

DIIS REPORT

**A COMPLEX REALITY:  
THE STRATEGIC BEHAVIOUR OF  
MULTINATIONAL OIL CORPORATIONS  
AND THE NEW WARS IN SUDAN**

*Luke A. Patey*

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© Copenhagen 2006  
Danish Institute for International Studies, DIIS  
Strandgade 56, DK -1401 Copenhagen, Denmark  
Ph: +45 32 69 87 87  
Fax: +45 32 69 87 00  
E-mail: [diis@diis.dk](mailto:diis@diis.dk)  
Web: [www.diis.dk](http://www.diis.dk)

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Ph: +45 56 36 40 40  
Fax: +45 56 36 40 39

## **Abstract**

The influence of Multinational Corporations in war-torn societies is becoming an increasingly pertinent element of international security and development. MNCs factor into the equation of contemporary civil war by representing economic vehicles that allow domestic actors to realize value from local assets through the global marketplace. Sudan is no exception to this dynamic. MNCs exploiting oil resources in the country were seen as representing a further complication in an already long-standing and devastating North-South civil war between the Government of Sudan and the Sudanese People's Liberation Army/Movement. However, while the impact of MNCs has been well documented, there exists little knowledge concerning the factors that guide the strategic behaviours of these enterprises.

Most observers have viewed the operations of MNCs in Sudan and other conflict-affected countries as being solely guided by a profit-seeking rationale, impervious to such conditions as insecurity and political instability. While such conventional wisdom holds truth and should not be dismissed, the tendency among non-governmental organizations, the media, and academics to group together MNCs and the reasoning behind their actions fails to uncover fully the critical differences that lie behind the logic of their individual behaviour. Based on observed events in Sudan, there is a need to question which construct of variables does indeed influence the strategic behaviour of MNCs in the country.

This study maps the operations of eight prominent MNCs<sup>1</sup> in Sudan since the initial exploration of oil, through its production, to the present day structure of the oil industry. It argues that the domestic and international environment of MNCs is far more complex than perceived by the casual observer. Each corporation held a different set of domestic and international factors which contributed to the formation of their decision-making calculus. These factors are also found to be dynamic in nature, interconnected within and between companies, and varying in levels of priority for each MNC. Altogether, the empirical findings of this study cast light on a relatively dark spot in literature on the political economy of armed conflict.

<sup>1</sup> The international oil corporations covered are: Chevron Corporation, Arakis Energy Corporation, Talisman Energy, Lundin Petroleum, Österreichische Mineralölverwaltung Aktiengesellschaft (OMV), China National Petroleum Corporation, Petroliam Nasional Berhad (Petronas), Oil and Natural Gas Corporation Limited.

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## **Introduction**

Truth is a victim of tragedy. In the civil wars that have plagued the developing world since the end of the Cold War, just as the powerful have moved quickly to twist perceptions of their errors and offenses, so often the suffering of the voiceless propels outside investigators to hastily pass judgment on the rationale behind the actions of seemingly omnipotent actors. Sudan is no exception to this emerging phenomenon. The inherent obscurities in one of Africa's longest and most devastating civil wars, between the Government of Sudan (GoS) and the Sudanese People's Liberation Army/Movement (SPLA/M), prohibited a fully transparent picture of the complicity of domestic and international actors in violence. Nonetheless, susceptible prey was picked out of the complexity in the shape of Multinational Oil Corporations (MNCs). The stark divergence between the affluence of the few and the poverty of the many in the war-ravaged country breeds unwillingness among Non-Governmental Organizations (NGOs), the international media, and academics alike to more deeply appreciate the logic of their corporate targets. However, it is a pitfall to conclude the profit-seeking rationale of MNCs in Sudan is so simple in nature and to disregard the significance of external factors pressuring these enterprises.

In Colombia, Angola, the Democratic Republic of Congo, the Caucasus, Myanmar, and elsewhere, international companies have been linked to civil war through the extraction of natural resources such as oil, natural gas, timber, diamonds, and other precious metals. In a world where the significance of state weakness and failure is becoming increasingly evident, the interactions between fragile states and MNCs are critical for prospects of peace and development in these largely conflict-affected countries. MNCs have been branded as representing further complications in already highly convoluted civil wars. This popular stance has been largely confirmed by academics who have demonstrated that MNCs factor into the equation of contemporary civil war by functioning as economic vehicles that allow domestic actors to realize value from local assets through the global marketplace. In Sudan, MNCs engaged in the impoverished country's growing petroleum industry became controversial factors in the recently ended civil war due to the precarious positioning of the country's oil fields, along the North-South military divide. The petroleum resources that attracted MNCs acted as an economic prize for warring parties, who aimed to capture or disrupt extraction and production in order to gain a strategic advantage against their

opponent. Although the establishment of the Comprehensive Peace Agreement (CPA) between the GoS and SPLM provides the opportunity for lasting peace, the agreement rests on shaky grounds with MNC oil development representing a particularly contentious issue. Thus, understanding the behaviour of MNCs in Sudan is a critical component in ensuring these enterprises support the consolidation of peace and development.

While the influence of MNCs on conflict-affected countries such as Sudan has been meticulously detailed, explanation for their strategic behaviour is quite limited. There is a substantial lack of research available on the reasons for MNC entry and exit as well as expansion and reduction of activities in war-torn societies. A popular hypothesis concerning MNCs in the extractive industry is that these companies remain in conflict-affected countries, such as Sudan, despite civil violence and economic and political uncertainties. Firms in the extractive industry compared to those in manufacturing or services are more likely to remain in conflict-affected countries due to the sizeable, fixed, and capital-intense nature of their investment. However, based on observed events in Sudan, there is a need to question the simplicity projected upon the profit-seeking rationale of MNCs in the oil industry. While MNCs as a whole remained engaged in Sudan throughout the civil war, some held the course, others pulled out despite the existence of profitable, extractable petroleum resources, and new corporations entered the scene. The construct of elements that encompass the internal profit maximization logic of MNCs is far more intricate and dynamic than conventional wisdom has forwarded. Although the internal decision-making calculus of most MNCs is driven by profit, not only did MNCs in Sudan have different factors explaining their profit-seeking rationales, external factors, largely uncontrollable by the oil companies, pushed and diverted them to and from their objectives. MNCs also had distinctive prioritization levels for influential variables, that themselves were interconnected within and between firms. Thus, as the case of Sudan demonstrates, the tendency in literature on the political economy of armed conflict to group together MNCs in oil industry, and the reasoning behind their actions, should certainly be re-thought. Indeed, critical differences lie behind the logic of individual MNC behaviour.

## **From the Ground on Down: Multinationals, Oil and Civil War**

MNCs exploiting oil resources in Sudan have been seen as representing a further complication in an already long-standing, devastating North-South civil war in Sudan. However, the apparent significance of the influence of MNCs must be reflected against prominent explanations for civil war in the developing world to evaluate more objectively the impact of oil development in the country. Assertions forwarded in the ongoing debate on the political economy of armed conflict that internal conflicts persist due to economic greed and socio-political grievance find ample support in the case of Sudan.

The influence of international oil corporations in Sudan is best illuminated in light of the country's past. Sudan is Africa's largest country holding an estimated population of over 38 million. The country has both an Arab and African legacy, containing more than 300 hundred cultural tribes and over 100 languages. The North is inhabited largely by Arab-speaking Muslims while the population of the African South holds more indigenous and Christian beliefs. Outside of its colourful religious and cultural past, Sudan also has a tragic history of civil war. A former Anglo-Egyptian colony, Sudan gained independence in 1956 and immediately fell into internal conflict. The main protagonists of the first Sudanese civil war were the Arab-led government and the southern rebel group Anya-nya. The conflict was largely one of succession; a result of continual economic and political neglect of the South by the northern government both before and after Sudan had received independence. Following an eleven year span of relative peace resulting from the Addis Ababa Agreement signed in 1972 regional exploitation still held meaning in the country when the second civil war broke out. This was a war of regional autonomy between an Arab-led government in the North and a collection of rebel groups in the South, which fought under the eventual banner of the SPLA. The civil war further devastated the country, particularly the South, leaving an estimated two million Sudanese dead and double that amount displaced (ICG, 2002:3-4). While civil war in Sudan has largely been portrayed as one fought between Muslims and Christians or Arabs and Africans, economic reasoning for violence has become increasingly apparent with more recent explanation revolving around the country's oil reserves.

Sudan has long been one of the world's poorest counties. It continuously has ranked near the bottom of the United Nations Development Programme's Human

Development Index with an estimated 40% of the population living under the poverty line (CIA, 2005). There is however economic hope for the country, as GDP has risen substantially in the past few years due to oil production, helping the country produce one of the fastest growing economies in the world. The significance of oil to the country's economy is becoming far more evident as the oil industry expands. Oil is the most important element of government revenue in Sudan, keeping the economy afloat despite large amounts of debt (Stiansen, 2002). Petroleum sources in Sudan are located in the southern and central regions of the country, primarily within the Melut and Muglad basins. Unity State, Upper Nile, and Western Kordofan have been critical areas of oil extraction since production began in 1999. As oil is located onshore, a pipeline was laid down across the country to transfer the crude from oil fields in the South to the harbour town of Port Sudan along the Red Sea in the North. Altogether, while the discovery and production of oil in Sudan has created prospects for economic development, it represented another conflicting element in the country's civil war.

Oil contributed to existing processes of violence in a protracted civil war in Sudan. Similar to other incidences of intra-state war in the developing world, one particular cause for the enduring character of violence in Sudan stems from combatants not necessarily seeking the defeat of the opposing side, but rather holding vested economic interests in the continuation of violence (Keen, 1998). While the principle antagonists of war certainly held political intentions in their actions, the interventions of the GoS and the SPLA into local communities of the South transformed violence into a way of life for certain ethnic groups. In particular, the GoS encouraged ethnic tensions through the military sponsorship of nomadic Arab tribes living in areas around the historical North-South border. The GoS wished to prevent the SPLA from uniting destitute groups in the South with those in the North, ensuring a power base in the South and later on, access to lucrative oil reserves (Keen, 1998:39). Since few other economic opportunities existed, deprived Arab nomads found a way of life in raiding local communities, regardless of their affiliation with the SPLA. As a consequence, grievances grew within settled populations and retribution was sought through further violence. The pattern of war in Sudan indicates that resource depletion and economic subjugation were objectives of war, not just incidental consequences (Johnson, 2003:145). The economic resource of oil fed into this vicious cycle of violence, influencing the on-the-ground dynamics of the civil war. The impact of oil was further manifested in the political arena.



Oil in Sudan represented another dividing factor in national politics. Upon realization of the significance of oil findings in southern Sudan, the GoS altered laws covering ownership of the country's oil reserves by creating new northern states in southern territory so that regional authorities would be excluded from future earnings (Keen, 2001:224). This was yet another example of economic exploitation perpetrated by the Arab-led northern government against the impoverished African South, providing additional reasoning for both sides to utilize violence as a means to secure access to political and economic goods. The distinct religions, languages, and beliefs that make up Sudanese society allowed visible divides to be established between people. The ethnic discords, widest between those in the North and South, presented the primary lines of opposition while economic and political inequalities motivated violence. The circumstances in Sudan reflect other civil wars in the developing world, where a mix of poverty, inequality and distinguishable cultural differences between groups have resulted in internal strife (Stewart, 2002). From one side, the hardship of economic and political policies established by the government contributed to pre-existing grievances in the South, and on the other, certain sections of the Muslim and Arab-speaking population of the North had a stake in continued southern suppression (Johnson, 2003:5). Oil represented another, albeit significant item on a long, expanding list of governmental mistreatments. Indeed, oil grievances were listed in the SPLA's Manifesto. Altogether, a lack of political participation granted to the South by the northern government, in order to capture wealth from oil development, provides further explanation for the civil war.

