of success fills the air of ancient Sana'a these days. After seven years of delays, the biggest ever project to be undertaken in Yemen is finally off the ground. Coming in at a cost of $3.5 billion, Yemen Liquefied Natural Gas Co. Ltd. (YLNG), will now start building state of the art facilities in Bal-Haf (on the southern coast of Yemen) and begin first shipments by December 2008. Marking a milestone in Yemen's development it is already acknowledged that the project will have significant knock on effects for the local economy. The Yemen LNG shareholders are: the Yemeni government, represented by Yemen Gas Company (23.10 percent), Total (42.90 percent), Hunt Oil Company (18 percent), South Korea's SK Corporation (10 percent) and Hyundai Corporation (six percent). Under the agreements with Kogas, the utility will acquire a six percent interest in Yemen LNG in the near future. With all agreements now in place, YLNG represents a fully integrated project from upstream to downstream; from gas production to LNG exports. The plant will export some 6.2 million tons annually to the United States which is taking two thirds of the export, and Korea, the largest buyer of LNG in the world. Experts have conservatively valued the project at $17 billion over twenty years, but with energy resources becoming ever-scarcer some put the figure closer to $45 billion.

For years Yemen's 16.9 trillion cubic feet of proven gas reserves have sat idle and oil companies have been re-injecting the by-product at great cost. Now, Yemen has a means to valorize its gas potential, giving an enormous boost to the country's economy. YLNG awarded Houston-based KBR, Technip of France and JGC Corp. of Japan the lump-sum turnkey contract to provide engineering, procurement, construction, pre-commissioning, commissioning, start-up and operations services for the plant.

In addition to the plant, a 220-mile pipeline will be built from the processing centers to the liquefaction plant at Bal-Haf on the coast as well as a "spur" line, which is intended to supply domestic consumption and supply power to local stations. Bal-Haf was chosen for its strategic location on the Gulf of Aden, its natural deep harbor and low geo-technical risk. It can already accommodate large capacity LNG tankers without the need for dredging or a breakwater. It will also have minimal environmental impact with a low effect upon the coastline, having already commissioned and completed Impact on Public and Environmental Impact Assessment studies. None of the partners could have hoped for a more suitable location; the site offers easy access to markets in India, the Far East, Europe and the Americas. The country's strategic location midway between East and West, guarantees that YLNG should be a competitive producer in any market. And, because of the plant's specifications, output will be suitable for sale in almost any LNG market worldwide. Consisting of two liquefaction trains with a combined capacity of 6.7 million tons per year, YLNG's target for start-up of Train 1 is the end of 2008, with Train 2 scheduled to come on-line about five months later. The trains will be supplied with gas from Block 18 located in the central Marib region, around 110 miles east of Sana'a.

While Yemen's gas reserves are a fraction of market leader Iran's Joel Fort, YLNG's General Manager says that the YLNG plant will be "70 percent of the size of the largest plant in the world." He adds that Yemen's LNG plant will also be "40 percent more efficient than the average."

The project had stalled in the wake of the Asian crisis when the price of LNG plummeted and no buyers could be found. Today, with gas consumption growing once more and the world thirsty for energy, a combination of declining LNG production in the United States and booming Asian demand means that YLNG has a golden opportunity to enter the market. Signifying their confidence in the project's success, international bankers have clamored to finance the deal which Total's general manager for Yemen, Jean-Michel Lavergne, says will "put Yemen on the radar screens of international financial institutions." He goes on to put the delays in context: "People were talking about Nigeria's LNG plant back in 1965, and it took 34 years to get off the ground, today it is one of the worlds largest." The YLNG project is important for Total because it is part of their strategy to become a leading player in the LNG sector. Currently accounting for six percent of the global market with six LNG operations worldwide, YLNG will be the only one where they have a major stake. Total has plans to grow production by ten percent annually.

When fully operational, the plant will create some 600 jobs and training programs will be set up to ensure that Yemenis benefit in the long-term; in the meantime, some 15,000 technicians and workers will put the project in motion. At the same time, the government is developing plans to build gas-fired power stations and is discussing a blueprint for the creation of an associated petrochemical industry. Officials say the project will bring economic and social benefits to the residents along the pipelines route.

