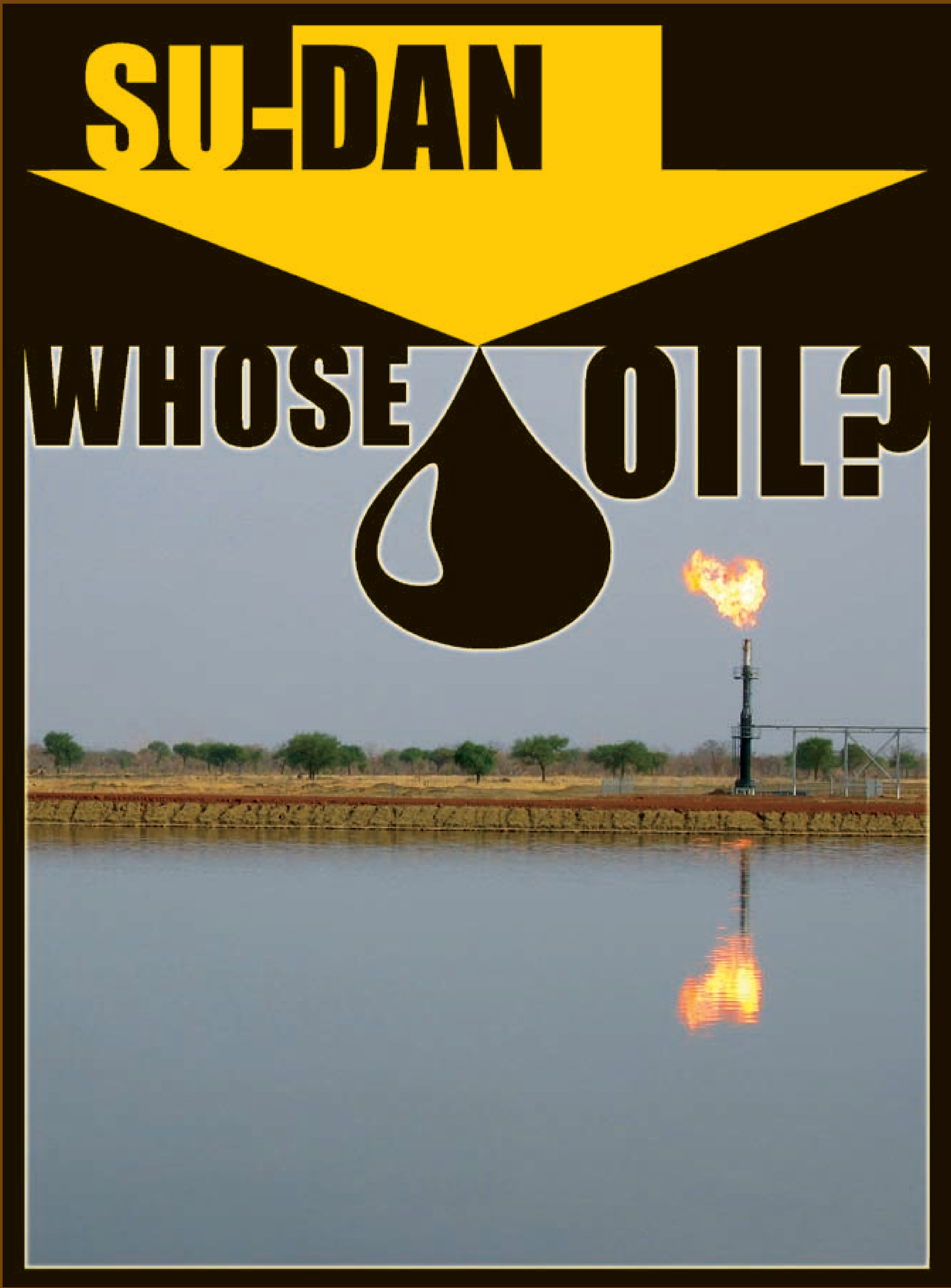
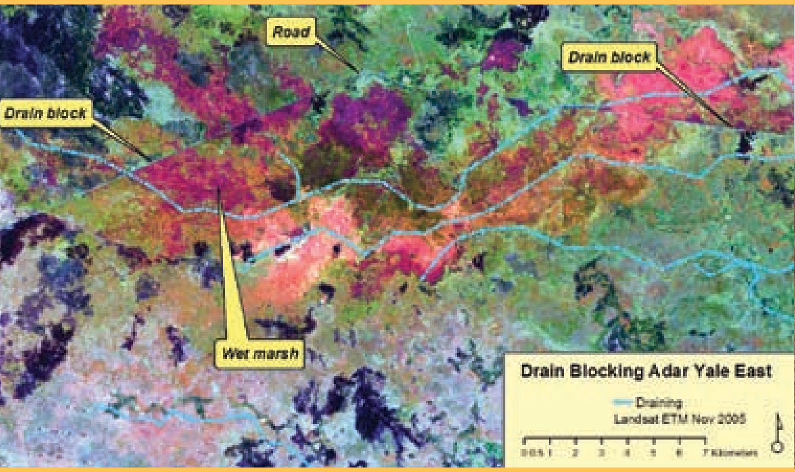


SUDAN'S OIL INDUSTRY

Facts and Analysis, April 2008



THE ALL WEATHER ROADS BUILT BY THE OIL INDUSTRY HAVE BLOCKED THE NATURAL DRAINING, CAUSING FLOODING AT ONE SIDE AND DROUGHT AT THE OTHER

SOCIAL PROJECTS REALIZED BY THE OIL COMPANIES. A MOSQUE IN AN AREA WITH VIRTUALLY ALL NON-MUSLIM INHABITANTS AND A HOSPITAL WITHOUT STAFF OR PATIENTS

COLOFON

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INTRODUCTION

In January 2005 the Comprehensive Peace Agreement (CPA) in Sudan ended Africa's longest civil war. This is a tremendous achievement. But the peace is fragile and doesn't encompass the entire country. Politically, the country remains divided and violence is still part of daily life in many areas, foremost in Darfur, but also in Kordofan. Deadly incidents continue to occur regularly in the South.

Oil is a principal factor in Sudanese politics. It is the government's main source of income and the oil sector is driving economic growth. Meanwhile, the oil industry is poorly managed and highly politicized. Rather than contributing to an environment of peace and equitable development, it remains a source of strife and division.

This dossier takes stock of Sudan's economy, its oil industry, and the status of oil-related CPA provisions. It is written by IKV Pax Christi, as part of the Fatal Transactions campaign, in cooperation with the ECOS network.

Fatal Transactions is an international network of Non-Governmental Organizations (NGO's), dedicated to transform Africa's trade relations from Fatal to Fair. Fair Transactions that contribute to sustainable peace and equitable development, instead of Fatal Transactions that fuel violent conflict to enrich a few. We believe that the natural richness of Africa, be it gold, diamonds, oil or copper, can be a motor for development and growth instead of a source of conflict. The Fatal Transactions campaign does research, organizes events and lobbies for change in global economic practices.

The European Coalition on Oil in Sudan (ECOS) was established in 2000 by eighty European NGOs. It calls for action by governments and the business sector to ensure that Sudan's oil wealth contributes to peace and equitable development. Since the signing of Sudan's CPA by the Government of Sudan and the Sudan People's Liberation Movement/Army (SPLM/A) in January 2005, ECOS has broadened its scope to conflict and human rights related corporate social responsibility, with a focus on the extractive industries.

The purpose of this dossier is to provide an overview of Sudan's oil industry and serve as a background document to all those wishing to learn more about the country's contentious oil issues. The many tables with data in the first two chapters help the reader to establish a picture of the realities of Sudan's oil industry. The third chapter has a more analytical content and gives the reader a better understanding of the consequences of oil extraction on the lives of the Sudanese citizens.

We hope that this dossier contains interesting information for you. If you have any questions or comments or if you are looking for more information, please contact Eva Oosterwegel from Fatal Transactions or Egbert Wesselink from ECOS. Their contacts you can find on http://www.ecosonline.org and http://www.ikvpaxchristi.nl.

Fatal Transactions and
European Coalition on Oil in Sudan
April 2008

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1 COUNTRY PROFILE

1.1 Conflict, Peace and Oil

"Problems began in 1991. The army began chasing the people without warning. They came, they shot and they burned. Why? The SPLA was far away. It was because the Government was greedy for oil and saw any southerner as a threat, a possible supporter of the SPLA."

Chief Chol Nul, Payuer, 25 April 2005

Introduction

With an area of more than 2,5 million km2, Sudan is Africa's largest country. Its 39,3 million inhabitants are divided over 57 ethnic groups, each with their own language and dialects. Sudan owes its existence as one unit to colonial history. The country is divided by religion (estimated at 70% Muslim, 20-25% traditional, and 5-10% Christian), ethnicity (African/Arab), tribe (several dozens of distinct identities) and economic activity (nomadic/pastoralist/sedentary/urban).

Sudan has been in near constant conflict since it became independent in 1956. The two most extensive conflicts have been those between the North and South, with the first civil war lasting from 1956 to 1972, and the second civil war from 1983 to 2005. The violent conflict which broke out in Darfur in 2003 continues to date.

Civil War

Sudan was ruled by the Ottoman-Egyptian administration until 1881, when a national-religious movement led by the Islamic preacher al-Mahdi took Khartoum. Anglo-Egyptian forces led by General Kitchener recaptured Khartoum in 1898. Officially, Sudan became a jointly-administered condominium, but the British practically ruled the country until the decolonization of 1956. Compared to the North, South was very much neglected in terms of education, infrastructure, the building of an indigenous administrative structure and local employment of the Africans in administrative structures. By 1956, Arab tribes along the Nile were well prepared for independence. They had experienced political elites and knew how to handle modern state structures, contrary to the peoples in other parts of the country, including the South. Fearing to become secondary rank citizens, easily exploited by the elites of Khartoum, Southern army officers mutinied in 1955, eventually forming the Anya-Nya guerrilla movement, which fought for separation.

In 1958 General Abboud seized power in Khartoum, but he himself was forced out by a popular uprising in 1964. Arab-dominated Governments succeeded each other until General Nimeiri came to power in 1968. Following a failed coup attempt in 1971, leaving Nimeiri politically isolated, he began to seek peace with neighbouring countries (Ethiopia and Uganda) and Southern guerilla forces. In March 1972, the Addis Abeba peace agreement was signed with the Anya-Nya movement, which gave the South autonomy and an own government, while the Anya-Nya was integrated into the national army.

The Government systematically violated the Addis Ababa agreement. In addition, the state was becoming Islamised, a major project was carried out in the South to change the natural flow of the Nile by diverting large amounts of water directly to the North, and newly discovered oil fields were shifted from the South to the North by changing borders, causing fears that only the North would benefit from the oil from the South. In 1983, Southern soldiers and officers in the Sudanese army mutinied and created the SPLM/A, led by John Garang. President Nimieri abrogated the Addis Abeba agreement in June 1983, dissolving the South's constitutional guarantees. He declared Arabic as the official language and Islamic Sharia law was announced as the sole source for Sudanese law in September 1983.

Violent Displacement in the Oil Fields

The discovery of oil in the mid-1970s added a powerful economic dimension to the North-South divide. In order to control the production of oil, President Nimeiri adopted a two-pronged strategy which included division among and displacement of the population in the oilfields. It took almost two decades and various governments to develop and refine this strategy, but in the early 2000s, the strategy accomplished what direct military action from the central Government alone could never have achieved: full control of the oil areas in Southern Sudan. Several Southern armed groups served as proxies to the Government and attacked and chased away masses of agro-pastoralists who inhabited the oil-rich areas of Western Upper Nile. The population being severely thinned out, the Government erected a "cordon sanitaire" around the producing areas for foreign oil companies to exploit in security. Those who had lived for generations on the land were robbed of their homes, animals, crops, families and often their lives.

In the 1980s, Nimeiri, followed by the elected Government of Prime Minister Sadiq al Mahdi of the Umma Party, armed the Baggara horse-backed militias, known as muraheleen, Arabic-speaking cattle-owning nomads, to drive Southerners from their own land, in particular the Nuer and Dinka ethnic groups. Most of the oil fields were in Nuerland, others in land inhabited by the Dinka. While the SPLM/A united a very rich selection of ethnic groups, the Dinka were relatively strong represented. With the Nuer and the Dinka being traditional rivals for land and drinking places, the Government managed to recruit and arm sizeable Nuer forces, who, backed by the national army, challenged the SPLM/A in the oil areas.

The war started well for the SPLM/A. By 1986 it had gained control of most of Western Upper Nile — except for a few garrison towns, some oilfields North of Bentiu town, and the Bul Nuer area, which was loyal to the commander of a Government-allied Nuer leader, Paulino Matiep. In the face of SPLM/A successes, the Government again sought a peaceful settlement.

Split in SPLM/A

Moves towards a peace agreement between the SPLM/A and Sudanese Government were dashed when the National Islamic Front (NIF) led a bloodless coup in June 1989, a day before the bill to freeze Sharia law was to be passed. Led by General Omar al-Bashir, the NIF revoked the constitution, banned opposition parties, and introduced an Islamic justice system. The North-South war was stepped up and Jihad proclaimed.

In 1991 the SPLM/A split into two factions when major Nuer and Shilluk leaders broke away who objected Dinka dominance and pleaded for Southern separation. The fighting that followed was terrible, probably the worst of the entire war period. The Government took advantage of the split in the SPLM/A by aiding the, mostly-Nuer, breakaway groups led by Dr Riek Machar Teny Dhurgon and Dr Lam Akaol. Dr Riek Machar's forces were named SPLM/A-United and later renamed South Sudan Independence Movement/Army (SSIM/A).[1]

The SPLM/A kept afloat through alliances of convenience with Northern opposition groups and support from Eritrea and Ethiopia. Khartoum's harbouring of Osama bin Laden and other Islamic fundamentalist groups throughout the early to mid-1990's led to international isolation, culminating in a US cruise missile attack in 1998, following terrorist bombings of US embassies in Nairobi and Dar-es-Salaam.

