

Understanding Sudan

A Teaching and Learning Resource



Fact Sheet Two: A History of Oil in the Sudan

The exploration of crude oil in Sudan has a complicated history. As you read out the sections of this fact sheet, bear in mind all the issues we discussed in the first class. Does the story being presented to you here surprise you? If so, why? If not, why not?

First Discoveries

Oil exploration in Sudan began exactly 100 hundred years ago, in 1959, when Agip, an Italian oil company, was given an exploration concession in the Red Sea area of the North East of Sudan. No oil, however, was found.

The first oil discovery had to wait until 1979. The American company Chevron found oil near Abu Jabra and then at al Sharaf, both on the Darfur-Kordofan boundary. The major discoveries of the period came shortly after, when Chevron discovered in what is now Block One (Sudan is divided up into blocks for the purposes of organizing oil production). These discoveries were in Western Upper Nile, in the Muqlad basin. In 1982, and Chevron made two even larger discoveries: the Heglig and Unity oil fields that today are some of the most productive fields in Sudan. During the next six years, Chevron will dig at least 87 wells, the Arab Petroleum Research Center reports, at a cost of around \$880 million. They will have little to show for their efforts.

The productivity we now associated with Heglig and Unity took a long time coming. After Chevron, the Sudanese government then gave a concession to the Franco-Belgian company Total in 1980. Unlike Chevron however, they did not begin to exploit their concession, in light of the security problems. Chevron was to follow in Total's hesitancy shortly afterwards.

Just after the civil war broke out again in 1983, Chevron suspended operations in Sudan. In 1984, Chevron stopped its operations when three of its workers were killed by forces allied to the Southern movement called Anyanya II. Initially, after the killing, Chevron demanded, in addition to normal military forces, an Oilfield Protection Force. Unhappy with security considerations, Chevron had, by 1988, dismantled its operations in Bentiu and Unity province.

While there was no oil extraction during this period, during the civil war the then President Jafar Nimeiri attempted to redraw the boundary of Upper Nile province so that the oil fields discovered would be

within the northern province of Kordofan. It was also in this period that the first plans for a pipeline were drawn up – this pipeline would head to Port Sudan on the Red Sea in the North. This meant the bulk of the oil infrastructure would be built in the North, and all the exports would flow through this northward route. Why do you think Nimeiri chose such a route, and what effects will it have on Sudan?

At the same as the insecurity of the war meant efforts to extract oil slowed to a halt, there was also widespread population displacement around the oil fields. Human Rights Watch (HRW) reported that the central government ordered the mainly Nuer and Dinka people who lived around the oil fields to move, and this was followed by attacks by militias. HRW reported widespread burning of villages' and looting.

During this period, there were no oil exports at all coming from Sudan. Indeed, during the 1980's, Saudi Arabia provided loans, and oil at well below international prices, to Sudan. This was to change at the beginning of the 1990's. Following the 1989 coup, Sudan supported Iraq in the first Gulf War, leading to Saudi Arabia suspending all support, and the expulsion of 200,000 Sudanese migrants from Saudi Arabia. The coup also placed increasing pressure on Chevron's involvement in Sudan.

At the beginning of the 1990's, facing an increasingly expensive war, and the prospect of defaulting with the IMF (which Sudan did), the National Islamic Front that had led the coup tried to pressure Chevron to begin operations, as, equally, the American government reportedly pressured Chevron to suspend its operations in the Sudan.

Strange Games

Chevron finally sold its concession in 1992, to Concorp International, a company owned by a senior member of the National Islamic Front, with no experience in oil production. This sale begins a period in which oil concessions were sold rapidly, with almost no production occurring. Concorp, for instance, produced just 2-3,000 barrels per day (bbl/d) in 1992-3, before, in August 1993, suddenly selling the concession back to the government, whom, just as quickly, re-sold it in the same month to State Petroleum (SPC) of Vancouver. There are many versions of how precisely a small Canadian company managed to sign a twenty five year product sharing agreement with the Sudanese government: the best account is given on pages 11-20 of the Coalition for International Justice report, *Soil and Oil: Dirty Business in Sudan*. It is too complicated to go into the details here, however, it needs to be said that SPC was almost immediately acquired by another company: Arakis. J. Terry Alexander, the owner of Arakis, then used secret off-shore companies to speculate on stocks in Arakis, in which he fuelled interest by talking about investment in Sudan.

