

CRUDE DAYS AHEAD? OIL AND THE RESOURCE CURSE IN SUDAN

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ABSTRACT

Oil remains a major threat to peace and stability in Sudan as the interim period of the Comprehensive Peace Agreement draws to a close. With a 2011 referendum for Southern secession on the near horizon, political relations between the government of Sudan and the semi-autonomous government of Southern Sudan rest precariously on a fragile economy and waning oil sector. This analysis of the political economy of oil in Sudan since 2005 finds that governance at national, regional, and local levels has largely failed to manage the damaging political and economic effects of the resource curse. Uncertainty surrounding Khartoum's oil transfers to the South, negligence and corruption among the Southern elite, and the lack of a peace dividend to offset environmental degradation in oil-bearing regions trace the multiplicity of the resource curse in Sudan. While compromises on oil between political elites offer some hope of avoiding a future North–South civil war, the regional and local dimensions of the resource curse remain critical sources of armed conflict.

AS THE PLANNED 2011 REFERENDUM FOR SOUTHERN secession in Sudan approaches, fears remain high that the North and South may return to civil war in a struggle to capture oil resources. Since most of Sudan's oil wealth is found in the South, billions of dollars in revenues could be torn away from the very same hands in Khartoum that orchestrated the violent extraction of oil during the long-standing North–South civil war. In the years before the 2005 signing of the Comprehensive Peace Agreement (CPA) between the government of Sudan and the Sudan People's Liberation Movement/Army, oil was seen to 'inexorably figure both as an obstacle and an opportunity to achieving peace'.¹ Little has changed during the interim period of the CPA. Oil remains central to sporadic bouts of armed conflict and fears of future instability. In 2007, President Omar al-Bashir

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1. J. S. Morrison and J. G. Cooke, 'Sudan's oil sector' (background paper, Center for Strategic and International Studies, 2002).

said that he would not 'give an inch' in the disputed Abyei oil region, calling on the Popular Defence Forces militia to open training camps.² More recently, in a message discreetly packaged for his Northern counterparts, the First Vice-President of Sudan and South Sudan President Salva Kiir warned external 'enemies of peace' against attempts to undermine Southern stability, including Khartoum's persistent manipulation of the South's fair share of oil revenues.³ Nonetheless, despite the strong rhetoric, traces of political compromise between Northern and Southern political elites suggest a future oil war can be avoided. However, overshadowed by the threat of a renewed North–South civil war, the influence of oil at regional and local levels has generated other sources of conflict and instability.

The oil sector in Sudan has received extensive scrutiny from international human rights NGOs during the North–South civil war and the post-war period.⁴ This article, however, focuses on the political economy of oil since the CPA. Although the subject is gaining momentum in discussions about post-referendum arrangements,⁵ despite its political importance there has been little policy movement to tackle the oil problem during the interim period. Sudan is also largely excluded from academic literature on the resource curse in oil-rich sub-Saharan Africa. While major oil producers such as Nigeria, Angola, Chad, and Equatorial Guinea have all been given analytical treatment, the case of Sudan remains under-examined.⁶ The resource curse is a paradoxical phenomenon in which countries with an abundance of natural resources nonetheless suffer from economic underdevelopment and weak state institutions.⁷ Oil in particular is seen to lead to the outbreak of civil war. The physical concentration of oil fields breeds calls for secession as the lack of social benefits and environmental degradation of oil extraction foster grievances among local communities.⁸ In Sudan, it has been the fail-

2. 'Sudan President refuses to budge over oil region', Reuters, <http://uk.reuters.com/article/idUKL17270269_CH_242020071118> (18 November 2007).

3. 'South Sudan's Kiir accuses "enemies of peace" of instigating chaos', *Sudan Tribune*, 18 June 2009.

4. Human Rights Watch, *Sudan, Oil and Human Rights* (HRW, New York, NY, 2003); European Coalition on Oil Development in Sudan, 'Oil development in Upper Nile, Sudan' (ECOS report, 2006).

5. Norway began petroleum cooperation with Sudan in 2006, providing capacity building, technical advice, and consultation on implementing oil revenue sharing; 'Sudan's peace partners close to agreeing on South Sudan referendum bill', *Sudan Tribune*, 13 June 2009.

6. Jędrzej George Frynas, 'Corporate and state responses to anti-oil protests in the Niger Delta', *African Affairs* 100, 398 (2001), pp. 27–54; Philippe Le Billon, 'Angola's political economy of war', *African Affairs* 100, 398 (2001), pp. 55–80; Scott Pegg, 'Can policy intervention beat the resource curse? Evidence from the Chad-Cameroon pipeline project', *African Affairs* 105, 418 (2006), pp. 1–25; Jędrzej George Frynas, 'The oil boom in Equatorial Guinea', *African Affairs* 103, 413 (2004), pp. 527–46.

7. Michael L. Ross, 'The political economy of the resource curse', *World Politics* 51, 2 (1999), pp. 297–322.

8. Michael L. Ross, 'What do we know about natural resources and civil war?', *Journal of Peace Research* 41, 3 (2004), pp. 337–56.

ure of governance at multiple levels that has allowed the economic and political afflictions of the resource curse to take hold.

This article explores the influence of the oil sector on Sudan's political economy by pulling apart the different sources of oil-related armed conflict. Its findings add to the lexicon of African cases of the resource curse, supporting the argument that it is a phenomenon born of pre-existing institutions rather than simply strong natural resource endowment.⁹ More specifically, it demonstrates the multiple layers of governance failure at national, regional, and local levels.¹⁰ The different sources of oil-related conflict in Sudan underline the multiplicity of institutions beyond the national capital that must be in place for the resource curse to be averted. The article begins by highlighting the economic effects of the resource curse in Sudan, which have driven high levels of oil-centred growth over the past decade without developing wider sections of the economy. It continues by exploring the limitations of the oil sector itself, which in combination with a fragile economy threatens future armed conflict by intensifying political grievances at national, regional, and local levels. At the national level, the lack of transparency around Khartoum's oil revenue transfers to the South undermines prospects for peace. Mismanagement and corruption in the oil sector are also a growing concern within Southern Sudan, where tensions fester around the SPLM's management of its oil revenues. At the local level, the lack of a peace dividend amid evident environmental degradation from oil development has motivated local armed resistance. Finally, despite the various sources of armed conflict centred on oil, the article stresses the ability of Northern and Southern political elites to find a political compromise around oil. A post-CPA trade-off on oil between the National Congress Party and SPLM may yet prevent another North-South civil war, but not necessarily alleviate regional and local grievances.

