Requiem for a dream?

Three years on, the euphoria surrounding South Sudan's independence has ebbed away as the country slides deeper into civil war, writes Luke Patey

ON 9 JULY 2011, thousands gathered at Freedom Square in Juba to celebrate the birth of the world's newest country, South Sudan. After nearly a half-century of civil war with Sudan, and the loss of 2 million lives, the South Sudanese were finally free to shape their own future.

"Now that we have obtained the proverbial political kingdom," said Salva Kiir Mayardit, South Sudan's president and leader of the ruling Sudan People's Liberation Movement (SPLM). "We are called upon to do what it takes to sustain a sovereign nation."

Kiir sought to use South Sudan's oil wealth to attract foreign investors and spur development of the new country. The plan was first laid out by South Sudan's late founding father, Dr John Garang De Mabior, who saw oil as a means to unleash South Sudan's agriculture potential and extract the young country from poverty. But South Sudan's oil dream has yet to be realised.

In the three years since independence, political instability and civil war continue to handicap the oil industry's ability to serve as an engine to push South Sudan's economy forward.

When South Sudan spilt from Sudan in 2011, it took 75% of the once united country's oil production with it. It was a sizeable bounty – production stood at 350,000 barrels a day (b/d), while reserves were pegged at 3.5 billion barrels. The Asian national oil companies which dominated the Sudanese energy sector – including the China National Petroleum Corporation (CNPC), Malaysia's Petronas, and ONGC Videsh from India – retained their operations in the new country. But since Sudan maintained control over the only export route through a pipeline to the Red Sea, the oil sector's success depended on former foes Sudan and South Sudan finding a way to cooperate.

As the petrodollars began to flow into South Sudan, Juba transformed from a backwater to a boomtown. But the majority of South Sudanese saw little benefit from this oil-powered economic expansion. Rather than using oil as a basis for national development, South Sudan's leaders have become mired in corruption and mismanagement. A small group of political and business elite have exclusively enjoyed South Sudan's oil boom in the first years of independence.

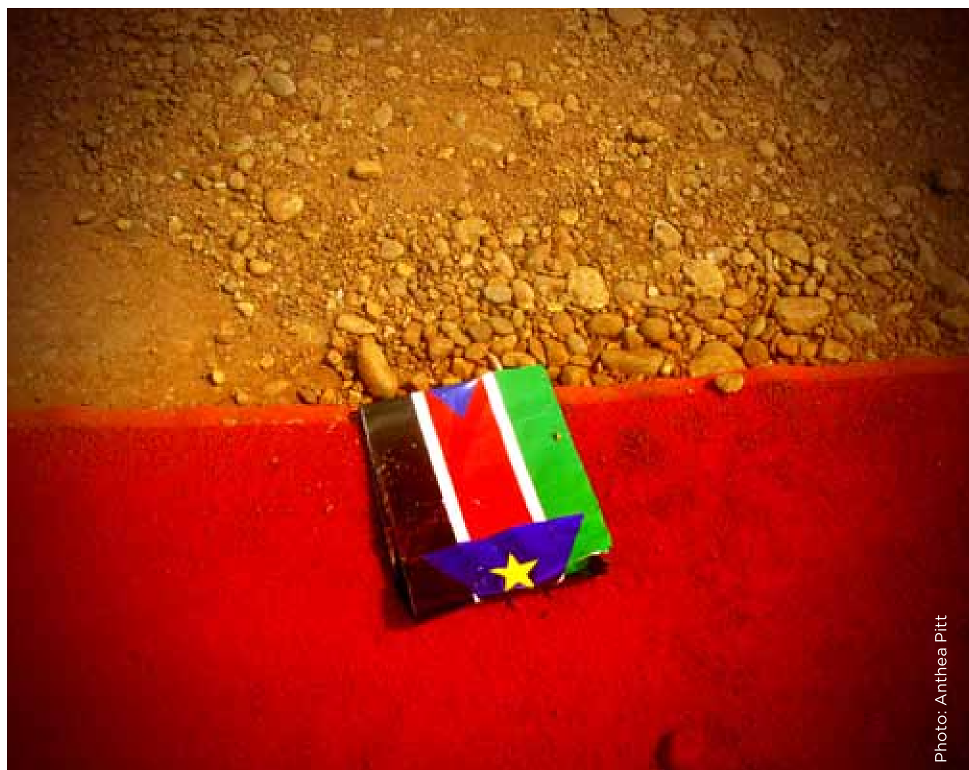


Photo: Anthea Pitt

Trampled dreams: South Sudan's elite failed to make good on the promises made in the months before independence