YLNG also has the right to further explore for gas in order to underpin future development projects and has stated its desire to build a third train should conditions permit. "Nobody knows Yemen's gas potential, so far no-one has searched for gas and the gas that was discovered was mostly discovered by accident," says Mr Lavergne. Mr Fort from YLNG points out that "before YLNG there was very little consumption of gas in Yemen, therefore an oil and gas company taking a license would only look for oil and not gas because there was no system in place to take it to the market. Now it can be sold, they will be motivated to look for it and this will have a snowball effect."






From Honey to Hospitals

The Doann Valley in the region of Hadhramout is an isolated place. But the area and its environs are becoming famous, at least in Yemen that is. Known for centuries because of the high quality of its honey, for years worth even more than its weight in gold, the Doann Valley has also been producing something even more valuable: businessmen. Many went to Saudi Arabia at the turn of the last century to seek their fortunes and can now be counted amongst the Kingdom's wealthiest entrepreneurs. A few also appear in the Forbes list. One gentleman, Mr Abdullah Ahmed Bugshan, a second generation Saudi of Yemeni origin, returned in 2002 to build a 40 mile road which he was donating to a small village in the arid mountainous valley his forebears came from. Meeting the President on his arrival, Sheikh Bugshan was persuaded to invest in the country. He is now investing in a variety of projects including; a $490 million investment into the Aden Free Zone with Dubai Ports International, a $260 million cement plant in Mukalla, a tourism development and a $40 million fish processing plant. He also has plans for the development of a petrochemical plant here which, if it gets off the ground, should add huge value to the oil and gas industry.

The project he is most proud of is the rebuilding of his remote village. When he talks about it his face lights up and he beams with excitement, and it is easy to see why. "When I first came to the valley," he says "there was no electricity, no roads, not even hospitals – so these were the priorities for that area. First we built the road, then we chose to build a 2 Mega Hertz electricity network, then we started building schools of which we have already made four. We are also constructing a new hospital that will serve the area which is going to be better than any other hospital you will find in Yemen." Meanwhile, the village has been painstakingly restored with ancient techniques and craftsmanship, often using simple materials such as mud and straw. The Sheikh modestly thanks his team for making all of this happen, in addition there is a committee of people dedicated to transforming the area. But Sheikh Bughsan is also clearly very hands on and, having been trained as a civil engineer, takes an active interest in the project. When asked if the inhabitants of neighboring villages were all clamoring to move there, the Sheikh responds wistfully "we are also building in other villages because you cannot forget the neighbors." But Sheikh Bugshan's philanthropy is not limited to the valley. The University of Mukalla now boasts brand new facilities and laboratories which have been built from Sheikh Bugshan's seemingly limitless generosity. "I'm trying to encourage others to come and follow me here, when they see what we have done they will all want to come and restore their own ancestral villages."

Saudi Investor Teams With Dubai to Unlock Aden's Potential

Few places in the world can boast a major ancient trading route, but Aden is one such place. Strategically located on the Arabian Sea near Bab Al Mandab Strait, the entrance to the Red Sea and the crossroads of Asia and Africa, the Gulf of Aden has been a hive of activity for thousands of years. Tradesmen, fishermen and pilgrims were among those who steered its famous waters as far back as the 7th Century BC. Arabia's first efficient free trade system was established here from 1850 until 1969, placing Aden among the four most important ports in the world. It was also the second busiest port after New York in the 1950s.

Today, the region is basking in the benefits that unification has brought to the country and the drive to establish modern transportation networks. In less than one decade Aden is once more on the path to establishing itself as an international gateway to business through the establishment of the Aden Free Zone (AFZ). A centre for the import, export, transit and transport of shipments through the port and airport, AFZ was established in 1996. This development is estimated to cost $6 billion. Light, medium and heavy export industries are all welcomed in the free zone and are accommodated by a growing number of services ranging from ship maintenance to banking. Ships bound for Europe can save up to $4 million by utilizing the cheap transport and other services on offer in Aden port, which aside from occupying a strategic location on the East West shipping lanes is also one of the best natural ports in the world – making AFZ highly competitive.