Oil and Sudan's economy

Oil development has been the centrepiece of Sudan's economy for the past decade. It spurred an average real GDP growth of close to 7.9 percent between 2004 and 2008, and stimulated a notable industrial and service sector expansion.¹¹ This compared to an average growth rate of 2.9 percent

9. Scott Pegg, 'Briefing: Chronicle of a death foretold', *African Affairs* 108, 431 (2009), pp. 311–20, p. 318.

10. The international dimension as another level of analysis is not covered, but see Nicholas Shaxson, 'Oil, corruption and the resource curse', *International Affairs* 83, 6 (2007), pp. 1123–40.

11. International Monetary Fund, 'Sudan, Country Report No. 08/174' (IMF, 2008), p. 15; IMF, 'Sudan, Country Report No. 09/218' (IMF, 2009), p. 17.

between 1980 and 1998, before the first oil exports were shipped out.¹² The oil sector has grown thanks to billions of dollars in investment from a grouping of national oil companies from China, Malaysia, and India, and continued to make headway despite the exit of several Western oil companies in 2003.¹³ American unilateral sanctions since 1997 and subsequent divestment campaigns from Western activist groups have dulled growth, but the Asian oil bloc, along with long-running economic ties with the Middle East, have kept Sudan's economy afloat.¹⁴ Oil has represented on average roughly 90 percent of Sudan's total exports from 2004 to 2008.¹⁵ Since 2002, China has taken in 56 percent of the total value of exports, with Japan accounting for nearly 15 percent. Sudan also draws upon Asia for over a third of its imports, mainly in capital goods.¹⁶ Nonetheless, while oil has fuelled high levels of economic growth, the boom cannot conceal a severely weak economy.

The ruling NCP has done little to offset the economic expressions of the resource curse in Sudan. It has earned record levels of revenue from oil development but has not controlled an enduring fiscal crisis. Oil windfalls have doubled total government revenue, averaging over US\$4.9 billion annually from exports and sales to local refineries from 2004 to 2008.¹⁷ However, government expenditures have outpaced revenues by close to \$450 million per year in the same period. Much of the growth in government spending is on account of transfers to the government of Southern Sudan (GOSS), oil-producing states, and Northern Sudan state governments, which increased from 8 percent of total expenditures in 2004 to 47 percent in 2008.¹⁸ The government of Sudan had amassed a total debt of \$33.7 billion by 2008. Such a poor financial position cannot be solely attributed, however, to revenue sharing with the South. Despite the growth of oil exports, the NCP has run an average current account deficit of nearly \$4.2 billion from 2004 to 2008.¹⁹ Along with servicing its burgeoning debt, its dependency on machinery and vehicle imports as well as foreign services has resulted in twin deficits (budget and current account). Oil has not

12. IMF, 'World Economic Outlook Database', <<http://www.imf.org/external/pubs/ft/weo/2009/01/weodata/index.aspx>> (18 November 2009).

13. Luke A. Patey, 'State rules: oil companies and armed conflict in Sudan', *Third World Quarterly* 28, 5 (2007), pp. 997–1016.

14. Luke A. Patey, 'Against the Asian tide: the Sudan divestment campaign', *Journal of Modern African Studies* 47, 4 (2009), pp. 551–73.

15. IMF, Sudan Country Reports, 2008; 2009.

16. The Economist Intelligence Unit (EIU), 'Sudan: Country Profile, 2009' (EIU, London, 2009), p. 28.

17. IMF Country Reports, 2008; 2009. All figures in US dollars.

18. EIU, 'Sudan: Country Profile, 2009', p. 18.

19. IMF, Sudan Country Reports, 2008; 2009.

saved Sudan's downtrodden economy, but rather fuelled existing government deficiencies in its management.

Oil wealth in Sudan has not been utilized efficiently to develop other sectors of the economy. Rather, as in many other oil-producing countries, non-oil growth has been lacklustre. In a process often termed as the 'Dutch Disease', significant inflows of foreign currency from oil exports have appreciated the value of the Sudanese Pound, dampening the competitiveness of other tradable and manufactured products.²⁰ Sudan's non-oil exports, mainly composed of sesame and livestock, have dropped from \$677,000 million in 2004 to \$545,000 million in 2008. The competitiveness of agricultural exports has been further weakened since Sudan lost its monopoly on exports of gum arabic under competition mainly from Chad and Nigeria. With two-thirds of the workforce employed in agriculture, the majority of Sudanese have seen little benefit from oil development. While Khartoum has received a facelift in the form of new office buildings, residential areas, and hotels, the World Bank and UNDP estimate that 60–75 percent of the population in the North and 90 percent in the South live below the poverty line.²¹ This crowding out of development in agriculture and other industries has been accompanied by government dependency on natural resource exports, making budgets often prone to volatile shifts in international commodity prices.

In the summer of 2008, Sudan tasted the effects of its first oil shock as an exporter. International prices plummeted from heights of over \$140 per barrel to lows of close to \$30 by the end of the year. While the oil price then climbed steadily to over \$70 per barrel by June 2009,²² lowering anxiety levels among Sudan's political elite, the volatility left its mark on the respective budgets of the governments of Sudan in Khartoum and Southern Sudan in Juba. Both the NCP and the SPLM have shown a heavy dependency on oil revenues. Oil revenues represented close to 65 percent of total GOS revenue in 2008, with an average of 58 percent over the last five years.²³ The GOSS is utterly dependent on oil transfers from the central government, which account for roughly 98 percent of its total revenue since 2005.²⁴ The results of tumbling oil prices were palpable in both the North and South. Total oil revenue for 2009 amounted to only \$2.5 billion compared to \$6.5 billion the year before.²⁵ At one point there was only enough

20. IMF, 'Sudan, Country Report No. 08/174' (IMF, 2008) p. 32.

21. UNDP Sudan, <http://www.sd.undp.org/focus_poverty_reduction.htm> (19 November 2009).

22. US Energy Information Administration, 'Europe Brent Spot Price', <<http://tonto.eia.doe.gov/dnav/pet/hist/rbrted.htm>> (18 June 2009).