Khartoum Peace Agreement

In 1997, the Khartoum Peace Agreement was signed between the Government of Sudan and Dr Riek Machar's SSIM/A, then renamed South Sudan Defense Forces (SSDF), and five smaller southern groups. The SPLM/A opposed it and the South was now split. The agreement provided for a referendum on self-determination, a widely-held Southern aspiration. It greatly helped the Government to attract foreign oil investors, as it could now argue that the main political groups in the oil areas had agreed to peace. However, the Government did not sincerely implement the peace agreement. Rather, as soon as it had used the occasion to beef up its own presence in the oil areas, it sent its proxy Maj Gen Pau-

1 This force changed names as it changed alliances, and was later known as SSDF followed by Sudan People's Defence Forces (SPDF). In January 2002, the SPDF and the SPLM/A signed a unity agreement, reuniting many of the forces that split in 1991.

lino Matiep to attack Dr Riek Machar's forces.
The Government selectively armed Nuer forces to fight other Nuer forces and the SPLM/A. The creation and nurturing of Southern proxies worked very well. While hundreds of thousands of people were systematically driven off their land in a merciless campaign to assure the safety of the oil industry, the Government and the oil companies hypocritically presented the disaster as inter-tribal clashes; a continuation of traditional strife.

The completion of the first pipeline from the Southern oilfields to the Red Sea in 1999, marked the start of oil production. As a result of the oil profits, what used to be two rag-tag armies fighting a bush war, increasingly became an a-symmetric war, with one side supported by helicopter gunships, armored units and high altitude bombers. The conflict caused immense hardship for the civilian population of the oil areas, as they were looted, displaced, and killed by the thousands.

Peace Process
On and off negotiations took place between the Government and the SPLM/A under the Kenyan-led regional Inter-Governmental Authority on Development (IGAD) body between 1994 and 2002. The Machakos Protocol of July 2002 laid down the concessions where the CPA was to be build on. The South obtained a referendum on self-determination after a six-year interim period, during which the oil revenues were to be split 50-50, while Islamic Sharia law was to be upheld in the North.

Sudan's CPA was signed on 9 January 2005, finally bringing peace between the North and South Sudan for the first time in 20 years. The peace process had sufficient momentum to survive the death of SPLM/A leader Dr John Garang (July 2005). By October 2005, a new constitution was ratified, a Government of National Unity (GONU) sworn in (52% executive posts for ruling National Congress Party (NCP) and 28% for SPLM/A), and an autonomous Government of Southern Sudan (GOSS) operational. In 2011, after a six-year interim period, Southern Sudan will vote whether to secede or to stay in Sudan.

Darfur Conflict
Darfur became the latest chapter in Sudan's civil wars when the Sudan Liberation Movement/Army (SLM/A) and the Justice and Equality Movement (JEM) took up arms against the Government in February 2003, claiming years of political, economic and social marginalisation of the region. The Government responded by arming and supporting mostly Arab gangs to clear civilian population from areas that were supportive of the insurrection; a similar strategy as had been used in the oil fields in the South. Despite international mediation attempts, a stiff US economic boycott, numerous Security Council resolutions, and the deployment of an African Union (AU) protection force in August 2004, Darfur is still one of the least secure and most violent places in the world. A joint United Nations (UN)/AU hybrid peacekeeping operation is currently deployed, but expectations about its impact are modest. Meanwhile, 200.000 thousand people have been killed and 2 million displaced).[1]

Current Situation in Sudan
The CPA is the only hope for lasting peace in Sudan, but it is in endemic danger of collapse. All plans for lasting solutions for the disaster in Darfur and other regions in Sudan, as in the East, Darfur and South Kordofan, depend on its success. From October to December 2007, the SPLM/A suspended its participation in the GONU in protest of the Government's disrespect of several key provisions. All major issues of contention relate to oil, from demarcation of the border between the North and the South, which passes right through major oil fields, to the demilitarisation of the oil areas and the sharing of oil revenues. The industry's dramatic social and environmental record is undermining popular support for the peace agreement. The CPA contains detailed provisions for the management of the oil industry, but they are poorly, if at all implemented. These are discussed in section 1.3.

Oil in Sudan accounts for 92,6% of the country's export revenues and with most of its producing oilfields located in the South of the country, the management of the oil industry is a key factor that will determine the future of the country. The oil industry is poorly supervised and highly politicised, and as such, rather than contributing to an enabling environment for peace and equitable development, a source of strife and division.

1 United Nations, Darfur Humanitarian Profile No.28, situation as of 1 July 2007.

1.2 Economy

"When I was living in Duar in 2000, an all-weather road was being built from Rubkona to the oil operations in Rier. I knew that in building this road, the Government had forced people to move away and had bombed and attacked villages to get the people to move. In 2000 the all-weather road from Rubkona to Rier was constructed through my land where my luak and tukuls were destroyed by Government troops."

Chief Peter Ring Patai, Talisman court case, March 2005[1]

Sudan belongs to the least developed countries in the world, but is unique among low income post conflict countries in terms of available domestic resources. Sudan is much better off than all other post-conflict cases in recent history with a projected outturn of over $185 per capita in Southern Sudan in 2007, compared with Afghanistan ($5) or Timor Leste ($22).

Despite strong economic growth, the country still faces formidable economic challenges, as it starts at a level of deep poverty. With few linkages to other productive sectors of the economy, growth in the oil sector will not raise incomes for the many poor, while pro-poor spending is very low, standing at 3% of Gross Domestic Product (GDP) compared with an African average of 7.5%.

Since 1997, Sudan has been carrying out macro-economic reforms recommended by the IMF. In 1999, Sudan began exporting crude oil. Increased oil production, high oil prices, revived light industry, and expanded export processing zones helped sustain GDP growth at about 10% in 2006. Along with improvements to monetary policy, this has stabilized the exchange rate. For 2007, the World Bank expects more than 10% economic growth, largely consisting of growing oil incomes. The stiff American sanctions regime seems to have little impact, but without it the growth rate may have been even higher, as the sanctions are reducing competition and restrict access to the international financial markets.

Oil accounts for 92.6% of Sudan's export value.[2] Nonetheless, the country's economy remains pre-

FIGURE 1 IMF SELECTED ECONOMIC INDICATORS, 2001-2007 [3]

Real Sector	2001	2002	2003	2004	2005	2006	2007
Real GDP growth (% change)	6.1	6.4	5.6	5.2	8.0	11.8	11.2
GDP (mln $)	13,369	15,109	17,680	21,610	27,699	37,442	46,708
GNP per capita	374	425	486	579	790	970	1,182
Inflation (%)	4.9	8.3	7.7	8.4	8.5		
External debt:							
- bln $	20.9	23.6	25.7	26.0	27.7		
- % of GDP	157	156	145	120	100		
- Net international reserves (mln $)	-109	84	290	1,144	1,889		

1 Talisman court case documents, found in US court district of Manhattan.
2 Bank of Sudan, http://www.cbos.gov.sd/arabic/period/q1_07/Tab_1.pdf (23 August 2007.
3 IMF Executive Board Concludes 2007 Article IV Consultation with Sudan, Public Information Notice (PIN) No. 07/121, October 3, 2007, http://www.imf.org/external/np/sec/pn/2007/pn07121.htm.

dominantly agricultural, employing 80% of the work force, with a growth rate of 4% and contributing an average 40% to GDP in the period between 2001 and 2005. Most farms, however, remain rain-fed and susceptible to drought and the sector as a whole is lagging behind.

Construction, another flourishing sector in Sudan, progressed by a solid annual rate of 8% over the 2001-2005 period. The main factors underlying this growth are the building of oil pipelines, refineries, road infrastructure works, power stations and dams.[1]

Foreign Trade

Sudan has witnessed increased foreign trade activity in recent years, as a result of rising aggregate domestic demand and vibrant economic activity over the period, as well as the recent rise in worldwide oil prices. Exports in 2005 grew by 29,8% to $4,8 billion, boosted by oil exports, while imports grew by 30,9% to $5,9 billion.

Between 2001 and 2005, oil exports grew at an average annual rate of 32%, making up the bulk of Sudan's exports, while export of other commodities grew on average by 18.6%.

The IMF 2007 Staff Report gives the following estimates for 2006:

Exports: $5,813 billion
of which oil: $5,244 billion

FIGURE 2 DIRECTION OF EXPORT (in millions of US Dollars and as percentage of total exports) [2]

	2005		2006		Jan-Sep 2007	
	%	Mln $	%	Mln $	%	Mln $
China	71	3427.1	77.4	4244.0	83.6	5040.1
Japan	12	577.5	8.4	522.6	6.5	392.8
Western Europe	4	191.9	2.5	95.5	2.0	123.4
Africa	3	145.5	2.5	158.7	1.2	73.6
Saudi Arabia	2.8	136.4	2	126.4	1.3	78.3
United Arab Emirates	1.9	90.0	3.6	227.4	3.1	188.5

Trade Partners

Asia

Sudan is Africa's fifth country when it comes to foreign direct investments by Asian countries. Sudan's three biggest investors are China, Malaysia and India. Japan is the country's major Asian donor. China and Malaysia have shown to play a rather different role than Western nations, as they do not seem to question Sudan's internal policies.

Chinese investment in Sudan are in excess of $6 billion, predominantly in the oil industry.[3] In 2005, China was the main export destination of Sudan with $3.427,1 million, 71% of the country's total export earnings.[4] Sudan is providing China with 7-8% of its energy imports. China has obstructed efforts by the USA and Europe to impose UN economic

1 Bank Audi Sal, Sudan Economic Report. Beirut, December 2006 (30 August 2007).
2 Bank of Sudan www.cbos.gov.sd/arabic/period/bulletin/q3_07/tab_12.pdf.
3 UNCTAD/UNDP, Asian Foreign Direct Investment in Africa, March 2007.
4 Bank of Sudan.

sanctions and an arms embargo on Sudan because of the crimes against humanity that are committed in Darfur. In 2005, China's arms sales to Sudan were worth $83 million.[1]

Malaysia is Sudan's second largest investor, with Malaysia's state oil firm Petronas alone having investments worth $1,45 billion. With major shares in all blocks currently under development, Petronas may soon take over from CNPC as Sudan's leading oil company. The company is assessing engineering bids with Sudan's Ministry of Energy and Mining to build a 100.000 barrels per day (bbl/d) refinery in Port Sudan. Like China, Malaysia is urging western nations not to impose sanctions on Sudan over its failure to resolve the conflict in Darfur.[2]

India currently imports around 75,000 bbl/d from Sudan for the 25% equity stake held by ONCG in the Greater Nile Oil Project - in which China and Malaysia also have stakes. In January 2006, India signed an agreement with Sudan for a $350 million line of credit for setting up a 500 MW power project by state-run Bharat Heavy Electricals Ltd. The total project costs of about $500 million is shared by the two countries. In addition, Sudan and India signed a loan agreement of $41.9 million for Singa-Gedarif transmission line and sub-station.[3]

Arab World

Sudan has strong relations with the oil-producing states of the Persian Gulf, in particular Saudi Arabia, Kuwait and the United Arab Emirates. During a serious economic crisis in the 1980s, Saudi Arabia provided Sudan with military aid, concessionary loans, outright financial grants, and oil at prices well below the international level. Relations however have not always been smooth. In 1991 e.g. some 200,000 Sudanese migrants were expelled from Persian Gulf countries because of Sudan's support for Iraq in the Gulf war, while Saudi Arabia suspended grants, project loans, and concessionary oil sales.

Arab investments surged between 2001 and 2005 by 15 times to $2,3 billion. The jump after the signing of the CPA in 2005 is most remarkable. Contrary to the Asian investments, they cover the full spectre of Sudan's economy, oil of course, but also telecommunication, agriculture, industry, construction, and transport. Investors from the Gulf states have very important interests in Sudan's banking sector.

United States of America

US sanctions prohibit US companies from doing any business in Sudan, except in the Southern part. As a result, the two countries have no economic relations, except for a few exceptions that are allowed by the US administration: import of gum arabic for Coca Cola, and a large plant in Khartoum that is owned by the same company. US law does not prohibit from investing in foreign multinationals that operate in or sell to Sudan, but a nation wide Sudan Divestment campaign has managed to chase a lot of US money out of companies that are active in the country.[4]

European Union

Formal cooperation with the European Union (EU) was suspended in March 1990, but it continued substantial humanitarian assistance, evenly divided over the North and the South. In 2001 the EU started a policy of 'constructive engagement'. This was less inspired by hopes that Sudan was about to become peaceful and democratic, as by the opportunities that EU businesses saw emerging in a country with a nascent oil industry that was under full US boycott. Strong public feelings in parts of Europe and Chinese and Malaysian ability to use the advantage of having been the first to get in, have limited serious EU investment to a handful of companies, many of them French. In 2007, three large European multinationals – Siemens AG, ABB Ltd, and Rolls Royce PLC – announced their withdrawal from Sudan, after pressure from campaigners for divestment.[5]

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1 Amnesty International, Sudan: arms continuing to fuel serious human rights violations in Darfur. 8 May 2007.
2 Malaysian Prime Minister Abdullah Ahmed Badawi reiterated this e.g. after meeting with Sudanese President El Bashir in Kuala Lumpur during an OIC meeting in April 2007. AFP, Malaysia urges against Sudan sanctions, 17April 2007.
3 Sudan Tribune, Sudan, India sign agreement on agricultural researches, 13 June 2006.
4 http://www.savedarfur.org/page/content/newsroom_fact_sheet/.
5 http://www.savedarfur.org/page/content/newsroom_fact_sheet/.

Box 1. Sanctions and Embargoes on Sudan

UN Security Council (UNSC) Resolutions

UNSC Resolution 1054 (1996): the UN imposed diplomatic sanctions to punish Sudan for its alleged involvement in a 1995 assassination attempt on Egyptian president Hosni Mubarak in Addis Abeba. Sanctions were lifted by UNSC Resolution 1372 in 2001.

UNSC Resolution 1556 (2004): "all states should take the necessary measures to prevent the sale or supply to all non-Governmental entities and individuals, including the Janjaweed, operating in Darfur." Sanctions will be lifted when the Government of Sudan disarms Janjaweed militias and brings to justice the leaders of the Janjaweed who carried out human rights and international humanitarian law violations.

UNSC Resolution 1591 (2005): "all States shall take the necessary measures to prevent entry into or transit through their territories and shall freeze all funds, financial assets and economic resources that are on their territories on the date of adoption of this resolution or at any time thereafter, that are owned or controlled, directly or indirectly, by the persons designated by the Committee of the Security Council."