These functions and reasons for civil war in Sudan were interconnected with the global marketplace. External processes established in war-torn societies between domestic actors and international markets allow the realization of value from local assets (Duffield, 2000). In Sudan, oil acts as a source of economic gain for the GoS, which only can be attained through the international marketplace. The SPLA directed its forces early on in the civil war to protect natural resources in its territory, particularly oil fields, in order to deny these resources to the government (Johnson, 2003:60-61). MNCs enter the equation as providers of the means to extract, transport, and sell oil. The GoS would not have benefited from the existence of petroleum nor considered oil fields significant areas to control without the technical expertise and capital muscle of exploiting MNCs. Furthermore, this dynamic is a product of the rights international law grants globally recognized states as commercial interlocutors (Reno, 2001:11) and not other forms of domestic political authority, such as the SPLA, despite the initial

military strength in areas around oil fields. Thus, MNCs were crucial components in the realization of the financial value of oil in Sudan. The economic and political motivations for violence created from oil development would have been non-existent without their presence.

Oil development in Sudan was predominately seen as a further deterrent to peace in the civil war. Since the oil industry is almost entirely comprised of international oil companies, MNCs have been implicated in holding a considerable role in perpetuating the conflict (Field, 2000; Verney, 2000). Not only did oil corporations provide further motivation for violence, but they also fuelled violence through their financial investments in Sudan. The GoS was reliant on funds acquired through the oil industry to finance the war due to a continuously down-trodden economy (Field, 2000:7). Revenues acquired through MNC activity enabled the GoS to improve its military positioning over the SPLA, leading to an intensification of violence in areas around oil fields. The continued expansion of oil development in Sudan increased the commitment of combatants to wage war, complicating prospects of peace (ICG, 2002:100). Moreover, oil production destroyed traditional sources of livelihoods and produced negative ecological repercussions in oil-bearing regions (Switzer, 2002). However, similar to other case studies on the influence of MNCs on civil war in the developing world, researchers have focused on the specific impact of MNCs in Sudan rather than examine the reasoning behind the strategic behaviour of MNCs in the country. Studies have provided some explanation for the behaviour of oil corporations in Sudan (Field, 2000; ICG, 2002; Swanson, 2002), but have failed to utilize a broad set of evaluators and thus complete a comprehensive and comparative analysis of all prominent MNCs in the Sudanese oil industry. Variables explaining MNC behaviour in Sudan have been inadequately analyzed and others have been neglected altogether, largely examined only to the extent that they provide incriminating evidence of the negative influence of MNCs on conflict or highlight reasons for the limitation of policy instruments to control corporate actions. While previous findings do set the foundation for a more intensive examination of MNC behaviour in Sudan, new developments in the conflict and changes in the composition of international oil companies in the country call for further analysis.

Although there has been a limited focus on the strategic behaviour of international oil companies in Sudan, several studies have been completed on the general factors dictating MNC actions in conflict-affected countries. This presents

variables that routinely influence whether a MNC will operate in a country affected by conflict, broadening knowledge concerning the way corporate managers approach the issue of armed conflict in their operational decisions (Berman, 2000). More factors that influence MNC behaviour are revealed in research that investigates why firms would become involved in conflict management and what in fact they could achieve through such engagement (Hauffer, 2001). This helps to uncover the limits and lengths of MNC decision-making capacity while operating in civil war, which consequently suggests categories to analyze MNC behaviour. However, this research falls short in providing a thorough examination of MNC behaviour in an isolated case, or for that matter, concerning individual companies. It may prove resourceful to examine the similarities and differences between all MNCs operating in a specific context. The actions of firms may find explanation in those of others in both the domestic and international environment. There is a tendency among those researchers engaged in the political economy of armed conflict debate, with some limited exceptions, to group together extractive industry MNCs as one predictable actor. This promotes the belief that the behaviour of MNCs in the same industry is influenced by exactly the same factors. Thus far, little work has been done to separate the trees from the forest.

The inadequacy of current research on the behaviour of MNCs in war-torn societies is highlighted further in consideration of popular notions concerning those firms operating in the extractive industry. These MNCs compared to those in manufacturing or services are argued to remain in conflict-affected countries due to the sizeable, fixed, and capital-intense nature of their investment (Ballentine, 2004:9). This certainly holds significant value when examining the decision-making of extractive industry MNCs in Sudan and other war-torn societies, but continues to describe MNC behaviour in the context of a profit-seeking rationale, whether earnings are realized in the long-run or not. While the multiplicity of factors involved in MNC decision-making and differentiation between private sector actors operating in war zones has been provided further definition (Sherman, 2001:5-6; Ballentine and Nitzschke, 2004:26-28), many investigators, particularly those involved in human right advocacy, remain locked to simplistic notions of profit maximization. In light of the events in Sudan, this leaves the casual observer somewhat demurred, inquisitive for further explanation. The actions of international oil corporations in Sudan suggest that more clarification for MNC strategic behaviour is required, both within the constructs of the internal profit maximization logic and concerning external

factors that push MNCs to and from their objectives. While oil companies as a whole remained engaged throughout the civil war, with some indeed staying put in the war-torn country, others pulled out despite the existence of profitable, extractable petroleum resources, and new corporations entered the scene. Thus, the decision-making calculus of international oil corporations in Sudan cannot be assumed to fall completely along popular conceptions of MNC behaviour in war-torn societies.

## **The Strategic Behaviour of MNCs in Sudan**

The international oil corporations that have been active in Sudan each have their own specific matrix of elements describing their strategic behaviour. However, patterns are visible amidst the complexity. The division of MNCs into First-Movers, Western Juniors, and Eastern Parastatals exposes both the most prevalent factors influencing MNCs in each group and differences of prioritization attached to specific variables within groupings themselves.

### **Traces of Intricacy: The First-Movers**

The presence of two MNCs in particular made a significant impact on initial oil developments in Sudan. Although firms such as Italy's AGIP, Total, and Royal Dutch Shell were active in the country during the advent of the oil industry, the experiences of both Chevron and Arakis set precedent for future MNCs in the construct of factors that influenced their behaviour in the country. There existed obvious structural differences between the oil giant Chevron and the small-sized Canadian MNC Arakis. However, to a certain extent the MNCs faced an associated set of variables influencing their strategic behaviour in capturing untapped oil reserves in Sudan. These factors would prove to have different priority levels for each firm and eventually lead to the withdrawal of both corporations. An outcome which occurred despite the existence of increasingly lucrative oil reserves in the country.

### **Chevron Corporation**

The Chevron Corporation was the perennial first-mover in the Sudanese oil industry. The MNC paved the way forward for others to exploit oil resources. One of the largest energy companies in the world, Chevron made the first significant discoveries in Sudan and set the foundation for oil production. The American giant initially explored concessions offshore in the early 1970's, making the earliest prominent finding off the coast of the Red Sea (Verney, 2000:15). More importantly for the evolution of the Sudanese oil industry, in the same year of the signing of the Addis Ababa Agreement between warring groups in the first civil war, the Sudanese government granted Chevron onshore concessions in the country's South (HRW 2003:46). These included what would later become the Heglig and Unity oil fields, areas of substantial oil findings as well as intense violence. After numerous discoveries in

the Muglad and Melut basins, Chevron, in collaboration with Royal Dutch Shell, the GoS, and the Arab Petroleum Investments Corporation (Apicorp), formed the White Nile Petroleum Company in order to build a \$1 billion U.S. oil pipeline between the oil fields and Port Sudan (Vernay 2000:77). While this consortium never fulfilled this objective, its successor, the Greater Nile Petroleum Operation Corporation would follow through with oil production in Sudan. However, Chevron would never be involved in the profitable result. The company suspended its operations in 1984 and pulled out of the country completely in 1992. This despite multiple discoveries, plans for production, and after investing close to one billion dollars U.S. (HRW, 2003:111-112). Altogether, Chevron spent almost 20 years operating in Sudan, but never did realize the full extent of its investment.

It is puzzling to observe such an outcome. Sudan had a budding oil industry and the American firm had the first-mover advantage, garnered by capturing the rights to the majority of oil concessions. The company's method of exit presents further questions. Chevron sold the majority of its concessions for \$23 million U.S. to the Sudanese oil company ConCorp, hardly justifying its reported \$1 billion U.S. expenditure in the country. In hindsight, it was clear that future oil operations in Sudan would be highly profitable, as firms such as Talisman, CNPC, Petronas, and others would later reap in high earnings and oil reserves. Altogether, Chevron left Sudan for numerous interlocking reasons, including the increasingly insecure nature of its operations, deteriorating relations with the GoS, political pressure from its own government, and firm-specific considerations of the company at the time.

The reason for Chevron's departure is largely connected to the fact that the company was operating in a war zone. Chevron's initial discoveries of oil coincided with the outbreak of the second Sudanese civil war in 1983. In February 1984, a southern separatist group, Anyanya II, attacked a Chevron facility, killing three expatriate employees, having previously been responsible for the kidnapping of five Chevron employees in 1982 (Harker 2000:52). The rising insecurity caused Chevron to drastically cutback its operations in the country and eventually prompted the company to suspend activities entirely. Indeed, then president of Chevron's overseas operations, John Silcox, explained that the company did not continue operations in the Western Upper Nile state because it required access to the South and Chevron did not want to expose its employees to undue risk (The Wall Street Journal, 1984). While the company made efforts to thwart

insecurity by providing funding to armed militias to protect its oil fields (Alier, 1990:222; Johnson, 2003:83n), these travails in conjunction with support from the GoS clearly failed. Chevron was victim to multiple attacks and continual threats from rebel groups, including the emerging SPLA.

At the time, the high levels of insecurity for Chevron were also related to a lack of GoS military presence and support in the southern region of the country where oil was found. Concurrently, Chevron's poor relations with the GoS did not improve the company's situation. Relations began to deteriorate early on after the discovery of oil, when Chevron was warned by the GoS not use Israeli-made products in its operations in Sudan because it violated the general Arab embargo on Israel (HRW, 2003:112). Furthermore, when it was evident that Chevron was committed to waiting until the security situation in southern Sudan improved, the GoS sent clear signals to the MNC that it was willing to seize its assets and production rights in the country and sell them to other firms (The Wall Street Journal, 1984). The relationship deteriorated further when in 1989 the Islamist fundamentalist government, which seized power of Sudan in a brief military coup, made one of its priorities to speedily develop the country's oil fields, pushing Chevron to either restart operations or sell its concessions. With political upheaval in Sudan, the American MNC's apprehension in resuming operations in the country also became a product of international relations between Chevron's home government, the United States, and the new political authorities in Sudan.

Since the 1980s, the American government and the GoS continuously found themselves on opposite ends of the political spectrum. The African country's pro-Soviet stance during the Cold War, vocal support for Iraq during the Gulf War, and its harbouring of international terrorists such as Osama bin Laden, built hostility between the two nations and created a precarious political environment for Chevron. Indeed, after Chevron's departure the American government reportedly provided the SPLA with humanitarian aid to free up the rebel party's resources to purchase military equipment (Boston Globe, 1999), much to Khartoum's displeasure. The U.S. also placed Sudan on the State Department's list of countries supporting terrorism and later in 1997 applied economic sanctions on the country, barring any American from doing business with the GoS or its entities. The influence of international relations between Chevron's home and host government reveal another variable in the MNC's strategic behaviour in Sudan.

Another prominent element of Chevron's decision-making in Sudan was the MNC's firm-specific considerations. While the oil deposits discovered in Unity field and neighbouring Heglig had an estimated recoverable reserve of 236 million barrels at that time, the combination of low world oil prices and the cost of bringing the oil to market lessened the MNC's desire to exploit its findings (Alier, 1990:221-222; Anderson, 1999:142). Furthermore, promising opportunities in other emerging markets, such as Kazakhstan, seemed more plausible (ROB, 1999). Most notably, Chevron also held a tax write-off for its operations in Sudan worth an estimated \$550 million U.S., significantly softened the blow of disinvestment (Verney, 2000:19). Thus, the objectives and options of Chevron at the time provide further elements explaining the MNC's strategic decision to leave Sudan despite its discoveries of oil reserves in the country. This in addition to insecurity, poor relations with the GoS, and pressure from the American Government would push Chevron to leave Sudan. The rights to the African country's untapped oil reserves would pass through several hands before an unknown Canadian firm would begin oil development efforts again.