23. IMF Country Reports, 2008; 2009.

24. Ministry of Finance and Economic Planning (GOSS), 'Approved Budget 2010' (MFEP, 2010).

25. 'Oil revenue in Sudan slashed by 60% in 2009: GoSS', *Sudan Tribune*, 2 March 2010.

foreign exchange to pay for roughly two weeks of imports. Despite previous oil windfalls, typically revenues accumulated in an Oil Revenue Stabilization Account have been spent in the same year, nullifying any financial cushion to offset lower international oil prices.²⁶ In the South, a suddenly cash-strapped GOSS could not pay civil servant salaries for months. The Bank of Southern Sudan had to rescue the private Nile Commercial Bank after it announced it was out of cash in April 2009.²⁷ The ruling NCP and its partner in peace the SPLM were ill-prepared to handle the debilitating effects of a sharp drop in oil prices, reflecting an overall economic mismanagement of the oil boom.

The future of the oil sector

Sudan enjoyed more than just an oil boom during the past decade. The rise of oil production after the signing of the CPA paired perfectly with soaring international oil prices. Production went from 305,000 barrels per day (bpd) in 2005 to 480,000 bpd by 2008, while the average price of Sudanese crude rose 42 percent on international markets.²⁸ Sudan is currently the third largest oil producer in sub-Saharan Africa, behind Nigeria and Angola. Nonetheless, the strength of the oil sector is fading. Oil production levels have been flattening in recent years on account of the absence of new discoveries. Stagnating production levels are not merely a geological consequence, however. As with the lack of attention paid to improving the robustness of the economy, industry mismanagement has depressed the value of oil gains. Officials at the ministries of Energy and Mining in the North and South suffer from a 'war legacy' that reduces the efficiency of their oversight of the oil sector. In Khartoum, this translates into a thirst for steady oil production increases largely born out of a dependency on oil revenues to fight civil wars in the South and later Darfur. Maturing oil fields along the North-South border may entice the ruling NCP to gain as much oil revenue now before geology or politics make access more precarious in 2011. In the South, after decades of poverty and civil war, the GOSS 'war legacy' translates into the demand to see financial rewards from oil now rather than later. Politics and passion have trumped productivity in the oil sector.

At first sight there appears to be a flurry of oil activity under way in Sudan. However, oil production continues to be centralized in two main consortia: the Greater Nile Petroleum Company (GNPOC) and Petrodar Operating

26. S. M. Ali Abbas, K. Moriyama, and A. Naseer, 'Fiscal adjustment in Sudan: size, speed, and composition', IMF Working Paper, WP/10/79 (IMF, 2010), p. 41.

27. 'South Sudan Nile Commercial Bank out of cash: official', *Sudan Tribune*, 24 April 2009.

28. BP, 'BP statistical review of world energy' (BP, London, 2009); Ministry of Finance and National Economy (Sudan), <www.mof.gov.sd/> (18 November 2009).

Company (PDOC). In 2008, 87 percent of oil production in Sudan was extracted by GNPOC in Blocks 1, 2, and 4 of Unity State, and by PDOC in Upper Nile State's Blocks 3 and 7.²⁹ The remainder was brought to export by the White Nile Petroleum Operating Company (WNPOC) in southern Unity State and Petro Energy in the state of Southern Kordofan. China's National Petroleum Corporation (CNPC) holds the largest share in all the consortia except WNPOC. Together, the three major Asian national oil companies – CNPC, Petronas of Malaysia, and ONGC Videsh from India – control over 90 percent of Sudan's oil resources.³⁰ However, the Asian companies are experiencing disappointing production levels of late.

Production levels of the high-quality Nile-blend crude in Blocks 1, 2, and 4 of the Muglad Basin have declined dramatically in recent years. Output from the concessions in Unity State and Southern Kordofan fell from a peak of nearly 271,000 bpd in September 2006 to 175,633 bpd in June 2009.³¹ Yields from Thar Jath and Mala fields in Block 5A and Fula field in Block 6 remain lower than expected, pegged back by a lack of refinery capacity in Khartoum. Since April 2006 production from Blocks 3 and 7 in Upper Nile of the lower-quality Dar-blend crude has compensated for the loss. However, total production levels did not reach 1 million bpd in 2009 as predicted by former oil minister Al-Jaz, with his successor remarking that future forecasts would be more 'realistic' as levels averaged an estimated 473,000 bpd in the year.³² Disappointing crude output levels have not been bolstered by significant new discoveries.

There are noticeable differences in forecasts of Sudan's total oil reserves. Depending on the recovery factor employed to estimate remaining quantities, the *Oil and Gas Journal* suggests Sudan has less than three decades of oil left at 5 billion barrels, while the Ministry of Energy and Mining estimates 2.35 billion barrels, leaving a little over a decade, according to current production levels and discoveries.³³ Indeed, in early 2010, Norway's petroleum envoy in Sudan estimated that it could become an oil importer in 6–8 years time.³⁴ High prospects for future oil discoveries in

29. Sudan Petroleum Unit, Ministry of Finance and National Economy, 'Oil production monthly – year 2008', <http://www.mof.gov.sd/topics_show_E.php?topic_id=1#> (18 June 2010).

30. ECOS, 'Sudan, whose oil? Sudan's oil industry: facts and analysis' (European Coalition on Oil in Sudan, 2008), p. 18.

31. EIU, 'Sudan: Country Profile, 2009', pp. 22–3; Ministry of Finance and Economic Planning (GOSS) <www.petrogoss.net> (30 March 2010).

32. 'Sudan reports sharp oil revenue drop for November', *Sudan Tribune*, 13 January 2009; 'Interview: Sudan oil output falls short of estimates – minister', Reuters-India, 25 October 2009; EIU, 'Sudan Country Report', (EIU, London, March 2010), p. 8.

33. Ali Abbas *et al.*, 'Fiscal adjustment', p. 27.

34. Gunnar Zachrisen, 'Sudan vil bli olje-importør', <<http://www.bistandsaktuelt.no/Nyheter+og+reportasjer/Arkiv+nyheter+og+reportasjer/137701.cms>> (31 March 2010).

