ENERGY POLITICS AND THE SOUTH SUDAN REFERENDUM: ANATOMY OF A RESOURCE CURSE

Majak D’Agoôt

Dr. D’Agoôt is a lecturer in economics at the Faculty of Economics and Social Sciences at the University of Juba and a researcher at the Changing Horizon Institute (CHI) for Strategic Policy Analysis. He has played key roles in the negotiations leading to a milestone deal among the Sudanese protagonists, the Comprehensive Peace Agreement (CPA).

Sudan is at the crossroads of history. In theory, the Comprehensive Peace Agreement (CPA) signed in 2005 was expected to resolve the question of managing diversity, provide new formulae for equitable sharing of wealth, identify rules for a new national-security paradigm and align core interests of the various Sudanese communities. In reality, though, the last few years of the interim period have undermined confidence between the North and the South. Critical deadlines outlined in the CPA have not been met. Issues such as the border demarcation between North and South, demarcation of the Abyei borders, settling dispute over the census results, and enactment of laws pertaining to democratic transformation, among other things, are yet to be concluded. Furthermore, there has been sluggish progress in most aspects of power and wealth sharing. In effect, the CPA has evolved into a tool of containment and accommodation, thereby undershooting its target of radical change. In its present form, it represents an exit strategy or “divorce mechanism” for the parties, whose entrenched perspectives for achieving or maintaining unity have proven divergent and unacceptably costly. In this fast-evolving environment, the partition of the country is quickly gaining primacy over its unity.

Northern political elites are split in their vision of the Sudan. For instance, proponents of the Old Sudan are reluctant to embrace any radical change as the policies they always put forward are shaped by establishment interests, only purveying a generalized desire to create a new dispensation. Within the same stream of thought, others emphasize the dominance of the center even at the expense of the union. One such extreme view is that of Abdel-Rahim Hamdi, who served as Sudan’s minister of finance in the 1990s. In 2006, he presented a controversial proposal to the NCP conference that became known as “Hamdi Triangle Dialectics.” The key moral of his thesis was that the Islamists should begin to turn inward and focus on an Arab-Islamic constituency of the “Riverine North.” According to him, this is
understandably reluctant to predict that the southern referendum would lead to secession, providing discreet assessments about post-referendum dispensations is highly timely. This analysis illuminates the complexity and changing dynamics of energy politics in the Sudan and the need to develop a nuanced understanding of its external dimension. Although, historically, there have been several layers to the North-South dispute, this paper focuses on energy politics subsequent to the South’s opt-out.

SOVEREIGN STATUS

Energy experts reckon that Sudan’s untapped oil resources are sizable and that the volume of proven reserves would increase with the expansion of exploration activities. According to Oil and Gas Journal, Sudan’s proven reserves were estimated at five billion barrels as of January 2007, with the bulk of these reserves located in southern Sudan. Prospecting for hydrocarbons has intensified in the North itself, and seismic surveys have so far shown promising results in a number of northern states.4

The development of Sudan’s oil sector has not followed a smooth path; it was hampered by the adverse political events plaguing the country during the 1970s and 1980s. Occupation of the oilfields and the exploitation of oil were critical to the government’s quest for a new source of revenue. For the South, oil exploitation was considered an act of plunder that needed to be obstructed by all means necessary, including military attacks.5 By summer 1985, all the oil investments in the South as well as the digging of the Jonglei Canal6 had hit a cul-de-sac. Therefore, exploration activities were restricted to a limited operational scope, mainly in the Heglig area. Most oilfields were kept inaccessible throughout the civil war.
In the last decade, however, the country has achieved an enormous leap in developing its hydrocarbon reserves, thanks to the risk-taking tendencies of state-owned Asian oil companies and the signing of the CPA. According to recent estimates, daily average production stands at 480,000 b/d. Currently, oil makes up over half of the revenue of the Government of National Unity (GoNU) and over 95 percent of that of the autonomous Government of Southern Sudan (GOSS). In 2006, oil and petroleum products accounted for around 91 percent of Sudan’s exports, increasing to 94 percent in 2007. In a few years, oil revenues have become a minimum operating requirement for the smooth functioning of post-conflict institutions ushered in by the CPA.

In what follows, I will focus on three main areas of concern. One is the handling of the wiles that shroud the development and management of trans-frontier oil reserves (the Abyei and Heiglig fields). Another concern is the lapse and repeal of the wealth-sharing formula stipulated in the CPA. A final concern will be the decision on the utility of oil infrastructure for the South to be located in the North.