Unsurprisingly, AFZ is bringing considerable long-term opportunities to the region. The Yemeni government has a clear vision to develop Aden into an attractive hub for local and international investment and this involves pumping money into additional infrastructure, equipment and a number of other projects within the port city of Aden. Over the last eight years, activities connected to the AFZ have included: promoting and marketing the region, paving roads, establishing an area for air loading and ensuring a secure and stable environment.

From 1999 to 2002, AFZ enjoyed strong and steady growth. The number of containers handling traffic increased seven-fold, while the total container vessel calls went from a modest 20 to a peak of 83 in 2001. By 2003 however, security concerns about Yemeni ports took their toll following the attack on the U.S.S. Cole in 2000 and the explosion of the French oil tanker, the Limburg, towards the end of 2002. Traffic in the Aden port, already greatly impacted, was dealt another blow by the sharp increase in insurance premiums for any ship loading to Yemen – a result of security fears. But the government has worked hard to overcome the negative effects of these events and has since implemented a number of investment incentives and improved security considerably, including working with the United States to train and equip a local coastguard. AFZ figures for 2004-2005 show the sector is bouncing back with vigour.

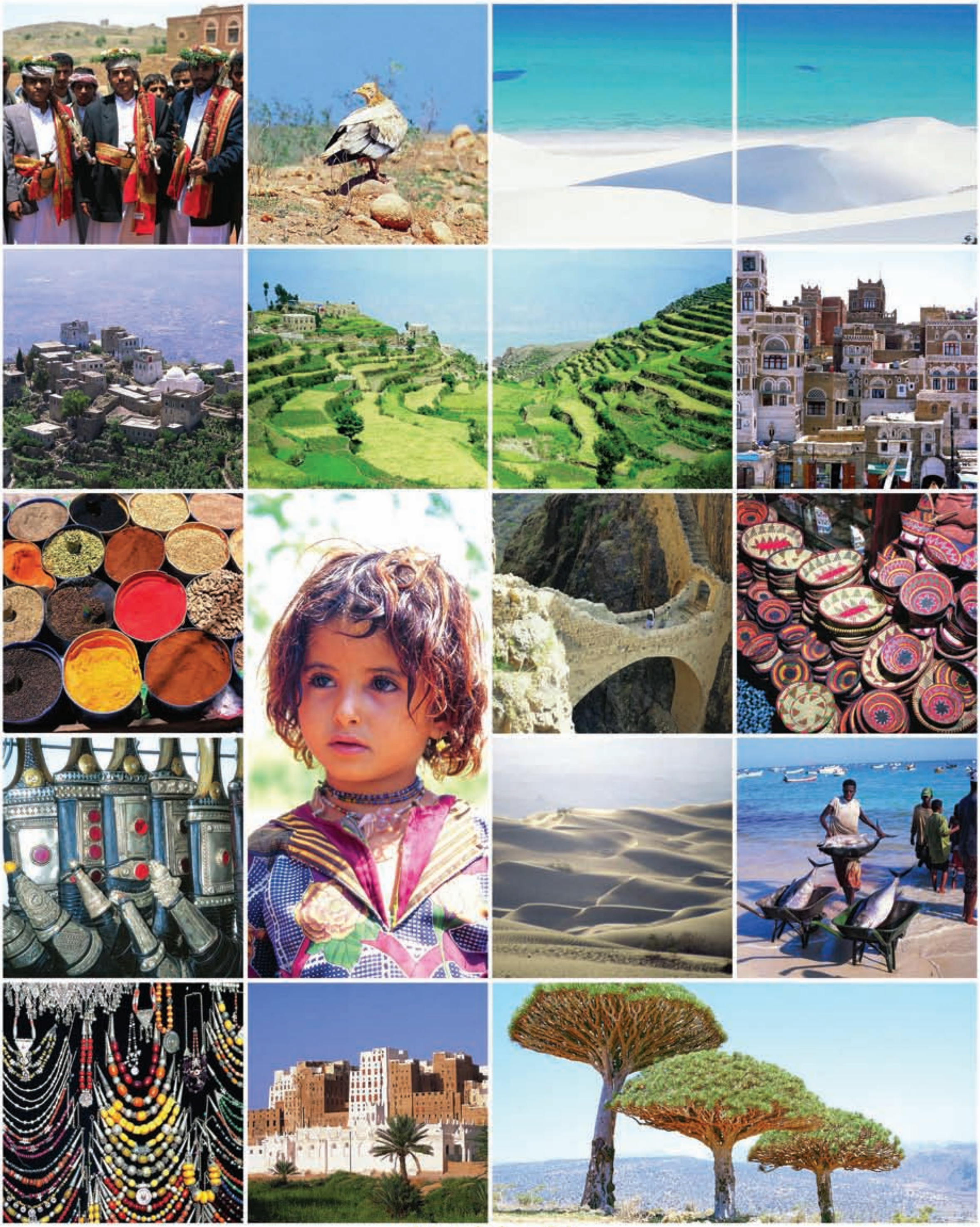
International investors are increasingly turning their gaze upon Aden. In June Dubai Port International (DPI) was awarded with a contract to operate and develop the container terminal in Aden province along with the neighboring Ma'alla Container Terminal. Over the next 35 years DPI, (the investment arm of the state-owned Dubai Port Authority), will manage the terminal in line with government ambitions to make it a main trans-shipment hub. "The bid included three different aspects," explains Sheikh Abdullah Ahmed Bugshan, a private investor with DPI: "how much you are going to pay for the equipment, how much you are going to pay for the lease and how much will be the guarantee in TEU's." DPI's guarantee alone amounts to $490 million – the highest among the bidders. An additional $370 million will be made as an initial investment in the terminals, which include an extension of quay length from 700 to 2000 meters and an increase in the capacity of the terminals to receive 1.5 million containers by 2007. Shiekh Bugshan, a Saudi of Yemeni origin, with strong commercial ties with the United States, has started to invest heavily across all sectors of the Yemeni economy, and believes that there was no other option but to partner with DPI, which he argues is "the obvious choice." Under the proposed investment, DPI will bring the acumen and experience which has helped turn Jebel Ali in Dubai into one of the world's leading seaports. The Yemenis believe that, since Aden offers an unparalleled strategic location, the two ports can work in tandem to create an unprecedented offer to international shipping companies and investors.