Southern Sudan were based on the Muglad and Melut basins having similar rift system patterns to those in Oman and Saudi Arabia.³⁵ The lack of exploration activity during the North–South civil war suggests that there is a high probability of future commercial discoveries. Nonetheless, outside of some oil potential in north-western Darfur and gas prospects in Blue Nile State and along the Red Sea, actual drilling in the prospective blocks has been discouraging to date. Three unsuccessful exploration wells in Block 5B in 2008 resulted in both the Swedish oil company Lundin and ONGC Videsh pulling out of the Petronas-led concession.³⁶ The enormous Block B held by the French oil major Total in Jonglei State might be the last hope to boost flattening oil production levels. Total estimated it could produce 300,000 bpd in 5–7 years once it began exploration activities.³⁷ A peaceful aftermath to the 2011 referendum may boost investment in exploration and advanced recovery techniques in Sudan’s maturing fields, but industry mismanagement has dragged down the value of the sector to date.

Beyond the geological shortcomings in the oil sector, there have also been considerable man-made technical limitations. Persistent delays in getting Blocks 3 and 7 onstream were one sign of Khartoum’s mishandling. As a result, in late August 2006, government reductions on petrol and sugar subsidies to offset discrepancies in the budget sparked public protests on the streets of central Khartoum, which were met violently by police.³⁸ The failure to construct a second major refinery at Port Sudan after years of negotiation continues to deny the possibility of exporting higher-value petroleum products. At the same time, while Asian demand has provided a hungry market for Sudanese oil, the absence of buyers from refineries on the Gulf of Mexico due to US sanctions against Sudan has limited possible export destinations. Furthermore, there is concern that the Ministry of Energy and Mining has relatively poor knowledge of its own rates of oil recovery from reservoirs in the country.³⁹ These figures and the decisions based on them, so critical to the well-being of the oil sector, are reached at the Sudan Hotel along the Nile in Khartoum where CNPC has its headquarters. Indications of premature ‘coning’, resulting in high water content and lower oil production levels, have fed reservations that the Chinese firm, responsible for much of Sudan’s oil development, has not been managing the industry well, and made significant mistakes in the early years

35. Michael Rodgers, ‘PFC strategic studies, Sudan: projected oil production and revenues’ (PFC, 2002), <http://csis.org/files/media/isis/pubs/0208_SudanPFCDetail.pdf> (15 July 2010).

36. Lundin Petroleum AB, <www.lundin-petroleum.com> (19 June 2009); ‘OVL to quit in Sudan’, *Times of India*, 27 April 2009.

37. Interview, company managers, Khartoum, 30 October 2007.

38. ‘Sudan police crack down on protests – witness’, Reuters, 30 August 2006; Interview, government official, Khartoum, 4 September 2006.

39. Interview, former oil official, London, 25 January 2008.

of its engagement.⁴⁰ Enrichment has taken priority over efficiency in the oil sector. Extending outward from Khartoum, the various strands of the oil business and its administration have intersected inextricably with the web of divisive politics responsible for armed conflict in Sudan.

Northern exposure

The political consequences of the resource curse of unaccountable and corrupt governance, in which economic and military coercion is exploited to maintain power, do not represent novel traits within the NCP. At the national level, oil placed Sudan in a strong position to improve social and economic development. However, despite the influx of tremendous oil revenues since 2005, it has done little to stir state institutions towards a stronger focus on development. Rather oil has fed into practices of militarization and political malfeasance in Khartoum. World Bank figures indicate the central government spends roughly 40 percent of its budget on defence, national security, public order, and safety.⁴¹ The ruling party has failed to amend lamentable levels of spending on education, health, and water services, which continue to suppress living standards in Sudan.⁴² There also remain largely unseen avenues of personal enrichment within the security, commercial, and political cabals of the ruling government, on which NCP-affiliated companies have been quick to capitalize.⁴³ High-level NCP officials are reportedly funnelling government funds through private oil service companies and – demonstrating the international dimension of the resource curse – abroad to Islamic banks in Bahrain, Malaysia, and Singapore.⁴⁴ Nonetheless, the primary concern regarding future armed conflict between the North and South in Sudan has hovered around the government's problematic revenue-sharing practices with the GOSS.

In the context of historical, political and economic marginalization and exploitation of Sudan's periphery, oil transfers to a semi-autonomous Southern regional government are a tremendous leap forward. However, since the CPA provided the GOSS with access to oil revenues from Southern producing fields, the SPLM has claimed Khartoum has not been giving the South its fair share. The accusations seem to reflect the *modus operandi*

40. Personal communication, oil analyst, 28 January 2009.

41. World Bank, 'Sudan Public Expenditure Review Synthesis Report', Report No. 41840-SD (World Bank, 2007), p. 23.

42. See Abda Yahia El Mahdi, 'Budget analysis for pro-poor spending' (Unicons Consultancy Ltd and UNDP Sudan, 2008); World Bank, 'Sudan Public Expenditure Review Synthesis Report'.

43. International Crisis Group (ICG), 'Sudan: breaking the Abyei deadlock', Africa Briefing No. 47 (ICG, 2007), p. 7.

44. Personal communication, non-governmental organization, 10 February 2009.

of the ruling NCP, relying heavily on opaque internal operations to maintain external control.⁴⁵ The CPA grants 50 percent of revenue from producing Southern oil wells to the GOSS after deductions to an Oil Revenue Stabilization Account and oil-producing states. Nonetheless, in addition to frequent delays, reservations remain regarding the actual calculation of price and production figures. Although the Joint Technical Committee for Oil Revenue Sharing assesses production and revenue allocations, the GOSS remains largely in the dark regarding the parameters determining the data.⁴⁶ In addition, crude oil is sold to domestic refineries at depressed prices either to subsidize the sale of petroleum products in the North or to enhance profits for refineries.⁴⁷ Either way it leads to a depression of oil revenue transfers to the GOSS. The GOSS has also questioned whether secret, off-the-book deals are conducted with oil traders to avoid sharing resulting revenues with the South.⁴⁸ Multiple discrepancies in reporting between the Ministry of Finance and National Economy and the Chinese company CNPC add to these misgivings.⁴⁹ Altogether, the track record of the NCP in managing Sudan's oil sector has continued to deepen political grievances in the South.

