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# **Still Waiting for the Bonanza: The Oil Business in South Sudan after 2005**

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## **ABSTRACT**

The paper examines the oil sector in South Sudan since 2005, when the historic Comprehensive Peace Agreement was reached between the Government of the former Sudan and the then rebel Sudan People's Liberation Movement/Army. It argues that, as in many low-income countries, the benefits from the oil sector have been reaped mainly by a small number of people who control the government or have links to powerful persons in the government. The interests of ordinary people in the sector have been largely ignored. The ordinary people are still waiting for the benefits of oil extraction in this nearly two-year-old country.

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## ABBREVIATIONS AND ACRONYMS

AUHIP	African Union High Level Implementation Panel
bpd	barrels per day
CPA	Comprehensive Peace Agreement
GNOPC	Greater Nile Petroleum Operating Company
GoRSS	Government of the Republic of South Sudan
GoS	Government of the former Sudan
GoSS	Government of Southern Sudan
PDOC	Petrodar Operating Company
SPLM/A	Sudan People's Liberation Movement/Army
UNSC	UN Security Council

## INTRODUCTION

The Chevron Oil Company, in 1978, discovered marketable quantities of oil in the area that is today known as Unity state, South Sudan. The export of oil was delayed up to 1999 due to the war that engulfed the former Sudan<sup>1</sup> from 1983 to 2005, when the Comprehensive Peace Agreement (CPA) was concluded between the Government of the former Sudan (GoS) and the then rebel Sudan People's Liberation Movement/Army (SPLM/A). The CPA gave the Southern Sudanese the right to decide in a referendum, held six-and-a-half years later from 9–15 July 2011, whether their region was to continue being part of the former Sudan or form an independent state. Nearly 99% of those who voted chose independence, which paved the way for the birth of the Republic of South Sudan<sup>2</sup> on 9 July 2011. The paper argues that the formal end to fighting in 2005 – one of the results of which was the rapid expansion of oil activities and concomitant rise in revenues – brought huge benefits to oil companies and political elites and other persons close to them, but limited rewards to ordinary people.

The CPA entitled the Government of Southern Sudan (GoSS) to a 50% share of revenues from oil exploited from the southern region of the former Sudan after a 2% deduction for states<sup>3</sup> in which the oil was extracted.<sup>4</sup> The way this share of revenues was managed by the former rebel commanders, who assumed leadership of the region, was largely to blame for the failure of the benefits of oil to trickle down to ordinary people. These commanders appeared to abandon the core values of freedom, equality and justice that were clearly spelt out in the SPLM/A Manifesto of July 1983.<sup>5</sup> Instead, they adopted a governance system that served their personal interests more than the public good, just like the rulers of the former Sudanese system they struggled against for many years. This is a familiar weakness evident in many low-income countries that are rich in natural resources, such as Nigeria and Angola, where the political elites have benefited from resource wealth at the expense of ordinary people.

Indeed, the present leader of South Sudan, General Salva Kiir Mayardit, who took over the leadership of the SPLM/A after the death of its founding leader, Dr John Garang de Mabior, in 2005, lambasted his former rebel colleagues in a leaked letter as follows: 'We fought for freedom, justice, and equality. Many of our friends died to achieve these objectives. When we got to power we forgot what we fought for and began to enrich ourselves at the expense of our people.'<sup>6</sup> Expressing similar sentiments, the literary giant, Taban lo Liyong, complained in an open letter thus: 'I am not sure anymore whether there were still some high ideals, high ethical considerations in the minds of the "liberators" [...] "our" erstwhile guerrilla leaders now turned money grabbers, land grabbers swim in millions of dollars.'<sup>7</sup>

As a result of the corruption and other abuses of power, the expectations of ordinary people of improvement in their economic lot were frustrated. Subsequently, the legitimacy that the former rebel commanders earned as a result of prosecuting the armed rebellion diminished. This was also reflected in an opinion study based on 44 focus group discussions conducted with 545 participants across all 10 states in South Sudan and published in 2012, which revealed that the majority of the participants thought their leaders were taking their country in the wrong direction.<sup>8</sup>

The mismanagement of oil revenues does not bode well for the future. As argued by the journalist Maggie Fick in the *Christian Science Monitor*, the ability of South Sudan to

transform itself into a self-sustaining nation state will not depend entirely on the fate and management of its oil industry, but the way this sector is managed by Juba will indeed contribute to this transformation (or lack thereof).<sup>9</sup>

The paper examines the management of oil revenues from the time the CPA was signed in 2005 and the impact this has had on the lives of ordinary people. It is based mainly on current information from local newspapers and other written materials, and on interviews and discussions with politicians, civil servants and ordinary people in the national capital, Juba, and the capital of the oil-producing Upper Nile state, Malakal.