Civil war

And in December 2013, a power struggle between President Kiir and Riak Machar, his former vice-president, rapidly degenerated into civil war. Over six months of the conflict, which has been punctuated by ethnic fighting, thousands of South Sudanese have been killed, more than 1 million are displaced. As the rainy season sets in, an already beleaguered civilian population now faces the threat of country-wide famine, as well as the possibility of malaria and cholera outbreaks. African Union-sponsored peace negotiations in Ethiopia's capital Addis Ababa, have seen Kiir and Machar been pushed by regional and international mediators to find compromise. While the pair have said they are committed to peace and forming a transitional government, as of press time, there has been little move towards actually implementing these agreements.

The oil industry has not been spared in the conflict – rather, oil has been at its centre. Representing 98% of South Sudan's government revenues and comprising 60% of the formal economy, the strategic importance of oil made production facilities immediate targets for opposition forces. Halting production in Unity and Upper Nile, South Sudan's oil states, quickly became a key tactic in undermining the government's position at negotiation table in Addis Ababa.

When hostilities broke out, Unity state's 45,000 b/d of production was hastily shutdown by the Greater Pioneer Operating Company (GPOC), made up of CNPC and South Sudan's other Asian investors. The oil companies had already been forced to shut in production in early 2012

when South Sudan announced it was turning off the taps in a pipeline fees dispute with Sudan. Output remained shut in for 15 months. Now, rather than ramping production back up to pre-shutdown levels of 80,000 b/d, they were closing oil wells once again. Stephan Dhieu Dau, the South Sudanese oil minister, warned of "serious damage to oil installations as well as to environmental damage" due to the hasty shut-in. Control rooms, storage tanks, manifolds and other infrastructure were damaged in the fighting.

In Upper Nile, which pumps 80% of South Sudan's oil output, the industry has fared relatively better in the conflict. Government forces were able to fend off opposition advances on the Palogue and Adar Yale oilfields. But the insecurity resulted in the evacuation of hundreds of Chinese and other foreign oil workers, as well as shortages of the spare parts and other supplies needed to maintain production. South Sudan's oil ministry reports that production in Upper Nile remains at 160,000 b/d, a drop of more than 50% on pre-independence volumes. If fighting continues, the state's production will certainly be threatened again. The Palogue oilfield is the choke point for all of South Sudan's remaining production, and as such, the entire economy.

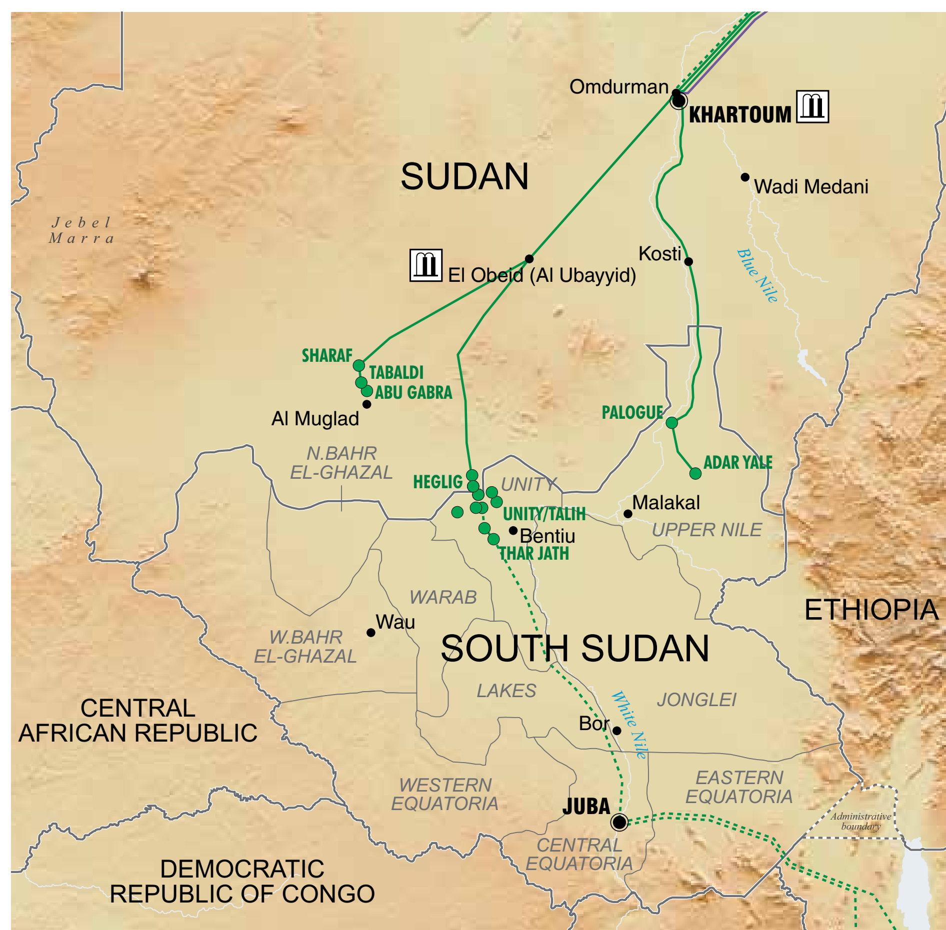
The most worrying effect of the civil war is that it has accelerated the already steady decline of the oil industry.