Transfrontier Oil Reserves

The origin of most localized tribal conflicts in the borderlands revolved in the past around cattle-grazing routes, access to water and cattle rustling. The fragile ecology in the North has always compelled Arab nomads from Meseiriya, Ruzzeigat, Habania and Seleim — and even the Falata Ombororo — to cross deep into southern Sudan looking for pastures. With the discovery of oil, however, the stakes were raised. The tension has progressively ratcheted up to involve new actors: the northern government in Khartoum, the southern rebels and the oil companies. As a result, the indigenous African people whose settlements had once straddled the southern edges of the borderlands have been subjected to indiscriminate attacks and wholesale displacement. Since the signing of the CPA, the parties have remained impervious to the plight of these people, nor have they avoided stoking fires in the zone.

Due to the precarious location of these oilfields along the frontier, disputes over the boundaries have intensified. In Abyei, for instance, the situation continues to fester. According to an International Crisis Group report, the dispute over this area is the most volatile aspect of the CPA and risks unraveling an increasingly shaky deal. The crucial issue of border demarcation was not resolved during the negotiations but passed to an international commission. The NCP rejected the recommendations of the Abyei Border Commission (ABC), leaving the area without a civilian administration for over three years. Two major skirmishes have already been fought in the area by units of the SAF and the SPLA, resulting in significant civilian losses and displacement. A roadmap was adopted by the parties to catalyze much-needed political progress. This package encompassed a ceasefire, formation of a civilian administration, reconstitution of a joint police force, deployment of a new joint force and international arbitration on the ABC. There have also been flare-ups in several other spots in the northern Bahr El Ghazal, Unity and Northern Upper Nile states since the ceasefire came into effect on January 9, 2005.

On July 22, 2009 the Permanent Court of Arbitration (PCA) in The Hague handed down a ruling on the fate of this oil-soaked border region, reversing the earlier ABC decision and redrawing the
borders anew.11 However, both sides are encumbered by a mixed sense of victory and bewilderment over whether they have actually won, lost, or sort of! To date, the hotheads on both sides have yet to come to terms with the basic underpinnings of the arbitration award — a phenomenon that will blithely undermine the vitality of the arbitration exercise itself.

The slippage of attention from the implementation of crucial clauses of the Southern Kordofan Protocol is already raising tension in the Nuba and Meseiriyah enclaves. The Nuba, who have cultural affinities with southern Sudan and fought alongside southerners in the civil war, have genuine concerns about their future if the South secedes. The Meseiriyah Arab pastoralists have vital concerns about future access to pastures in the South in the event of secession. Because of conflicting interests, the merged state of Southern Kordofan, which has brought the Nuba and Meseiriyah together in one administration, has witnessed low-intensity conflict and lack of community cohesion since the signing of the CPA. It is considered by most observers to be Sudan’s next bubble to burst.

The indeterminate status of North-South border demarcation, lack of commitment to implement the PCA award regarding Abyei borders, and shaky deal in the Nuba Mountains and southern Blue Nile will have dangerous effects on the post-referendum period and the development of oil in these zones. The dispute over an inconsequential piece of territory that led to a border war between Ethiopia and Eritrea is quite telling. Although the cases are not perfectly parallel, there are important lessons to be drawn. The two countries were born out of conflict as a result of a failed process of nation-state creation that neglected at the onset to demarcate the border. The segment that became Ethiopia was landlocked; the other, Eritrea, occupied the coastline. The currency and monetary union the two countries had kept following the independence of Eritrea was scrapped a few months before the outbreak of the war. In the end, the core interests of the two neighbors could not engender cooperation, but led to an internecine border conflict driven by national symbolism.

Protracted tensions between the North and South of Sudan are untenable. The two parts of the country share a porous borderline of over 3,000 miles that no amount of military force and funds can keep safe. If the gulf caused by the partition becomes unbridgeable by failing to promote good will and common interests, violent border disputes may impede development of oil resources. Thus, there is an urgent need to demarcate the border and resolve major disputes.