In early October 2007, it was a lack of transparency in the oil sector coupled with a dearth of Southern involvement in its management that represented one of the main concerns of the SPLM in its decision to suspend its participation in the Government of National Unity with the NCP. The SPLM rejoined the GNU two months later, striking an agreement that promised it an increased management role with access to upstream oil processes, control rooms and terminals, and the marketing board.⁵⁰ However, it was not until mid-2009 that GOSS geologists were finally stationed at key operating companies.⁵¹ Furthermore, following national elections in April 2010, in a swap for the Ministry of Foreign Affairs the SPLM gained control of the Ministry of Petroleum, with mining, electricity and dams established as separate ministries.⁵² Nevertheless, while control of the oil ministry may alter matters, during most of the interim period the GOSS has been granted limited access to the Production Sharing Agreements

45. Edward Thomas, 'Against the gathering storm: securing Sudan's Comprehensive Peace Agreement' (Report, Chatham House, London, 2009), p. 26.

46. ICG, 'Sudan's Comprehensive Peace Agreement: the long road ahead', Africa Report No. 106 (ICG, 2006), p. 7.

47. ICG, 'Sudan: breaking the Abyei deadlock', p. 14, n. 55.

48. Interview, former oil official, London, 2 July 2008.

49. Global Witness, 'Fuelling mistrust: the need for transparency in Sudan's oil industry' (Report, Global Witness, 7 September 2009).

50. ICG, 'Sudan's Comprehensive Peace Agreement: beyond the crisis', Africa Briefing No. 50 (ICG, 13 March 2008) p. 13.

51. United Nations Mission in Sudan (UNMIS), 'Black gold', *In Sudan* magazine (UNMIS, July 2009) p. 5.

52. 'Few surprises in Sudan's new government', *Sudan Tribune*, 15 June 2010.

(PSAs) between the government and operating companies. As a result, its ability to formulate an efficient budget has been hampered. Typically, knowledge of the PSAs and access to operating companies provide reliable oil production targets for at least one year in advance, potentially a tremendous aid to a budget almost entirely dependent on oil revenues. Not surprisingly, the National Petroleum Commission, the body determined by the CPA to manage the oil sector during the interim period, is far from fully operational. The NCP has also transferred oil revenues to GOSS in local currency, putting at risk the Southern government's foreign exchange reserves. Furthermore, while the NCP automatically subtracts the GOSS share for the Unity Support Fund, it has failed to deposit any of its \$130 million share. Overall, Southern concerns over the oil sector strengthen motivations for separation, with Abyei representing the violent focal point for grievances.

The militarization of the North–South border during the CPA has led to several violent confrontations between the Sudan Armed Forces and SPLA in the oil-rich areas of Abyei and Malakal.⁵³ Abyei in particular has been central to the delayed and incomplete implementation of the CPA with oil heavily overshadowing politics in the disputed region. There has been little implementation of the Abyei Protocol since the NCP rejected the 'final and binding' decision of the Abyei Boundary Commission in mid-July 2005. As the NCP and SPLM took the case to the Permanent Court of Arbitration (PCA) in The Hague for a final ruling, oil fields in the region were estimated to have already produced \$1.8 billion in revenues.⁵⁴ However, in late July 2009, the PCA found that the Abyei Boundary Commission had exceeded its mandate on certain points of border demarcation. In particular, the border definition of the PCA placed the Heglig and Bamboo oil fields outside of the Abyei area, while the Diffra oil field remained within. Both the NCP and SPLM accepted the ruling in principle. Khartoum was quick to declare that future oil revenue transfers to the South would not include proceeds from oil fields ruled to lie outside of Abyei. Heglig and Bamboo were set to produce six times more Nile-blend crude than Diffra in 2009.⁵⁵ SPLM officials insisted that the question of whether or not the oil fields were in the North or South would have to be determined by the Technical Ad-Hoc North-South Border Committee set up in the CPA.⁵⁶ After much delay, the Committee began its work in January 2007, and, while it was

53. Thomas, 'Against the gathering storm', p. 19.

54. ICG, 'Sudan: breaking the Abyei deadlock', pp. 7–9.

55. *Ibid.*, p. 8.

56. 'Sudan's SPLM threatens to refer Abyei row to Hague', *Platts Oilgram News*, 28 July 2009.

announced in May 2010 that 80 percent of the demarcation process was complete, critical areas remain in dispute.⁵⁷ The location of key oil fields is a particular bone of contention with the 2011 referendum drawing near.

Troubling prospects in the South

The government of Southern Sudan has done little to improve the standard of poor governance established by its Northern counterparts. The gyrations of the Southern political elite around the oil industry trace a disturbing pattern all too common among African oil producers. The GOSS has failed to manage the damaging political and economic effects of the resource curse. Instead, glaring examples of fiscal mismanagement and corruption have fed resentment among local populations as unprecedented amounts of oil revenue flow into GOSS coffers. Expectations of future oil wealth have underlined the persistence of political divides in and outside the SPLM, while insecurity in the region has risen dramatically since the signing of the CPA. The former rebels have struggled to disarm militia groups and put an end to inter-communal conflicts.⁵⁸ There is no need to make bleak forecasts of instability in Southern Sudan. Armed conflict is already rife in the region. The UN reported that over 2,500 people had died and almost 400,000 were displaced in 2009 from violence between ethnic groups over water and other scarce resources. Protesting elections results in Southern Sudan, three high-ranking members of the SPLA rebelled, sparking several altercations with the Southern army in oil-bearing states.⁵⁹ In addition to this political turmoil, communal clashes escalated in the first months of 2010 and have taken place across the region – including the key oil states of Unity and Upper Nile – over cattle raiding and access to water and land.

The lack of a peace dividend from oil development in the South cannot be solely attributed to Khartoum's manipulation. The GOSS also bears significant responsibility, having largely squandered the opportunity of oil. Juba received a total of over \$8.3 billion in oil revenues between 2005 and 2009 in the form of transfers from the central government in Khartoum.⁶⁰ While signs of urbanization can be seen in Juba, Southern Sudan's main towns remain crippled by a lack of appropriate health, infra-

57. UNMIS, 'Black gold'; UNMIS, *CPA Monitor* 5, 47 (UNMIS, 2009); 'Sudan says 80% of North-South border demarcation complete', *Sudan Tribune*, 5 May 2010.

58. Small Arms Survey, 'Conflicting priorities: GoSS security challenges and recent responses', Report No. 14 (Small Arms Survey, Geneva, 2009).

59. 'Renegade militia flees South Sudan oil state – army', Reuters, <<http://www.alertnet.org/thenews/newsdesk/HEA934314.htm>> (9 June 2010).