Aden has long been recognised as a natural gateway to business opportunities in three continents – Asia, Europe and Africa. The port provides access to a regional market of approximately two billion people in the Middle East, East Africa and the Indian sub-continent. Aden's tremendous potential is obvious to all, and the AFZ has put the wheels in motion to unlock that potential. "It is one of the best natural ports in the world" asserts Dr. Mohamed Hamood Alwadan, Chairman of AFZ.

ADEN FREE ZONE — *Investment incentives*

- Exemption from taxation on industrial and commercial profits for 15 years with a possible 10 year extension
- 100 percent foreign ownership permitted and encouraged
- Capital and profits are freely transferable outside the Aden Free Zone and not subject to any exchange controls
- Salaries, wages and bonus of non-Yemeni employees working on projects in free zone are exempt from income tax
- Nationalization and expropriation of projects in free zone are not permitted

Discover the wonders of Yemen



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Fish Wealth Yields Big Future

Just outside of the port city of Mukalla in the region of Hadhramout, sits a new $40 million state of the art fish processing factory fed by its own generating facilities and desalination plant. According to the finance manager it has "everything bar an airport." Sheikh Abdullah Ahmed Bugshan decided to invest in this plant after hearing about the huge untapped wealth of fish life in Yemen's waters and its enormous potential for investment. With 1,550 miles of coastline of which experts estimate only 25 percent is exploited, there is plenty of room for growth. In addition, the sector is largely made up of artesanal fishing – rich pickings for a smoothly run well organized and professional company.

The Yemeni Fish Company hopes to be just that. Entering the wholesale fresh fish market with a splash, the company aims to make a name for itself through the export of tuna and cuttlefish, amongst other fish. Already, in its first year of operation, the company has begun exporting to France, Germany, the United Kingdom and Spain, Europe's largest fish market. There have been two trial runs to the United States and there are plans to tap into this lucrative market in the future. With a capacity of 30 tons a day, plenty of room and even more ambition to grow, the sky is the limit.

