South Sudan

Extractives in Ten Minutes : April 2013

OpenOil

Cordaid
BUILDING FLOURISHING COMMUNITIES

FIVE FEATURES

The oil shut in

South Sudan shut in oil production in January 2012 after a dispute erupted with Sudan over transit fees. South Sudan has relied on two pipelines running through Sudan to export its oil. After the south seceded in 2011, Khartoum asked Juba for $36 per barrel to use the pipelines. Juba refused. Once Sudan began seizing southern oil as compensation, the south stopped producing. In August 2012, the sides agreed to pipeline fees near $10, plus a $3b one-off payment to Sudan. South Sudan resumed production in April 2013, with first cargo to reach the Port Sudan export terminal by end of May. Before the shut in South Sudan produced 350,000 barrels daily.

Life without oil: economic impacts

Until the shut in oil revenues represented 82% of South Sudan's GDP and 98% of government revenues. The IMF estimates that GDP contracted by 55% in 2012, one of the highest contractions ever recorded. The government cut non-salary spending by 50% in February 2012, and neglected service delivery for military spending: as of January, 40% of spending was on defense. Inflation surged to 80% in mid 2012 due to fuel scarcity and hard currency shortages. By year end it had dropped to 25% thanks to a fall in food prices.

Backup plan needed

South Sudan's reliance on oil revenues is a concern – current oil fields have only about ten years left of commercial viability. Diversification beyond oil remains key. But how? A new mining law could kick start mineral exploration. Other projects involve growth in agriculture – only 4.5% of arable land is now cultivated. However, significant investments will only materialize if there is security, political stability and serious efforts to reduce corruption.

Pipeline into East Africa

Construction on a new oil pipeline is to begin by October 2013 and could take three years to build, costing up to $4b. Juba is considering three alternative routes: through Ethiopia to Djibouti, through Uganda to the Kenyan port Lamu, or direct through Kenya to Lamu as part of the larger LAPSSET corridor, which would include rail and motorways connecting an estimated 100m people in South Sudan, Ethiopia and Kenya. President Salva Kiir has said the latter, which may be financed in a public-private partnership, would spur South Sudan's inclusion in broader East African economic integration.

Sharing the wealth

The 2005 Comprehensive Peace Agreement set a 2% share of oil revenues to go to producing states, including states in what is now South Sudan, in proportion to their output. Around 80% of South Sudan's production comes from Upper Nile state and most of the rest from Unity state. The Transitional Constitution says 3% should be allocated to communities, but some in oil areas complain they never received proper compensation. Corruption and poor public accounting make record keeping difficult and it is unclear whether South Sudan has implemented a new sub-national revenue sharing scheme as part of the new Petroleum Revenue Management Bill.

FIVE MAJOR PLAYERS

Salva Kiir Mayardit

South Sudan's president helped negotiate an end to the oil shut in but has also fought perceptions of corruption at home. In May 2012 he claimed that South Sudanese officials had stolen about $4b in public money, mostly from oil. In October 2012 he warned the military against staging a coup, and a month later sacked twenty senior commanders. *Al Jazeera* quoted a diplomat in Juba suggesting that 'President Kiir's biggest threat is not Sudan but his own army'.

Omar al-Bashir

Sudan's president rose to power in 1989 and has overseen Sudan's transition from a non-oil producer to a state dependent on oil revenues. He said in April 2012, after the shut in, 'we will not negotiate with the South's government' after southern armies occupied the oil town of Heglig. But during a visit to Juba in mid-April Bashir agreed with Kiir to restart oil production and open the border for trade. Before the agreement, South Sudanese officials had called Khartoum's negotiating position under Bashir 'intractable'.

Nile Petroleum Corporation (Nilepet)

Nilepet has less than 100 employees and is the junior partner in all joint operating companies with CNPC (China), ONCG (India) and Petronas (Malaysia). Its head, Paul Adong, wants to make it capable of carrying out all upstream operations, either with international partners or autonomously, within five years.

China

China has sought good relations with both Juba and Khartoum, mainly through its oil interests. In 2010 it imported 70% of then-unified Sudan's oil exports and was its largest investor. China became the first country with a consulate in Juba in 2008, but its diplomacy is problematic when officials speak of friendship with Juba in light of its history with Khartoum: China supplied 72% of Sudan's small arms and light weapons from 2001 to 2008. China's stated policy of non-intervention led to passive engagement on the oil impasse.

United States

The US is South Sudan's top source of aid, donating $410m in 2010, and has large political clout in Juba. During the oil shut in officials urged Juba and Khartoum to reach a deal. US President Barack Obama has also pressed Salva Kiir on ending his government's support for rebels fighting Sudanese troops in South Kordofan state.

FIVE UNANSWERED QUESTIONS

Is South Sudan pushing for regime change in Sudan?

Juba may be hoping for knock-on effects of the oil shut in to topple the Sudanese government in Khartoum. Both governments depend heavily on oil revenues. Sudan's loss of oil exports after South Sudan's secession cost Sudan an estimated $6.6 billion in 2012, or 12.9% of GDP, according to the IMF. Oil transit fees, which Khartoum never received during the shut in, were expected to contribute 30% of the Sudanese government's projected budget in 2012. The Juba government has political legitimacy as a successful revolutionary movement, and pressure is rising on the leadership in Khartoum thanks to US economic sanctions, popular resistance to austerity, a fractious ruling coalition and increasingly powerful rebel movements in the Sudanese state of South Kordofan.

Will border clashes lead to another north-south war?