### **Arakis Energy Corporation**

In 1994, the Arakis Energy Corporation, a minor, publicly-traded Canadian energy MNC, became involved in Sudan upon its purchase of the State Petroleum Corporation. State was a private Canadian oil corporation that had previously bought the rights to Chevron's former concessions in the Muglad and Melut basins from the Sudanese corporation, ConCorp. After two years of developing the Sudanese oil fields, Arakis sold 75% of its shares to the China National Petroleum Corporation (CNPC), Petronas, the national Malaysian oil corporation, and Sudapet, the national Sudanese oil firm, to form the GNPOC (Petroleum Economist, 1998). The consortium continued oil development, making considerable discoveries that increased the overall value of Sudan's oil reserves, and on May 4<sup>th</sup>, 1998, laid the first length of the pipeline that would later connect the southern oil fields to Port Sudan and international markets (Business Wire, 1998). In 1998, despite the progression, Arakis agreed to a friendly-takeover from a fellow Calgary-based MNC, Talisman Energy. Although the future opportunities for profit in Sudan were even clearer for Arakis than its predecessor Chevron, the company still sold its rights and assets. This outcome again puzzles the conventional mind concerning the behaviour of multinational oil corporations in war-torn societies as an apparent profitable situation was abandoned.



The involvement of Arakis in Sudan was an endeavour built more on ambition than practicality. The purchase of the State Petroleum Corporation drastically altered the direction of the little-known Arakis. Similar to many energy MNCs listed on the Vancouver Stock Exchange, State existed more on paper than in actuality. The owner of State, Lutfur Khan, had established the company primarily to gain the rights to the lucrative Sudan oil concessions (MEED, 1993). He secured the concessions from his extensive ties in the Middle East, buying the rights from the owner of ConCorp, Muhammad Abdallah Jar al-Nabi, who was linked to Hassan Turabi, leader of the National Islamic Front in Sudan (Verney, 2000:19). Indeed, in 1997, Arakis had a former Sudanese finance minister, Abdel Rahim Hamdi, sit on a special advising committee to the MNC's Board of Directors (Verney, 2000:87). While reports vary in specifics, it is clear that a collection of shrouded personal connections with the Khartoum government led to the entry of Arakis into Sudan. This however did not alter the fact that Arakis was resuming a project that the oil giant Chevron, with all its financial clout, had failed to accomplish.

Arakis faced similar challenges of insecurity as Chevron by operating within a civil war in Sudan. However, the contours of war would eventually shift in the Canadian MNC's favour; a probable result of government's learning experience from Chevron. At the beginning, Arakis was warned by the leader of the SPLA/M, John Garang, that his forces would strike company oil installations (Energy Alert, 1996). Aware of the threat beforehand the company had obtained political risk insurance from broker Rollins Hudig Hall International (Platt's Oilgram News, 1993). However, by 1996, the threat of attack diminished substantially when a faction of the SPLA, based around the oil fields, broke off from the leading rebel group through the establishment of a peace treaty with the GoS (HRW, 2003:120). This was a result of internal manipulation of the SPLA by Khartoum through its divide and rule strategy. The shifting contours of war solidified the GoS's military dominance in the region and subsequently lessened the threat of insecurity faced by Arakis. Though insecurity was always a concern of the Canadian MNC, it did not prevent the corporation from pushing forward with its operations as it had with Chevron in the past.

The Achilles Heel for Arakis in Sudan was its inability to garner the necessary financing to follow through with oil production. Oil development in the war-torn country was an obvious potential payoff for the company, particularly with new findings in Chevron's former concessions. However, Arakis estimated it

needed to find close to \$750 million U.S. to follow through with production, an amount the small-sized firm would have to seek through international banks. It approached multiple banks, but many were put off by the ongoing economic and political crisis in Sudan (Platt's Oilgram News, 1993b). The most significant possibility came in 1995 from the financier Arab Group International (AGI), but Arakis pulled out of the deal when the AGI failed to provide the initial funding of \$50 million U.S. (The Oil Daily, 1995). This potential agreement and others made the company's stock extremely volatile. Arakis was later sued for a failure to disclose information about the AGI deal by a group of its shareholders (The Oil Daily, 1995d) and CEO Terry Alexander later charged with insider trading (The Oil Daily 1995c). Furthermore, the MNC was taken off the VSE for a breach of disclosure by the British Columbia Securities Commission and later suspended from the NASDAQ (HRW, 2003:120). This vicious cycle in financing problems made the situation even more hopeless for the company.

The financial woes of Arakis were reinforced by pressure from both the Canadian and American government. The dynamics of international relations providing suggestion to the situation other Western oil companies in Sudan would face in years to come. On the one hand, the Canadian government, lobbied by NGOs and church groups to force Arakis to exit Sudan due to the GoS's history of human rights abuses (HRW, 2003:386), sought the company's withdrawal through constructive engagement with executives (Verney, 2000:89). On the other hand, the American government, which had applied political and economic sanctions on Sudan in 1997, allegedly spread negative disinformation concerning the Canadian MNC (The Oil Daily, 1999), not assisting in Arakis's capital raising endeavours. Altogether, pressure from the two North American governments made oil development in Sudan an uphill battle for the small-sized oil MNC.

With mounting financial difficulties in Sudan, Arakis decided to change its strategy and begin to seek partners to develop oil in the country. The company rapidly found a reported 18 companies interested in the development project (The Oil Daily, 1996b), testament to the potential profitability of the oil reserves. The two MNCs joining the venture with Arakis and Sudapet, Sudan's national oil corporation, were CNPC and Petronas. Arakis would remain as the operator, while the other MNCs provided financing according to their differing shares in the consortium. Nonetheless, Arakis was still unable to find the financing for a now 25% share in the GNPOC. Consequently, the company

put itself up for sale in 1998, acknowledging that the combination of low oil prices, the instability of Sudan, and US sanctions, led to the decision (The Oil Daily, 1998c). Fellow Canadian oil MNC, Talisman Energy, would purchase Arakis and take on its role as operator of the GNPOC in Sudan. Talisman would face similar interwoven factors influencing its behaviour in the country as well as novel elements.

### **Elusive Profits: The Western Juniors**

The arrival of several Western-based junior oil corporations to Sudan following the Chevron era and the Arakis debacle would see the commencement of oil production and the expansion of the oil industry. Picking up where the fallen Arakis had left off, Talisman Energy's inclusion in the GNPOC would allow the consortium to fulfil its objective of selling Sudanese oil on the international market. The realization of oil production, made possible by a 1,500 km pipeline, would attract other Western firms in Lundin Petroleum and Austria's OMV to explore and develop further regions of Sudan's war-torn South. However, in the scramble to discover and exploit oil, the Western Juniors would face an external deterrent to their internal profit-seeking rationale as international NGO activism grew against their operations. This would factor into their decision-making on top of already existing firm-specific considerations, insecurity from the civil war, and pressure from state actors.

### **Talisman Energy**

The experience of Talisman Energy in Sudan is a case in point in the new environment that many extractive industry firms are now facing in war-torn societies. Talisman, the Canadian flagship oil company, was eager to grow internationally when it entered the politically unstable Sudan through the acquisition of Arakis in October 1998. The induction of Talisman to the GNPOC consortium saw the rapid completion of the oil pipeline and the commencement of oil production in less than a year. Talisman provided advanced oil processing technology to the GNPOC as well as a substantial, much needed infusion of funding (African Business, 2001; OGJ, 2003). Indeed, while Arakis spent \$125 million US in five years in Sudan, Talisman, invested close to \$500 million US in the country in half the time (HRW, 2003:123). As operator of the GNPOC, Talisman discovered further significant oil reserves on top of the First-Movers' initial findings that had large payoffs for the company when oil production began. However, after four full years of engagement, Talisman announced the

sale of its Sudanese oil and gas interests to India's national oil company, Oil and Natural Gas Corporation Limited (ONGC) (Talisman, 2002:16), making an after-tax profit of \$296 million CDN on the sale (Talisman, 2003:24). Altogether, Talisman left behind a growing oil industry in Sudan, which had proven its value in profit to the company.

Talisman held firm-specific considerations for entering Sudan. The company was striving to make a 20% increase in oil and natural gas production to add-on to its operations in Canada, the United Kingdom, and the North Sea (The Wall Street Journal, 1998). As a consequence, the Canadian MNC pushed into more politically risky areas in search of growth opportunities, entering Indonesia, Algeria, and later, Sudan. Talisman hailed its new investment in the African country as a "long-life strategic asset with a large exploration and development side" (Talisman, 1998:3). With the rapid completion of the oil pipeline, the discovery of further oil reserves, and a significant rise in world oil prices, Talisman's income in Sudan grew rapidly from \$184 million CDN in 2000 to \$310 million in 2002 (Talisman, 2003). These earnings are significant in reflection of the \$296 million CDN after-tax profit from the sale of the MNC's Sudanese assets in 2002. Indeed, Sudan represented approximately 22% of Talisman's total income in 2002 (Talisman, 2004:49). Thus, Talisman was earning sizable profits and production levels were just beginning to reach their potential when the Canadian MNC left Sudan.

There were multiple, interconnected reasons for Talisman's exit from Sudan. These largely stemmed from the civil war in the country. Similar to its predecessors, Talisman received warning from the SPLA that their operations represented military targets to the rebel group due to the revenues oil development provided to the GoS (HRW, 2003:386). Talisman claimed that it had taken the necessary steps to protect its operations (Talisman, 1998:35), but nonetheless in August 2001, the SPLA claimed one of its commando units had assaulted the company's Heglig oilfield, inflicting extensive damage. While the GoS denied the attack happened, as it did with all military assaults on oil installations, Talisman admitted that such an attack had taken place, but resulted in little damage (Middle East, 2001). Later, the MNC would acknowledge a total of eight rebel attacks on its infrastructure and personnel in Sudan (HRW, 2003:436). Furthermore, the GNPOC oil pipeline was sabotaged shortly after its completion, causing brief slow downs in oil production (African Confidential, 1999:5). The continuous threat of attack on oil installations made security a priority for

Talisman; however, it was the actions of its security providers, the GoS, which ended up representing an even larger factor in dictating the Canadian firm's strategic behaviour.

The domestic setting in Sudan held its physical hazards, but different, non-violent insecurities from the civil war were projected to North America and consequently had a negative influence on Talisman's long-term value. The company discovered that dealing with a pariah government in Sudan led to instability at home due to allegations of complicity in human rights abuses tenaciously put forward by international NGOs. Altogether, Talisman had to operate a public relations campaign at home, negotiate with MNC partners and the GoS in Sudan, try to mitigate the disdain of the American government, and still conduct oil development in a hostile environment. The accumulation of these factors eventually led to the exit of Talisman from Sudan despite rising profits in the country.

Talisman was accused of being complicit in human rights abuses throughout its time in Sudan. Numerous investigations highlighted the connection between oil and the ongoing civil war. One such report, conducted by the international NGO Human Rights Watch, echoed the views of others in claiming that international oil companies were accomplices in the mass displacement and killing of hundred of thousands of civilians around oil fields by turning a blind-eye to government military operations and providing the GoS with revenue for military purchases through oil development. A previous investigation, conducted by independent investigators sponsored by the Canadian government, dubbed the Harker Report, looked into the specific operations of Talisman and their connection with the displacement of civilians (Harker, 2000). The Harker report was the result of public pressure on the Canadian government, particularly from church groups who saw the company supporting the victimization of a Christian minority in southern Sudan by a Muslim government (HRW, 2003:393). It detailed the specific complicity of Talisman's operations, concluding that government helicopter gunships and Antonov bombers had rearmed and refueled at Talisman's Heglig facilities in order to carry out attacks on civilian targets, not simply for defensive purposes (Harker, 2000:15). The Harker Report and numerous NGO reports spurred on activism in North America to push for Talisman's exit from Sudan. In both Canada and the United States significant pressure was put on the MNC's shareholders to divest (OGJ 2000; ICG, 2002:217). Since Talisman's shareholders were primarily composed of pension funds, not individual investors, the mid-sized oil company was not invulnerable to the political risk

that is more typically an issue for oil majors, such as the boycotting of company petrol stations (The Financial Times, 1999). These very public shareholders could easily be targeted by pressure groups. Consequently, Vancouver's Citizens Bank of Canada sold off its holdings in the company, and the University of Toronto, York University, as well as the Ontario Teachers Federation, lobbied their pension funds to sell off Talisman stock. In the United States, over ten major U.S. institutional shareholders divested more than \$100 million U.S. High uncertainty about the Sudanese investment resulted in a devaluation of the Talisman's stock price (The Wall Street Journal, 2002). As its stock value dropped, Talisman was forced to take steps to improve its image, inducing a new variable to its strategic behaviour in Sudan.