South Sudan may be a young country, but when it separated from Sudan, it took over an ageing oil sector. Gone were the days of the double-barrelled oil boom of both production and price spikes Sudan once enjoyed. Since exporting its first oil in 1999, in less than a decade, Sudan became Africa's third largest oil producer behind Nigeria and Angola. Production rose from 305,000 b/d to 480,000 b/d, with the average price of Sudanese crude rising 42% from 2005 to 2008. Dar blend, which traded at a low of around $15 a barrel (/b) in 2005, edged to just over $100/b at its peak in 2008, while the lighter Nile blend traded at a 2005 low of around $40/b to a little more than $130/b in 2008. But in the following years the oil industry hit a peak; flattening production, few new discoveries, and a lack of investment, stunted the sector's growth. South Sudan's 2011 spilt and civil war have merely entrenched these problems.

After independence, South Sudan moved quickly to restructure its oil industry. Transitional agreements were signed with CNPC, Petronas, and ONGC Videsh in January 2012, and a new Petroleum Act into law passed later that year. The three Asian-dominated oil consortia were given a makeover. The Greater Nile Petroleum Operating Company, operating in northern Unity state, became the GPOC; the While Nile Petroleum Operating Company in southern Unity state was renamed the SUDD Petroleum; Petrodar in Upper Nile is now called the Dar Petroleum Operating Company. But the new legislation and rebranding of the joint operators was in many ways a cosmetic exercise – it did little to make up for South Sudan's lack of capacity to manage the industry.

Production levels of the high-quality Nile blend, produced in Unity state, declined dramatically in the years before independence. Reaching a peak of 288,000 b/d on

Map 1: Oil and gas infrastructure of Sudan and South Sudan



Source: Petroleum Economist

average in 2004, output to 125,000 b/d by June 2011, the month before independence. Further south at Unity's Thar Jath and Mala oilfields, production limitations and poor-quality crude could not to fill gap. New production of the Dar blend from Upper Nile did keep overall production levels growing, but hit a peak shortly before independence. The situation can be turned around. A Norwegian study found that the average recovery rate could be raised from 23% to 30%, but this will take hundreds of millions of dollars in investment.

There are other issues that need to be addressed as well. From the day of its independence, South Sudan lacked trained personnel to govern, manage and operate its oil industry. For decades, the Khartoum government had sidelined southern officials and technical personnel, shutting them out of the oil industry. It was therefore no surprise that there was a poor transition of expertise between the South Sudanese and Sudanese leading up to, and immediately after, separation; in this oil industry, politics trumped productivity.

But South Sudan's political leaders failed to prepare their civil service to take over the industry. As a result, while Sudan's oil production averaged 450,000 b/d at the end of 2011, post-independence volumes slumped. Sudan was producing 110,000 b/d and South Sudan 260,000 b/d. The 70,000 b/d drop can be partly attributed to the exodus of many northern Sudanese oil workers – the backbone of the energy sector – from South Sudan.

But worse was to come. The Sudans' reluctance to cooperate, boiled over in a futile war of attrition between the two countries.

When South Sudan took over the industry, a stable and secure environment was needed to attract investment, both to find and develop new fields, and to enhance secondary recovery capacity to stem the decline in production. Instead, the political landscape has become increasingly unstable and insecure.