UNSC Resolution 1672 (2006) names persons to whom resolution 1591 should apply. Sanctions will be lifted when the parties to the conflict in Darfur have complied with all the commitments and demands made by the UN.

US Sanctions

US Executive Orders (EO) 13067 (1997): imposed a trade embargo against Sudan and a total asset freeze against the Government of Sudan "after finding that the policies and actions of the Government of Sudan, including continued support for international terrorism, ongoing efforts to destabilize neighbouring Governments, and the prevalence of human rights violations, including slavery and the denial of religious freedom, constituted an unusual and extraordinary threat to the national security and foreign policy of the United States".

US EO 13400 (2006): In response to UN resolution 1591 the US issued a new EO to block the property and interests in property of certain persons connected with the conflict in Darfur. These sanctions were imposed because of the unusual and extraordinary threat to the national security and foreign policy of the United States posed by the persistence of violence in Sudan's Darfur region.

US EO 13412 (2006): The Sudan sanctions regime was amended again in October 2006 with EO 13412, superseding EO 13067 in an effort to coordinate executive authority with measures laid out in the Darfur Peace and Accountability Act adopted by Congress that same month. This order maintained comprehensive sanctions against the Sudanese Government but exempted the regional Government in Southern Sudan in order to facilitate reconstruction efforts in that war-torn region. It also outlawed transactions related to Sudan's petroleum or petrochemical industries, since the Government has a pervasive role in that sector. In May 2007, 31 companies and 3 persons where added to the list under EO 13412. This brought the total number of Sudanese companies blacklisted by Treasury to more than 160.

EU Sanctions

Council Decision 94/165/CFSP (15 March 1994): first arms embargo on the whole of the territory of Sudan.

Council Common Position 2004/311/CFSP (9 January 2004): repeals and replaces the earlier arms embargo on Sudan contained in Council Decision 94/165/CFSP.

Council Common Position 2005/411/CFSP (30 May 2005): integrates the EU measures imposed by Common Position 2004/311/CFSP with those contained in UNSCR 1591. The embargo prohibits:

- The delivery or supply of arms and related materiel to Sudan, from Member States' territory, by their nationals, or using their flagged vessels and aircraft;

- The provision of technical assistance, brokering services and other services related to military activities and to the provision, manufacture, maintenance and use of arms and related materiel to any person, entity or body in, or for use in, Sudan;
- The provision of financing or financial assistance related to military activities to any person, entity or body, in or for use in, Sudan.

Council Regulation (EC) 131/2004 has been amended by Council Regulation (EC) 838/2005. These prohibit the grant, sale, supply or transfer of technical assistance related to military activities and to the provision, manufacture, maintenance and use of arms and related materiel to any person, entity or body, in or for use in, Sudan. They ban the provision of financing or provision of financial assistance related to military activities to any person, entity or body, in or for use in, Sudan.

The Sudan (Technical Assistance and Financing and Financial Assistance) (Penalties and Licences) Regulations 2004 (SI 2004/373) (19 February 2004) provides licensing and enforcement powers for the Council Regulations.

The measures set out in the Common Position and Regulation do not apply to:
- Non-lethal military equipment intended solely for humanitarian or protective use, or for institution building programmes of the UN, the AU, the EU and the Community;
- Material intended for EU, UN and AU crisis management operations;
- Mine clearance equipment and materiel for use in mine clearance;
- The implementation of the CPA signed by the Government of Sudan and the Sudan People's Liberation Movement/Army in Nairobi, Kenya on 9 January 2005;
- Protective clothing, including flak jackets and military helmets, temporarily exported to Sudan by UN personnel, personnel of the EU, the Community or its Member States, representatives of the media and humanitarian and development workers and associated personnel for their personal use.

Sudan is a destination covered by the provisions of the Trade in Controlled Goods (Embargoes Destinations) Order 2004 (SI2004/318). This introduced extra-territorial controls on trade (trafficking and brokering) in arms and related materiel from a country outside the United Kingdom (UK) to specified embargoed destinations. An ECO Notice to Exporters in 2004 on Trade in Controlled Goods (Embargoed Destinations) Order 2004 provides more information on these controls.

Council Regulation (EC) No 1184/2005 (18 July 2005): implements UNSC Resolution 1591 (2005) at Community level.

Commission Regulation (EC) No 760/2006 (18 May 2006): amends Annex I to Council Regulation (EC) No 1884/2005 to include the four persons designated in UNSC Resolution 1672 (2006).

1.3 CPA and Oil-related Provisions

"Implementation of the CPA is significantly behind schedule, and its failure risks a return to war between the north and south.[..]We cannot forget that peace in Darfur, and ultimately all of Sudan, hinges on the successful implementation of the CPA."

Andrew S. Natsios, Special Envoy to Sudan, Remarks to the Center for Strategic and International Studies (CSIS), Washington, DC, September 19, 2007.

Oil dominates the Wealth Sharing Protocol of the CPA. Both parties to the agreement had to accept painful compromises. The Government of Sudan accepted that it would lose its exclusive military control over the oil fields by 2007. The SPLM/A accepted that the national government was entitled to 50% of revenues of the oil produced in the South and that the national capital, Khartoum, would have Sharia law, also for the hundreds of thousands of non-Muslim Southerners that live there. In addition, the SPLM/A accepted de facto continuation of the existing structure of the oil industry through a clause that protects existing oil contracts from renegotiation, while the GOSS seemed to lose control over the further development of the industry through the establishment of a National Petroleum Commission that was to settle all aspects of the management of the oil industry. In it, affected communities would have a say, which would tip the balance in favour of the SPLM/A for all decisions related to oil fields in the South. During the negotiations on the composition of the new GONU, in which the SPLM/A was to obtain 23% of the seats, the NCP managed to secure the Ministry for Energy and Mining. This seriously undermined the South's aspiration to control this vital source of income.

Some Key Provisions

In theory, the CPA offers a good framework for the management of the oil industry. Some of its key provisions are formulated as follows.

"1.4 The sharing and allocation of wealth emanating from the resources of the Sudan shall ensure that the quality of life, dignity and living conditions of all the citizens are promoted without discrimination on grounds of gender, race, religion, political affiliation, ethnicity, language, or region. The sharing and allocation of this wealth shall be based on the premise that all parts of Sudan are entitled to development."

"1.10 That the best known practices in the sustainable utilization and control of natural resources shall be followed."

"3.1.5 Persons enjoying rights in land shall be consulted and their views shall duly be taken into account in respect of decisions to develop subterranean natural resources from the area in which they have rights, and shall share in the benefits of that development."

"3.1.7 The communities in whose areas development of subterranean natural resources occurs have the right to participate, through their respective states/regions, in the negotiation of contracts for the development of those resources."

"4.5 Persons whose rights have been violated by oil contracts are entitled to compensation. On the establishment of these violations through due legal process the Parties to the oil contracts shall be liable to compensate the affected persons to the extent of the damage caused."

CPA Provisions Ignored

Many of the crucial provisions in the CPA are ignored. The CPA obliges the industry to follow "best known practices in the sustainable utilization and control of natural resources", but nobody specifies what practices were meant or how the state would enforce such standards. The GONU and GOSS are both to blame for not setting any standards and effectuating any enforcement mechanisms. The GONU does not seem to care, while the GOSS thus far has not set appropriate social, technical and environmental standards, and would not be capable at this moment to enforce them.

The companies involved are to blame for not taking any responsibility for the well-being of the country and its population. They are lacking the motivation, knowledge and experience to deal with the many social and environmental issues at stake. The companies have completely ignored the CPA provisions that address their activities. They employ Southerners almost exclusively for unskilled labour. They have no development strategy and limit themselves to tiny feel-good projects, to which they are contractually obliged anyway. Their engagement with communities is either absent or coercive. They completely ignore the compensation clause for past injustices, rejecting their responsibility to provide large parts of the Nuer population in Western Upper Nile a reason to support the peace. Sudan's oil industry is possibly the least socially responsible on earth. If the CPA falls apart and war breaks out, the oil companies bear a heavy responsibility.

There are other important issues related to the oil industry that seemed to be settled in the CPA, which are now threatening the very survival of the peace, including the demarcation of the border between the north and south, delays in the withdrawal of forces, oil revenue sharing and transparency. The Sudanese constitution assigns oil-related decision-making to the National Petroleum Commission (NPC). So far, political disagreement between the two main political forces of the country, the NCP and the SPLM/A, about the NPC's statutes and secretariat have obstructed its functioning. As a result, NCP's Awad Al Jazz, the Minister for Energy and Mining, remains in the driving seat.

The political and security situation in the oil areas has remained tense as a result of the unsatisfactory implementation of CPA. Ordinary people see scarcely any peace or oil dividend. The former heavy-handed security arrangements are no longer in effect. The SPLM/A is gradually strengthening its hold over the oil regions, while exploration and development operations are extending southwards from the existing fields into areas without presence from the national army, the Sudan Armed Forces (SAF). At present there is no direct threat for clashes between the different forces, but the oil fields remain a high risk area. Also, continued fighting in Darfur can threaten operations of oil companies in the Darfur-South Kordofan border area and spill over to the South.

Key issues threatening the peace in Sudan are discussed in more detail in Chapter 3.

Block 1,2,4, GNPOC
- 40% CNPC
- 30% Petronas
- 25% ONGC Videsh
- 5% Sudapet

Block 3,7, PDOC
- 41% CNPC
- 40% Petronas
- 8% Sudapet
- 6% Sinopec
- 5% Al Thani

Block 5A, WNPOC-1
- 68,875 Petronas
- 24,125 ONGC Videsh
- 7% Sudapet

Block 5B, WNPOC-2
10% awarded to GOSS; composition to be renegotiated
- 39% Petronas
- 24,5% Lundin
- 23,5% ONGC Videsh
- 13% Sudapet

Block 6, CNPCIS
- 95% CNPC
- 5% Sudapet

Block 8, WNPOC-3
- 77% Petronas
- 15% Sudapet
- 8% Hi Tech

Block 9,11, Sudapak I
- 85% Zafir
- 15% Sudapet

Block 10, Free

Block 12A, Qahtani & Others
- 33% Qahtani
- 20% Ansan
- 20% Sudapet
- 15% Dindir Petroleum
- 7% Hi Tech
- 5% A.A. In.

Block 12B, Free

Block 13, CNPC, Pertamina & Sudapet
- 40% CNPC
- 15% Pertamina
- 15% Sudapet
- 10% Dindir Petroleum
- 10% Express Petroleum & Gas
- 10% Africa Energy

Block 14, Petro SA
- 80% Petro SA
- 20% Sudapet

Block 15, RSPOC
- 35% Petronas
- 35% CNPC
- 15% Sudapet
- 10% Express Petroleum & Gas
- 5% Hi Tech

Block 16, Lundin

Block 17, Ansan
- 66% Ansan
- 34% Sudapet

Block A, Sudapak II
- 83% Zafir
- 17% Sudapet

Block B, Total
- 32,5% Total
- 27,5% Kufpec
- 10% Sudapet
- 10% GOSS
- 20% open

Block C, APCO
- 65% Hi Tech
- 17% Sudapet
- 10% Khartoum State
- 8% Hegleig

Block Ea, Free

2 SUDAN'S OIL INDUSTRY

2.1 Consortia, Oil Companies and Blocks

The ECOS oil concessions map (page 15) provides graphic information on location, block size and shareholders. In addition to the national and international oil companies, there are a significant number of subcontractors operational in Sudan. A list, which is by no means exhaustive, can be found on the website. More information on subcontractors can also be obtained from the Sudan Divestment Campaign.

FIGURE 3 OIL COMPANIES AND CONSORTIA

Consortium	Companies	Block
Advanced Petroleum Company (APCO)	Hegleig, Khartoum State, Sudapet, Hi Tech	C
Al Qahtani & Others	Qahtani, Ansan, AAIn, Hi Tech, Dindir Petroleum, Sudapet	12A
Ansan	Ansan, Sudapet	17
CNPC, Pertamina & Sudapet	CNPC, Pertamina, Sudapet	13
CNPCIS	CNPC, Sudapet	6
Greater Nile Petroleum Operating Company (GNPOC)	CNPC, Petronas, ONGC, Sudapet	1,2,4
H-Oil		Ea
Petro SA	PetroSA, Sudapet	14
Petrodar Operating Company Ltd (PDOC)	CNPC, Petronas, Sudapet, Sinopec, Al Thani	3,7
Red Sea Petroleum Operating Company (RSPOC)	Petronas, CNPC, Sudapet, Hi Tech, Express Petroleum & Gas C Ltd	15
SudaPak I	Zafir, Sudapet	9,11
SudaPak II	Zafir, Sudapet	A
Total	Total, Kufpec, Nilepet, Sudapet	B
White Nile Petroleum Operating Company I (WINPOC 1)	Petronas, ONGC, Sudapet	5A
White Nile Petroleum Operating Company II (WINPOC 2)	Petronas, Lundin, ONGC, Sudapet	5B
White Nile Petroleum Operating Company III (WNPOC 3)	Petronas, Hi Tech, Sudapet	8

International companies	Country of origin
Africa Energy	Nigeria
Al Qhatani & Others	Saudi Arabia
Al Thani Investment	United Arab Emirates
Ansan Wikfs	Yemen
Ascom Group SA	Moldova
China National Petroleum Corporation (CNPC)	China
Express Petroleum & Gas Co Ltd	Nigeria
Kufpec or Kuwait Foreign Petroleum Exploration Company	Kuwait
Lundin Petroleum	Sweden/Switzerland
ONGC Videsh Ltd (ONGC)	India
Pertamina	Indonesia
Petronas	Malaysia
PetroSA	South Africa
China Petroleum & Chemical Corporation (Sinopec)	China
Total	France
Zafir Petroleum Corporation Ltd	Pakistan