From the beginning Talisman was conscious of the political risk that existed in Sudan. However, the MNC was unaware of the impact negative feedback would have on the company through its presence in the war-torn country. The initial reaction of Talisman to the claims made by international NGOs and independent investigators was utter denial. The CEO, Dr. Jim Buckee, claimed the allegations were false and that no displacement in areas around oil fields had taken place (Harker, 2000:64). Talisman argued fighting in the region was due to ethnic battles between domestic groups (HRW, 2003:398), unconnected to its operations. The company said the presence of government military forces around its oil installations was simply a security precaution. However, Talisman's CEO later acknowledged its Heglig facilities were used by the government for military purposes (Gagnon and Ryle, 2001:24). Talisman's reluctance early on to admit to any connection with government military offenses in the region and then its later, more transparent, position concerning its interactions with the GoS, demonstrate that the company was on new ground in dealing with negative publicity from its apparent connection to human rights abuses in Sudan.

In response, Talisman battled allegations of complicity to human rights abuses by showing its goodwill in Sudan. The company had established medical facilities, agricultural programs, and schools in areas around oil fields, readily detailing these donations in its annual reports (Talisman, 1998:26). Furthermore, Talisman hired a public relations firm, completed an in-house, independently audited, corporate social responsibility report, and gave Sudan staff human rights training among other efforts to improve its public image (Talisman, 2000:19; OJG, 2000b; Africa Confidential, 2001:1). The company claimed it was an advocate of human rights and development in Sudan, even succeeding in convincing the

other companies of the GNPOC to sign a non-binding code of ethics (HRW 2003:418-420). Talisman also engaged the GoS on security and human rights issues in order to seek reform within the government's military actions and thus, stop the flow of negative publicity the company was facing in North America (Gagnon and Ryle, 2001:34). However, its objectives on human rights compliances only extended as far as the other GNPOC members and, more importantly, the GoS, wished (Talisman, 2000b:9). Indeed, as a 25% shareholder in the GNPOC Talisman had little leverage. Overall, the conflict feedback factor Talisman was facing in Sudan was a result of a dialectic circle connecting forces in the domestic setting and those in the international environment. More specifically, the influence, or perceived influence, of Talisman's operations on the civil war, created the new variable of international NGO activism that forced the company to respond and alter its strategic behaviour.

The public pressure on Talisman to exit Sudan was reinforced by the influence of state actors. As a result of persistent lobbying from civil society groups, the Canadian government became more engaged in Talisman's operations in Sudan. It threatened to force the MNC out through the application of economic sanctions on the war-torn country; a warning in itself that led to a drop in the share price of Talisman stock in 1999 (The Economist, 2000). However, in the end the government never followed through with the threat, instead asking Talisman to sign the International Code of Ethics for Canadian Business, a set of non-binding codes and practices concerning ethics and human rights. The company signed the code and subsequently pressure from the government subsided. The lack of will in the Canadian government, usually a strong advocate of international human rights, was the consequence of a larger desire to allow the Canadian petroleum industry to expand (HRW, 2003:394). The Canadian government has continued to back Talisman on matters concerning its operations in Sudan. In 2001, the Presbyterian Church of Sudan and individuals displaced from the oilfields in the country brought a class action lawsuit in U.S. federal district court against Talisman and the Sudanese government under the Aliens Tort Claims Act (HRW, 2003:495-496). Documents later surfaced allegedly proving that the Canadian MNC had asked the Khartoum government to remove civilian settlements from the vicinity of oil fields (The Financial Times, 2002). With Talisman failing twice to get the case removed, the Canadian government lobbied Washington to intervene in the ongoing lawsuit (The Toronto Star, 2005). Altogether, while pressure from the Canadian government did lead to a further decline in Talisman's stock value, because the government's policy did



not align with that of Canadian civil society groups and international NGOs, Talisman was still able to control its will in Sudan, and remain engaged in the country. However, the power of states to dictate the behaviour of corporations in international relations became more apparent when the American government took measures to wipe its economic hands clean of involvement in Sudan, an action that would affect Talisman immensely.

The precarious road ahead for Talisman in relations with the American government was portrayed early on. The company's announcement of its first investment in Sudan coincided with an American missile strike on a factory outside of Khartoum (Journal of Commerce, 1998). With 20% of Talisman's shareholder value coming from American investors and the company being listed on the NYSE, American political pressure would be a powerful variable in the MNC's decision-making calculus. The negative relations between the American government the GoS, culminating with the placement of American economic sanctions on Sudan, first seemed to be a benefit for Talisman, as it could take advantage of a lack of competing U.S. oil corporations in Sudan (The Financial Times, 1999). However, with critical statements made concerning the operations of Canadian firms in Sudan by then U.S. Secretary of State Madeleine Albright and U.S. lawmakers exploring extending economic sanctions to include those corporations borrowing from U.S. capital markets, Talisman began to take notice (The Wall Street Journal, 1999; OGJ, 2000c). The latter possibility put the Canadian firm in jeopardy of losing a broad segment of its shareholder base and the ability to raise funding in the United States through its NYSE listing. Talisman was forced to build a firewall between its Sudan operations and the rest of its business in order to ensure that no American investment was involved in funding its oil projects in the country (The Economist, 2000). Indeed, the CEO of Talisman noted that its listing on the NYSE was more important to the company than its operations in Sudan (Africa Confidential, 2002b:8), and later remarked in connection with the company's decision to sell its Sudan interests that only if U.S. sanctions were lifted would he have considered remaining in the country beyond 2002 (Platt's Oilgram News, 2002). Thus, American foreign policy remained a crucial element in Talisman's strategic behaviour calculus.

The ire of Washington held supreme in international relations with Talisman. In fact, in October 2002, when Talisman sold its Sudan interests, CEO Buckee said the company decided to sell because Talisman's shares were being discounted by investors solely from the bad publicity of the Sudan operations (Talisman,



2002b) and pressure from Washington to exclude the company from U.S. capital markets (Agence France-Presse, 2003). At the time of the sale, shares of Talisman were discounted 24% compared to similar companies in the industry even though Sudan only represented around 12% of the company's production (The Wall Street Journal, 2003). While the sale resulted in a gap in Talisman's production, its stock price was set to improve because of the company's discarding of the controversial investment (OGJ, 2002). Unlike the Canadian case the American government's policy was aligned with the interests of civil society groups, proving disastrous for Talisman as momentum to push the Canadian firm out of Sudan built up from both sides. These intertwined factors, a product of civil war in Sudan, would lead to the Talisman's exit. Mere profit was not the overarching factor in the strategic behaviour of Talisman. The company's long-term longevity was under heavy pressure from external forces as its stock price and ability to raise funding on public markets were negatively influenced through its operations in Sudan. An initial domestic politically risky situation had blossomed into overwhelming international nightmare.

### **Lundin Petroleum**

Lundin Petroleum was first involved in Sudan through the United Arab Emirates-based International Petroleum Corporation (IPC), a Lundin Group corporation. Beginning in 1995, the MNC explored for offshore oil in the Red Sea, but was unsuccessful in making any significant findings (Petroleum Economist, 1998). Later, in 1997 Lundin formed a consortium with Petronas, OMV of Austria, and Sudapet in Block 5A. It acted as the operator, owning slightly over 40% of the consortium. In 2001, the Swedish company gained the rights to Block 5B, with a 24.5% interest, in a consortium operated by the White Nile Petroleum Operating Company (Lundin, 2003b:20; Lundin, 2004:9). While Block 5B was never developed, Lundin discovered the lucrative, undeveloped Thar Jath field in Block 5A (Lundin, 2005). However, the MNC sold this interest in March 2003 to Petronas for \$142.5 million U.S. (Lundin, 2003). Though Lundin's strategic behaviour in Sudan has been influenced by the civil war and international human rights NGOs, the MNCs firm-specific considerations, of developing oil fields for sale, largely dominated its decision-making in the country.

At the time of its first investment in Sudan, Lundin was primarily an exploration company. The Chairman of the Board, Ian Lundin, has said that the MNC always waits for the right offer on a respective area of exploration, regardless if the

situation is difficult or not (Petroleum Economist, 2003). Thus, a large portion of Lundin's operations consist of exploring a particular area, and upon major discoveries and high oil prices, selling the interest. This scenario describes Lundin's strategic behaviour in Block 5A in Sudan. Indeed, the company has stated that the sale demonstrated "the value that could be generated from successful exploration drilling" (Lundin, 2003b:2). This strategy is also demonstrated in Block 5B, which Lundin intends to sell once significant discoveries have been made (Petroleum Economist, 2003). Drilling is set to begin in Block 5B in late 2006 as a result the Comprehensive Peace Agreement signed between the GoS and SPLA, relieving consistent insecurity concerns for operating oil companies (Sudan Tribune, 2005). Thus, Lundin entered Sudan to prosper from lucrative opportunities in preparing oil fields for sale to other MNCs. These internal motivations of Lundin proved to be influential factors in dictating the strategic behaviour of the MNC.

It is noteworthy to describe how these circumstances came about to further uncover the factors that define Lundin's strategic behaviour in Sudan. Lundin diversified its knowledge in Sudan by gaining experience from both its subsidiary, IPC, and through its interest in another MNC, Arakis. In 1997, Lundin purchased 8.2% of the Canadian MNC to tap into the potentially lucrative oil reserves in Sudan, which also caused rumours of a takeover bid by the Swedish MNC (Platt's Oilgram News, 1997). Although a Lundin takeover never came to pass, the fact that Ian Lundin sat on the Board of Directors of Arakis (Business Wire, 1998b) implies that the firm had significant access to information concerning the goals and failures of Arakis's venture in Sudan, and that of the GNPOC. These ties between Lundin and Arakis point towards knowledge-sharing between the oil firms on experiences in Sudan and reveal another element influencing the strategic behaviour of the Swedish company. This internal knowledge did however not save Lundin from the realities of operating in a civil war. The contours of the Sudanese civil war factored into the strategic behaviour of Lundin. Violence influenced the MNC both directly, as Lundin was engaged in a hotspot of military activity, and indirectly, through the ramifications allegations of complicity in human rights abuses would entail for the MNC.

Insecurity for Lundin stemmed from around the area near the Thar Jath field and the road the MNC constructed leading to potential oil fields. It is claimed that Lundin had to develop the new road because the previous, parallel road had been landmined (HRW, 2003:142-145). Lundin has stated that it decided

on the new routing to avoid interferences with populated areas.<sup>2</sup> Reports allege that Lundin relied on numerous parties to provide protection for its operations, including the former rebel group, the Southern Sudan Defense Force (SSDF), local police, the government army, and private consultants. The use of local forces, the SSDF, did not please Khartoum, which sought to have full control over security around oil installations (HRW, 2003:143-144). However, Lundin states that protection was limited to a few unarmed guards, agreed to by all involved parties. Nonetheless, as the civil war evolved, a power struggle between the SSDF and local pro-government forces resulted in the defection of SSDF back to the SPLA and increased violence in the area, in which Lundin was not excluded. In 1999, two Sudanese Lundin employees were killed due to violence. While NGO reports claimed these individuals were executed when attacked by rebel forces (HRW, 2003:294), Lundin states that the deaths were the result of inter-factional fighting between two of its guards. This and other discrepancies with information provided by international NGOs concerning security provision would be an ongoing trend, further complicating a clear picture of the reality of the situation. In 2001, Lundin halted activities in the area, when a company helicopter was shot down and the SPLA began to increase the amount of military operations in the area (Lundin, 2002). Lundin continued to monitor and report developments in the peace process as progress made between warring parties impacted the viability of oil development in both Blocks 5A and 5B (Lundin, 2003b:20; Lundin 2004b:17; Lundin, 2005b). Thus, the dynamics of the conflict, such as attacks on company operations and shifting of allegiances between domestic military groups, influenced the decision-making of Lundin. The insecurity in Lundin's oil concessions also had non-violent repercussions. Similar to other Western Juniors in Sudan, Lundin faced staunch criticism at home and abroad for its engagement.