As the agreement with SPC/Arakis was signed, the government of Sudan launched an expulsion campaign. In the dry seasons of 1992 and 1993, the population around Heglig and Unity were attacked by militias. Up until 1996, however, and the involvement of Chinese and Malaysian oil companies, little

oil production was achieved: the results of 3,200 bbl/d were scarcely more impressive than they had been under Concorp.

In 1995 a further uproar was created after Arakis tried to interest AGI, a Saudi company with backing from the royal family and extensive investments in Sudan. The share price of Arakis soared when it was announced that AGI would back the company. It soared almost as much as it then plunged, months later, when AGI withdrew their backing and Arakis was delisted from the NASDAQ. Following this collapse, Arakis was desperately looking for new investors.

1996 then saw the government of Sudan sign an agreement with one of the factions in the Southern People's Liberation Movement/Army (SPLM/A). This agreement, which we saw mentioned in the Introduction fact-sheet, was important in terms of oil production because the SPLM/A-United troops were located near the oil fields around Bentiu. This agreement however, was fragile, and in October of that year, government backed militias displaced thousands of people at the Heglig oil field. Furthermore, Arakis also made an announcement in 1996 about the existence of a newly discovered oil field called El Toor 62a some 40km South-East of Heglig. Human Rights Watch reports that immediately after, a military campaign initiated by militias began, resulting in the displacement of thousands of people from around the El Toor area.

In the same year, Arakis found financial backing. In exchange for a majority stake, a consortium of parastatal (state-owned oil companies) from China, Malaysia and Sudan agreed to provide capital for all new expenses. The consortium was called the Greater Nile Petroleum Operating Company (GNPOC) – Arakis retained a 25% share based on its previous investments, while Sudapet, the Sudanese national oil company, was not required to make any expenditure. The other share holders are China National Petroleum Company (CNPC) with 40%, Petronas (30%) and Sudapet (5%).

Despite this arrangement, by 1998 it became clear that Arakis could not keep up its end of the bargain, and it was absorbed by Talisman Energy, another Canadian company.

Following this merger, oil production began in earnest. In March 1997, work began on a 1540km oil pipeline to a terminal at Port Sudan on the Red Sea. At the beginning of 1998, contracts were signed worth \$1 billion with Chinese, Malaysian and European suppliers. In 1999, the pipeline began delivery, and the first 600,000 barrels were loaded onto a Shell tanker. In the same year, John Garang, the head of the SPLM/A, said the pipeline could be legitimately treated as a military target, and a section of the pipeline was attacked in 1999.

1999 also saw the major first discoveries made by Lundin, a Swedish owned company who, in 1997, had signed a contract for a concession in block 5A – this field borders the now GNOPC Unity field in Western Upper Nile.

The infrastructure that was built in this flurry of activity belonged to the government. Despite the insistence of Talisman that the infrastructure should only be used for defensive security purposes, in 2000 they conceded the government was using the infrastructure – e.g. helicopter landing pads – for reasons it could not determine were defensive. Furthermore, the revenue from the oil that was now

coming in was being spent directly on weapons for the civil war: Sudan's fleet of helicopter gunships, for instance, increased from six in 2000 to 22 in 2002.

In the same period there are allegations of, yet again, serious population displacement in block 5A shortly after oil is discovered. Human Rights Watch report Paulini Matiep's men ordered people out of their houses in the area around what was later to become Thar Jath oil field, saying that they must make way for oil exploration. Lundin's oil road was also paved with controversy, with a Christian Aid report claiming this all-weather road connecting the base camp with the drilling locations was being used to move government troops who terrorized the local population.