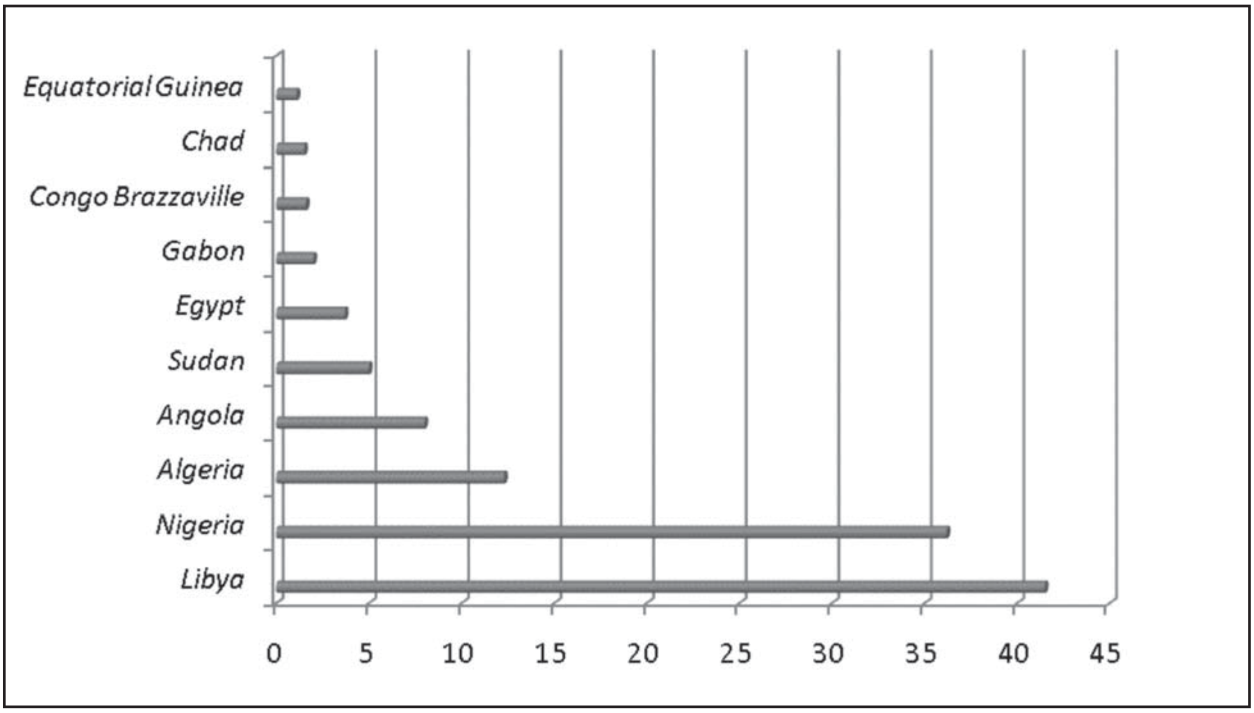
Sudanese companies
Dindir Petroleum International
Higleig Petroleum Services and Investment Company Ltd
Hi-Tech Petroleum Group
Khartoum State
Nilepet
Sudan Petroleum Company (Sudapet)

2.2 Asia Leads

Oil was discovered in Sudan in the mid-1970s, but production did not start until 1999. The pioneer companies Chevron and Shell were forced to bow out in 1984, after the outbreak of civil war. They eventually sold their rights in 1990, booking a $1 billion loss. Mid-1990s, the CNPC and Petronas Caligary from Malaysia, both fully state controlled, grasped this unique opportunity to invest in an oil-rich area that was out of bounds for the oil majors. They continue to dominate the scene. In 2003, when the violent displacement campaign in their areas of operation became public knowledge, their junior western partners, OMV (Austria) and Talisman Energy (Canada), left Sudan, while Lundin Petroleum from Sweden kept its interest in block 5B. ONGC from India stepped in, completing the prevailing position of Asian national oil companies in Sudan's oil industry.

CNPC, Petronas and ONGC account for over 90% of Sudan's total output. Not only are these companies important to Sudan, Sudan is also important to them. For each of them, Sudan was the largest overseas operation in 2007, substantially so for both Petronas and ONGC. And their Sudanese assets are highly profitable. They are not very likely to offer opportunities for newcomers to farm in on their existing assets. They are mostly state-owned and their investment decisions are made at a country level rather than a company level, making them resistant to shareholder activism. While, at a global level, Sudan is a minor oil producing and exporting country, China, India and Malaysia have invested billions of dollars in the country, also outside the oil industry. They consider their relations with the country not only as economic, but also geo-strategic and energy-strategic successes that are worth defending.

FIGURE 4 AFRICA'S OIL RESERVES (IN BILLIONS OF BARRELS)



Source: Oil and Gas Journal 2007

2.3 Chronology of Oil Development

1959 – 1983: First findings

Oil exploration started in 1959 when Italy's Agip oil company was granted offshore concessions in the Red Sea area in the North-East. It carried out seismic surveys and drilled six wells. After Agip, other Western oil companies like Oceanic Oil Company, Total, Texas Eastern, Union Texas and Chevron moved in to search, but no results were made and most companies relinquished their concessions.

In 1974 Chevron, operator of a consortium in which Shell (Sudan) Development Company Ltd took a 25% interest, got permission to search for oil. In 1978 Chevron found the first oil in the Muglad Basin stretching deeply into Western Upper Nile in the South. In 1981 it did a second, more moderate find at the predominantly Dinka area Adar Yale in Melut Basin, east of the White Nile. Four exploratory wells showed flow rates of 1.500 and more barrels a day. Chevron believed there was a potential all the way South to Malakal and east to the Ethiopian border. In 1982 Chevron made a third, much larger discovery at Heglig, 70 km North of the Unity field, which was home of the Nuer. Chevron began to develop Unity and Heglig oilfields. In 1980, the Government granted a 118.000 km2 concession to French-Belgium Total. Unlike Chevron, Total did not begin to exploit because of security problems. This remained so for a quarter century.

1983 – 1998: Oil exploration commences

In 1984 Chevron suspended operations and removed personnel, after the SPLM/A attack Chevron's base at Rub Kona, near Bentiu, killing three expatriate workers. The Government divided the former Chevron concessions into smaller units, and in 1992 awarded the Melut Basin – Blocks 3 and 7 – to Gulf Petroleum Corporation-Sudan (GPC). In October 1996 GPC drilled and reopened Chevron's wells and built an all weather road from Adar Yale to Melut. In March 1997, President Omar al Bashir inaugurated the site at Adar Yale. Production was only 5.000 bbl/d, but it was the first Sudanese crude oil to be exported. It was transported by truck to Melut, and from there by boat to Khartoum. By May 1998, production had increased to 10.000 bbl/d.

In 1992, Arakis Energy Corporation from Canada stepped in and together with its partner State Petroleum acquired former Chevron Blocks 1, 2 and 4. Arakis made several new oil discoveries but never raised sufficient capital to finance the project. In December 1996 it sold a 75% interest in its project to state-owned oil companies from China, Malaysia and Sudan, forming a consortium called the Greater Nile Petroleum Operating Company (GNPOC).

1999 – 2004: First boost

In March 1997, GNPOC began to build a 1540 km oil pipeline from the oilfields to a marine export terminal on the Red Sea. On August 31, 1999, the first 1.500 barrels of crude oil travelled through the pipeline to be loaded onto a tanker, which departed for refineries in the Far East. Since then oil production and export have increased steadily and new discoveries have been made. In 2003 the CNPC announced the discovery of a 'world class' oil field in Blocks 3 and 7 east of the White Nile. In 2003, oil production averaged 270.000 bbl/d, and in 2004, 304.000 bbl/d.

2005 - present: Second boost

The signing of the CPA in January 2005 improved conditions for oil production and export. Until 2006 Sudan had only one major upstream[1] project (Blocks 1, 2 and 4, operated by the Greater Nile Petroleum Operating Company in the Muglad Basin), one export pipeline (Greater Nile Oil Pipeline - GNOP), and one crude oil blend (high quality Nile Blend). Late 2006, a second pipeline came on stream, a major refinery expansion was realized, a second major upstream project began, producing a second crude oil blend (low quality Dar blend), in addition to important field developments elsewhere. The country's crude oil production almost doubled, making it Africa's fifth producer with more than 434.000 bbl/d by late 2006.

The focus for 2007 is on both exploration and development. The operators of the producing blocks are implementing aggressive exploration programs. With the companies wanting to achieve payback as quickly as possible, development of discoveries is likely to be prompt.

2.4 Infrastructure

All of Sudan's production fields are landlocked. The country is therefore dependent on its export infrastructure, regardless of prospectivity. The infrastructure of the industry is concentrated in the Northern part of the country, while most proven reserves are located in the South. In case the South will opt for secession after the 2011 referendum on self-determination, the North will have a considerable leverage over the South's sole independent source of income.

Refining

Refineries:

- Khartoum (50/50 joint venture between the Government and the CNPC, capacity of 100,000 bbl/d
- Port Sudan Refinery (21,700 bbl/d)
- Petronas has agreed to joint venture with the Government to build a new refinery in Port Sudan with capacity of 100.000 bbl/d to treat Dar Blend crude;

1 The oil industry is often divided into three major sectors: upstream, midstream and downstream. However, midstream operations are usually simply included in the downstream category. The upstream sector includes the searching for potential underground or underwater oil and gas fields, drilling of exploratory wells, and subsequently operating the wells that recover and bring the crude oil and/or raw natural gas to the surface. The midstream sector processes, stores, markets and transports commodities such as crude oil, natural gas and natural gas liquids such as ethane, propane and butane. The downstream sector includes oil refineries, petrochemical plants, petroleum product distribution, retail outlets and natural gas distribution companies. The downstream industry touches consumers through thousands of products such as gasoline, diesel, jet fuel, aso.

to be operational in 2009
- The small top-up refinery in Abu Gabra is planned for closure in 2007
- There are plans to build a refinery in Kosti

According to the Oil and Gas Journal, Sudan's refineries in Khartoum and Port Sudan had total combined refining capacity of 121,700 bbl/d as of January 2007.[1] In July 2006, CNPC announced the completion of the Khartoum refinery expansion project, which doubled the refinery's capacity from 50,000 bbl/d to 100,000 bbl/d. The Khartoum refinery processes Nile blend crude, which has a low sulphur content and high fuel-yield. The additional refinery capacity from the expansion should help alleviate the short supply of refined products available in Sudan, while giving the country some additional export capacity. The Port Sudan facility is located near the Red Sea and is Sudan's smallest refinery, with a capacity of 21,700 bbl/d.

In September 2005, a contract was awarded to Petronas to build a new refinery at Port Sudan, together with Sudapet. The refinery will be designed to process Dar blend crude, which has high-acid content and is found in Sudan's Melut basin. The refinery will have a minimum capacity of 100,000 bbl/d and could be operational in 2009. Petronas is joined with the Sudanese Ministry of Energy and Mining in a 50:50 partnership in the project.

All this will not be enough to absorb the country's growing acidic crude production. Sudan wants to boost Dar Blend output to 300,000 bbl/d by 2010 from 160,000 bbl/d. And Sudan may increase production of Fula crude. The 40,000 bbl/d Fula stream is absorbed by Sudapet's 100,000 bbl/d Khartoum refinery.

FIGURE 5 PIPELINES

Origin	Destination	Miles	Costs
Unity, Heglig, Kaikang fields (Blocks 1,2 and 4)	Port Sudan	994	$1.2 bln
Melut Basin (Block 3 and 7)	Port Sudan	870	$1.2 bln
Thar Jath and Mala fields (Block 5a)	Port Sudan	110	
Fula fields (Block 6)	Khartoum Refinery	460	$352 mln
Khartoum Refinery	Port Sudan	500	

Export Facilities

The completion of the Melut Basin Pipeline and the two spur wells to the GNOP in 2006 have unleashed important production potential in Blocks 3, 5A, 6 and 7. Total pipeline potential is in excess of one million bbl/d if all of the current pipelines were to be upgraded. The Melut Basin Pipeline has an initial capacity of 180,000 bbl/d, which can be boosted to 500,000 bbl/d. The capacity of the GNOP reached 310,000 bbl/d in March 2004 and was further increased to 400,000 bbl/d in December 2004 in anticipation of demand from Blocks 6, 5A and 4. Eventually, the pipeline could serve Blocks 5B and B, which are still in the exploration phase. The Block 6 spur pipeline could double its throughput, but is currently subject to restrictions by the Khartoum refinery's capacity.

Sudan is loading all of its 365,000 bbl/d crude exports through export terminal Bashayer 1, creating technical difficulties because of the difference in quality of Dar Blend and Nile Blend. Sudan is completing a second crude export terminal, Bashayer 2, which state-owned Sudan Petroleum Corporation SPC needs to boost exports of heavy sweet Dar Blend crude. Bashayer 2 will have a capacity of 500,000 bbl/d; well over current Dar Blend production of 170,000 bbl/d. The new facility will have 3 million barrels of onshore storage, 20 km South of Port Sudan on the Red Sea coast. After the completion of Bashayer 2, Sudan's existing crude export facility — the 450,000 bbl/d Bashayer 1 — will be used exclusively for exports of heavy sweet Nile Blend.

1 Energy Information Administration, Sudan Country Brief, April 2007, (accessed 30 August 2007).

2.5 Sudan's Potential

Sudan has proven oil reserves of 6.4 billion barrels, 32 times more than was estimated in 1981. Both reserves and production cover 0.5% of the world reserves and production.

Sudan is Africa's largest country and the tenth largest country in the world. Its only coastline is in North-East, whereas the main hydrocarbon reserves are located in the South. The country is divided into 23 prospective blocks that have all been awarded, with the exception of Blocks 10 and 12B. So far, the oil exploration has been limited to the central and South central regions, but the country may also have commercial reserves in the east and Northwest. Sudan remains largely unexplored. Intensive and comprehensive seismic data have been collected from a few areas only. No exploration commitment has been contractually imposed by the Government and the operating companies have concentrated on the most immediately promising areas, leaving other areas unexplored. On the other hand, the operators of the producing blocks are currently implementing aggressive exploration programs. With the companies wanting to achieve payback as quickly as possible, development of discoveries is likely to be prompt.

The average block size is immense: 61,000 km2, compared to 5,700 km2 for Libya and 1,500 km2 for Angola and Nigeria. Block B, for instance, covers 118.000 km2, which is about half the UK.

The only producing blocks are 1 through 7 of 23 in total. Except for the two off shore blocks in the red Sea, the remaining blocks look much less promising, even though little or no seismic research has been done. They are all leased by marginal and inexperienced companies. For instance, Zafir Petroleum has a stunning gross acreage of 315,722 km2 (Blocks 9 and 11), but has no previous operator experience. Among the non producing blocks, block B, also in the South, is the most promising.