In January 2012, South Sudan elected to shut in all its oil production to force the resolution of a dispute with Sudan over pipeline transit fees and in retaliation for Khartoum's confiscation of crude worth hundreds of millions of dollars. With its oil industry at a standstill, South Sudan then engaged in a short border war with Sudan. The skirmishes caused hundreds of millions of dollars in damage to key infrastructure in Unity state, including to electrical systems, pumps, and pipelines. When, in April 2013, the two sides signed an agreement allowing South Sudanese oil to travel north via the export link, some oil wells were deemed non-economical to reopen.

Future potential

There are good prospects for future oil discoveries in South Sudan, not least because the geological basins in Unity and Upper Nile states, Muglad and Melut, respectively, hold similar rift system patterns as those in Oman and Saudi Arabia. A number of small discoveries have been made on existing concessions, but the country remains relatively underexplored.

The best prospects for new oil in South Sudan lie in the state of Jonglei. However, even before the civil war broke out last year, Jonglei has long been a flashpoint for ethnic conflict. The state is remote, and lacks any supporting infrastructure for oil exploration. On top of this, during the long annual rainy season, Jonglei is virtually impassable. Yet French major Total, along with ExxonMobil and Kufpec, an overseas subsidiary of Kuwait's national oil company, remain interested in exploring the state.

What was once a 118,000 square km concession has now been divided into three by South Sudanese oil authorities, but the trio still hold the highest chance of gaining access to two, if not all three, of the smaller blocks. Jonglei is perhaps the best hope South Sudan has of reversing its declining oil production, which is predicted to fall below 100,000 b/d in under a decade.

The experiences of CNPC and its Asian partners are perhaps the starkest example of the challenges the Sudans represent to foreign operators. After experiencing more than a decade of growth, CNPC reported its first ever drop in international oil production levels in 2012, largely on account of South Sudan's oil shutdown. In an effort to mitigate rising political and security risk, the Chinese firm started to enhance its social engagement in the Sudans several years before South Sudan's independence. Last year, it took part in workshop in Juba hosted by Saferworld, a British not-for-profit organisation, on corporate responsibility and conflict sensitivity in oil areas. The civil war caused CNPC to evacuate hundreds of personnel for oil areas and, coupled with instability in Iraq, has forced the company to look at ways to improve its ability to manage risk overseas.

The Chinese government has not stayed quiet during the conflict. Beijing does not want to see South Sudan, a country where its leading national oil company has invested billions, fall into a protracted civil

Billy clubs and hope: A South Sudanese youth at the official independence ceremony in Juba

war. The government wants to secure CNPC's investments, but also protect its global image by supporting regional and international peace efforts. Since the outbreak of the Darfur conflict in Sudan in 2004, China has been progressively stretching its long-standing policy of non-interference in the domestic affairs of foreign countries. China's Special Envoy to Sudan and South Sudan, Zhong Jianhua, as well as other Chinese diplomats, have been a noticeable presence in peace negotiations in Addis Ababa. Zhong said these efforts marked "a new chapter in China's foreign affairs". It has since been reported that Beijing pushed for UN peacekeepers stationed in South Sudan, including an additional contingent of 850 Chinese soldiers, to be mandated to protect oilfields and personnel.

But while China has become more assertive about protecting its interests overseas, Beijing - and the wider international community - cannot end the civil war. Unless there is serious buy-in from the warring sides, which thus far, have chosen to attempt to leverage their negotiating positions through battlefield gains, the conflict will continue.

At the same time, there is a limit to how far Beijing's diplomats are willing to go. South Sudan is an expendable supplier of oil imports to China. In 2011, Sudan and South Sudan provided just 3% of China's total foreign oil needs. And for CNPC, South Sudan, the crown jewel of its overseas investments in the late 1990s, has lost its lustre.

If South Sudan's oil industry is to be resuscitated and attract new investment, as well as the skill and expertise needed for such a revival, then the politics of the new country and its relations to Sudan must be reset.

There are a number of possible futures. If political instability and insecurity continues, the South Sudan government and Asian oil companies will simply continue to squeeze as much oil out of the country as quickly as possible, paying scant regard to ensuring the sector's longevity.

However, if a transitional government is established and a sustainable peace achieved, oil companies will slowly regain confidence. An ideal scenario would see more specialised American and European oil service companies entering the country to work alongside the Asian players to stabilise falling production.

And if Total and its partners can finally start exploration work in Jonglei state – and if they make significant discoveries there - then South Sudan has an opportunity to link any new oilfields to possible regional pipeline infrastructure in East Africa.