Once the borders are delineated and the outcome of Abyei arbitration is endorsed by the parties, the management of transborder resources in new disputed points will have to be explored. For instance, Joint Development Arrangements have been tested elsewhere and have shown impressive results in tackling cost and revenue sharing from joint development in the contested zones. This approach has generated massive benefits for the countries involved, e.g., in the case of the Saudi-Kuwait Neutral Zone, the Timor-Leste-Australia Joint Petroleum Area, and the UK-Norway Cross-Boundary Petroleum Cooperation. In the case of the Joint Development Zone between São Tomé and Príncipe and Nigeria, however, squabbles over corruption and lack of transparency have virtually crippled the process. Two key phenomena have helped ensure the success of some of these crossborder joint
ventures: trust between the parties to the agreement and the existence of agreed-upon borders.

Most of these Joint Development Zones/Areas are either offshore or in uninhabited or sparsely populated lands. In Sudan’s case, the presence of huge populations in and around the oilfields straddling the borderlands is another complicating factor. What emerges, therefore, is a complex strategy of parallel efforts to address the interests of the populations in the transborder area. This should be coupled with environmental preservation and effective third-party oversight of development projects and allocation of revenues to ensure transparency and reduce mistrust and conflict. Finally, even if the borders between North and South are clearly demarcated, their porous nature and the give and take that underpins resource-sharing processes will continue to pose dangers. Therefore, joint contingency plans will be required to reduce conflict and foster reconciliation.

Revenue-Sharing Arrangements

During the civil war that ended in 2005, oil was the single “asset” at issue. When peace was reached, the elements of settlement were interconnected with the modalities of sharing oil revenues in the interim period. Except for 2 percent of net revenues, which is allocated to the oil-producing states, oil wealth originating in the South — 75 percent of total production — is shared equally between the North and South. This revenue-sharing formula, however, does not apply to oil produced from the fields in the North. The parties have also set up an Oil Revenue Stabilization Account (ORSA) to ameliorate the impact of fluctuation in international oil prices on the domestic economy.

The wealth-sharing protocol remains a core area of disagreement between the parties, however, with concerns being raised about the transparency of allocations. New evidence from Global Witness has revealed that the production figures provided by Government of Sudan and multinational oil companies do not simply add up, suggesting that revenues are not being shared fairly between the North and the South. In a report released last September, the global watchdog that investigates and campaigns to prevent natural resource-related conflict and corruption exposed serious discrepancies in the oil production figures released by the Khartoum government, amounting to 26.9 percent of the total oil produced from wells in the South since 2005.

Unsurprisingly, the oil era has created a powerful kleptocracy in the center that is heavily dependent on rents from oil. This is a logical continuation of the historical process of asset stripping and “proletarianization” of the rural populace that began in the nineteenth century. Many observers have also shown serious concerns about the management of oil revenues in the South. Oil rents have also encouraged some oil-producing regions to demand a higher share in these rents. Symptoms of obstructionism have already occurred in and around the production sites in southern Sudan and South Kordofan. Bands of local vigilantes have recently made attempts by disrupting production through veiled threats and even an insurrection.

Given the dominant role of oil in the new Sudanese economy, any change in the revenue-sharing formula will upset the core interests of the parties. In the North, the costs of a potential violent breakup that prevented it from having access to southern oil would be unambiguously
high. Already, some quarters in the North have expressed the need for the South to concede part of its oil wealth to the North even beyond the referendum. More generally, the crude produced from wells in the South came into the stream in 1999, life in the North has improved dramatically. Therefore, the loss of this accentuated economic hyper-dominance of the center that secession may cause will have far-reaching consequences on economic growth in the North. Additionally, the northern workforce that is now dominating the oil industry — particularly in production sites in the South — will experience unemployment.  

But, even if the split were a peaceful one, harmoniously resolved through a referendum, this would still disturb the current fiscal balance and induce the parties to adopt new positions. The nature of oil rents would be different following southern succession. For instance, rents associated with negotiating contracts or selling to third parties, and opportunities to create employment in the oil sector, would rest with the sovereign government in the South.

The North would have some critical choices to make for the post-referendum period. It might continue to invest in alternative sectors such as infrastructure, agriculture, tourism, trade and manufacturing to reduce dependency on oil revenues. This shift could be funded using its current share of oil revenues as well as grants and borrowing. At one extreme, it could encourage effective cooperation and linkages with the economy of southern Sudan to ensure continued use of the massive oil infrastructure located in the North on a rental basis. At the other extreme, it could adopt a belligerent response by preventing the referendum and interfering with the internal affairs of a newly born state. It could push the frontier further southward to raise the stakes in the transitional zone, where transborder oilfields are located.