In 2003, after frequently stopping work due to security concerns, Lundin announced the sale of its interest in block 5A to Petronas.

Human questions and economic answers

Talisman, who had taken over Arakis, was facing heavy criticism from human rights organizations in 2000 and 2001. They claimed that Talisman had a commitment to community development, and it was surely better than they were there than an oil company which didn't make such a commitment. In 2001-2, Talisman spent \$6 million on community development projects, though human rights organizations and experts have criticized this spending as insufficient, and badly targeted. For instance, while Talisman did provide clean water to several communities, Jemera Rone criticized this expenditure as only constituting 1% of Talisman's pre-tax revenue, and because most of the projects they invested in were in the northern part of Sudan.

In 2002, following this criticism, Talisman signed a deal with the Indian para-statal Oil and Natural Gas Corporation (ONGC).

CNPC, the Chinese para-statal, Petronas and ONGC now account for over 90% of Sudan's total output. While the amount of oil exported is but a fraction of Chinese total consumption (see the China sheet), Sudan is the largest overseas oil operation for each of the companies involved: Sudan is nearly as important for them as they are important to Sudan.

A year after Talisman withdrew, in 2003, discovered new fields in Blocks three and seven. These discoveries led to a steady increase in production, from 270,000 bbl/d in 2003, to 304,000 bbl/d in 2004. The signing of the Comprehensive Peace Agreement (CPA) in 2005 further improved the conditions for oil extraction. In 2006, a second pipeline came on stream, major refining expansions were completed in Khartoum, which increased refining capacity from 50,000 bbl/d to 100,000 bbl/d, and a second upstream project began, producing a different crude oil blend. While Blocks 1, 2 and 4 produced Nile Blend, a high quality crude, new projects would produce Dar blend – a lower quality oil with a series of difficulties to overcome for it to be exported.

Further fields are being opened at the moment. For instance, March 2009 sees the inauguration of a new oil field, Quamari, with a production capacity of 50,000 bbl/d. This field is run by Petrodar, the fourth of the main oil companies – though smaller than the others – in Sudan today. Petrodar emerged, initially, out of a consortium called the Gulf-Petroleum Company-Sudan, (GPC-S), who purchased the Block 3 concession. Gulf Petroleum, a company based in Qatar initially had a majority share. When Petrodar was created from GPC-S, it included the Chinese National Petroleum Company (CNPC), and a United Arab Emirates firm called al Thani. However, al Thani quickly sold almost all of its stock, and currently Petrodar is comprised of CNPC (40%), and Petronas (41%), and a host of smaller partners.

At present, further exploration is being carried out in the Sudan, as only blocks 1-7 of the 23 in total are producing oil. However, the other blocks look much less promising in terms of potential reserves. Results, for instance, in the Southern part of block seven have been disappointing, leading many to conclude that the further South one goes, the smaller the hydrocarbon reserves are.

Indeed, it may be the case that, despite the year on year increases in oil production, that Sudan's oil production will soon peak. The oldest fields, Unity and Heglig, are now in decline, with water ratios of 65%. Block B, which will only come online in 2014, may compensate slightly for the decline, leading to a plateau, but it maybe that Sudan's days of massive increases in oil production are over.

Further Questions

What type of patterns can you see in the history of oil in Sudan? Do you think, based on what you know so far, that the links between population displacement and oil are as strong as organizations like HRW claim? If there are links, do you think the oil companies are in any way responsible? Do you agree with Talisman's argument that it is better if an oil company with a commitment to corporate rights is present than an oil company without such a commitment, or is divestment a better approach? Can you see why an oil company might be concerned about people being near drilling and pipeline facilities?

Further Reading

Coalition for International Justice. 2006. *Soil and Oil. Dirty Business in Sudan.*

European Coalition for Oil in the Sudan. 2008. *Sudan's Oil Industry. Facts and Analysis, April 2008.*