Allegations directed at Lundin's operations by international NGOs created a new external element in the MNC's strategic decision-making matrix. Pressure to exit Sudan would threaten the internal profit-seeking directive of Lundin. When it first entered Sudan, Lundin stated it held a belief that since the European Union had taken on a policy of constructive engagement with the GoS, the company's presence would support this stance by promoting positive change in the country through economic development. Lundin did not identify any legal or political risks in the country (Lundin, 2004b:3). The MNC's principal

<sup>2</sup> Correspondence with Lundin's Vice-President of Corporate Responsibility, June 2005

concern was the financial strength of the geological profile of its reserves, which were significant enough to justify engagement and extensive infrastructure development. However, following a Christian Aid report, claiming major human rights abuses by government forces in Lundin's concession were committed in order to secure the area for oil development (Christian Aid, 2001:7-9), Lundin was awakened to emerging international dynamics that were not calculated into its original legal and political risk analysis.

The dialectic circle between circumstances in the domestic environment of civil war in Sudan and the international variable of civil society activism led to a major publicity crisis for Lundin. At first, Lundin downplayed claims that violence had taken place within Block 5A (Christian Aid, 2001:28), and cited logistical and weather concerns as the reasons for suspending its operations in 1999 (HRW, 2003:438). However, mounting concern from the Swedish government and company shareholders concerning the company's complicity in human rights abuses by GoS military forces in Block 5A prompted the MNC to defend its position. The Swedish Foreign Minister at the time, Anna Lindh, said that Lundin's operations were negative for Sweden (HRW, 2003:444) and expected the company to operate under similar ethical requirements as all Swedish firms. Lundin's shareholders questioned their investment in the firm due to its operations in Sudan, with one in particular, a division of the Swedish Bank, Handelsbanken, selling its stake in the MNC (HRW, 2003:445). In response, Lundin proactively initiated discussions and continued ongoing dialogue with its largest institutional shareholders, a decision which likely helped the MNC avoid major stock price fallout. While the MNC repeatedly said criticisms were misplaced and unreliable, concluding that the allegations were based on bias evidence provided by those opposing the GoS, it was beginning to become aware that domestic conditions in Sudan had a potential detrimental influence on company reputation and financial well-being. Indeed, political risk in Sudan stretched to Sweden.

In reaction to human rights abuse allegations and calls for Lundin to suspend its operations in Sudan, the MNC began to state more frankly in press releases that its economic contribution could enhance prospects of peace in the country (Lundin, 2001:3, Lundin, 2002b:5) and to implement a number of measures in reaction to the allegations. In efforts to provide its version of events, the MNC invited several Swedish and foreign journalists to visit their operational area as well as human rights activists and the acting UN Rapporteur in Sudan. The

firm also relied on the knowledge and experience of a prominent member of its Board of Directors, as the former Swedish Prime Minister and United Nations Special Envoy, Carl Bildt, who became more actively engaged in the search for a solution for peace in Sudan (Khalid, 2003:351). Moreover, Lundin invited the Governor of Unity State in Sudan, the location of Block 5A, to give first hand testimony of the situation on-the-ground and portray the positive influence of Lundin in the region (Lundin, 2001b). Lundin also began to speak more directly about fighting in Block 5A. After violence escalated in the Block again in 2002, the MNC suspended operations, stating security concerns as the reasoning behind the second suspension (Lundin, 2002). Altogether, the perceived link between oil and conflict led Lundin to re-assess its role and responsibilities in the country (Lundin, 2004b:6). The MNC said that: “a reaffirmation of its values in a Code of Conduct, a greater involvement in community life, stakeholder engagement and the suspension of activities were the tools adopted by the company in response to the challenges it faced” (Lundin 2004b:13). These measures also countered the negative publicity Lundin faced at home, regardless if the allegations by NGOs were misplaced or not. In conclusion, although insecurity and the influence of international human rights NGOs did alter the behaviour of Lundin in Sudan, the company has remained engaged in the country with its interest in Block 5B, suggesting that firm-specific considerations trump negative international criticism in the Swedish MNC’s case, or concurrently that the company successfully mitigated negative criticism of its presence in the country.

### **Österreichische Mineralölverwaltung Aktiengesellschaft (OMV)**

In 1997, OMV became involved in Sudan when it purchased an interest in Block 5A. The Austrian oil and gas corporation is active in exploration and production activities worldwide and operates retail stations in Central and Eastern Europe. OMV expanded its operations in Sudan when in 2001, on top of its 26.125% interest in Block 5A, it purchased a 24.5% share in Block 5B (HRW, 2003:438-439). In a sudden shift of direction, OMV sold both its interests in Sudan to the Indian MNC ONGC for \$105.60 million Euro in 2003 (OMV, 2004:30). Explanation for the company’s strategic behaviour and its dynamism lies in the combination of firm-specific considerations and the international repercussions that domestic insecurity in Sudan was creating for Western-based MNCs.

OMV held firm-specific strategic considerations in Sudan. The Austrian MNC stated the main reason for initial engagement in Sudan was because it was

able to secure partners in the country that allowed it to work in the upstream business.<sup>3</sup> The completion of the oil pipeline by the GNPOC made prospects of oil production in Block 5A and 5B lucrative enough to attract MNCs, such as OMV, to the region (Verney, 2000:36). The discovery of the Thar Jath field in Block 5A further solidified the strength of the investment and represented a major step forward in the company's strategy to strengthen its exploration and production activities (OMV, 2001c). While the above explains the reasoning for OMV's entry, the Austrian firm's exit was made possible by the substantial amount earned for its sale of Blocks 5A and 5B to ONGC, allowing OMV to invest in the expansion of its other oil and gas operations (OMV, 2004b). OMV may have continued to remain engaged in Sudan, despite criticism from international NGOs, if buyers had not been so readily available.

As simply a financial partner in oil consortiums in Sudan, insecurity indirectly influenced OMV through the operators of Blocks 5A and 5B. As a non-operator, the company was concerned with insecurity as it limited the progress of its investments (OMV, 2001:20; OMV, 2002:24). Exploratory operations were suspended twice by Lundin in Block 5A due to security concerns. While in Block 5B operations never got off the ground during OMV's tenure in Sudan due to consistent insecurity in the region. OMV remained proactive in monitoring the security situation, visiting Block 5A along with Lundin to meet with local officials, NGOs, and the UN (OMV, 2003). While developments in the conflict remained a factor determining OMV's strategic behaviour in Sudan, the company's purchase of a share in Block 5B four years after its original investment is testament that it was willing to go the distance and wait for the security situation to improve. However, a unique factor would prove more influential in altering the strategic behaviour of OMV in Sudan.

The allegations put forward by international human rights NGOs that OMV was complicating civil war in Sudan through its presence made the MNC's situation in the country more precarious. Similar to all MNCs in Sudan, OMV's investment was connected to human rights abuses carried out by the GoS against civilian populations inhabiting areas where oil concessions were located (Reuters, 2003). These claims held repercussions for OMV through the negative publicity they generated towards the entire firm's operations, at home and abroad. The MNC's downstream operations made it particularly

<sup>3</sup> Correspondence with OMV's Corporate Social Responsibility Department, May 2005

susceptible to criticism as its perceived impact on the civil war could easily be linked with a commercially visible logo at retail stations in Austria and other parts of Eastern and Central Europe. When evidence mounted concerning the complicity of MNCs, or more importantly it became clear that the accusations had an influence on the stock value and reputations of MNCs, OMV met with European human rights advocacy groups to discuss monitoring circumstances in Sudan (HRW, 2003:474-475). OMV stated that the criticism had prompted the company to alter some management systems (OMV, 2002b:22). However, these administrative alterations did not get OMV out of the woods.

OMV followed a similar path as the other Western Juniors in reaction to negative criticism from engagement in Sudan. It demonstrated its goodwill by investing in development projects and humanitarian aid in the local areas around the Lundin-operated consortium. The company also had independent experts conduct an evaluation of exploration activities in Block 5A in order to evaluate human rights abuses as well as met with local officials, NGOs, and members of relevant UN organizations to discuss the situation in the South (OMV, 2001b). These measures were taken despite the fact that the company stated that it was not involved in any kind of politics. While the MNC conducts an impact assessment of environment and social issues before engaging in any country or region, this evaluation did not reveal any repercussions that its presence in Sudan could produce in its own home markets. Altogether, the rapid change in company dialogue, from stating its investments in Sudan would not be sold and represented attractive assets in the firm's prime growth area, to months later selling those very same assets (HRW, 2003:473; Reuter's, 2003) suggest that politics were in reality at work whether the company was aware of it or not. OMV was clearly making political maneuvers to defend the firm against criticism in the international environment, comprising a novel element of the MNC's decision-making calculus.

It is plausible that in the end OMV needed to ensure its shareholders that the reasoning behind its decision to exit Sudan was based on financial considerations alone. Admission to the influence of international human rights NGOs would have likely set a damaging precedent to the company's share value. Indeed, OMV continues to operate in politically unstable situations, such as in Libya and Pakistan. While the company claimed its decision to sell its interests in Sudan was solely based on commercial reasons, financial considerations provided the method of exit rather than the means. Political factors existed in



the Austrian MNC's decision. Alterations in the MNC's strategic behaviour to mitigate negative criticism by international NGOs are telling in the MNC's eventual decision to exit the country before the repercussions of such allegations became all too real.

### **The Rising East: State-Owned Multinationals**

The growing dominance of the Eastern-based MNCs has been a distinctive feature of the Sudanese oil industry in recent years. Since the withdrawal of Western-based oil corporations, the three government-owned corporations have established steady and rising levels of oil production and spearheaded exploration activity. The motivations of Eastern MNCs are largely a mix of the desire to attain international oil reserves and gain knowledge on oil exploration and production. The establishment of military, political, and economic relationships between the three respective MNCs' governments and the GoS is a crucial factor in their expansion. However, despite the seemingly formidable control these firms have in the Sudanese oil industry, outside factors have limited the lengths of their achievements.

#### **China National Petroleum Corporation**

China National Petroleum Corporation (CNPC) was established in 1988 to serve as China's state oil and gas corporation. It operates both upstream and downstream activities, dominating the domestic market and is increasingly influential as an international player. CNPC and its Malaysian counterpart, Petronas, are perhaps the most established MNCs in Sudan. The Chinese MNC is involved in multiple projects. First, CNPC established a 92% interest in Block 6 in 1995 (CNPC, 2005). Second, it gained primary ownership of the GNPOC in 1997, holding a 40% stake in the concession. CNPC is also part of another consortium, the Petrodar Operating Company Ltd., which owns the rights to Blocks 3 and 7 and was established in 2003 (OGJ, 2005). Moreover, CNPC established a downstream retail station in Khartoum in 2001 (CNPC, 2005) and owns an oil refinery in the country (HRW, 2003:458-459; OGJ, 2005).

The significant presence of CNPC is one almost directed entirely by the Chinese government. The aims of company and country are one. This dominating internal influence is due to China's need to secure international oil reserves to support its bulging economy. With China's domestic oil fields drying up,



an emerging and critical geopolitical goal for the country has been to capture international oil reserves. CNPC has acted as China's arm in the global marketplace in securing long-term supplies of petroleum from the international market (Time Asia Magazine, 2004). China's need for oil is clearly reflected in CNPC's corporate policy, with an expansion of international operations representing a critical strategic priority for the MNC (CNPC, 2002:5; CNPC 2003:7). This approach has led the firm to expand its operations throughout the globe, even into politically unstable situations such as Sudan. Sudan represents a vital source of oil for China, and subsequently CNPC has invested heavily in the African country. The GNPOC project alone represents close to half of CNPC's overseas oil production (China Business News, 2004b). The MNC's ambition has even sent a reported 10,000 Chinese workers to take part in the construction of the oil pipeline (ROB, 1999:6). More so, CNPC's operations in Sudan represent a test project for the corporation. The oil pipeline in the African country was the first constructed abroad by CNPC along with the production facilities and retail stations (CNPC, 2005). The investment has paid-off both as a learning experience and from direct results in crude oil.