**Dilemmas of Access**

A major dilemma for the South will be the decision on the utility of the oil infrastructure. Although the bulk of oil is produced in the South, the oil-industry infrastructure is concentrated in the North, with its fulcrums located in both Khartoum and Port Sudan. All local crude processing is concentrated in the North. In 2002, a 100,000 b/d refinery was built in the Al-Jayli suburb of Khartoum as a joint venture between the GoS and CNPC to process the low-sulphur, high-yield Nile blend. Another refinery was also built in Al-Obeid in Kordofan to meet the local needs for oil products. In Port Sudan, on the Red Sea, a 27,000 b/d refinery was also built in 2006 as a joint venture between GoS and Petronas to process the high-acid Dar blend. In September 2005, the Sudanese government awarded Petronas a 100,000 b/d refinery configured to process the Dar blend. Export terminals are concentrated in the Al-Bashyir beachhead on the Red Sea. Further, a 994-mile Greater Nile Oil Pipeline (GNOP) linking production from the oilfields of Western Upper Nile (Muglad Basin) to Bashayir Marine Terminal in Port Sudan was built at the cost of $1.2 billion. It has a maximum capacity of 450,000 b/d. Another pipeline, 870 miles long, was built by Petrodar Operating Company Ltd. (PDOC) at the cost of $1.2 billion, with a maximum throughput capacity of 500,000 b/d, to link oilfields in Northern Upper Nile (Melut Basin) with Bashayir. Two other short pipelines link Tharjath and Malé oilfields in Western Upper Nile (110-miles long) to the GNOP and El-Fula oilfields in Abyei (460-miles long) to the Khartoum Refinery.
Thus, the oil infrastructure in the North is well developed logistically — refineries, pipelines, export terminals, airports, roads, etc. Whether by accident or design, the North has been successful at indigenizing labor inputs to dominate the industry and link it to the northern economy even if the South secedes.

Any disjuncture between southern interests and the utility of the oil infrastructure in the North is a category of uncertainty that carries high risks. The oil infrastructure will fall into disuse if the South chooses other options, even in the long run, and this would be costly for both parties. One of the key dilemmas of the post-referendum period will be methods employed by the parties to deal with the sensitive issue of the continued utilization or the rendering redundant of massive investments in oil infrastructure in the North. This is, of course, a multilayered strategic policy issue that not only concerns the Sudanese parties, but also the multinational corporations that have invested heavily in the sector.

In Africa, pipeline-rental arrangements have been pursued between Chad (upstream) and Cameroon (downstream). The Chad-Cameroon Petroleum Development and Pipeline Project (CCPP) is credited as a success story in its pipeline rental arrangements. This is due, in part, to the heavy involvement of the World Bank and the existence of stable relations between the two countries. Nevertheless, the unstable Chadian political environment, lack of institutional capacity and rampant corruption are cited as drawbacks. Such drawbacks forced the World Bank to pull out of the project in September 2008, citing the failure “to allocate adequate resources critical for poverty reduction” as the main cause. Other responses may predominate where the interests of the parties involved are at odds. The recent squabble between Russia and Ukraine on the crossborder export of Russian gas, for example, was not a purely commercial dispute but was caused by political undercurrents.

Concerns about being held hostage to the North’s terms on oil-transit to the sea and the use of local refineries could push an independent South Sudan to negotiate alternative outlets and invest in its own oil infrastructure. However, this is a costly option; the financial resources involved in creating such infrastructure and training a pool of skilled labor may be beyond the financial or human capability of the newly independent country. Furthermore, this would entail a loss of revenue for a considerable period of time, something that the southern state cannot afford given its high dependency on oil rents.

MULTINATIONAL CORPORATIONS
The Western MNCs

A discussion of the development of Sudan’s energy sector must begin with an appraisal of the evolution of international oil companies’ decision-making calculus during the last four decades. Chevron Corporation was the pioneer in the development of Sudan’s oil industry. It initially secured concessions to explore for oil off the coast of the Red Sea in early 1970s. Following the signing of the Addis Ababa Accord in 1972, its efforts expanded to cover onshore concessions in southern Sudan. Chevron made the first significant discoveries in Sudan and set the foundation for its oil production.