Troop build ups along the disputed border have periodically brought South Sudan and Sudan to the brink of war. During the shut in Juba accused Khartoum of waging 'economic war' while sponsoring militias in Jonglei state to disrupt plans for a new oil pipeline. According to a report by the Small Arms Survey in Geneva, Juba provides logistical and financial support, including vehicles, fuel and food, to rebels fighting the Khartoum government, such as the Sudan People's Liberation Movement-North (SPLM-N). The conflict of the SPLM-N and other groups with Sudanese troops in South Kordofan shows no sign of ending. Could flare ups cause the conflict to escalate and lead to another north-south war?

When do international donors run out of patience?

Without oil income during the shut in, the Juba government relied largely on foreign aid. The aid community grumbled in private about the delayed restart of oil flow and about Juba's covert support for rebels fighting Khartoum. If donors cut funding Juba's situation could get worse. With aid budgets under pressure from the economic crisis, donors want to see value for money and expect the government to deliver on promises to fight corruption. Implementing the Extractive Industries Transparency Initiative (EITI) could be an important step in improving accountability within South Sudan's extractives sector, and building credibility with donors.

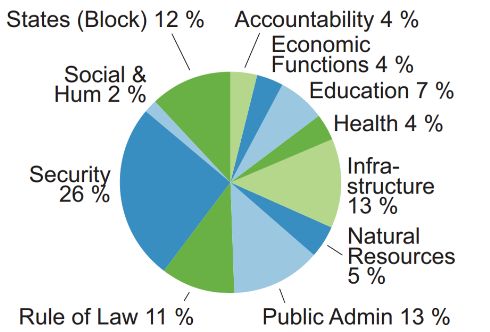
Once oil revenues come back, how will Juba use them?

South Sudan has many competing development needs, and a restart of oil revenues could help address them. Road infrastructure needs investment and basic health services are unavailable to many South Sudanese, as are electricity, water and public sanitation. There are large gender inequalities in education and more than one million primary school age children are out of school. IT infrastructure also needs massive upgrades. Which of these challenges will the government tackle first? Will the government allocate any money to compensate displaced people, or to environmental cleanup?

Will the government follow through on EITI?

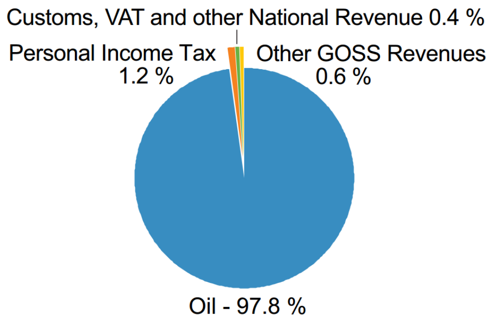
South Sudan has committed to implement EITI. According to Global Witness, implementation would send a signal about Juba's dedication to democratic principles and to managing the country's natural resource wealth in the best interest of all South Sudanese. Will the government put into practice its promises on transparent and accountable revenue management, publish its contracts and impact assessments, allow independent audits and consult with communities impacted by oil and mineral production?

Expenditures by sector, 2010



Source: Ministry of Finance and Economic Planning

Government revenue sources, 2010



Source: Ministry of Finance and Economic Planning

KEY LINKS

- Gurtong Trust: Peace and Media Project for South Sudan
- Sudd Institute: Research for a Peaceful, Just and Prosperous South Sudan
- European Coalition on Oil in Sudan: Oil. Fuel for a better Sudan?
- US Institute of Peace: Oil and State Building in South Sudan
- South Sudan National Bureau of Statistics
- Brookings Institute: opportunities and obstacles for South Sudan
- Global Atlas on Crisis Areas: oil pipelines in Sudan and South Sudan
- University of Michigan: China and the Sudan-South Sudan oil fee impasse

ABOUT OPENOIL

OpenOil has produced a reference guide to the extractive industries of South Sudan, in both print form and online at southsudan.wiki.openoil.net. The book *Oil Contracts: How to Read and Understand Them*, is available at contracts.openoil.net; and the reporter's handbook *Exploring Oil Data* at data.openoil.net. We provide technical expertise to clients including UNDP, Revenue Watch, the Center for Global Development and the EITI secretariat. For more see openoil.net. This briefing was prepared by Amrit Naresh.

ABOUT CORDAID

Cordaid has been fighting poverty and exclusion in the world's most fragile societies and conflict-stricken areas for almost a century. Cordaid's Extractives programme supports local communities and civil society to become informed, legitimate and capacitated partners in negotiations with international oil, gas and mining companies and governments. For more see: www.cordaid.org or contact Jeroen de Zeeuw (JDZ@Cordaid.nl).

To commission another briefing or learn more, write to amrit.naresh@openoil.net

Sudan and South Sudan Oil pipeline Map

BLOCKS	OIL AND GAS CONCESSION HOLDERS
1 (Unity)	Greater Nile Petroleum Operating Company
2 (Heglig)	Talisman Energy Inc. (Canada)
3 (Adar)	Gulf Petroleum Corporation (Qatar)
4 (Kailkang)	Petronas Carigali (Malaysia), Sudapet (Sudan) and China National Petroleum Corporation (CNPC)
5 (Central)	TotalELFina (France)
5a	Lundin Oil AB International Petroleum Corporation (IPC) (Sweden) Petronas Carili (Malaysia) OMV Sudan Exploration GmbH (Austria) and Sudapet (Sudan)
6	China National Petroleum Corporation (CNPC)
7 (Mellut)	Sudapet (Sudan) and China National Petroleum Corporation (CNPC)

MapID: 2191
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Scale 1:7,000,000 for A3 printing

Data Source
ESRI, GAUL dataset, USAID
africa-confidential.com

Global Crisis Atlas access
http://global-atlas.jrc.ec.europa.eu
http://globalatlas.jrc.it (EC intranet)

EUROPEAN EXTERNAL ACTION SERVICE

European Commission