CNPC operates under different ground rules than the typical MNC in Sudan. The state-owned MNC has a strategic behaviour that varies remarkably to its publicly traded counterparts. Indeed, CNPC has stated that China's energy security trumps company interests in decision-making (The Wall Street Journal, 2003b). This governmental influence enables CNPC to pursue overseas more aggressively investment in places such as Sudan despite the risk of insecurity and instability. Profits are not necessarily a company objective, but rather simply the acquirement of international oil reserves (OGJ, 2005). Furthermore, the link between company and country has allowed China to solidify CNPC's dominate role in the Sudanese oil industry by providing the GoS with further economic opportunities, access to military arms, and political support in the international arena

The relationship between the GoS and the government of China is another critical factor in explaining the strategic behaviour of CNPC in Sudan. Outside of the direct investment of its national oil MNC, China has given soft loans to Sudan in order to advance oil development in the country and provided humanitarian aid (China Daily, 1995; Associated Press, 2005b). China has also expanded its economic activity in the country through banking, light and heavy industry, agriculture, fisheries and pharmaceuticals (Verney, 2000:83). Perhaps a more

influential factor in the relationship, and in gaining the GoS's allegiance, has been through the access China has awarded Sudan to military arms. This has enabled the GoS to leverage its military position against rebel groups in the country. Indeed, it is claimed that Khartoum forced Arakis to accept the inclusion of CNPC into the GNPOC in order to gain greater access to weapons from China (Africa Confidential, 1997; Khalid, 2003:347), despite the Chinese firm's lack of onshore oil development experience (Verney, 2000:48). Some reports even alleged CNPC took part in shipping weapons to the war-torn country (Christian Aid, 2001:18). Lastly, China also provided Sudan political support in the international arena. With Western demand growing for the GoS to alter its tactics in the country's long-running civil war, the political backing of the permanent member China in the UN Security Council, has blocked any Security Council consideration towards economic and political sanctions on Sudan (China Business News, 2004c). Altogether, the multi-faceted support provided by China to Sudan has assisted the CNPC in securing its prominent position in the Sudanese oil industry. However, this promising domestic situation has not sheltered CNPC entirely from international politics and the long-arms of the American government.

Similar to all MNCs in Sudan, insecurity has been a determining factor in CNPC's strategic behaviour. The company has operated in close proximity to battles between domestic military groups (Verney, 2000:90) and in 2001 was attacked directly by the SPLA in Block 4 (Gagnon and Ryle, 2001). Rebel parties have kidnapped CNPC employees (China Business News, 2004) and the company has noted that GoS forces have protected Chinese workers from rebel attacks (HRW, 2003:460; Khalid, 2003:348). Overall, though insecurity is certainly a concern for the MNC, the company welcoming prospects of peace in the country (Associated Press, 2005), the civil war has not caused CNPC to exit Sudan. However, the existence intra-state war in conjunction with CNPC's operations did not completely shelter the Chinese state-owned MNC from the influence of the American government.

The relationship between the American government and the GoS has limited the scope of CNPC's operations in Sudan. In 1999, the CNPC aimed to take a significant step forward in its advancement on the international stage by listing shares on the NYSE, and thus gaining access to the capital the exchange offered. The company intended to raise \$15 billion US through an initial public offering (IPO) in order to expand international operations (HRW, 2003:461),

but the IPO immediately ran into trouble given China's human rights record and CNPC's operations in Sudan. The offering was vehemently opposed by American advocacy groups and politicians as they felt it represented a method to circumvent US economic sanctions on Sudan; Americans would be able to invest in the country through CNPC. The political pressure caused CNPC to alter its IPO by putting its subsidiary, PetroChina on the NYSE, stating it would only invest in the Chinese oil industry. However, political pressure continued in the United States and large institutional investors were lobbied to avoid the IPO. It was alleged CNPC operations in Sudan would still be able to harness the funds earned by PetroChina indirectly (HRW, 2003:463-467; OGJ, 2000). Finally, PetroChina only raised \$2.9 billion on the NYSE, a result that hindered the MNC's expansion in overseas markets, such as Sudan. Thus, international relations between the American government and the GoS forced CNPC to alter its strategic behaviour, narrowing the albeit wide scope of expansion in the country.

While poor relations between the American government and the GoS weighed in on CNPC strategic behaviour, pressure from international human rights groups has done little to influence the company. Unlike its Western counterparts, CNPC has remained silent on accusations that their operations fuelled civil war and human rights abuses by the GoS in oil regions (Khalid, 2003:348). The MNC was however pressured by its former partner in the GNPOC, Talisman, to advocate human rights through its operations and as a result did sign a Code of Ethics in 2000 (HRW, 2003:418-420). Furthermore, CNPC runs public welfare projects in communities within its operational Blocks and built a local hospital in order to demonstrate its contribution to development in Sudan (CNPC, 2003:56). Therefore, pressure from international human rights NGOs influenced CNPC's strategic behaviour to the extent that its joint venture partners, susceptible to such criticism, held leverage over the Chinese MNC.

### **Oil and Natural Gas Corporation Limited (ONGC)**

ONGC is the largest integrated oil and gas corporation in India, conducting both upstream and downstream activities. In March 2003, the government-owned MNC acquired Talisman's 25% interest in the GNPOC. As well, in the same year, ONGC purchased the interests of the Austrian MNC, OMV, in Blocks 5A and 5B. The MNC has also made steps towards acquiring an interest in Blocks 3, 6, and 7 in Sudan (Oil and Gas Update India, 2004). Furthermore, ONGC signed a contract with the GoS to lay an additional oil

pipeline from the Khartoum Refinery to Port Sudan, which was launched in late 2005.

As a state-owned enterprise, the strategic behaviour of ONGC is largely directed by the influence of the Indian government. While external factors in Sudan and the international environment, such as insecurity and the world price of oil may leave the MNC with little choice in its actions, internally, the Indian government is in control. A key policy of the Indian government is to expand and diversify sources of international oil, as the country is largely dependent on foreign reserves (Business Standard, 2002). Consequently, the MNC has established the objective of doubling its reserves by the year 2020, pursuing international oil aggressively (ONGC, 2005). This priority is visible in Sudan, an increasingly essential source of oil for India, saving the country \$400 million U.S. every year (Outlook, 2002). Moreover, ONGC continues to expand its operations in Sudan and seeks to acquire further oil concessions (Dow Jones, 2004). The Indian MNC's keenness to expand its international operations is also due to the fact it is a relatively new player in the global marketplace. Thus, ONGC was seeking more than just oil resources in Sudan, but a learning experience in exploration and production. The shipment of crude oil from the GNPOC in 2003 to India represented the first delivery of Indian-owned crude from a foreign oil source (OGJ, 2003b). While ONGC is a large and aggressive corporation, it is still a newcomer in the international oil marketplace. Thus, the need to learn from operations in Sudan represents a further element explaining its strategic behaviour. Altogether, the behaviour of ONGC is largely defined by the influence of the Indian government.

Although the current situation of ONGC expansion in Sudan demonstrates the Indian government's tremendous demand for Sudanese oil, ONGC cautiously entered the country. The decision to enter the country was delayed by unwillingness within certain sections of the government to invest in the war-torn country due to the insecurity the company would be facing in such a venture (Outlook, 2002). Political risk insurance had to be garnered to satisfy the demands of those in government that felt the investment was a poor decision. The MNC took out the insurance from the World Bank's Multilateral Investment Guarantee Agency and the GoS when first entering the African country (The Economic Times, 2002), and later from the Export Credit Guarantee Corporation when investing in the oil pipeline expansion project (The Financial Express, 2004). Furthermore, the Indian government also pressured ONGC to engage in joint

ventures with other MNCs to reduce political risk (The Telegraph, 2004). ONGC also set up two hospitals and an ambulance service for villages around its oil concessions as well as provided aesthetic limbs for landmine victims in order to enhance its goodwill among the local population. More recently, the peace accords between the GoS and the SPLA and the increasing perception of security in Sudan has given the Indian MNC further leeway in expanding its operations. Though ONGC entered Sudan despite insecurity from the civil war, it remained a factor in the MNC's strategic behaviour by prompting the company to make arrangements to better secure its financial position. However, once ONGC was settled in Sudan, opposition to further investment in the Indian government diminished.

The growing economic and political relationship between the GoS and the India government elucidates further how ONGC has been able to expand so rapidly in the African country. The Indian government engaged in intense diplomatic efforts with the GoS to first acquire Talisman's interest in the GNPOC (International Petroleum Finance, 2003). From this point on bilateral cooperation between India and Sudan grew significantly. India has invested in textiles, informational technology, telecommunication, and other infrastructure projects in Sudan (The Financial Express, 2004b). Furthermore, the Indian government has provided millions of dollars in credit to Sudan to engage in more business opportunities with Indian companies (UNI, 2005). Outside of economic relations, political affairs between India and Sudan have also improved since the investment of ONGC was established. India has supported the GoS's position in regards to the Darfur crisis that threatens to have UN economic sanctions applied on Sudan for violations of human rights by pro-government military forces in the Western province of the country (UNI, 2005b). India has also signed on to be a prominent member in the UN Mission in Sudan to mediate peace between the GoS and the SPLA. These increased economic and political relations between the GoS and India supported ONGC's entry into the country and continue to leverage its expansion in the Sudanese oil industry.

The existence of civil war in Sudan made political risk a certainty for all MNCs. However, a particular political risk was also present for Western-based MNCs, which faced pressures to disinvest from Sudan as a result of criticism from international human rights NGOs. For ONGC, and other Eastern, largely government-owned MNCs, this factor was not influential. Consequently, ONGC

faced less competition from large Western oil companies, some opting to leave Sudan partly due to the criticism from international NGOs while others simply did not consider a possible investment given the political repercussions (The Financial Times, 2002). Furthermore, the presence of Eastern-based MNCs, such as Petronas and CNPC, demonstrated to the Indian MNC, that the investment in Sudan was a plausible venture (The Telegraph, 2004). The MNC has also stated that it hopes to strengthen a growing relationship with fellow MNCs, CNPC and Petronas, through expanding its operations in Sudan (The Financial Times, 2003). Thus, developments in the Sudanese oil industry, such as the competitive positioning of MNCs, further explain the strategic behaviour of ONGC in Sudan.

### **Petroliam Nasional Berhad (Petronas)**

Petronas is a state-owned MNC of the Malaysian government. It is the country's largest corporation, conducting both upstream and downstream in the oil and gas industry at home and abroad. Similar to CNPC, Petronas holds extensive interests in Sudan. The MNC originally became involved in the country in 1997 when the GoS awarded the firm a 30% stake in the GNPOC. Petronas also owned a 28.5% interest of the Lundin Petroleum operated Block 5A, before also purchasing the Swedish MNC's share in 2004 (Petronas, 2004:48). Furthermore, Petronas was awarded exploration and production rights to Block 5B in 2002 (Petronas, 2002:46), and holds interests in Blocks 3, 7, and 8. Petronas is also in the retail business in Sudan through acquiring service stations and petroleum depots from Mobil Oil Sudan Limited (Petronas, 2003:26). Altogether, the MNC markets petrol, gas oil, fuel oil, Jet A-1, and lubricants in the country (America's Intelligence Wire, 2003). More recently, the company has begun negotiations with the GoS to build an additional oil refinery in Sudan (Reuters, 2005). Along with its eastern counterparts, Petronas operates an extensive and growing amount of activities in Sudan.

With such a wide-array of operations, Petronas has come across numerous security problems due to the civil war. The MNC has been indirectly influenced by violence when the operations of Talisman, the GNPOC operator at the time, were slowed down by insecurity (Business Times, 2000). Similarly, in Block 5A and 5B, consistent security issues have stalled exploration activity (Business Times, 2002). In all concessions, Petronas company personnel have had to be escorted by military escorts due to the proximity of hostile rebels. When Petronas first entered Sudan several

workers were kidnapped by rebel groups and in another incident, a local driver was killed (New Straits Times, 2000). However, since Talisman and Lundin exited there has been little indication of security issues for Petronas, or simply a lack of reporting. More recently, prospects of peace have propelled Petronas to intensify its operations as the security situation improves (Business Times, 2005). Altogether, insecurity has been a factor considered in the decision-making of Petronas, but has not caused the firm to exit Sudan.