60. Ministry of Finance and Economic Planning (GOSS), 'GOSS oil transfers', <<http://www.petrogoss.net/transfer%20summary.html>> (31 March 2010); EIU, 'Sudan Country Report' (March 2010), p. 12.

structure, and education investments.⁶¹ The majority of oil revenues have been allocated to GOSS salary- and security-related expenses rather than development expenditures. In 2008, 45 percent of the almost \$3 billion GOSS budget went to salaries and 28 percent to development-related projects. The SPLM follows the NCP example of centralizing resources and expenditure, with 90 percent of salaries and 67 percent of development expenditures going to Juba.⁶² Unlike the well-worn, multi-layered cloak of NCP bureaucracy, corruption among Southern elites is more lightly veiled.

There has been some action within the GOSS to improve transparency and accountability. In March 2007, based on embezzlement suspicions, the President Salva Kiir dismissed Finance Minister Arthur Akwen and other officials in his Ministry. The Southern Sudan Anti-Corruption Report was also passed by the public accounts committee of the Southern Sudanese legislature. However, concern over transparency and accountability remains. The scrutiny of a 2009 budget constrained by the drop in oil prices brought attention to the frivolous spending of Southern officials, such as exuberantly expensive overseas training courses, and hotel and travel claims.⁶³ It is also widely believed that GOSS ministers and civil servants have created fake companies to loot public resources, while defaulting on loans from the Nile Commercial Bank.⁶⁴ Former Foreign Minister and SPLM member Dr Lam Akol – nominated as presidential candidate of the SPLM–Democratic Change, a collection of southern political parties aligned against SPLM rule in the South – used the occasion to lambast the movement for its dearth of service delivery and rampant corruption.⁶⁵ The governance failures of the SPLM – its legitimacy now under question from Southern rivals – extend into the oil sector.

High-ranking members of the GOSS and SPLM have jeopardised the peace process by signing new oil contracts without consulting with the National Petroleum Commission (NPC), prior to and following the CPA. The NPC was designed to formulate policies and guidelines for the oil sector and to negotiate and approve all new oil contracts. While its implementation was delayed by procedural differences between the NCP and SPLM, the dealings of Southern political elites with oil companies have similarly frustrated the process.⁶⁶ In August 2004 the then SPLM leader, Dr John Garang, awarded a contract to the fledgling British

61. EIU, 'Sudan, Country Profile 2008' (EIU, London, 2008), p. 28.

62. Thomas, 'Against the gathering storm', p. 27.

63. *Sudan Mirror* 5, 2 (24 December–5 January 2009).

64. See L. N. Moro, 'War and peace transition' in *Oil, Conflict and Displacement in Sudan* (DPhil thesis, Oxford University, 2008) p. 286; 'South Sudan rescues Nile Commercial Bank, restructures management', *Sudan Tribune*, 27 August 2009.

65. 'Lam Akol nominated for Southern Sudan presidency', *Sudan Tribune*, 20 November 2009.

66. ICG, 'Sudan's Comprehensive Peace Agreement', p. 8.

corporation, White Nile Ltd, among other deals.⁶⁷ Fearing that Khartoum would sell off all rights without its consent, the SPLM decided to carve up the Block B oil concession into three segments, overstepping the December 2004 renewal of contractual rights granted by Khartoum to the French oil company Total. It also signed a deal with the Moldovan company ASCOM for rights in the concession of a Petronas-led consortium in Block 5B. The agreements were put into question on account of the lack of clarity over the legal claim over oil resources in Sudan, with *de facto* sovereignty with the SPLM in the South. The White Nile-Total dispute was settled within the NPC in July 2007, maintaining the French oil major's ownership in Block B while allocating a 10 percent stake of the consortium to the GOSS-owned Nilepet.⁶⁸ ASCOM, however, was endorsed by the NPC after ONGC Videsh and Lundin exited the concession in August 2009. Unlike White Nile, it had the capacity to conduct serious oil development work, and reported \$150 million in investment in Block 5B.⁶⁹ However, while the NPC has managed disputed concession claims, there is a lack of independent regulation between GOSS and Nilepet. The Southern Minister of Energy and Mining, John Luk Jok, and other GOSS officials sit on the board of directors of the Southern oil company,⁷⁰ opening the door to corrupt and inefficient management. More troubling has been the lingering lack of political consensus among the SPLM elite in the oil sector.

Factions in the SPLM remain engaged with oil companies outside of the agreed terms of the CPA. It was a February 2005 Memorandum of Understanding signed by Riek Machar without wider consent within the SPLM that dragged out the White Nile affair.⁷¹ Similarly, in addition to its involvement in agriculture and mining, the US firm Jarch Capital continues to claim rights in parts of Block B, citing a MOU it signed with the SPLM in early 2004. Its chairman, Phil Heilberg, is one of a number of corporate leaders hoping to capitalize on future 'sovereignty changes' in Sudan.⁷² The company is associated with General Paulino Matip and has appointed senior SPLM figures to its advisory board. A key Southern ally of Khartoum during the North-South civil war, General Matip integrated his South Sudan Defence Forces into the SPLM in January 2006. How-

67. ICG, 'The Khartoum-SPLM Agreement: Sudan's uncertain peace', ICG Africa Report No. 96 (ICG, 2005), pp. 19–20.

68. The National Petroleum Commission, Rapporteur's Office (NPC, 2007).

69. ASCOM, <www.ascom.md> (29 November 2009); 'Sudan oil body endorses Ascom and discusses Total concession', *Sudan Tribune*, 26 August 2009.

70. Global Witness, 'Fuelling mistrust', p. 46.

71. ICG, 'Sudan's Southern Kordofan problem: the next Darfur?', ICG Africa Report No. 145 (ICG, 2008), p. 20.

72. 'Southern Sudan: oil investor banking on succession?', *Ratio Magazine* (Nairobi), 3 June 2009.

ever, after his guards clashed with forces loyal to Unity State Governor Taban Deng Gai at Bentiu in October 2009, Matip issued a harshly worded statement, indicating that the militia's merger with the SPLA was not complete.⁷³ The persistence of these oil deals continues to play a role in undermining stability in the South. This further weakens the economic well-being of the region as it is highly unlikely that the fledgling oil companies involved have the capacity to carry out serious exploration; rather, they seek a quick pay-off of concession rights should oil be discovered in adjacent blocks. As power struggles largely along Nuer–Dinka ethnic lines await an independent Southern Sudan,⁷⁴ oil is sure to represent a crucial resource. Altogether, the failure of governance at the regional level to counter corruption and resolve political tensions surrounding oil reveals a further layer of the resource curse in Sudan. The ripe grievances of local populations in oil-bearing communities represent another source from which conflict and instability can spread. The fortunes acquired by some (elite) guerrilla fighters and the neglect of development may lead to the emergence of others.