In the early 1980s, Chevron struck commercial finds — estimated at 593 million barrels — in the Unity and Higlig oilfields. Other Western firms, such as AGIP, Total and Royal Dutch Shell, were also active in exploration to capture portions of
the untapped reserves in the country. 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 pipeline between the oilfields and Port Sudan.\textsuperscript{20} However, Chevron’s chances to realize the full extent of its investment and 20 years of perennial explorations finally came up short. It suspended operations at the outbreak of hostilities in 1983 and eventually left the country in 1992. There are many reasons for Chevron’s departure in addition to the war, including a falling out with Khartoum, deteriorating relations between Khartoum and Washington, and cost considerations. With the coming of Islamists to power in Khartoum in 1989, Chevron was presented with odd choices that prompted its departure and selling of concessions in Muglad and the Melut basin for $23 million to a little-known national energy company, ConCorp. Overwhelmed by its lack of financial clout for developing the industry, ConCorp sold its concession to a private Canadian oil company called the State Petroleum Corporation in 1994. In that same year, a small, publicly traded Canadian oil company, the Arakis Energy Corporation, acquired the State Petroleum Corporation.

Yet another test of the oil companies’ will was Arakis’ ability to juxtapose Western innovation and Eastern risk-taking when it struck up a partnership deal with some Asian national oil companies (NOCs) in 1996. A new consortium called the Greater Nile Petroleum Operating Company (GNPOC), with Arakis as an operator company, was formed. Other members of the consortium were the China National Petroleum Corporation (CNPC), Malaysia’s Petroliam Nasional Berhard (Petronas), and Sudapet, the Sudanese national oil firm. Although Arakis had secured political-risk insurance from Rollins Hudig International, the threat of attack diminished.

The SPLM split in 1991 enhanced the GoS military capability in most of the battle-spaces in southern Sudan. Moreover, the establishment of a permanent ceasefire between Khartoum and the SPLA breakaway factions consolidated Khartoum’s grip on the oilfields in Western Upper Nile (Unity) State. However, Arakis’s progression was hampered by numerous financial woes and other factors including instability and U.S. sanctions. In 1998, Arakis assented to a friendly-takeover bid offered by another Canadian oil company, the Calgary-based Talisman Energy Corporation Limited.

The arrival of Talisman and the realization of production also attracted a plethora of Western energy juniors such as Swedish-based Lundin Petroleum and the Austrian oil company Österreichische Mineralölverwaltung Aktiengesellschaft (OMV) into the stream. As the company’s fortunes got better, its problems also multiplied, leading to its premature exit in 2002. As a result, Talisman disengaged and announced the sale of its promising Sudanese oil and gas interests to India’s Oil and Natural Gas Corporation Limited (ONGC) in 2001. There were multiple interconnected reasons for Talisman’s exit from Sudan;\textsuperscript{21} stemming mainly from the civil war, dealing with a pariah government and complicity in civilian devastation.\textsuperscript{22} Further, OMV succumbed to the avalanche of criticism emanating from advocacy groups and finally pulled out. But Lundin sat tight through a combination of political craft and proactive engagement with some local barons\textsuperscript{23} till the signing of the CPA in 2005.
The Eastern MNCs

When the Western oil companies began to scale down their operations in Sudan, Eastern NOCs — notably from China — quickly took the opportunity to fill the vacuum. In 2002, CNPC emerged as a leading operator company with vast stakes in the Sudanese energy business. The main motive underlying the pursuit of CNPC’s Sudan bid is China’s stated aim of securing overseas sources of crude oil as a substitute for diminishing domestic sources to bolster its burgeoning economy.

This critical geopolitical goal directs and informs the CNPC’s corporate policy and strategic behavior in the global marketplace. In short, Sudan represents a vital source of oil for the Chinese economy and a good learning experience.24 Indeed, China’s energy-security interests in the Sudan are a perfect fit with Khartoum’s search for extra funds, access to weapons and diplomatic support in international forums. In other words, Khartoum’s economic cooperation with China has augmented its military capacity and gained it access to borrowing. It has also given it the necessary backing in the UN Security Council to parry some serious condemnations. China’s all-encompassing support to the government of Sudan has won the Chinese NOC preferential treatment unprecedented in the history of Sudan’s foreign-trade policy.

However, these favorable circumstances have not insulated the CNPC entirely from international criticism and American pressure. In the past, its efforts to raise capital through the initial-public-offering (IPO) avenue were frustrated owing to its complicity in human-rights abuses. Though it employed multiple stratagems using subsidiary companies25 to tap financial opportunities through IPOs, these attempts have so far generated limited success. In fact, American sanctions, coupled with its divestment policy, have placed heavy constraints on the CNPC’s ability to raise funds. The leverage on the CNPC from joint venture-partners and the outcry for corporate responsibility from victims and advocacy groups have been sadly negligible.