Sudan's oil production will probably peak in 2008, but revenues may be maintained for another ten years at current levels, depending on the development of oil prices and whether the Dar Blend refinery will indeed be a price booster. The only prospective block that remains to be explored, Block B, will not come on stream before 2014 and may then partially compensate for the exhaustion of the fields that are currently producing.

2.6 Oil Reserves

FIGURE 6 SUDAN'S OIL RESERVES

Proven oil reserves[1]

Year	*Proven reserves (bln bbl)*	*Oil production (thousand bbl/d)*
1981	*0.2*	*0.0*
1991	*0.3*	*0.0*
2001	*0.7*	*211*
2005	*6.4*	*355*
2006	*6.4*	*397*

1 Source: BP statistical review.

Estimated commercial reserves vs. production. Proven reserves only, all from blocks 1, 2, 3, 4, 5a, 6 and 7 (in barrels)

December 2006	
Total recoverable reserves	3 bln
Remaining Reserves	2.23 bln
Estimated Production	617 thousand/d (2007)

Estimated commercial reserves on 31 December 2006 (in thousands of barrels)

	Total	Remaining
Block 1, 2 & 4 (GNPOC)	1.686.000	983.000
Block 3 & 7 (PDOC)	803.000	779.000
Block 5A (WNPOC-1)	175.000	168.000
Block 6 (CNPC/S)	331.000	299.000
Total	2.995.000	2.229.000

This estimate is based on expected production using existing technology. It deals with proven reserves only and does not take into account probability of new finds, for instance in the huge under explored blocks 5B and B. Some believe that the Melut Basin may in fact hold 1.3 billion recoverable barrels. British Petrol's (BP) estimate of 6.4 billion barrels proved recoverable reserves seems high.

GNPOC's production in Blocks 1, 2 and 4 reached its peak production of 328,000 bbl/d in 2005. Reportedly, GNPOC's policy to pump as much as possible as quickly as possible, has led to a loss of production potential. Unity and Heglig fields are in decline with produced water ratios exceeding 65%. On the other hand, the Neem field in block 4 that came on stream in July 2006 has offset most of the decline in production from the Unity and Heglig fields and, together with other, smaller new fields, will allow GNPOC to remain Sudan's main oil producing company for a few more years.

Exploration outside Upper Nile and Abyei (South-Kordofan) has been disappointing. Chevron's two dry wells in Block C were matched by five dry wells that Advanced Petroleum Company (APCO) drilled in 2005-6, leading to the withdrawal of Cliveden Ltd.

Parts of Block 6 (Chinese National Petroleum Company/Sudapet - CNPCIS) were relinquished in 2005 for lack of prospects to form the new Block 17. SUDAPAK 1 failed to find oil in Blocks 11 and 14, while WNPOC-3 in Block 8 did thus far not beat Chevron's 1982 small find of Dindir 1. The Suakin gas condensate structure in Block 15, discovered by Chevron in 1976, was then estimated to have potential reserves of 10 - 49 bcf of natural gas and 100 - 500 million barrels of condensate. However, recent re-appraisals indicate a less extensive pay zone. Blocks 12A and 14 are not highly prospective. The fact that the remaining open Blocks 10 and 12B, offer moderate prospects at best, concludes the modest outlook for the Northern part of the country.

Among the non-explored blocks, 5B (WNPOC-2) and B (Total-led consortium) potentially contain important commercial quantities. On the other hand, results in the Southern part of Block 7 (PDOC) and in the adjacent Ethiopian province Gambella have been disappointing, possibly backing up the suspicions of some geologists that the further South, the smaller the hydrocarbon (oil and gas) reservoirs.

2.7 Production

All of Sudan's proven commercial crude reserves are in the Muglad and Melut basins. The producing blocks are jointly operated and separate operating companies are created for the exploitation of the blocks. Staff distributions within the operating companies do not necessarily correspond with the distribution of ownership. Being mixed bags, the jointly operating companies are not always efficiently run.

Over 300 wells have been drilled in Sudan since the early 1960s. Around 200 of these have encountered hydrocarbons, giving an average technical and commercial success rate of around 60%.

FIGURE 7 SUDAN'S OIL PRODUCTION AND CONSUMPTION 1980-2005

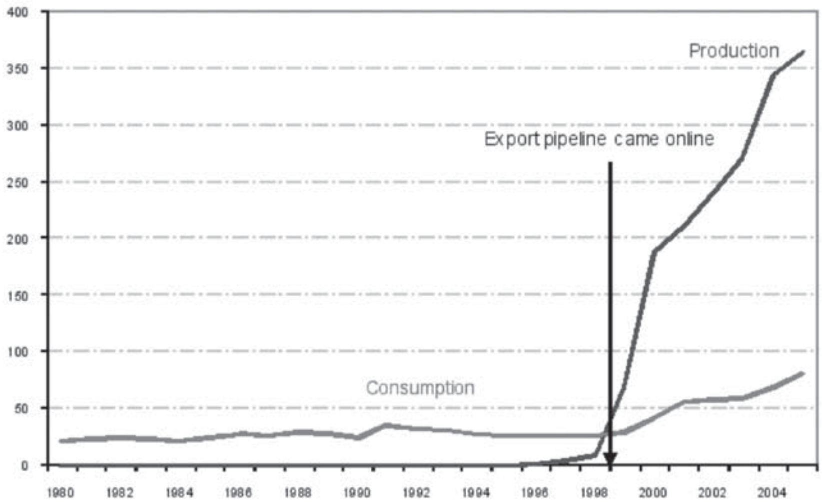


FIGURE 8 PRODUCTION OF OIL CRUDES, 2006 (in barrels per month)[1]

Blocks	1a	1b	2a	2b	4	5a	3 & 7	Total
January	4.024.850	1.917.819	502.088	1.325.312	419.548	-	-	8.189.617
February	3.303.465	1.694.828	410.057	1.164.130	360.927	-	-	6.933.407
March	3.625.269	1.987.393	466.555	1.260.840	457.096			7.797.153
April	3.442.200	1.932.788	481.051	1.197.721	406.939			7.460.699
May	3.416.926	1.855.272	489.069	1.263.966	360.670			7.385.903
June	3.369.552	1.813.090	432.495	1.221.614	295.662			7.132.413
July	3.420.893	1.731.791	503.486	1.255.258	963.204			7.874.632
August	3.443.739	1.782.971	535.018	1.234.095	1.128.153			8.123.976
September	3.325.042	1.768.904	505.613	1.128.971	1.109.039			7.837.569
October	3.296.315	1.703.991	513.466	1.132.906	1.319.022	734.735	5.505.180	14.205.615
November	3.050.819	1.664.793	491.704	1.298.675	1.298.675	635.558	5.155.147	13.412.001
December	3.091.697	1.701.861	516.526	1.329.635	1.329.635	696.959	5.207.089	13.684.497
Total	40.810.767	21.555.501	5.847.128	9.448.570	9.448.570	2.067.252	15.867.416	110.037.482

1 Bank of Sudan.

FIGURE 9 ESTIMATED AND EXPECTED OIL PRODUCTION (in thousands of barrels/day)

Estimated Oil Production 1997-2006

Blocks	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
1, 2 & 4 (GNPOC)	6	6	52	194	219	245	268	291	328	316
3 & 7 (PDOC)	-	-	-	-	-	-	-	-	-	66
5a (WN POC-1)	-	-	-	-	-	-	-	-	-	19
6 (CNPC/S)	2	2	2	2	2	2	2	13	18	33
Total	8	8	54	196	221	247	270	304	346	434

Expected Oil Production 2007-2016

Blocks	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1, 2 & 4 (GNPOC)	318	310	308	287	250	221	195	171	148	131
3 & 7 (PDOC)	180	180	180	180	180	180	180	180	152	121
5a (WN POC-1)	50	60	54	46	39	33	28	24	20	17
6 (CNPC/S)	69	96	92	81	72	64	57	50	44	38
Total	617	646	634	594	541	498	460	425	364	307

FIGURE 10 KEY FIELDS CAPITAL EXPENDITURES (in millions of US Dollars, in 2007 terms) 1997-2016[1]

	GNPOC	GN Oil Pipeline	PDOC	WNPOC-1	CNPC/S	Total
1997	96	57				153
1998	170	321				491
1999	406	492				898
2000	95	42				137
2001	220	41				261
2002	228	74				302
2003	167	72	145			1521
2004	65	109	1021	43		1531
2005	147	53	420	278		1161
2006	144	51	185	338		952
2007	168		185	108	80	541
2008	168		133	31		332
2009	168		51	10		229
2010			31	2		36
2011			21	10		31
2012						
2013	84				51	135
2014			72	10		82

1 Wood Mackenzie

2.8 Costs

Pipeline transportation tariffs Heglig-Port Sudan are between $4 and $6 per barrel. Operating costs are estimated to be between $1/bbl and $3/bbl.
Due to absence of independently verifiable data and the alleged occurrence of non-measurables (artificial pricing, non-competitive tendering, off-budget payments, and politicized deal-making and contracting routines), these figures are estimations only. The expenditures by GNPOC and for the GNOP seem particularly low, considering the enormous efforts that were made in a short time span.

2.9 Oil Export

FIGURE 11 OIL EXPORTS[1]

Export of Petroleum and Petroleum Products and total export earnings (in thousands of US Dollars)

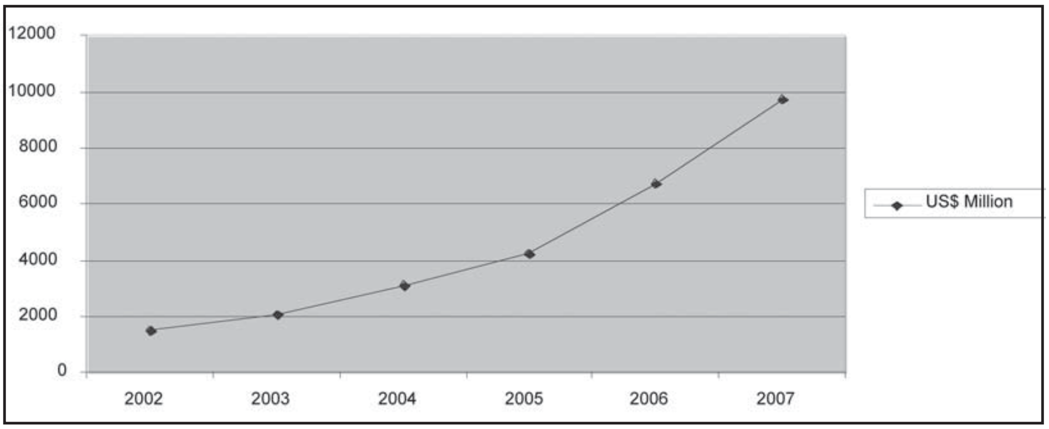
Year	Petroleum and Petroleum Products	Total export earnings
2005	4.187.300	4.824.300
2006	5.087.200	5.656.600
Jan-Sep 2007	5.677.600	6.027.000

Petroleum Exports January - March 2006 (in thousands of US Dollars)

	January	February	March	Total
Crude Oil	319.951	304.176	352.908	977.035
Refined Oil	19.802	45.585	35.993	101.380

Differing figures exist however. According to official trade statistics as reported to the Global Trade, in 2006 Sudan shipped 124,000 bbl/d of its crude exports to Japan, and China's import of Sudanese crude exports averaged only 99,000 bbl/d.[2]

FIGURE 12 OIL EXPORT 2002-2007 (in millions of US Dollars)



1 Bank of Sudan.
2 Information Administration, Sudan Analysis Brief, April 2007 (accesses 30 August 2007).

2.10 Exploration and Production Sharing Agreement

The Government of Sudan has signed Exploration and Production Sharing Agreements (EPSAs) with the companies. In this type of contract a part of the produced oil, Cost Oil, pays for the costs of exploitation, while the remaining part, Profit Oil, is split between the Government and the companies. The 1997 contract between the Government and a consortium of CNPC, Petronas and ONGC for the exploitation of Blocks 1, 2 and 4 in Western Upper Nile, has this split:

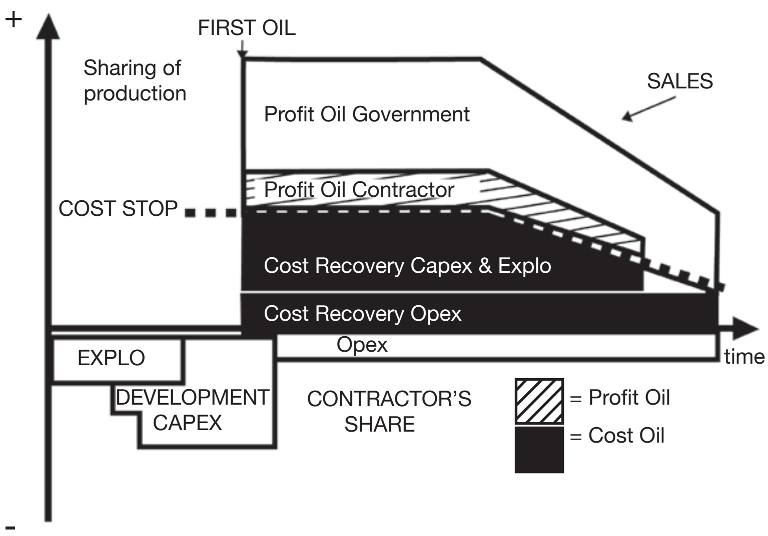
FIGURE 13 PREVAILING SPLIT IN THE GNPOC CONTRACT[1]

Average Daily Production (bbl/d)	Government share	Companies share
Up to 25.000	*60%*	*40%*
Between 25.000 and 50.000	*70%*	*30%*
Above 50.000	*80%*	*20%*

Typical marginal Government take in Sudan from US Dollars 100 million og gross revenues from a 100.000 + b/d field[2]

Gross revenues	*100*
Cost Oil limit	*40*
Company cost recovery	*15*
Excess Cost Oil to Government	*25*
Profit Oil pool	*60*
Company % Profit Oil (20%)	*12*
Government % Profit Oil (80%)	*48*
Total Company take	*27*
Marginal Government take	*73*

FIGURE 14 OIL REVENUE SPLIT[3]



1 Wood Mackenzie 2006.
2 Wood Mackenzie 2006.
3 Wood Mackenzie 2006.

2.11 Profits

The Sudanese oil industry is exceptionally profitable because oil companies are exempted from paying taxes in Sudan. These conditions may have been quite reasonable in 1997. The main Sudanese oil contracts were negotiated in the 1990s, when oil was being traded for less than $20 per barrel and Governments had to offer lucrative conditions to attract investments. It makes a big difference, however, whether the companies' share of 20% to 40% of the Profit Oil is sold at $20 or $60 per barrel. Oil is now traded at 90$ per barrel and more, boosting profits for the companies and leaving the Government of Sudan with too small a share. The financial results of ONGC Nile Ganga BV show the enormous increase in profit.