But it is not all about numbers – the company has a heart too. Yemeni Fish is an "environmentally friendly company operating to the highest standards," states John Williams the company's British born CEO. "We are constantly educating local fishermen on how to fish without damaging stocks" he continues. The company is using five of its own boats and is also working with 200 local fishermen (along Yemen's Gulf coast) all trained to fish in a sustainable way and fully equipped to care for the product before it is returned to the plant. For John Williams, quality control is not just about adhering to standards but also setting them for other companies. The company pays fair value for the fish, pushing up local market prices considerably. Yemeni Fish hope to move shortly into value added where the margins are greater. The company is currently experimenting with a variety of different pre-packed tuna meals. The possibilities for combining flavors are endless but some of the mouthwatering combinations include honey and curry. Ingredients being experimented with are: honey, curry, chili, paprika, basil, cumin and butter. Hopefully it will not be too long before they are on a supermarket shelf close to you.

The Yemeni government hopes to increase the value of fish exports to 150,000 tons or $500 million p.a. by 2010. At current rates, this figure should be tenable given that exports have quadrupled in the last four years to 47,600 tons of the 127,000 tons caught by Yemeni fishermen last year.

Bold Reform Agenda Gathers Pace

The development challenges facing Yemen, one of the world's least developed countries, are not insignificant. Yet, for a country which became unified only a decade and a half ago, the fact that the country has survived intact and prospered in the last decade has represented nothing less than a spectacular achievement. This success is all the more remarkable when you consider that at the outset of the first Gulf War, the country had to absorb some one million workers returning from jobs in the region, not a welcome prospect for any country, no matter how prosperous. In the face of stark choices, Yemen's Deputy Prime Minister and erstwhile Minister of Finance, Mr Alawi Al-Salami, asserts that "The Yemeni leadership had no choice but adoption and immediate implementation of an ambitious but sustainable comprehensive reform program the principal focus of which (being) the improvement of living standards of Yemeni citizens."

Summing up the country's commitment to the process of reform, Deputy Prime Minister Salami explains: "Yemen is implementing a comprehensive integrated reform agenda that is adopted by the whole state and we believe that reform is a continual process. However, the focus of the Ministry of Finance has been to a large extent on conducting a major overhaul of financial and fiscal laws and targets streamlining procedures and reducing the fiscal burden on the poor and vulnerable groups, at the same time ensuring mobilization and diversification of revenues and rationalization of expenditures towards priorities." Ongoing reforms will undoubtedly include the partial or full privatization of important public companies, some now and others in the near future. In addition, the government has made great strides in combating corruption.

Earlier this year, the former head of the World Bank, James Wolfensohn, commended Yemen's President on his efforts in enhancing security and stability but emphasized the need for policy reforms too in order to move Yemen's development agenda forward. In defense, a pragmatic Mr Salami, points out that because of the political implications of reform in Yemen a period of dialogue is necessary before such policies can be accepted and take root. Public reaction to the implementation of the General Sales Tax (VAT) in July, which was supported by the World Bank but widely unpopular, bears out the government's cautious stance. "The road ahead of us is still long and tough and recent reform measures are not the end of the road," reflects Mr Salami.

On Yemen's accession to the WTO, which has been in the pipeline since 2000, the Deputy Minister says "it is not an option any more, it is a must...we cannot be isolated from the rest of the world." The government is currently preparing for accession with the help of the United Nations (UNCTAD) and the European Union with a series of programs and plans under the Integrated Framework for Trade. Yemen hopes to be granted the status and conditions of the least developed countries in order to offset the negative effects and maintain the gains of accession.

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Foreigners' Safety is Top Priority

In the last few years, the Yemeni Government has intensified its efforts to improve security and guarantee the safety of visitors to Yemen. Yemen's tourism sector was first targeted in 1997 when elements of the Aden-Abyan Islamic Army kidnapped Japanese, Australian, German and Spanish tourists. As a result the authorities launched a spate of crackdowns and – after capturing 20 members of the Islamic group – later learned that they were involved in the bombings of tourist hotels in the city of Aden.

Realizing that the security situation was becoming critical, President Saleh issued a series of directives, amongst other things, increasing the number of police checkpoints across Yemen in order to restrict the movement of kidnappers and terrorists. Two weeks after the Aden blasts the Yemeni government called in the support of specialist investigators and security experts from the United States.