There are also different arrangements that prevail between Khartoum and other Eastern MNCs such as ONGC and Petronas. ONGC joined the club of foreign energy firms in the Sudan after acquiring Talisman’s interest in GNPOC on auspicious terms and purchasing OMV’s interest in 2003. India is largely dependent on oil sources from abroad. As a state-owned enterprise, ONGC strives to fulfill India’s stated objective of diversifying sources of oil and doubling its reserves by 2020. ONGC’s expansion in Sudan has met India’s demand for oil but has also been a learning experience in oil development.

Unlike other NOCs, ONGC entered Sudan towards the end of the civil war in the South. Yet, to answer skeptics within the Indian government, ONGC took out political-risk insurance from some of the world’s leading agencies prior to its entry to Sudan. More starkly, the advent of ONGC has immensely improved economic and political relations between Khartoum and Delhi. In addition to credit provision, India has helped Khartoum to deflect UN sanctions in regards to the Darfur crisis in 2005. Following the signing of the CPA, the Indian government has also taken initiatives to foster relations with the fledgling Government of Southern Sudan (GOSS) and has contributed peacekeepers to United Nations Mission in Sudan.

Alongside these Eastern NOCs, Malaysia’s government-owned Petronas holds extensive interests in Sudan. Like other MNCs, its interests suffered from
perpetual insecurity during the civil war, but it did not exit. Petronas’s close links to Western venture partners with better technical expertise has benefited it immensely. This has bolstered its capacity to perform its operator-company status following the departure of Western oil companies. Given its state-owned nature, Petronas has remained impervious to the criticism emanating from Western human-rights organizations. It has also managed to steer clear of the backlash from U.S. economic sanctions on Sudan, owing to its limited connections with U.S. capital markets.

Hence, for Petronas, a variety of factors help to explain its special place in the Sudanese oil industry. The Islamic orientation of the Malaysian government makes them more acceptable to their Sudanese counterparts. The two countries have fostered strong ties based on religious, economic and political paradigms. Since the arrival of Petronas in Sudan, the MNC has embarked on a capacity-building program through the transfer of skills and expertise as well as advanced training in petroleum engineering and processing technology to encourage Sudanese to play a leading role in their oil industry. In addition, Malaysia has for many years helped Sudan gain access to arms and provided an assortment of scholarships to the Sudanese military. Besides oil, Malaysia has also explored avenues of investment in infrastructure, electricity and other areas.

**Oil Companies’ Strategies**

The strategic behavior of the oil companies in the Sudan during the civil war has revealed a complex reality: courting the center while antagonizing the periphery. This strategy, of course, has led to a fundamental problem, as it has failed to mirror local concerns and interests. The times cry out for a more proactive vision to repair the dismal legacy left by the operations of the oil companies and the expansion of the oil industry in southern Sudan during 1980s and 1990s. The oil companies must recognize that it is a critical element of corporate responsibility to promote fairness rather than focus only on maximizing their investments’ net worth.

While the strategic context of the oil companies’ responses to the dynamics of the North-South conflict has evolved, rivalry over Sudan’s energy resources has been fierce and ruthless. Although the evidence has largely been anecdotal, the Asian NOCs, with tacit approval of GoS, have been embroiled in unconstrained resource depletion in much of the oil-yielding areas of southern Sudan to recover their costs before 2011. Further, to many observers, the NCP is trying a variety of tactics to delay or prevent a referendum or even influence the outcome in favor of unity through gerrymandering. The delay of the border demarcation is seen as an effort to maintain an amorphous zone in which the North can still stake a claim to some oilfields beyond 2011.

Perhaps a more telling contrast was the way these NOCs managed their complicity in civilian devastation with a modicum of sensitivity to pressure from civil- and human-rights organizations. While strong ties exist between the North and each of the respective governments of the Eastern NOCs, the South views these relations with disdain and suspicion. On the other hand, the apparent growing engagement between the South and some western governments generates similar concerns in the North.