Petronas's strategic behaviour can be further explained by the competitive positioning of firms in the Sudanese oil industry. Several factors demonstrate that Sudan provided an accessible and lucrative investment for the Malaysian MNC. First, while Sudan has considerable oil reserves, the physical and political hazards for potential investors, particularly major Western oil corporations, has meant that only MNCs with the willingness to take on security threats and the ability to avoid political pressure, from human rights complications, have engaged in the African country (The Economist Intelligence Unit, 2003). Petronas has remained impervious to negative feedback from its operations in Sudan from international human rights NGOs due to its state-owned nature and has been able to steer clear from the backlash from potential US capital market sanctions because the firm does not raise any funds in the United States (The Wall Street Journal, 2000). Second, Western junior oil firms such as Talisman and Lundin influenced the operations of Petronas. Despite the deterrent to enter Sudan by Western majors, Western Juniors did operate in the country and played an essential role in the advancement of the oil industry in the country due to their specific technical expertise (Gagnon and Ryle, 2001:26). Without such technological capabilities Petronas and the other less experienced international firms would have taken far longer to produce oil in Sudan.

However, while insecurity and the influence of other MNCs altered Petronas's strategic behaviour in Sudan, it is the policy of the Malaysian government that is paramount in explaining the MNC's behaviour. The company has stated that the reasoning for its expansion in Sudan is part of a larger effort to seek new oil and gas sources (Bernama, 2001). Sudan represents the largest foreign onshore operation for the MNC (Petronas, 2002:24) and accounts for a significant proportion of Malaysia's oil reserves (Business Times, 1998). Indeed, Petronas's Malaysian staff members in Sudan claim they are doing a national service for



Malaysia by working in the difficult and harsh environment of Sudan (New Straits Times, 2000). Thus, the desire of the Malaysian government to expand international oil reserves has propelled Petronas to operate in Sudan and expand its presence in the country. An expansion made possible due to the growing relationship between the GoS and the Malaysian government.

The Malaysian government has secured Petrona's prominent position in Sudan through military and economic relations with the GoS. It is claimed that Islamic ties between the two countries as well as an increased access to military arms first prompted the GoS to bring Petronas into the GNPOC (Africa Confidential, 1997; Christian Aid, 2001:18). Petronas has also given the GoS the opportunity to develop its own expertise in oil development through its Sudanisation programme within the GNPOC that ensures the MNC's staff contains Sudanese employees in order to build Sudan's pool of skilled workers in the oil industry (New Straits Times, 2000). Malaysia also has invested in electrical infrastructure in Sudan (Verney, 2000:50-51) and is active in other industries (HRW, 2003:470; Bernama, 2004). These increased economic relations have solidified Petronas's position in the war-torn country.

### **Reflections of Complexity**

International oil companies had multiple factors instructing their behaviour in Sudan. These variables existed within and between each MNC's corporate environment, the domestic context of Sudan, and at the international level. Furthermore, the variables that influenced MNC behaviour in Sudan were dynamic in nature and seen to hold distinctive prioritization levels for individual corporations. Altogether, the vagueness of these results is testament to the individuality of the construct of factors influencing each MNC. Critical differences lie behind the logic of individual MNC behaviour in Sudan.

### **Firm-Specific Considerations**

Firm-specific considerations have to be taken into account in forming the reasoning behind the actions of MNCs operating in Sudan. MNCs held varying intentions for becoming engaged in the war-torn country as well as different structural compositions that framed their strategic behaviour. The First-Movers provide explanation into the construct of internal company factors comprising MNC strategic behaviour in Sudan. While Chevron had ample financial power and wide-spread international operations that provided the incentive



to exit Sudan, Arakis was a small-sized firm with company success entirely dependent on operations in Sudan. In the end, although the Canadian firm had positive relations with the GoS, it lacked the necessary funds to fulfill its oil production objectives. The multi-faceted nature of the profit maximization matrix of MNCs in Sudan is more fully explained in the operations of the Western Juniors.

Similar to the First-Movers, as publicly traded firms, the Western Juniors operated under a profit-seeking rationale in Sudan. However, the logic of this rationale was different for each firm. Oil corporations cannot be assumed to hold similar aims behind international engagement. Talisman's intention for entering Sudan was based on diversifying and increasing its international oil production. OMV was interested in profiting from eventual oil production as a non-operator but financial partner in oil consortiums in the country. Finally, Lundin was keen on developing its concessions, through the discovery of significant oil reserves, for sale to other MNCs. Thus, distinct fashions of the profit-seeking are revealed through the behaviour of the Western Juniors. Each company was aiming to maximize profits and shareholder value through their operations, however the path taken to achieve such results varied. The last set of oil companies in Sudan, the Eastern parastatals, held their own reasons for engagement.

State interest was the predominate influence on the strategic behaviour of the Eastern MNCs in Sudan, and remains so today as these government-owned MNCs continue expansion in the country. It was also an element to consider in the decision-making of publicly-traded MNCs. Chevron and Talisman were both swayed by the policy of their respective home governments and at the same time projected their own influence on government policy, while Lundin and OMV seemed to have little pressure from their home states, falling in line with the constructive engagement strategy taken by the EU in relations with Sudan. However, the situation was far more transparent for the Eastern parastatals. For these oil corporations the influence of state interest was the overwhelming factor behind decision-making. Acting as the arms of their respective governments, the behaviour of CNPC, ONGC, and Petronas was guided more by the need to secure international oil reserves and gain learning experiences in oil exploration and production than the realization of profits. This has led the companies to rapidly expand operations in Sudan and thus take on higher amounts of risk than their publicly traded fellows. Regardless

of the internal structures of MNCs, directed by distinctive profit-seeking rationales or state interest, external factors in the Sudanese environment were also decisive elements in MNC strategic behaviour.

### **The Sudanese Environment**

A critical influence on the behaviour of international oil companies in Sudan came from the long-standing civil war between the GoS and SPLA. Insecurity had both direct and indirect repercussions for oil companies. While the incidental influence of the civil war played out more in the international arena, particularly for the Western Juniors, there were also immediate ramifications from violence on-the-ground despite forwarded notions of the extractive industry's invulnerability to insecurity. The close proximity of military activity in and around oil fields very much shaped the operations of MNCs. Violence from the on-going civil war is a constant and dynamic factor in decision-making for all MNCs and should not be casually dismissed as a factor that firms have complete control over. Violence from the civil war made political risk insurance a must for MNCs, encouraging the formation of consortiums to diversify the risk engaging in Sudan entailed. From the advent of the oil industry in Sudan attacks from rebel parties, principally the SPLA threatened the advancement of oil development. Chevron was the first oil company to face the scorn of rebel groups, providing some explanation for the company's eventual withdrawal from the country. Arakis also had security concerns, but seemed to benefit from a greater military presence of the GoS in areas around the oil fields. The Western Juniors and Eastern Parastatals would also be threatened by attacks from the SPLA, with some military strikes by the rebel party delaying operations. In several concessions, exploration was an impossibility given the presence of rebel groups. Nonetheless, oil development in the country would gradually move forward, despite continued assaults on oil installations and the bombing of the oil pipeline. Altogether, insecurity largely influenced MNCs according to the precise areas of operations they held in the country and the shifting contours of war as factions of the SPLA broke away and rejoined the principal rebel group. This presented a volatile situation for operating oil corporations, which subsided as the GoS became increasingly dominant in the region. Another significant variable emerging from the domestic environment was the relationship MNCs fostered with the GoS.

The importance of having positive relations with the GoS was crucial to all MNCs operating in Sudan. The relationship fostered with the domestic government would steer the fortunes of exploiting oil companies. Moreover, it depicted how vari-

ables influencing MNC behaviour straddle the domestic and international divide, generating domestic consequences from international events and vice versa. The former interconnection can be seen in the experiences of Chevron in its compulsory relationship with Khartoum. Not only did the American MNC have an uphill battle in acquiring the appropriate security in the South during its tenure in Sudan, but the company was also pressured to exit the country due to escalating poor relations with the GoS. The gradual divergence between American and Sudanese government policy, culminating with the application of political and economic sanctions by Washington, were critical in explaining Chevron's exit. However, the local and global components of the relationship between MNCs and the GoS were most evident in the cases of the Eastern Parastatals. The positive relationships formed between Khartoum and the respective governments of CNPC, ONGC, and Petronas were instrumental in the expansion of these firms in the Sudanese oil industry. A strong relationship clearly exists between the GoS and each of the respective governments of the Eastern MNCs. The military, political, and economic ties fostered between these nations have blossomed since oil development commenced in Sudan. Altogether, in this dynamic, home governments and their MNCs have taken on different types of engagement with the GoS. An active strategy is exhibited by China, India, and Malaysia in providing multi-faceted support for the GoS. A passive strategy was undertaken by European states and their corporations through apparent constructive engagement, subsequently providing Khartoum with substantial revenues. Finally, Canada and Talisman eventually took on a normative stance in attempting to pressure the GoS to alter its tactics in the civil war due human rights concerns. Diplomatic pressure from the Canadian government on Talisman and the GoS certainly did not improve relations with Khartoum for the Canadian MNC. Thus, the strength of each MNCs relationship with the GoS held implications for the progression, or alternatively the decline, of their operations in the country's oil industry. This depicted the linkage between domestic and international variables in the decision-making matrices of MNCs that held domestic repercussions for MNCs through expansion or lack thereof. The dialectic circle between local and global processes is further outlined in light of international consequences for on-the-ground circumstances in Sudan.

### **The International Arena**

Explanatory factors for MNC strategic behaviour in Sudan find significant definition in the dynamics of the international environment. In particular, the international repercussions from civil war in Sudan for MNCs have altered the conventional, albeit precarious, setting in the country, through the creation

of global ramifications for local events. Security for the operations of MNCs became an increasingly important factor for the GoS as the potential size of oil revenues was revealed. From the learning experience of Chevron's operations, both the GoS and MNCs had further emphasis to work more intimately together on security matters. Government military forces would both act as security providers for MNCs and also continue to play their traditional role in combat against the SPLA. This included committing brutal human rights abuses against civilians in areas around the oil fields, leading to widespread human displacement. These military operations of the GoS and pro-government forces, which benefited from the infrastructure MNCs had established in the South, would lead to significant pressure from international NGOs and other human rights advocates on international oil companies, particular the Western Juniors. These organizations claimed MNCs were complicate in human rights abuses committed by GoS military forces and pushed MNCs to augment, suspend, or even outright end their operations. International NGOs and independent investigators in particular provided extensive reports detailing the involvement of MNCs in atrocities committed in the civil war. These allegations, regardless of their veracity, created negative publicity for Western-based MNCs, representing a novel external variable in their strategic behaviour.

A dialectic circle connected the influence, or perceived influence, of MNCs on the civil war, with human rights advocacy groups in MNC's home markets. This phenomenon had repercussions for each MNC. In particular, as a result of human rights advocacy, Talisman felt the pressure to exit from its shareholders, the Canadian government, and most importantly, the American government, which threatened to handicap the Canadian MNC's fundraising abilities in the U.S. through capital market restrictions. This process further reveals the interconnection between variables describing MNC behaviour. An alignment between international NGO policy and American foreign policy resulted in significant pressure on Talisman, which along with other factors, greatly depreciated Talisman's stock value, forcing the company to sell its Sudanese assets. On the other hand, the Swedish MNC Lundin felt little relative pressure from its shareholders to disinvest from Sudan. Since the MNC was not listed on American capital markets, it was not susceptible to the influence of American foreign policy. Finally, OMV faced the threat of its engagement in Sudan being harmful to its brand name at retail stations in home markets. Unlike its Western counterparts, OMV is both an upstream and downstream oil and gas corporation. Human rights allegations presented potential devastating results to

its brand name. Thus, according to their individual characteristics, the Western Juniors felt the pressure from international advocacy groups to disengage from Sudan at varying levels. Human rights pressures on Western MNCs portrayed the interconnection between variables within a MNC's multiple environments and the different prioritization applied to influential factors.