The Niger Delta in the Sudd

A lack of social development and environmental degradation in communities in Unity State, Southern Kordofan, and Upper Nile has led to growing violent resistance to oil development at the local level. If left unchecked the sensitive Sudd marshland of Southern Sudan may evolve into a protracted Niger Delta-esque scenario where local communities are pitted against negligent oil companies in the absence of regulation from either the North or South. Insecurity surrounding the oil sector in Sudan ranges from the theft and commandeering of oil company equipment and vehicles to armed kidnappings and killings. Grievances have been fuelled by Khartoum's failure to govern the social and environmental aspects of oil development in a manner suitable to anything but its own imperatives. The GOSS has voiced some concern but failed to follow up with strong action.

The tendency for oil fields in Sudan to be numerous and small rather than few and large translates into multiple targets for armed groups discouraged by oil development or mobilized by a possible renewed North–South conflict. Local violent resistance against oil development in the interim period has been most evident in the Abyei region. The CPA is increasingly regarded as a failed instrument by Ngok Dinka and Misseriya groups in the region.⁷⁵ Following the Abyei ruling in The Hague one Misseriya leader

73. 'South Sudan's Matip says SPLA plotted attack on his guards', *Sudan Tribune*, 12 October 2009.

74. 'Southern leaders compete for a new state', *Africa Confidential* 51, 3 (5 February 2010).

75. ICG, 'Sudan: breaking the Abyei deadlock', p. 3; Thomas, 'Against the gathering storm', p. 30.

accused Khartoum of selling the 'Misseriya for Heglig' after they lost out in grazing land while the government won Heglig and other key oil fields.⁷⁶ Unsatisfied with the central government, large numbers of Misseriya have joined the SPLA and others have coordinated their activities with the Darfur rebel group, the Justice and Equality Movement (JEM), or become involved in banditry. One local Misseriya group called Youth mobilized in Southern Kordofan against the NCP.⁷⁷ In late 2007, JEM attacked a CNPC oil installation in Southern Kordofan with the assistance of local Misseriya, seizing oil workers. A group of Indian oil contractors were kidnapped in May 2008 and later in October CNPC employees were taken at gunpoint, leading to the deaths of five Chinese oil workers – apparently in a botched rescue attempt by Sudanese authorities. This gradual formation of local resistance to oil development is fed by continual underdevelopment and environmental degradation.

There have been pockets of development from oil in central and Southern Sudan, but these pale in comparison to the violent legacy of the sector and the ongoing environmental degradation wrought by its expansion. In Unity State – while its governor, Taban Deng Gai, has been accused of corruption and mismanagement⁷⁸ – there has been noticeable investment in education and agriculture, and the expansion of oil infrastructure has brought more roads and public transportation, access to markets, and wider mobile network coverage.⁷⁹ Nonetheless, Deng requested a 15 percent stake in post-CPA oil revenue, as opposed to existing levels of 2 percent, citing the environmental damage his state has suffered.⁸⁰ The damming of water flows due to road construction has upset irrigation for agriculture and led to the evacuation of several communities in the state.⁸¹ Issues surrounding road construction have been compounded by seismic survey activity, which has carved hundreds of kilometres of 12-metre wide bulldozed tracks, upsetting farmland and leading to deforestation and devegetation. The most damaging environmental impact, however, has been the discharge of contaminated 'produced water' generated from oil reservoirs and the disposal of drilling mud and other wastes, which have resulted in the death of livestock and serious illness among the local population.⁸² Often oil-polluted

76. 'Sudan nomads say protest against oil ruling', Reuters, 28 July 2009.

77. ICG, 'Sudan's Southern Kordofan problem', pp. 15–17.

78. 'Unity State MPs in South Sudan parliament lash back at Governor Deng', *Sudan Tribune*, 27 January 2008.

79. UNMIS, 'Black gold', p. 6; ECOS, 'Sudan, whose oil?', p. 33.

80. 'Sudan Unity state governor says more oil share post-2011', *Sudan Tribune*, 19 August 2009.

81. Telephone interview, international organization official, 30 January 2009.

82. USAID Sudan, 'Sudan Transitional Environment Program: scoping statement for a programmatic environmental assessment of oil exploration and production activities in Southern Sudan' (USAID Sudan, 2007) pp. 10–11.

water, or the perception of tainted water, has forced locals to travel longer distances to find fresh sources, threatening to enflame longstanding inter-communal conflicts over water and grazing rights. Furthermore, armed groups of the Rizeigat Baggara have fought the Misseriya Baggara along the Kordofan-Darfur border over claims to potential oil reserves in the area.⁸³ State institutions and operating companies have failed to respond to these rising social grievances emanating from oil sector activities.

There is a distressing absence of social and environmental regulation in Sudan's oil sector. Together the Petroleum Wealth Act and the Sudan Environmental Protection Act provide comprehensive regulations for environmental preservation. For example, the Minister of Energy and Mining (MEM) in Khartoum can revoke certain contractual rights, including those for Blocks 1, 2, and 4 of the GNPOC concession, if environmental measures are not undertaken.⁸⁴ However, there is an extreme lack of clarity and, more importantly, absence of political will to employ such enforcement mechanisms. Government officials have given precedent to energy and investment sectors. Nonetheless, the essential self-regulation of the sector encourages poor environmental practices among oil companies.⁸⁵ Not surprisingly, environmental impact assessments are often substandard, only conducted after operations have already begun, and shelved upon completion with little follow-up.⁸⁶ Neither have the results of environmental negligence resulted in compensation for local communities. Standards and modes of compensation were not specified in the CPA and enforcement mechanisms are non-existent.⁸⁷ The MEM has often used those corporate investments in social development that do exist to reward political allies or pacify local resistance.⁸⁸ Khartoum also controls many employment decisions, even for temporary, low-level positions, with the result that Northern Sudanese and foreigners fill most positions. Unlike its Northern counterpart, the GOSS brings strong rhetoric to bear on social and environmental issues. It put together an environmental protection bill in 2010, but it has yet to be seen if industry development will not continue to take priority. The complaints of local commissioners have often gone unanswered by state governors and GOSS leaders. In 2006, the GOSS Vice-President Riek Machar pleaded with villagers to allow Petrodar to continue its work in the face of protests. Compensation for damaged farms was

83. Edward Thomas, 'Decisions and deadlines: a critical year for Sudan' (Report, Chatham House, London, 2010) p. 12.

84. Unpublished consultancy review of environmental measures in existing oil contracts.

85. UNEP, 'Synthesis report, Sudan: post-conflict environmental assessment' (United Nations Environment Programme, 2007) p. 149.