**Contracts**

The CPA called for the establishment of the National Petroleum Commission (NPC), whose main function is supposedly
the design of the policies, guidance and supervision of the energy sector. To date, the NPC is largely a redundant structure that meets only sporadically. In fact, its role has been usurped by a powerful Federal Ministry of Energy and Mining. Prior to its birth in 2006, the North was busy selling off the country’s remaining concessions. This unilateral approach provided both the excuse and stimuli for the SPLM-led GOSS to grant concessions to some “energy juniors” in the areas under its jurisdiction in 2005. In spite of its intangible performance, the NPC has so far managed to resolve these tussles by compelling GOSS to repudiate its new deals.26

If the South secedes at the referendum, the oil-management landscape will change dramatically. The newly created state in the south may decide to alter existing concessions, revise the fiscal terms and introduce new laws and contracts. Under this account, the South may prefer to deal with some western oil companies in an attempt to gain more political clout. But, in view of its precarious economic foundation, the South will not turn off the oil taps upon the vote for secession in order to reorganize the industry. It might take an extreme stance only if the breakup were violent or the pipeline rental terms were unfavorable and the call for rerouting oil exports through another outlet became a compelling necessity.

Whatever the outcome, the terrain will shift in favor of a sovereign southern state in a position to determine new rules and policies that will guide the energy sector. So, even if the Eastern NOCs maintain their presence, the preferential terms they enjoyed under Khartoum’s dominance may experience a radical review. This raises a series of important questions on the possible responses of these NOCs and their home governments, particularly, China. With regard to available policy scenarios, the current improved contacts between Juba and Peking will generate more adulation to China’s role in the Sudan. Furthermore, China and, to some extent, Russia, will need to carefully weigh their options in view of strikingly opposing policy patterns pertaining to their principled positions against secession and the need to concede to the will of the people of southern Sudan if they choose to break free.27

To avoid the awful manifestations of partition and the possible negative role that the existing NOCs and their home governments can play, the South should seize beforehand the challenge of accommodating their commercial interests. On the other hand, there should be an immediate paradigm shift in the construct of various factors that had previously informed these NOC policies towards the South. In this scheme of things, the three eastern parastatals — CNPC, Petronas and, to some extent, ONGC — as well as their governments, will have to initiate constructive engagement with the South, based on a new strategy that promotes trust and the exchange of benefits.

CONCLUSION

The challenge facing Sudan is immense: how to prevent the entities that emerge from the country’s division from plunging into a quagmire of anarchy and perpetual slaughter. The rationality and pragmatism of the parties hold some promise. Unless southern Sudanese are accorded a free and fair environment to exercise their right of self-determination leading to credible outcomes, the likelihood of Sudan plunging into a new spiral of violence is real. It is therefore in the supreme interests of the citizens of Sudan and the internation-
al community to avert these deep impacts. Absent this focus, these developments may cause the country to go supernova, with far reaching consequences for the region and the international community.

If the Sudanese avoid exacerbating misperceptions and hardline attitudes about the decisions they take on these critical matters and focus instead on promoting interdependence and fostering linkages based on an enhanced level of trust, they will guarantee peace and mutual economic benefits. Otherwise, all the parties involved in the conflict are heading fast into the abyss.

1 The author gratefully acknowledges the valuable advice received from Professor Laurence Harris and Dr. Bassam Fattouh of SOAS, University of London; as well as from two prominent Sudanese academics: Professor Alt Abdel-Qadir and Professor Ibrahim El-Bedawi.

2 Hamdi’s predilection with the Riverine North’s sovereignty and its economic viability was motivated by an honest assessment of the two opposing trends that he observed for long. These are: a) The system of patronage based on monopoly and the use of violence to safeguard a consolidated center was ill-fated; b) Maintaining unity based on new center-periphery patterns of the CPA political engineering was suicidal. Others, like columnist Tayeb Mustafa, who runs a daily newspaper called Intibaha, have not been subtle about their secessionist overtones to see the country break up along racial and religious dichotomies as a means of achieving lasting peace.

3 A majority of southern Sudanese parties cherish secession. The first political organization that made a stark departure from this premise was the Sudan African National Union (SANU). One of its founding leaders, William Deng, was assassinated by Khartoum in 1968. Despite floating well-intentioned plans to secure an enduring future for the South, in 1983, the Sudan People’s Liberation Movement was formed with similar national objectives and a broad-based constituency winning support in both the North and South.

4 There have been discoveries of crude oil and gas in Sinnar, South Kordofan, the Red Sea and Darfur states.

5 In its 1983 Manifesto, the SPLM put oil exploitation at the top of the catalogue of the South’s grievances for going to war.