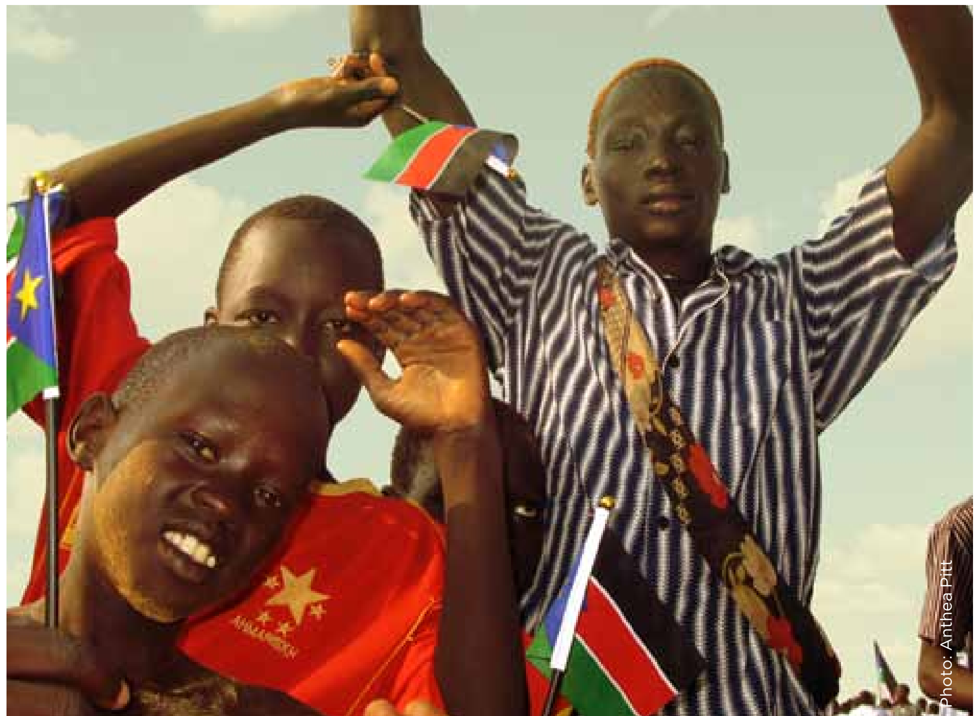


Photo: Anthea Pitt

Free at last: Young boys celebrate independence

New investment

Only with peace and new oil can South Sudan attract investors for its involvement in the long sought-after Lamu Port and South Sudan Ethiopia Transport pipeline route, widely known as LAPSSET. It may take up to a decade for a new South Sudan pipeline to be realised, but it would open strategic options by breaking Sudan's pipeline monopoly. It remains a long shot, but fresh discoveries in South Sudan could be linked to the budding oil region around Lake Turkana in Kenya, as well as to the fields in Uganda's Lake Albert play, and then piped to the Kenyan coast. Such a development, however, would certainly upset South Sudan's ties with Sudan.

Ironically, South Sudan's civil war has helped foster more amicable relations with Sudan. The two Sudans, despite ongoing animosities over the disputed region of Abyei, have a mutual interest in ensuring South Sudan's oil flows. Over the past year, Khartoum received $830 million in transfers, accounting for 25% of South Sudan's total oil proceeds. In 2014, Sudan was set to generate 10% of its government revenues through fees and financial payments linked to South Sudan's oil production. As long as fighting continues, these payments will fall below budget and may yet be halted. Sudan is in dire need of the foreign exchange this oil generates and has offered to provide technical assistance to South Sudan's oil industry to fill the gap of evacuated foreign staff.

That said, even if South Sudan is able to extract itself from civil war, another confrontation with Sudan over pipeline fees looms on the near horizon. The current oil pipeline sharing agreement is due to expire in 2016. Renegotiating these terms could be difficult. Sudan may be inclined to push its war-battered southern neighbour for terms it considers more favourable. But the two sides may also have learned hard lessons from their previous oil tussle and realise that they have a common interest in maintaining stability.

Three years after independence, South Sudan is still a long way from harnessing its oil industry as an engine for economic growth and development. If peace returns this year, South Sudan's leaders will need to rethink how they approach developing their most valuable resource. Instead of regarding the oil industry as a cash cow, they must recognize that to sustain high levels of government revenue, the sector requires careful husbandry, long-term investment and strategic planning. Only then could a strong industry help nurture the political will, institutions, and policies to renew South Sudan's oil dream. ●

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