FIGURE 15 ONGC NILE GANGA B.V. ACCOUNTS AS DEPOSITED WITH THE AMSTERDAM CHAMBER OF COMMERCE (in thousands of Euro's)

	2005	2004	2003	2002	2001	2000	1999
Turnover	1,037,364	760,033	587,888	554,474	459,844	472,014	85,237
Costs	739,682	562,185	417,659	357,260	297,798	294,473	58,543
Operating profit	297,682	197,848	170,229	197,213	162,046	177,542	26,694
Financial income	6,937	13,008	12,392	17,924	0	2,696	0
Financial expense	2,758	0	1,048	0	9,533	10,858	11,690
Financial Profit	4,179	13,008	11,344	17,924	-9,533	-8,162	-11,690
Profit before taxation	301,861	210,856	181,573	215,137	152,513	169,379	15,004
Taxation	92,843	60,009	51,873	53,793	47,884	45,775	6,531
Statutory payments	209,018	150,847	129,700	161,344	104,628	123,604	8,473
Net profit	**209,018**	**150,847**	**129,700**	**161,344**	**104,628**	**123,604**	**8,473**
Cash-flow	270,014	208,526	182,823	219,273	153,904	175,442	21,712
EBIT	297,682	197,848	170,229	197,213	162,046	177,542	26,694
EBITDA	358,679	255,526	223,352	255,142	211,322	229,380	39,934

FIGURE 16 THE COMPOSITION OF ONGC NILE GANGA B.V. 'S INCOME AND EXPENSES AS DEPOSITED BY THE COMPANY AT THE AMSTERDAM CHAMBERS OF COMMERCE (in thousands of US Dollars

		2005	**2004**
Income			
	Net turnover in oil sales	*1,296,705*	*950,041*
	Pipeline Revenues	*75,842*	*76,920*
	Financial charges	*5,224*	*16,260*
Total income		***1,377,771***	***1,043,221***
Expenses			
	Royalties to Government	*824,410*	*627,882*
	Net operating expenses	*72,299*	*62,282*
	Depletion and amortisation	*55,048*	*51,941*
	Depreciation	*21,198*	*20,157*
	Dry Hole	*20,050*	*6,269*
	Exploration	*6,800*	*10,221*
	Technical and administrative support fee	*640*	*899*
Total expenses		*1,000,445*	*779,651*
TOTAL PROFIT		*377,326*	*262,570*

ONGC Nile Ganga BV is a 100% subsidiary of ONGC Videsh Ltd. It is a 25% partner to the GNPOC and WNPOC1 consortiums, which is its only activity and source of income. Based on its financial results (figure 15), the total 1999-2005 profits for CNPC, Petronas and ONGC in Block 1, 2, 4 and 5A would be in the order of EUR 4,7 billion, all taxable outside of Sudan, as the companies are not obliged to pay any tax in Sudan.

Nile Blend crude having being sold in 2006 for $60, compared with $50 in 2005, and production having risen, 2006 must have brought in even higher profits than 2005. Still higher prices in 2007 will be bringing even higher profits, probably between $1.5 and $2 billion for Blocks 1, 2, 4 and 5A only, all taxable outside of the country.

In comparison, the total share in all oil revenues for GOSS will probably be around $1.3 billion. It will be costly to address the oil industry's social and environmental problems. It will also be costly to implement issues like compensation, local development and consultation. There is enough money for all that, but it is being taken out of the country.

The Government of Sudan can try to change the split in revenues, but the companies will probably consider that as too fundamental a change and oppose it vehemently. Instead, the Government could lift the tax exemption clause. Taxing the profits with 30% in Sudan instead of in the Netherlands, Malaysia or China would immediately bring in hundreds of millions. The Government could, in addition, introduce a progressive oil tax that creams off excessive profits.

2.12 Revenue Sharing

According to the CPA, 2% of the net revenue from oil should be allocated to the various oil-producing states in Sudan. The rest of the oil revenues from the oil fields located North of the North-South boundary line go directly to the GONU, while the oil revenues from oil fields located in Southern Sudan are equally divided (50:50) between the GONU and the GOSS.

Current allocation of oil revenues from producing oil blocks:

Block 1: 100% from South
Block 2: 100% from North
Block 3&7: 100% from South
Block 5A: 100% from South
Block 6: 100% from North

FIGURE 17 GOSS EXPORT REVENUE SHARE, 1ST HALF OF 2007 (in millions of US Dollars)[1]

Month	Q Export (bbl)	Total Export Revenue	Transportation cost (Export+ Local)	Net National Government Revenue	Net Available for Distribution after states share 2%	GOSS revenue share (50%)
January	5.055.697	219.10	27.30	191.80	187.96	64.50
February	4.273.284	144.74	34.33	110.41	108.20	39.98
March	2.531.505	65.60	29.61	35.99	35.27	15.92
April	5.802.319	188.02	33.62	154.4	151.31	58.16
May	6.190.142	303.66	36.95	266.71	261.38	87.37
June	5.287.340	247.41	37.02	210.39	206.19	78.76
Total	**29.140.287**	**1.168.54**	**199.52**	**969.02**	**949.63**	**344.69**

FIGURE 18 GOSS REVENUES FROM NONE-EXPORTED CRUDE, 1ST HALF OF 2007 (in millions of US Dollars)[2]

	Actual Quantities (million bbl)	Average FOB price in previous month	Total Calculated revenue	Administrative Fees (Export+ Local)	Available Revenue after Deduction of Administration Fees	Revenue Available for Distribution less (2%)	Of oil produced in south	GOSS (Net Share) "50%"
January	1.962	56.60	111.05	14.30	96.75	94.81	60.52%	28.70
February	1.670	49.16	82.10	11.73	70.37	68.96	59.97%	20.68
March	2.000	56.59	113.18	16.78	96.40	94.47	60.57%	28.61
April	1.892	58.36	110.42	19.02	91.40	89.57	59.94%	26.84
May	1.918	65.0	124.67	14.62	110.05	107.85	60.59%	32.67
June	2.010	66.17	133.0	13..38	119.63	117.23	59.33%	34.78
Total	**11.452**		**674.42**	**89.83**	**584.59**	**572.9**		**172.28**

1 Bank of Sudan.
2 Bank of Sudan.

2.13 Nile Blend versus Dar Blend

Sudan has two sorts of crude. They are different in quality and price. Sudan's Nile Blend crude is sold at much higher prices than Dar Blend crude. Figures show that Dar Blend crude, found in the Melut Basin East of the White Nile, is making low and extremely variable prices, from $40 to $1.76. This is quite remarkable and not well explained. Disappointing revenues from the blend have obliged the GONU and GOSS to painful adjustments to their 2007 budgets.

Dar Blend is heavy paraffinic and has to be transported heated at about 45-50°C in order to avoid congealing in the ship tanks. This is a penalty for the potential customers. In addition, it is a high acid crude that will erode ordinary refinery metalwork. To refine it, equipment must be upgraded. Yet in addition to that, Dar Blend has a high Arsenic content. This is a pollutant for refinery catalysts, making it unacceptable for many customers. The fuel content of Dar Blend is high, some customers are blending it with other component in order to sell the blend as fuel oil. As an order of magnitude, the price of fuel oil in Asia is around 15 to 20 $/bbl lower than crude oil.

Dar Blend is now priced at $25-28/bbl below Nile Blend, and sometimes even considerably less. This is still low compared with other acidic grades, which trade at much smaller discounts. Chad's Doba crude, although more acidic than Dar Blend, trades just $15-23/bbl higher than Dar Blend.

Part of the reason for Dar Blend's larger discount may be explained by the absence of US buyers. Small volumes of Doba can be refined at Chevron's 325,000 bbl/d Pascagoula refinery in Mississippi, and by ExxonMobil and US refiner Sunoco. But US firms — and foreign firms with US assets — will not use Dar Blend. US sanctions Sudan's oil sector, leaving Dar Blend producers with fewer outlets.

A refinery will be built in Port Sudan to treat Dar blend. The project is grossly over due. The characteristics of Dar Blend have been well known for many years and the belated construction of a custom refinery may be costing the country billions of dollars. Meanwhile, 2007 has seen rising prices for Dar Blend. This could be a sign that the market is adjusting to its peculiarities.

3 KEY ISSUES

Sudan has been tormented by civil wars since its independence in 1956. In the struggle between the Sudanese Government and SPLM/A about two million people died and four million were forced to leave their homes. For over two decades, oil stood at the centre of warfare. During the last years of the war, when oil production started, the oil fields became the main battlegrounds and thousands of people were killed or forcefully displaced from their homes.

The signing of Sudan's CPA between the Government of Sudan and the SPLM/A in 2005, ended war in the South, but three years after signing, the CPA is in great danger. All points of contention relate to oil, including the North-South border demarcation, withdrawal of troops from the oil fields, oil revenue sharing and transparency, and the industry's dramatic social and environmental record which are undermining popular support for the peace agreement. The large economic growth over the last few years has made a small Northern elite very rich, but most Sudanese people have seen nothing of it.

The CPA provides a solid framework for the management of the oil industry in Sudan, but these provisions have not been fully implemented. The GONU and GOSS are to blame for not setting any standards and effectuating any enforcement mechanisms. The companies are to blame for not taking any responsibility for the well-being of the country and its population.

3.1 Destruction and Displacement

"Guarding the oil is the soul responsibility of the People Armed Forces. Work for evacuation of all the other forces from the routes leading to oil exploitation and roads. Also relocate all civilians to inside towns."

21/11/97, Secret SI/4/2345, From Khartoum Commander (Sudan Intelligent) to Bentiu Forces Command and El-Obied Operation Command[1]

Forced removal of inhabitants in and around the oilfields in Southern Sudan has been standard practice during the 1983-2005 war. Reports by Human Rights Watch, Amnesty International, ECOS, and other organisations show oil-related death, destruction and displacements at awesome scales in Western Upper Nile and Northern Upper Nile. Hundreds of thousands of people were violently displaced, their villages emptied and houses burned down. Around Paloich in Northern Upper Nile, cases have been documented of entire villages being dug out to obtain sand for the oil roads. Even the ancestral graves disappeared into the new roads. To secure the oil fields, tens of thousands of people were killed, maimed or wounded, women raped, boys and girls abducted. Many of the displaced still live in dire circumstances, some in the desolate slums of Khartoum, others in local centres like Bentiu. Yet others have returned and are rebuilding their lives.

The main aggressor, the Government of Sudan, used artillery, helicopter gunships, high-altitude bombers, regular units of the SAF, Bagarra units, Muraheleen militias and a variety of Nuer and other Southern armed forces to clear the oil areas. They killed people randomly by the thousands, stole their cattle and mined their villages.

The oil companies did nothing to prevent the massive crimes being committed for their own security. In many instances they provided logistic support for the Government offensives.

1 Talisman court case documents, found in US court district of Manhattan.

3.2 Compensation

"No action has yet been taken on compensation of victims of oil contracts provided for in the wealth-sharing agreement." *CPA Monitor, May 2007*

The CPA introduces the principle of compensation for people whose rights have been violated by oil contracts by the signatories of those contracts, the companies and the Government. This should happen through legal process, but there are no functioning courts in Upper Nile, nor lawyers or public prosecutors. However, companies have their own responsibility. The CPA being the basis of the constitution of the country, they are obliged to uphold its spirit. Peace being the prerequisite of their business, one would expect them to be eager to contribute to its success. But they don't. No single company has ever shown true compassion with the victims. No company has made an effort even to assess the level of suffering and destruction that has been inflicted upon these people to secure its operations.

Without support from the people, the CPA has little chance of success. The Government and the companies have failed to win that support among the Nuer and Dinka populations in the oil areas. They have chosen to perpetuate the injustices that they have inflicted rather than to support the principle of compensation that the constitution of the country calls for.

3.3 Deep Poverty, no Service, no Employment

"We have heard about peace, but seen nothing. I want to see a big hospital, schools, roads, free movement to Malakal and Renk without Government militias on the way. The CPA means employment, no hunger, hospitals and schools, no fear and UN troops on the front lines to monitor the ceasefire and the oil. Then there will be peace."

Chief Chol Nul, Payuer, 25 April 2005

The population in most oil areas is extremely poor. Very few people live on more than $1 a day. Data available from nutrition surveys conducted in Melut County, Northern Upper Nile, indicate persistent food shortages, with Global Acute Malnutrition (GAM) rates of 20.5% in May 2002 and 28.1% in April 2005. In acclaiming the discovery of the Paloic oil fields as one of its greatest achievement of 2003, CNPC stated that 'the discovery cost per barrel is much lower than that for big international oil corporations, yielding both high exploration and social benefits.'[1] All available evidence, however, indicate that the development of the oil-rich Melut Basin has brought little or no substantial social benefits and in fact has taken large parts of the Dinka population backwards.

Before 2001, the village of Paloic in Northern Upper Nile was small, with a clinic run by foreigners and free treatment for the poor. Today's clinic is larger and better equipped, but inaccessible for most of the local population. Despite the influx of thousands of displaced, in 2006 there was only one small school in Paloic, composed of four straw huts. The school was Islamic, its pupils not. Absence of safe drinking water is a major health hazard. Of all drinking water, 75% is taken directly from the Nile and its tributaries. In 2006, locals identified 32 oil wells in and around the town and more than hundred in the wider area, while village chiefs claimed that they are not aware of a single bore hole having been drilled in the areas where the consortium operates since 2001.[2] Production areas have electricity, but places where people live, rural settlements and camps for displaced have none.

