MEI Insight 28 | 17 June 2011

MIDDLE EAST INSIGHTS

THE MIDDLE EAST INSTITUTE
NATIONAL UNIVERSITY OF SINGAPORE

Sudan Crisis: People, Land and, of course, Oil

By Mary E. Stonaker

Current violent clashes along the dotted division of Sudan could escalate into a prolonged civil war, the future of oil taking a front seat in this transition.

Abyei is slated to come under UN control after a closed-door meeting in Addis Abba ended today promising the full removal of President Omar Al Bashir's troops. However, the entrance of troops into Abyei and surrounding areas raise alarms. How truly autonomous will the South be despite the nearly unanimous January 2011 vote for independence?

In the face of oil's prominent role in the two economies --accounting for 98 percent of Juba's external revenues, according to a World Bank report in February, and 45 percent of the federal budget -- Khartoum and Juba have struggled to see eye to eye on the treatment of oil in this upcoming transition.

They currently share oil revenues equally according to the 2005 Comprehensive Peace Agreement (CPA), which granted semi-autonomous status to Southern Sudan. The terms of the future sharing agreement decided yesterday have yet to be announced and could well determine chaos or peace in Sudan. Southern Sudan is scheduled to secede from the North, effective July 9, 2011.

Recent days and months have witnessed a mass exodus away from Abyei as fears grow of a violent civil war. Despite appeals to the UN from Southern President Salva Kiir to investigate provocation from northern troops, Northern President Bashir continues to reject the claim that the militias are connected to the national, northern forces. Violent conflict could not only interrupt the critical flow of approximately 470,000 barrels per day but may further escalate into civil war.

China, currently the main oil-importing player, is poised to influence settlements through either aid or trade agreements. Lesser but still prominent players, Malaysia and India have also invested heavily in the nation as Western oil companies have historically been reluctant to invest in the turbulent nation. These nations should go beyond issuing statements calling for negotiations and offer assistance in arbitrating the negotiations for the resolution of energy issues in addition to other unresolved issues such as external debt, citizenship, borders and water. The statements by the UN and others express world opinion but may have very little real impact unless the two leaders are committed to cooperation.

Desperately needed foreign investment hinges on the resolution of issues such as control over Abyei and oil. But even if they are resolved, China will be reluctant to surrender any of its 60 percent stake given its continuous search for new and greater energy sources and spheres of influence.

While the South, including Abyei, sits atop some 90 percent of Sudanese oil reserves, it is landlocked and currently runs a pipeline through Khartoum to Port Sudan on the Red Sea. Talk of a pipeline through Kenya to the Indian Ocean would provide independence from the Northern port but is not an immediate solution for Southern exports. Not only would the three years needed to construct the pipeline be too long for the South's fragile economy, a majority of the refineries and storage facilities are located in the North.

Therefore, it is not only desirable but also necessary that Juba and Khartoum agree to and commit to a comprehensive oil management system as soon as possible to allow the continued revenue stream to support both economies in the short term. The agreement may share revenues or alter the state of the North to that of a transit country charging transit fees for the pipelines as well as the refinery capacities and storage facilities.

In the long-term view of energy security, it is necessary for both the North and South to diversify their economies beyond oil revenues. The independent nations should develop policies conducive to foreign oil companies to entice foreign investments and increase competition. Land-locked South Sudan should explore alternative pipeline options to diversify its risk and prevent North Sudan from using the current pipeline network as a political weapon.

Pricing of energy within each nation should be relative to the costs of production and transportation to ensure efficient allocation and usage of resources, learning from mismanagement of energy resources in other oil-rich nations. Subsidies should be avoided or used sparingly to encourage economic growth. Renewable energies should be considered including solar technologies – the potential of which has yet to be fully explored.

The nations must further define the ability and rights available to foreign investors in the energy sector such as Chinese National Petroleum Company, which owns a majority of the Greater Nile Petroleum Operation Company, along with Malaysia's Petronas Carigali Overseas, India's ONGC Vadesh and Sudan's Sudapet. Privatization of oil companies coupled with the economy's allowance and encouragement of proper competition will yield successful long-term economies.

Taking further lessons from other oil-rich nations currently experiencing uprisings, investment in social programs and education is essential as is developing a representative government held accountable to the people in each new state. Failure to do so will lead to a stifled population and economy.

In the midst of the humanitarian and legal issues preventing the peaceful separation of South Sudan from the North, energy issues must be addressed head on. In particular, the status of Abyei and the oil reserves it sits atop must be decided today to allow not only the future of the two Sudans to be decided, but also the future of the tens of thousands of people fleeing their homes in fear.

Mary E. Stonaker is an independent scholar, most recently with the Middle East Institute, National University of Singapore. She can be contacted at marystonaker@gmail.com.

This Middle East Insight can also be found on the MEI Blog: http://blog.nus.edu.sg/middleeastinstitute. It appeared on Al-Arabiya on 16 June 2011.