Not only did allegations of complicity in human rights abuses pressure the Western Juniors in multiple ways, but differentiation between the MNCs was also revealed in their reactions. Although, Talisman, Lundin, and OMV each had a period of denial concerning the occurrence of violence in their oil concessions, upon the emergence of supporting evidence of the fact and admittance from MNCs themselves, each company had different methods of response. On one end of the spectrum, OMV demonstrated that it was monitoring the situation of its consortium's influence on civil war in Sudan and providing funds to support development and humanitarian activities in the country, similar to the other Western-based MNCs. At the other end, Talisman, after its efforts to show its positive influence in Sudan appeared to be failing, and under significant pressure from its shareholders and the American government, proactively engaged Khartoum to alter its military methods as well as convince its seemingly less human rights conscious partners in the GNPOC to sign a Code of Ethics. While the effectiveness of the company's efforts were minimal, a result largely connected to the limited leverage Talisman had on the GoS and in the GNPOC, the Canadian MNC's actions went beyond the typical demonstration of goodwill that other MNCs in Sudan have so often relied upon in an effort to fend off negative perceptions of their presence in war-torn societies. Lastly, Lundin took a defensive stance to allegations of complicity in human rights abuses. The MNC was quick to engage its shareholders, the media, and NGOs on the validity of the findings presented by human rights groups, particularly the NGO Christian Aid. Lundin argued that information portrayed concerning the connection between its company and the civil war was biased, representing the views of those who supported the rebellion. The company's continued engagement in the country is testament to the success of its defensive measures against allegations of complicity in human rights abuses. In conclusion, while all three of the Western Juniors realized the political impact that criticism of their presence in Sudan would have, each addressed the situation in a different way.

The influence of human rights complicity allegations by international NGOs altered the composition of the Sudanese oil industry. This was a further repre-

sentation of circumstances in the local setting adjoining with those in the global environment. The influence of international NGOs on the Western Juniors proved advantageous to Eastern MNCs, who have been able to expand their operations in Sudan due to the exit of Western firms. The sequence activated by international NGOs explains the withdrawal of Talisman from Sudan, provides significant reasoning for OMV's exit, and the altered the behaviour of Lundin. As a result, CNPC and Petronas were able to expand their presence and ONGC awarded the possibility to become involved in the increasingly lucrative domestic oil industry. Although the Eastern Parastatals are not completely sheltered from the influence of human rights advocates, given the deflated NYSE public offering made by CNPC and the signing of a Code of Ethics by the Chinese MNC and Petronas, a lack of susceptibility to human rights abuses has assisted the progression of these companies in Sudan.

Beyond indirect influences, from the onset of oil development in Sudan direct interactions between companies further explained their strategic behaviour. Oil corporations seemingly learned from one another's experiences in the country, gradually expanding investment. For instance, Lundin garnered know-how concerning Sudan through its involvement in Arakis as a prominent broad member of the Canadian firm. Moreover, the establishment of various consortiums in the country, largely due to political uncertainty, opened new lines of communication and pressure between MNCs. One example was Talisman projecting its will on the GNPOC through establishing an ethics code with its Eastern partners. This was a result of significant pressure on the Canadian MNC from international human rights NGOs. Furthermore, the completion of the oil pipeline by the members of the GNPOC and discoveries in other fields not connected to the main consortium encouraged firms, such as OMV, to enter Sudan as potential new findings suddenly became very marketable. A final factor of MNC strategic behaviour in Sudan connected to the dynamics of the oil industry was the level of international oil prices. Particularly for the Western MNCs, operating with a profit-seeking rationale, the price of international crude has been a critical and dynamic factor in decision-making. Chevron noted when withdrawing from Sudan that given the low price of oil at the time the company could not justify the financial investment of building the oil pipeline in the country. In the late 1990s and onward, the price of oil steadily rose, prompting further reason for Talisman to enter and quickly produce oil in Sudan. For Lundin and OMV higher oil prices meant that any potential discoveries made by their respective consortiums would be valued much higher for other MNCs seeking to extract

and market Sudanese crude, such as Petronas. Thus, the dynamics and developments of the Sudanese oil industry reveal further elements describing MNC strategic behaviour.

### **Policy Ramifications**

The complexity of MNC strategic behaviour in Sudan demonstrates that adherence to a simplistic understanding of the factors determining MNC decision-making is ill-advised for advocates of peace and development. Unfortunately, Sudan is not an isolated case where a lack of analysis on MNC behaviour has been displayed. There is comparative space in Angola, Nigeria, and Myanmar, among others. Moreover, the wide variety of causes, consequences, and functions of civil war in Sudan interlinked with MNCs also mirrors those of other war-torn societies in the developing world. This provides further emphasis for recognizing emerging truths concerning the complexity of MNC behaviour. The multiple logics of MNCs in Sudan illustrate that it is not the individual MNC's investment that is long-term, but simply MNC investment as a whole which endures. Indeed, some companies left profitable opportunities in the African country while others knowingly entered a conflict-ridden environment. In light of the detrimental influence of MNCs on civil war in Sudan, the exposed intricacy behind their decision-making calls for a reexamination of how MNCs should be coerced to act as agents of peace and development in war-torn societies.

The results of international NGO pressure on oil corporations in Sudan did not lead to improved human rights in the country. While the reporting of injustices connected to oil development has certainly provided an invaluable source of information, self-serving subjectivity has steered observers away from stark realities. The ramifications of an overwhelming focus on the influence of MNCs on civil war directed pressures towards human rights sensitive Western MNCs, causing these corporations to a large extent to exit the country. International NGOs simply played a role in solidifying the dominance of Eastern Parastatals, which have shown little concern over their complicity in human rights abuses. In the years following the withdrawal of Western MNCs from Sudan there has been a startling absence of information available on the continued influence of oil development in the South. This is partly to do with the closed nature of government-owned MNCs as well as the fact that the vast majority of NGOs have apparently lost interest in the situation now that Western firms are less involved. The inventive tactics taken by international NGOs held consequences only for susceptible Western MNCs, resulting in less human rights conscious



corporations taking over the scene. This novel dynamic must be recognized. The surfacing of China and India as economic actors in the international oil industry in particular presents a certitude that oil will continue to be developed in war-torn societies such as Sudan. Thus, policy instruments such as financial transparency measures and codes of conduct need to be reframed.

The Sudanese case portrays the classical example of the collective action problem. Eastern Parastatals operating in the country can certainly be seen as proactive free-riders in Sudan, on one side benefiting from the pressures of international NGOs on Western firms and the worsening relations these companies had with Khartoum as a result, and on the other, building their own positive relationships with the GoS. This dynamic demonstrates that leaving it to the market to address the problems associated with the presence of MNCs in conflict-affected countries is not advisable (Swanson, 2002:37). Free-rider issues also reduce prospects of the successful implementation of financial transparency measures and codes of conduct for MNCs in conflict-affected countries. The effectiveness of transparency initiatives that demand corporations disclose amounts paid to host governments, such as the Extractive Industries Transparency Initiative, allow for the creation or restoration of accountability and trust between government and civil society. However, if not all MNCs operating in a conflict-affected country, or the entire international market for that matter, buy into this initiative the host government has little incentive to reform its practices as it can simply deal with other unconcerned companies. For those MNCs susceptible to pressure from the international civil society, relations with the host government are produced out of even suggesting the application of financial transparency initiatives. The same can be seen with codes of conduct, such as the Voluntary Principles on Security and Human Rights. Companies compelled to take on these measures will not only inevitably upset their hosts, but also have higher operating costs in implementing codes into operational procedures than those firms which choose not to install such practices. Moreover, as the security of oil corporations in conflict-affected countries largely falls under the domestic government, companies may hold little leverage in suggesting new practices in security provision, particularly if there are other players on the market without such demands on the host government.

In the competitive and complex environment of international oil companies, individual solutions must be fashioned until multi-lateral agreements between states can be developed. The positioning of human rights sensitive MNCs should



not be jeopardized to the point that it results in the dominance of unconcerned corporations. Thus, NGOs and MNCs need to work more closely to design measures which ensure that human rights susceptibility does not become a competitive weakness for a corporation, while implementing measures that assist in ensuring the presence of the company is not damaging to efforts of peace and development. Concurrently, more methods of pressuring those corporations with a disregard for human rights should be created, but these appear to be quite sparse in the short-term. Altogether this is no easy task, but the critical areas of contention have been categorized and various tools to alleviate the negative effects of MNC investment recommended (see Nelson 2000; Banfield et al. 2003; Ballentine and Nietschke, 2005). In the search for mutual solutions the particular factors relevant to individual MNC strategic behaviour such as the composition of competitors in the industry, the exploration or production interests of the firm under question, the leverage of the host and home government on the MNC's operations, among others, need to be considered. These elements will assist in revealing the actual capacity a MNC has in promoting peace and development.

The dynamism of the variables influencing MNC behaviour will constantly alter a firm's faculty as a responsible actor. Therefore, the need to develop a multi-lateral agreement among those states which have MNCs active in war-torn societies is even more urgent. Certainly, the influence of states was a prominent factor in the decision-making of MNCs in Sudan. Chevron and Talisman were influenced significantly by the policy of the American government, not to mention the ultimate power of the home governments of the Eastern Parastatals over their firms. The OECD and its Guidelines for Multinational Enterprises provide one forum where human rights concerns can be built into an existing monitoring mechanism on global corporate activity. Indeed, one of the ongoing goals of the initiative is to bring economic significant non-member countries such as China and India into the fold.<sup>4</sup> These are the initial steps that must be taken to establish a level playing field for all corporations. Altogether, while the augmentation of existing policy instruments and positive inducements for MNCs in war-torn societies requires further analysis, real life problems connected to oil development in countries such as Sudan remain flash points for violent conflict.

<sup>4</sup> Interview with Senior Economist at the OECD, Investment Division, Directorate for Financial and Enterprise Affairs, October 2004

### **New Issues in Sudan**

The operations of MNCs and the further expansion of the oil industry in Sudan remain critical elements in the possible reemergence of the country's North-South civil war. Although, the CPA signed between the GoS and SPLA/M in January 2005 has presented new opportunities to ensure oil development represents a vehicle for peace and development, it has also produced novel challenges that may give further reasoning for violence. Those still reporting from the region have shown oil still represents a source of conflict violence (Sudan Tribune, 2006). Despite the establishment of a Wealth Sharing Agreement in the CPA, the delivery of oil revenues to the South has been delayed by the GoS due to border disputes (ICG, 2005:18). The CPA set the basis for the GoS and the Government of Southern to split oil revenue in the South 50/50 as well as establish a joint National Petroleum Commission (NPC) to control all exploration and production activities. However, the question of which states are part of the South and which the North in oil-bearing regions remains. Moreover, the slow moving process towards the creation of the NPC is occurring in tandem with the GoS selling off the vast majority of remaining concessions in the country.

Further exclusion from Sudan's oil wealth simply underlines extreme underdevelopment and strengthens reasons for resentment of the GoS in the South. The SPLM has seemingly responded to the delay in oil revenues by granting concessions to companies on top of Khartoum's previous contracts in areas where it holds the dominate administrative and military capacity (ICG, 2005:20). Revenues made from these new agreements in combination with Khartoum's continual neglect for the South provide both the means and stimulants for the SPLM to resume its rebel activities. However, at the moment, apparent peace in Sudan has seen the reemergence of Western MNCs into the country such as the French major Total (Total, 2005). This in particular will put to test the will and resourcefulness of company representatives and NGOs to recognize the complex environment faced and to ensure that corporate activities represent a source of reconciliation rather than strife between long-time enemies.

## **Conclusion**

The corporate, domestic and international environment of MNCs in Sudan is far more complex than forwarded in popular arguments on MNC behaviour in war-torn societies. A dynamic constellation of independent variables influencing MNC strategic behaviour should force observers to correct notions of simplicity that have been attached to the profit-seeking rationale of Western MNCs or even the technocrat nature of Eastern Parastatals. The intricate composition of internal influences and external pressures are cause for further appreciation of these all important economic actors in contemporary civil war in the developing world. The state-of-the-art on transnational oil corporations in war-torn societies which argues that MNCs remain in conflict zones despite insecurity and instability due to the long-term, high profit, nature of their investment is a limited explanation. Even by scratching the surface a larger picture can be found. It may seem to be a romantic endeavour for many to stand before the giant that is the Multinational and condemn its actions in defense of a suffering people, but this causes investigators to provide an over simplified explanation of the profit-seeking rationales and external pressures of MNCs. Acceptance of this behavioural complexity is the first step in ensuring positive spin-offs for peace and development efforts in war-torn societies come out of the presence of MNCs. Although MNCs may hold intentions that are largely divorced from the typical goals of UN agencies or NGOs in war-torn societies, a lack of understanding of the factors dictating their behaviour simply prolongs the damaging influence they have in conflict-affected countries. Greater comprehension for MNC strategic behaviour will pave the way forward for these enterprises representing supportive elements in the constructs of economic prosperity and political consensus.

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