Community Development by oil companies in Sudan is characterized by small scale construction of building for schools and clinics. No needs assessments are known to be carried out, no development potential analysed. The Community Development programmes do not even seem to be primarily designed to serve the needs of the people. For instance, in Beny/New Paloich in Northern Upper Nile, Petrodar built a police station, a mosque (even though the vast majority of the indigenous people are non-Muslim), a school and a clinic, both of which stand empty. Like most projects by oil companies, they have been built at the request of Military Intelligence and conform the priorities of that organisation, not of the population.

1 CNPC website http://www.cnpc.com.cn/englisch/rd/Achievement.htm (08 May 2005).
2 Interviews with chiefs in Northern Upper Nile, April 2005.

Oil companies do provide water for people from their tankers or water pipelines at certain key installations, including Paloich airport, but they cut the supply if there is any problem with the local community, for instance when there were tensions over jobs in January 2006.[1] In March 2006, ECOS researchers witnessed tankers dumping water into old oil drums by the side of the dusty road between Paloich and Melut, and people dipping their plastic jerry-cans into the open drums to obtain water; hardly the most hygienic of practices.

The companies employ no educated Southerners and routinely dishonour working contracts. GNPOC and Petrodar recruit Southerners for the lowliest jobs only. They are not given any training and are not allowed to stay in the same job long enough to obtain any skills; they are frequently re-assigned and rotated from job to job.

3.4 Environmental Impact

"During the years that we were attacked, I saw the oil company construction crews building an all-weather oil road from Rubkona toward Nhialdiu village. The oil company construction crews had a military escort. The troops would go ahead of the oil company construction crews to clear the area of all people and then the oil company construction crew would follow. A military garrison was built in the western part of Nhialdiu village along this road."

Chief Gatluak Chiek Jang, Nairobi 2006

Environmental laws and regulations in Sudan are outdated and extremily poorly enforced. The government does not monitor the environmental performance of the oil industry, even though most companies involved are known to apply very low, if any, environmental standards of their own. Environmental Impact Assessments are legally required, but once completed, they are shelved and kept secret.[2] The government has no systems for damage control in place in case of a major environmental disaster. Sudan has about 150 Acts, Orders and related regulations governing environmental issues. The Sudan Environmental Policy Act (2001) is the most recent and relevant, but remains without by-laws or real law enforcement capabilities. There are at least 81 Governmental institutions belonging to 17 different Central Government Ministries that are linked to the environmental laws. The regulations are paper tigers and the officials lack the will and/or capacity to enforce them.

The industry has constructed thousands of kilometres of pipelines and roads in unspoiled and extremely vulnerable nature, like the famous semi-permanent swamps around the White Nile. Elevated roads were built for heavy traffic in the dry season, but no effective measures were taken to prevent serious hydrological disturbances. The roads have brought benefits to the people, like public transport, access to markets, and mobile network coverage. However, satellite imagery confirm that many roads are effectively acting as dams and preventing the natural flow of water. This leads to flooding in some areas and drought in others. Local people complain that the restrictions on natural water-flow patterns have damaged breeding patterns of fish.

In addition, oil has come with heavy deforestation. The oil industry has opened up enormous areas for poaching and looting. By 2004, an estimated 576 million trees, mostly Acacia, had disappeared in the Blocks 1, 2 and 4 alone.[3] Most of the illegally logged wood is turned into charcoal either for consumption in Khartoum and other cities, or for export to the Middle East.

Oil is always pumped together with water and they must be separated. The better the applied techniques and chemicals, the more expensive they are. The GNPOC consortium in Western Upper Nile is known to discharge large quantities of contaminated water onto the surface, much to the chagrin of the agro-pastoralists in the area. It is not potable for humans, unfit for animals and too filthy for irrigation. In most oil areas there is no proper sewage treatment. Flare pits, drilling pits, sewage pits and garbage pits are left behind without care. In 2006,

1 Interview with Hon Lela Ajout Along, MP for Melut and renk, 5 march 2006.
2 Asim El-Moghraby, in: ECOS, Oil and the Future of Sudan, Report of a Conference in Juba, 1-2 November 2006, p. 33.
3 ECOS, Oil and the Future of Sudan, Report of a Conference in Juba, 1-2 November 2006, p. 21.

for example, oil companies dropped sacks of poisonous drilling chemicals in the open in Koch area in Block 1, resulting in deaths. Thinking that this stuff was salt or sugar, some local people tasted it and died instantly. People in Koch also complained about unexplained death of animals.

3.5 Revenue Sharing and Transparency

"The organic and external mechanisms provided for its implementation clearly show that it would be extremely difficult for any party to the CPA to dishonour or abrogate it and, if it happens, it will tantamount to constitutional disorder with far repercussions on the unity and peace in the Sudan and regional stability. And for the entire economy."

Luka Biong Deng, Minister for Presidential Affairs, GOSS, Statement before the United States Congress Subcommittee on Africa and Global Health, House Committee on Foreign Affairs, Washington, 24th January, 2007

The CPA entitles the GOSS to 50% of all oil revenues produced in the South (after the producing state receives 2% and a deduction for the Oil Stabilization Fund). But the production figures that the Government gives, cannot be verified. There is suspicion that real production figures are higher and that the Government is stealing a lot of money from the South. The GOSS considers this a major point of contention; understandably as oil is its only independent source of income.

An additional problem is the oil price paid by the national refineries. Being at least $10 under the export price, one wonders who cashes in on the difference: the consumers, the Government, oil companies or traders?

The entire industry is obscure. The agreements between the Government and the companies on production rights, contracts, refineries, and pipelines are secret; the country's oil production is not independently verified; the companies do not report on anything, but are known to make excessive amounts of money out of the country, probably in aggregate well over $2 billion in 2007.

3.6 Contested Blocks

The CPA gives the SPLM/A access to existing contracts but bars renegotiation of any contract that pre-dated the CPA. The Government in Khartoum rejects the right of GOSS to sign new oil contracts and grant concessions, which is the sole responsibility of the NPC.

In 2004, the non-recognized SPLM/A administration in the South transferred the exploitation rights of the massive Blocks B, 5B and C to a newly formed company Nile Petroleum (NilePet), despite the fact the B and 5B had already been contracted out by consortiums led by Total and Petronas respectively. Just prior to the signing of the CPA, NilePet signed an agreement with a London-based shell company, White Nile Ltd for the most promising parts of Block B, and with the Moldovan company Ascom for Block 5B.

In July 2007, the NPC settled the dispute over Block B in favour of the Total led consortium, at the expense of White Nile Ltd. The consortium is currently seeking to replace the US company Marathon Oil, which has decided to leave Sudan. The composition of the consortium that is exploiting Block 5b is under renegotiation, following the decision by the NCP to settle the dispute over the block through compromise, awarding NilePet and Ascom a right to farm into the block. The decision marks an end to the scramble for Sudan's oil rights.

Box 2. Total versus White Nile

Block Ba (67.000 km2) was licensed to the French oil company Total by the Sudanese Government in 1980. The company was paying $1.5 million a year to the Government for the right to keep its non-producing block and renegotiated its agreement with Sudapet in December 2004, agreeing upon a large share of the oil revenues for the Government. Officials in the South, however, barred Total executives from entering the company's claimed concession area and were keen to develop a domestic oil industry. Upon the disfunctioning of the NPC, in early March, 2005, GOSS granted a 60% stake to British company White Nile in Block Bb, the remaining 40% being held by South Sudanese company Nilepet.

In December 2004, Total renegotiated its 1980 agreement with Sudapet and agreed upon a large share of the oil revenues for the Government. It promised to take account of new international standards, particularly in relation to corporate social responsibility. All those years the French oil company had been paying $1.5 million a year to the Government for the right to keep its non-producing block.

The autonomy, which the South had after the signing of the peace deal in January 2005, and the absence of a national oil policy adjusted to the new circumstances, complicated this. The GOSS is keen to develop a domestic oil industry. In early March, 2005, the press announced that the Southern rulers had granted a Block Ba to the South Sudanese company Nile Petroleum Corporation or Nilepet. Nilepet is wholly owned by GOSS. Its directors are Bullen Bol, Kuol Manyang Juuk and Simon Kun Puoch, all South Sudanese. Nilepet entrusted the concession to White Nile, a company registered at Guernsey, UK, in February 2005. This concession overlaps a substantial part of block B, which is precisely the area covered by Total's updated agreement with the Government in Khartoum, where the company is planning to resume operations.

In July 2007, the NPC finally settled the dispute over Block B in favour of the Total led consortium, at the expense of White Nile Ltd. The consortium is currently seeking to replace the US company Marathon Oil, which has decided to leave Sudan.

3.7 Border Demarcation

Wealth sharing remains stalled by boundary disputes. A North-South Border Commission has been established, which is yet to come with a decision on where the border between North and South Sudan lies. The ruling NCP and GOSS dispute whether the Heglig field, which produces 37% of Sudan's oil, is in the North or South; and in the current stand-off, the GOSS is not receiving 50% of Heglig revenues. Disputes persist over other fields in the Melut Basin. The district of Abyei is another potential flashpoint, and the results of an Abyei Boundary Commission (ABC) report were rejected by the NCP.

Box 3. Dispute over Abyei[1]

The dispute over the Abyei region is the most volatile aspect of Sudan's 2005 CPA and risks unraveling that increasingly shaky deal. The CPA granted the disputed territory, which has a significant percentage of Sudan's oil reserves, a special administrative status under the presidency and a 2011 referendum to decide whether to join what might then be an independent South. However, in violation of the CPA, the ruling NCP is refusing the "final and binding" ruling of the ABC report, leaving an administrative and political vacuum. Negotiations between the NCP and the formerrebel SPLM/A are stalled, and both sides are building up their military forces around Abyei.

Oil plays a key role in the dispute over Abyei. After 1999, Sudan's production took off. About 181,000 bbl/d was achieved in 2000, the GNOP's first full year of operation, with steady increases in all the fields of the concession until around 2003, when production was about 262,000 bbl/d. During this time, production began at fields in Block 4, a large portion of which is also in Abyei. By 2003, more than one quarter of Sudan's oil production was coming from Abyei. Since then, production at most of the fields in the concession has begun to decline, including all the fields within Abyei.

1 International Crisis Group, Sudan: Breaking the Abyei Deadlock, Africa Briefing Nº 47, 12 October 2007.

Abyei's relative importance to Sudan's oil sector has also declined. From over a quarter of all oil production in 2003, it will likely be less than 8% in 2007. If Abyei's remaining oil reserves are likely to be very small by 2011 relative to other Sudanese reserves, Abyei may become a lesser bone of contention between Khartoum and any possible future independent government in the South. Regardless of production however, Abyei will remain important because of its pipeline infrastructure. Not only Block 1 but also Block 5A, where the Thar Jath field came online in August 2006, is reliant on the GNOP across Abyei.

What happens in Abyei is likely to determine whether Sudan consolidates the peace or returns to war. Progress there would unlock a broader set of problems challenging CPA implementation, just as renewed violence would likely break the CPA. The absence of a local administration and any implementation of the protocol is leading to mounting tension. The political dialogue is at an impasse. To protect Sudan's fragile peace, the Abyei Protocol should be implemented. As the NCP's position is based on its interest in Abyei's oil, a breakthrough is unlikely until that question is dealt with in a transparent way. Pressure is needed for the NCP to accept the "final and binding" ABC report but creative thinking is also required to help the regime cope with the revenue sharing payments due to Abyei from that oil.

3.8 Darfur

Blocks 12, 6 and C are (partially) located in Darfur. Oil prospects in Darfur are small. Chevron drilled several dry wells in the 1980s. APCO drilled another 5 dry wells in 2005 and 2006. In 2006, the CNPC decided to sell its share in a part of Block 6 for lack of prospects. The relinquished areas formed a new Block 17, which the Government leased out to a minuscule oil company from Yemen. Block 6 covers the South-eastern corner of Darfur, the western part of Southern Kordofan and parts of Bahr el Ghazal. The only oil production in Darfur has been around Abu Gabra in Southern Darfur (since 1993), around 15.000 bbl/d. In 2006, the small refinery at Abu Gabra was closed down, and the oil is now trucked to the pipeline at Fula. Most fighting in Darfur has taken place far from the oil area and oil reserves are definitely not a driving force behind the horrific war in Darfur.

3.9 Divestment or Engagement

The scandal of Darfur has political root causes. Private companies that are working in Sudan, while not bearing any direct responsibilities, cannot ignore massive human suffering. They have a moral and legal obligation to mobilize their potential to put an end to crimes against humanity occurring in their environment. Darfur is not an isolated case of local conflict. Its settlement can only take place in the framework of Sudan's Comprehensive Peace Agreement, which forms the basis of the constitution of the country. The CPA also directly addresses the private sector on issues like compensation, land rights, non-discrimination, environmental protection, creating an enabling environment for peaceful development, and the redressing of regional imbalances. In addition, there is a very strong business case to make a success out of the CPA. If the country falls back to large scale violence, the business sector will face huge losses. Unfortunately, few if any of the country's major players show any awareness of their responsibilities, make no serious effort to build a social support basis, and seem to bank on cozy relations with the ruling elite only. Naturally, many international investors do not wish to be associated with such blatantly irresponsible behavior. While the US-based Divestment Campaign is overstating its cause when arguing that divestment stands a good chance to cause an end to the war in Darfur, it rightly argues that companies cannot hide behind the back of abusive governments and have a responsibility to commit themselves to the CPA. Ideally, investors would engage with companies and convince them to take decisive action on promoting the provisions and purpose of the CPA. If that doesn't work, investors who want to make money peacefully will have to divest, even though that would not make much of a difference for the Sudanese people anymore.

3 ECOS BUSINESS PRINCIPLES

"Private companies operate in many conflict zones or conflict-prone countries. Their decisions - on investment and employment, on relations with local communities, on protection for local environments, on their own security arrangements - can help a country turn its back on conflict, or exacerbate the tensions that fuelled conflict in the first place."

Kofi Annan to the Security Council, 15 April 2004.

ECOS has developed a set of business principles to guide the oil industry in Sudan during the interim period until the referendum takes place in 2011, towards responsible management, conducive to the success of the CPA.