6 Jonglei Canal was planned and executed to bypass waters from a huge swamp called “Sudd” (barrier), which stretches from Mongalla to near Sobat confluence with the White Nile just upstream of Malakal. The Sudd consists of various meandering waterways, lagoons, and reed and papyrus fields. The White Nile loses half of its water through “evapotranspiration” in floodplains. To date, the Jonglei Canal project represents an important project for Egypt in the Sudan. The juggernaut excavator (the Bucket-Wheel), which had excavated more than half of the channel, has stood idle in the middle of southern floodplains since 1983.

7 Data drawn from the website of the Central Bank of Sudan (CBoS).

8 Roger Winter and John Predergast recently described Abyei as “Sudan’s Kashmir” and one of the most potent tripwires in Sudan. True to the prophesy, the region has witnessed two major skirmishes between SAF and the SPLA in 2008, while the situation remains edgy. However, the Permanent Court of Arbitration recently passed a ruling on the Abyei borders, which the parties have committed themselves to respect. For details, see Enough Project’s Strategy Paper: “Abyei: Sudan’s Kashmir,” January 26, 2008.


13 Alex de Waal, “Sudan: What Kind of State? What Kind of Crisis?” Crisis States Research Centre, April 2007. Northern apologists of the economic hyper-dominance of the centre challenge these views. They contend that these extreme inequalities find their explanation in an historic imbalance of power and wealth in the country left by colonial legacy. In short, they do not attribute it to any conspiracy, but rather to the operation
of merchant capital according to its own iron laws.

14 Since the signing of the CPA in 2005, the Misseriya of South Kordofan and southern Sudanese natives have made numerous disruptions in production by demanding compensation, employment and community development projects. Moreover, the Justice and Equality Movement (JEM) in Darfur has also carried out a series of raids on outlying oilfields in Kordofan and have even abducted oil workers. For details, see BBC Africa News, Sunday October 19, 2008.

15 Production sites in southern Sudan are composed reminiscent of colonial. There, you find Chinese, Malaysians, Indians, and northern Sudanese taking executive jobs. Even less-skilled workers are brought from the North. Southerners are at the margin of employment. Back in the 1980s, the same inequality existed even though northerners did not have requisite skills in the areas of petroleum, engineering or business administration.

16 There is huge investment in infrastructure, particularly in finding alternative ways to generation energy in the North, e.g., hydroelectric power. Most of these projects are concentrated in the Hamdi Triangle of northern Sudan. Tarmacked roads crisscross the desert and dams, international airports and seaports have been built, likely in anticipation of a break-up.


18 Recently, Ahmed Ibrahim Al-Tahir, speaker of the Sudanese parliament, and Bederiya Suleiman, who chairs a parliamentary committee on legal affairs, have both said that they would make secession an uphill task and make unity an attractive option for the southerners through the Referendum Law.

19 The Economist, January 10-16, 2009, p. 34.


22 An independent report sponsored by the Canadian government, issued in 2000 and dubbed the Hacker Report, examined the relationship between Talisman’s operations and civilian displacement. The report established Talisman’s complicity in three arenas: 1) mass displacement of civilians around the oilfields, 2) use of its facilities such as airbases for aerial bombardment of civilian targets, and 3) providing the GoS with revenue for military purchases.

23 The MNC makes full use of a member of its board of directors — the former Swedish prime minister — Carl Bildt, and even invited the GoS protégés in the South to give their own version of events.

24 For example, CNPC’s stakes in the GNPOC project alone account close to half of its overseas oil for production. At one point, the company sent to Sudan over 10,000 Chinese construction workers to build the pipeline, raising concerns in southern Sudan that these so-called workers were not in essence mercenaries coming to help the GoS’ military in its fight against the SPLA. For details, see Luke Patey, A Complex Reality: The Strategic Behavior of Multinational Oil Corporations and the New Wars in Sudan, Danish Institute for International Studies (DIIS) Report, 2006, p. 33.

25 For example, PetroChina.

26 Prior to the signing of the CPA, the SPLM administration — CANS — issued two contracts, one to a Moldovan energy junior called ASCOM and the other to the British White Nile Oil Company. The dispute was resolved by the NPC in 2007.

27 Besides oil, China and Russia are the main weapon suppliers to Khartoum. This explains Khartoum’s paradox of extreme patriotism on some Muslim issues and utter indifference on others. For instance, although the Sudanese Islamic regime makes a lot of fuss about the plight of Muslims in the Middle East, they turn a blind eye when it comes to issues concerning fellow Muslims in Russia and China. The case in point is Sudan’s ambivalence in the affairs of Chechnya and Chinese Muslim Uyghurs.