As the total number of kidnapping cases in Yemen reached 124, the government issued the "Kidnapping Law" in 1998. Under this law kidnapping became a capital offence carrying the death penalty, and included kidnappings where the hostages were released unharmed. Before the Kidnapping Law was put on the statute books, Yemeni social conventions were surprisingly respectful of the safety of those whom they had kidnapped, and with the exception of one incident, all others were returned unharmed and well fed. Nonetheless, the government recognized that Yemen was building a reputation for lawlessness and that something drastic had to be done, hence the introduction of the law. Since then, the number of kidnappings has been dramatically reduced. And in the meantime, a new directive has made car registration compulsory as the absence of any previous control had made it extremely difficult to track down criminals.

Following 9/11 Yemeni authorities intensified their crackdown on terrorists in the face of an upturn in terrorist activity. In 2002, to better deal with the threat, President Saleh created a Counter-Terrorism Court and appointed Najib Al-Qadri as its Chairman. Not long after the Court's establishment, A-Qadri gave orders to the security authorities to hunt down the remnants of the Aden-Abyan Islamic Army. In December of that year, the Counter-Terrorism Court then sentenced to death the killer of three American aid workers. The Court went on to send an eight man terrorist cell to prison for plotting to attack western interests in Yemen.

Yemen has a recognized security problem which it is dealing with but if you talk to foreigners living in the country they do not seem to be worried by it. People traveling to Yemen are urged to use police escorts when traveling to certain remote areas but all of the cities maintain a heavy police and security presence and as ordinary Yemenis rank amongst the world's most hospitable people, if anything, foreigners are made to feel very welcome. "After everything I heard before coming to Yemen I was a little worried but I feel safe and I have been stunned by the way people have welcomed me. People are really happy to meet foreigners," says Enrique Gutierez, a Spanish tourist.

Connecting Yemen

Few companies in Yemen are well known outside the country, but one company in the telecoms sector hopes to change that soon. Sabafon, a major player in Yemen's growing mobile sector, has won a bid to operate a license in Somalia. Clearly, this is a brave company not afraid to venture into new and challenging markets. But the new terrain does not daunt Sabafon's charismatic and outspoken chairman, Sheikh Hameed Abdullah Al-Ahmar, who is Sheikh of Sheikhs a privileged and influential position in Yemen. "There are only seven or eight private companies in the Arab world which can say they are international operators and Sabafon is one of them," affirms Sheikh Hameed. And not without good cause; Sabafon has cut its teeth on the difficult topography of Yemen. When Sabafon first started out, its workforce consisted of 70 percent foreigners and only 30 percent Yemenis. In the years since, with good positions, training, salary and a whole host of opportunities, Yemenis now make-up 99 percent of the workforce. In addition, the company has taken great strides to promote Yemen's image and is a regular sponsor of sporting events. Such largesse has enabled Sabafon to build solid relationships with the Yemeni people. Sheikh Hameed says that the company leveraged its relationships with local tribes in order to use their mountains to increase reach. "About 65 percent of our population live in rural areas" he stresses.

Sabafon is 82 percent owned by Yemeni shareholders with the remaining 18 percent in foreign investors' hands. The company is investing heavily in new technology in order to consolidate its position in the face of a new entrant to the Yemeni mobile sector, due by the end of the year. But the Sheikh's target is further a-field; "Now we are launching in Somalia, we are readily accepted as a regional player and other players are coming to us to negotiate agreements because they value the quality of our service and want to be our partner, I hope to announce some other partnerships in the future even with U.S. companies."

YEMEN at a Glance	
Chief of State	President Ali Abdullah Saleh
Head of Government	Prime Minister Abdul-Qader BaJammal
Area	328,065 sq miles
Population	20,727,063 (July 2005 est.)
Capital	Sana'a
Religion	Muslim including Shaf'i (Sunni) and Zaydi (Shi'a)
Life expectancy	61.75 years
GDP per capita	$800 (2004 est.)
Labor force	5.98 million (2004 est)
Climate	Mostly desert; hot and humid along west coast
Ethnic groups	Predominantly Arab; but also Afro-Arab, South Asians
Languages	Arabic
Exchange rates	Yemeni rials per US dollar - 192.15 (2005)

H.S.A. Group: From Strength to Strength

In 1927, a young man named Hayel Saeed Anam spent three days traveling with a caravan train of two camels and four donkeys along a dusty track from his village to the port of Aden, from where he took an old wooden dhow to Djibouti and then a steam boat to Marseilles, France, on a mission to claw his way out of rural poverty. When he returned to his native land several years later he started a small business in Aden serving the British servicemen stationed there during World War II. Hard working though he was, he could never have dreamed that, decades later, these humble beginnings would spawn Yemen's biggest company, Hayel Saeed Anam & Co (H.S.A.).