Introduction

Sudan's January 2005 CPA opened the way for strong economic growth. It opened up many opportunities for private enterprises to contribute to a peaceful development of the country, while achieving their economic objectives. The question is, how to do that.

The upstream oil business stands out for having been at the centre of warfare and gross human rights violations for many years. A CPA will not immediately solve all of Sudan's ills and companies will have to do more than respecting national law and regulations. Solid companies have a strong social and economic basis; to build that in Sudan, they will have to seek partnerships for conflict prevention, peace building and post-conflict reconstruction.

The list of pressing issues is long in Sudan. We chose to prioritise those that are directly related to business concerns and where private actors can make a difference: human rights, peace and security, non-discrimination and accountability.

BUSINESS PRINCIPLES FOR SUDAN DURING THE INTERIM PERIOD

A Principles

1. Within the company's sphere of activity and influence, promote, respect and protect human rights and fundamental freedoms, including social, economic and cultural rights, land rights, and the rights and interests of indigenous peoples, minorities, and other vulnerable groups.
2. All business activities are assured to be conductive to peace and equitable development, and to the realisation of the provisions and purpose of Sudan's Peace Agreement.
3. No discrimination on the basis of race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status, while actively promoting that the local population sees itself equitably represented, at all levels, in the local work-force.
4. Combat bribery, extortion and all other forms of corruption.
5. Within the company's sphere of activity and influence, promotion of transparent and accountable public financial management.

B Activities

1. Prior to any investment decision and at regular intervals, the company will assess its impact on and contribution to the communities that surround its operations and the wider society, with re gards to development, peace, security, human rights – including social, economic and cultural rights – and the environment, taking into account it's impact on the physical and economic security of the population, on local and national strife and rivalries, and on the realisation of the provisions and purpose of the Peace Agreement. The assessment will draw upon external experts and local communities, and involve Government and civil society organisations. It will con tain recommenda-tions for action, consultation, and dispute settlement. The company commits itself to share the assessment with its stakeholders, to implement its recommenda-tions, and to evaluate and update it on a regular basis.
2. The company establishes mechanisms for consultation, dialogue and partnership-building with its stakeholders – including relevant authorities, civil society organisations, communities – resulting in an economic, social and peace action programme, that conforms nationally agreed principles and policies.
3. Establishment of procedures to ensure that the own activities – and to the extend possible those of fellow consortia members, subcontractors and other business partners – do not result in, ben efit from, or otherwise contribute to human rights abuses.
4. Monitor and document all breaches of the final Peace Agreement and of the ius cogens that occurs within the operational environment and report the findings to the appropriate authorities, or, if this fails to resolve the issue, international Governmental and/or non-Governmental human rights bodies.
5. When appropriate, considering the company's sphere of activity and influence, engage high-level Government officials in active dialogue about human rights on a regular and timely basis.
6. Within the company's sphere of activity and influence, assurance of safety and freedom of movement.
7. For companies that are active in regions with a history of violence, a shaping of the company's security set-up along the lines of the Voluntary Principles on Security and Human Rights.
8. Use of all leverage and influence with the Government and at other venues to encourage the adoption of a comprehen-sive and transparent revenue management regime; and be alert to those circumstances in which revenue allocation is a potential conflict risk, while promoting that agreed rules and transparent procedures for allocation are in place.
9. Full disclosure of all provisions in cash or in kind equipment or services for military, security, or dual use purposes.
10. Not make payments or otherwise support political or religious parties, factions, organisations, their representatives or related interest groups, or take part in any party politics.
11. Openly fight against bribery, extortion and other forms of corruption and not, directly or indirectly, offer, promise, give, accept, condone, knowingly benefit from, or demand a bribe or other undue advantage to obtain or retain business or other advantage and ensure that remuneration of agents is appropriate and for legitimate services only. Where relevant, a list of agents employed in connection with transactions with public bodies and state-owned enterprises should be kept and made available to competent authorities. Management control systems are adopted that discourage bribery and corrupt practices. Financial and tax accounting and auditing practices are adopted that prevent the establishment of "off the books" or secret accounts or the creation of documents which do not properly and fairly record the transactions to which they relate.
12. The company will make the ability to uphold and promote these principles and activities a crucial factor in its decisions to enter into or remain in business relationships.
13. The company will report, on a yearly basis, its impact on and contribution to development, peace, security, human rights and the environment, covering the above mentioned principles and ac tivities, an evaluation of the economic, social and peace action programme, and the status of the recommendations of the impact assessment.

Normative Framework

The three sources for these principles and activities are international law, Sudan's CPA, and authoritative voluntary business principles.

A International Legal Principles

An exhaustive list of relevant international legal instruments can be found in the Preamble to the UN Draft Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights (U.N.Doc. E/CN.4/Sub.2/2003/38/Rev.2 (2003)). From these instruments, we distilled four principles that any individual or other organ of society must address with the most urgency:

1. Within their respective spheres of activity and influence, every individual and all organs of society have the obligation to promote, secure the fulfilment of, respect, ensure respect of and protect human rights recognised in international as well as national law, including the rights and interests of indigenous peoples and other vulnerable groups.
2. Nobody shall engage in benefit from war crimes, crimes against humanity, genocide, torture, forced disappearance, forced or compulsory labour, hostage-taking, extra judicial, summary or arbitrary executions, other violations of humanitarian law and other international crimes against the human person as defined by international law, in particular human rights and humanitarian law.
3. Security arrangements shall observe international human rights norms as well as the laws of the country or countries in which they operate.
4. Every individual and all organs of society shall respect the public interest, national development objectives, and the rights of local communities affected by their operations.

B The Comprehensive Peace Agreement

Sudan's CPA contains an important set of values and norms to determine the outlines of the public interest during the pre-Interim and Interim periods. It includes several principles that are relevant to the private sector. They translate into the following general business principles:

1. To promote quality of life, dignity and living conditions of all the citizens without discrimination on grounds of gender, race, religion, political affiliation, ethnicity, language, or region.
2. To contribute to the rehabilitation and reconstruction/construction of the social and physical infra structure in a post-conflict Sudan.
3. To be sensitive to historical injustices and inequalities in development between the different regions of the Sudan that need to be redressed.
4. To take into account the religious and cultural diversity of the Sudanese people.
5. To ensure representation of all the people of the Sudan in the work force, utilising affirmative action and on the job training to achieve equitable targets for representation within an agreed time frame and the provision of educational opportunities for war-affected people.
6. To provide, as appropriate, compensation/reparations for those who have suffered loss as a result of conflict.
7. To recognise customary land rights and/or law.

In addition, the Wealth Sharing part of the Agreement gives specific guiding principles for the oil industry: "Sustainable utilisation of oil as a non-renewable natural resource consistent with:

a) the national interest and the public good;
b) the interest of the affected states/regions;
c) the interests of the local population in affected areas;
d) national environmental policies, bio diversity conservation guidelines, and cultural heritage protec tion principles."

These are partially specified for primary resource extraction as follows:

a) To study and record land use practices in areas where natural resource exploitation occurs.

b) To consult with persons enjoying rights in land and to seek their consent in respect of decisions to develop subterranean natural resources from the area in which they have rights, and to share with them in the benefits of that development.

c) To provide compensation to persons enjoying rights in land on just terms arising from acquisition or development of land for the extraction of subterranean resources from the area in respect of which they have rights.

e) To assess appropriate land compensation, this need not be limited to monetary compensation.

f) To respect the right of the communities in whose areas development of subterranean natural re sources occurs to participate, through their respective states/regions, in the negotiation of con tracts for the development of those resources.

g) To include the state in which development of subterranean natural resources occurs in the nego tiation of contracts for the development of those resources.

h) Persons whose rights have been violated by oil contracts are entitled to a just compensation. On the establishment of these violations through due legal process the Parties to the oil contracts shall be liable to compensate the affected persons to the extent of the damage caused.

C Voluntary Business Principles

Companies are obliged to promote respect for the principles underlying international human rights law. Over the past years, Governments and business organisations have launched several voluntary processes to promote desirable behaviour. The following ones have gained considerable authority:

- The Guidelines for Multinational Enterprises of the Organisation for Economic Co-operation and Development (OECD). Another relevant OECD document, which is not voluntary, is the Conven tion on Combating Bribery of Foreign Public Officials in International Business Transactions.
- The UN Global Compact initiative which challenges business leaders to embrace and enact nine basic principles with respect to human rights.
- The Voluntary Principles on Security and Human Rights for the Extractive Industries. These principles are supported by the United States, United Kingdom, the Netherlands and Norway, all of them deeply committed to the Sudan peace process, while France, the home of Total which holds the largest oil concession in Sudan, is well-disposed towards the principles. Security arrangements being crucial to the peace process and a major challenge for any business activity in Sudan, the Voluntary Principles offer a proven standard for the extractive industries, in which other companies may also find useful guidance. The US and EU efforts to bring peace could benefit from a combined initiative to promote respect for these principles in Sudan.

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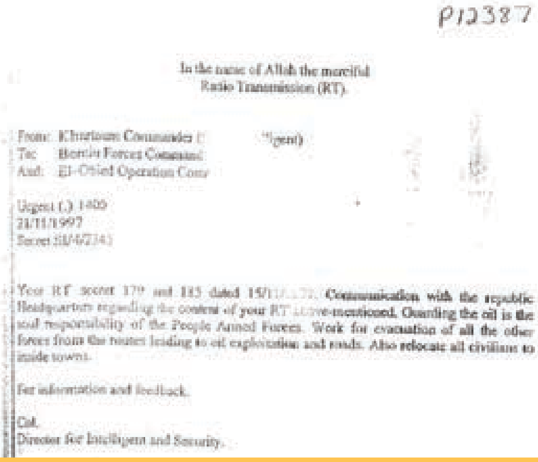
6 LIST OF ABBREVIATIONS

1 barrel	158,9873 litre
bbl	barrel
bbl/d	barrels per day
bcf	billion cubic feet
km	kilometre
km2	square kilometres
$	US dollars
ABC	Abyei Boundary Commission
APCO	Advanced Petroleum Company
AU	African Union
BP	British Petrol
CNPC	Chinese National Petroleum Company
CNPCIS	Chinese National Petroleum Company/Sudapet
CPA	Comprehensive Peace Agreement
EPSA	Exploration and Production Sharing Agreement
ECOS	European Coalition on Oil in Sudan
EO	Executive Orders
EU	European Union
GAM	Global Acute Malnutrition
GDP	Gross Domestic Product
GNOP	Greater Nile Oil Pipeline
GNP	Gross National Product
GNPOC	Greater Nile Petroleum Operating Company
GONU	Government of National Unity
GOSS	Government of Southern Sudan
GPC	Gulf Petroleum Corporation-Sudan
IGAD	Inter-Governmental Authority on Development
IMF	International Monetary Fund
JEM	Justice and Equality Movement
NCP	National Congress Party
NGO	Non-Governmental Organisation
NIF	National Islamic Front
NilePet	Nile Petroleum
OECD	Organisation for Economic Co-operation and Development
ONGC	Oil and Natural Gas Company
PDOC	Petrodar Operating Company Ltd
SAF	Sudan Armed Forces
SPDF	Sudan People's Defence Forces
SPLM/A	Sudanese People's Liberation Movement/Army
SSDF	South Sudan Defence Forces
SSIM/A	South Sudan Independence Movement/Army
SUDAPET	Sudan National Petroleum Corporation
UK	United Kingdom
UN	United Nations
UNSC	United National Security Council
USA (US)	United States of America
WNPOC	White Nile Petroleum Operating Company


INFLUENCES OF THE OIL INDUSTRY ON THE SUDANESE LANDSCAPE



In the name of Allah the merciful
Radio Transmission (RT)

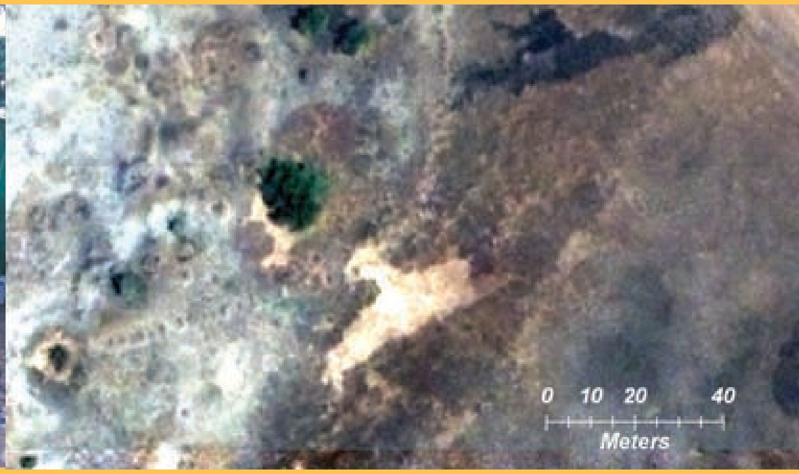
Urgent (.) 1400
21/11/1997
Secret SI/4/2345.

Your RT Secret 179 and 185 dated 15/11/1997. Communication with the republic Headquarters regarding the content of your RT above-mentioned. Guarding the oil is thesoul responsibility of the People Armed Forces. Work for evacuation of all the other forces from the routes leading to oil exploitation and roads. Also relocate all civilians to inside towns.

For information and feedback.

Col.
Director for Intelligent and Security.

EVIDENCE IN THE TALISMAN COURT CASE DOCUMENTS, FOUND IN US COURT DISTRICT OF MANHATTAN

DURING THE WAR OVER THE CONTROL OF THE OILFIELDS, THOUSANDS OF PEOPLE WERE KILLED AND DISPLACED, THEIR CATTLE STOLEN AND VILLAGES BURNED TO THE GROUND


The oil industry has been at the centre of war and human right abuses in Sudan. Take action and pressure Chinese companies and politicians to change their policies.

The Chinese companies are Sudan's largest oil producers. Neither the Chinese Government, nor the companies show concern about the massive human rights abuses that occur in Sudan. Neither do they take action to save the Comprehensive Peace Agreement, which is the basis for the constitution of the country. They ignore the obligations that it sets upon the oil industry, like utilizing best known business practices and paying compensation to the hundreds of thousands of people who were violently chased away from the oil fields.

Send a letter at www.su-dan.org