86. Interview, oil consultant, Khartoum, 2 September 2006.

87. ECOS, 'Sudan, whose oil?', p. 13.

88. *Ibid.*, p. 23.

promised along with infrastructure projects, but never materialized.⁸⁹ Altogether, there are few opportunities for local communities to address their grievances regarding the oil sector in Southern Sudan in a peaceful fashion. The consequences of poor oil governance threaten to be increasingly violent in the potentially widening political vacuum in Sudan after the 2011 referendum.

Pipeline politics

At first glance the geography of the oil infrastructure in Sudan presents a significant political dilemma. While oil infrastructure and export terminals are in the North, an independent South would deprive the ruling NCP of a sizeable portion of its annual revenue. Southern oil production accounts for over 80 percent of total crude output. In post-CPA oil revenue-sharing discussions, the recalcitrance of NCP hardliners to give up oil revenues is met by an emotional and dogmatic response from some high-level members of the SPLM, who are equally averse to cutting a deal with Khartoum.⁹⁰ However, heading towards the 2011 referendum – as a watershed fraught with political uncertainty and possible armed conflict – it is crucial to recognize signs of compromise and avenues of common interest between government officials in the North and South. After all, the signing of the January 2004 Agreement on Wealth Sharing in Naivasha surprised many by overcoming the complicated issue of oil.⁹¹ The two parties have demonstrated a similar willingness to compromise to sustain oil revenues during the CPA. The resolution of the Total–White Nile dispute and the Abyei roadmap agreement demonstrate the priority given to maintaining steady oil revenues.

A post-CPA oil revenue-sharing deal may materialize, conceding some of the resource value of Southern oil in return for the use of Northern infrastructure to maximize the overall value of a struggling oil sector. At the fifth annual celebration of the CPA, Southern Sudan President Salva Kiir said that until the required infrastructure is developed in the South, oil would continue to flow north.⁹² Toyota Tsusho Corporation is considering the construction of a 1,400-kilometre, 450,000-bpd pipeline from Southern Sudan to the Kenyan port of Lamu at a cost of \$1.5 billion. The Japan Bank for International Cooperation and Chinese investors have been targeted to finance the project, but feasibility studies, government agreements, and the

89. Unpublished report from international organization.

90. Personal communication, oil consultant, 27 January 2009.

91. J. Tellnes, 'The unexpected deal: oil and the IGAD process' in M. Simmons and P. Dixon (eds), *Peace by Piece: Addressing Sudan's conflict (Accord, an International Review of Peace Initiatives* 18, pp. 38–41) (Concordis International, London, 2006).

92. 'Sudan's Bashir says he will be the first to recognize independent South', *Sudan Tribune*, 20 January 2010.

construction process will certainly be a time-consuming affair.⁹³ Plans for the pipeline and the further prospect of a Southern refinery demonstrate long-term SPLM moves to break its Northern infrastructure dependence, but are also useful short-term tools in negotiations over Northern pipeline fees in the immediate post-CPA period.⁹⁴ An oil revenue-sharing agreement is just one issue facing the oil sector after the CPA, however. The SPLM has indicated it may renegotiate some oil contracts in view of the favourable terms won by companies during wartime deals and the subsequent environmental damage linked to the sector.⁹⁵ Whereas before the civil war companies could claim 30 percent of costs incurred from oil revenues before sharing the proceeds with the government, contracts signed during conflict entitle companies to a 40 percent share.⁹⁶ At the same time, the government's final share of oil revenues only increases with production, not price, resulting in a depression of Sudan's oil earnings relative to high international oil prices in recent years.⁹⁷ Nevertheless, despite the formation of a new geopolitical landscape of oil in Sudan, past political compromises coupled with fundamental economic and geological realities suggest Northern and Southern political elites may opt to avoid a future oil war.

Conclusion

The economic mismanagement and political divisions mounting around oil at the national level have been a danger to the relative peace established between the NCP and SPLM since 2005. Looking towards the end of the CPA, the poor transparency record of Khartoum indicates it may be unwilling to relinquish oil revenues without a fight after the planned 2011 referendum. On the other hand, the SPLM remains keen to defend oil territory it sees as rightfully in the South in order to capitalize on potential independence. Nonetheless, only an oil-for-infrastructure trade-off in the short to medium term will allow revenues to keep flowing to elites on both sides of the border. It is rather political divisions within the South and growing grievances among local communities in oil-bearing regions that acutely threaten peace and stability in Sudan.

Even with a post-CPA oil revenue-sharing agreement between Northern and Southern political elites, grievances at regional and local levels will

93. 'Japan group eyes pipeline plan', *Financial Times*, 4 March 2010.

94. EIU, 'Sudan Country Report' (March 2010), p. 13.

95. 'South Sudan aims to overhaul foreign oil deals', Reuters, <<http://af.reuters.com/article/topNews/idAFJ0E62M0F020100323>> (23 March 2010).

96. Sherief El-Tuhami, 'Oil in Sudan, its discovery and industrial development' in Peter Gwynvay Hopkins (ed.), *The Kenana Handbook of Sudan* (London, Kegan Paul, 2007), p. 666.

97. Wood Mackenzie, 'Sudan Country Overview', October 2007, p. 19.

continue to represent sources of armed conflict. At the regional level, following Khartoum's example, the GOSS has done little to stem the tide of social instability and corruption brought on by the oil sector. Under the SPLM's rule, the economic and political afflictions of the resource curse have taken root and expanded to further compromise an already shaky foundation of governance in the South. At the same time, the lack of a peace dividend and environmental degradation from oil continue to spawn armed resistance at the local level. Low-intensity yet protracted conflict remains a likely condition for areas in and around Sudan's oil fields. From the current political centre in Khartoum to new sources of power in Juba and local social tensions in oil-bearing areas, the resource curse has been allowed to extend its hold at a critical juncture for Sudan's political future approaches.