These days H.S.A. has an annual turnover estimated at close to $2 billion, and is involved in almost every sector of the economy including shipping, oil, hotels, banking, food and manufacturing. Employing 16,000 people in Yemen and 7,000 abroad, the company has not shied away from investing in new market segments and continues to launch new projects at a dizzying pace. Today, the son of the founder and current executive director, Mr Abdul-Wasa Hayel Saeed, embodies the same steely determination as his father, and in his sixties, a boundless energy and passion for the family business. He maintains that integrity and honesty have been the mainstays of their success and illustrates this with a historical anecdote from the period when the Communists nationalized their businesses in the south during the days of the partition. "We owed £850,000 ($1.5 million) which was a great deal of money in those days, and whilst we could have claimed force majeur and written off the debts, we asked for a grace period of up to six months to settle and paid back every single penny within three months. Because we have established ourselves over the years as good reliable partners, the companies we deal with often give us favorable payment conditions without us even asking," says Mr Saeed.

Already operating factories in Indonesia, Malaysia and as far a-field as the United Kingdom, H.S.A. is keen to expand its operations in other markets and is studying the terrain of several markets for opportunities. Mr Saeed affirms "We hope to increase our exports to $500 million p.a. within five years to the Gulf, as well as East and West Africa and where it is cheaper to produce in those markets, we intend to invest in factories there." Operating in a country without a stock market, the executive director maintains that financing is not a problem as the company is so well respected that private investors and the general public queue up to participate in new projects, often advertised in advance through the media and their own bank, Tadhamon Islamic Bank, which is the largest private bank in the country. H.S.A. is a partner to 35 international household names including General Electric, Johnson & Johnson, Ford and Porsche.

Banking on Success

Earlier this year, in something of a coup for Yemen, international banking organizations announced that the country now occupies second place amongst regional free market economies because of its adherence to World Bank and IMF policies. The financial sector in Yemen is relatively small by regional standards and is dominated by the state, particularly in the banking sector. The sector is regulated by the Central Bank of Yemen – holding reserves of $5.9 billion - and there are 15 commercial banks including four Islamic banks, and two state owned banks. The Yemen Bank for Reconstruction and Development and the National Bank of Yemen, the country's oldest banks, dominate the sector. In recent years, the Central Bank has also made great progress in confronting some of the challenges affecting the performance of the financial sector in Yemen, including a fairly high degree of non-performing loans and poor enforcement of bad debts through the local commercial courts.

Like other sectors of the economy, the financial sector has witnessed much improvement over the last decade and major donors to the financial sector include the World Bank, Germany's GTZ and Japan. Meanwhile, there are positive signs that Yemen's banks are changing with the times. Few Yemenis hold bank accounts and one of the hurdles that banks have had to overcome has been educating ordinary Yemenis about their services and establishing trust. Yemen's biggest bank, the Yemen Bank for Reconstruction and Development (YBRD), was established soon after the Revolution of 1962, and after a brief spell operating as a central bank, and then the principal financier of the country's infrastructure development, the bank is now operating as a commercial bank with 36 branches. Mr Abdulla Salem Al-Gifri, the bank's Chairman, affirms YRBD's role in the economy stating that "The Yemeni are extremely proud of this bank because it was the first bank of Yemen and more importantly the first bank to improve this country." As part of the government's plans to revitalize the banking system, "YRBD is to merge with National Bank of Yemen in order to create a super bank," says Mr Abdulrahman M. Al-Kuhali, Chairman and General Manager. National Bank of Yemen (NBY) had been the only bank in the south of the country under the socialists before unification. Both banks conform to Basel II. NBY has a network of 27 branches and still maintains a strong presence in the south of the country with strong international connections. "It's the only bank in Yemen to have sought and attained a rating from an international rating agency - Capital Intelligence," says Mr Kuhali. The Bank has a BB- rating, marginally higher than the country's.

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