The following section addresses the issue of oil as a blessing or a curse. The third section covers the rapid expansion of oil revenues and its management by political elites and bureaucrats in the southern region of former Sudan that became the Republic of South Sudan (GoRSS). The fourth traces the break-up of the former Sudan, the escalation of oil disputes that led to the shutdown of production, the brief return to war and the economic fallouts of the loss of oil revenues. The fifth focuses on international pressure on both countries and how it culminated in the resumption of oil flow. Finally, the last section concludes the paper.

## BLESSING OR CURSE

The development of oil resources in many low-income countries has been linked to conflict, displacement and other negative outcomes. Angola, Nigeria, Congo-Brazzaville, Chad and Equatorial Guinea have experienced or continue to experience conflict and displacement associated with the exploration and extraction of oil.<sup>10</sup> Colombia, Ecuador and other oil-rich Latin American countries have suffered from violence and displacement linked to oil development.<sup>11</sup> Indonesia and Burma in Asia have witnessed oil-induced conflict and displacement.<sup>12</sup> Kazakhstan, Azerbaijan and Turkmenistan in the Caucasus region have experienced tensions between the ruling elite and ordinary people.<sup>13</sup> The Middle Eastern countries of Saudi Arabia, Iraq, the United Arab Emirates, Kuwait and Iran have endured tensions between the dominant elite and less-privileged people.<sup>14</sup> No doubt, conflict between central government elites and local people over oil development afflicts many countries.

The former Sudan and present Sudans (ie the Republic of South Sudan and Republic of Sudan) have also witnessed mixed outcomes from oil development. On the one hand, oil development brought huge economic benefits to some people in the government, especially political elites and senior bureaucrats connected to them. On the other hand, oil has been linked to misery on the part of ordinary people, especially during the war, when violence caused many to die or flee to other places.<sup>15</sup> Paradoxically, the oil areas are home to some of the most deprived South Sudanese. Most of them were uprooted during the war to make way for oil prospecting and exploitation. After the war had ended, some of them could not resettle easily in their original areas because wells, pipelines, stations, base camps and other oil facilities had been constructed in them. Many of those who managed to get back to their original home areas faced rising environmental and other problems.<sup>16</sup> Substantial earnings from oil operations following the end of the war in 2005 are yet to translate into positive changes in the livelihoods of ordinary people.

Following South Sudanese independence in July 2011, disputes over oil between the former rebel commanders, who are now ruling the new country, and the old enemies in the new neighbouring country to the north escalated, culminating in a shutdown of production in January 2012.<sup>17</sup> To survive, the nascent South Sudanese government had to take oil-backed loans, collect more local taxes and adopt stringent austerity measures. The impact of austerity fell disproportionately on salary and wage earners, and on other vulnerable people.

## BOOM AND GREED

Exports of oil from the former Sudan began in 1999. Six years later, production reached nearly 500 000 barrels per day (bpd), largely because of the relative peace brought about by the CPA. In 2007 oil revenues were estimated at \$4 billion, and economic growth exceeded 10%. There is no question that the elites in the former Sudan gained much from the oil business. The political elite in Khartoum and those close to them were the principal beneficiaries of the bonanza. Certainly, oil was a blessing to them.

Oil companies also received sizable rewards from the oil business. As mentioned, oil was discovered in 1978 by the Chevron Oil Company. However, in 1992 Chevron sold its interests, partly owing to rebel attacks and pressure from the US government, which imposed economic sanctions on the regime led by Omar al Bashir in 1997 as punishment for allegedly aiding international terrorism and committing human rights abuses.

In 1995 the China National Petroleum Corporation acquired a stake in the oil sector. It was followed by Petronas from Malaysia in the following year, and Oil and National Gas Corporation Limited from India in 2003. These state-owned Asian companies dominated the three consortiums, namely the Greater Nile Petroleum Operating Company (GNOPC), White Nile Petroleum Operating Company and Petrodar Operating Company (PDO), which extracted the oil.

During the war these companies were under constant threat from rebel forces, which had declared oil installations legitimate military targets. Indeed, the rebel threat and activities of human rights organisations compelled Talisman from Canada and Lundin from Sweden to withdraw from the former Sudan. However, the French oil giant, Total SA, retained its interests in the Jonglei State.

After the CPA was concluded, these companies had to deal with the rebels, who had become the *de facto* rulers of the southern region. The CPA stipulated that oil contracts already entered into could not be altered. This changed on the day Southern Sudan gained its independence on 9 July 2011. Oil companies had to enter into new arrangements with the former rebels, who were keen to attract Western companies.<sup>18</sup> Indeed, Total SA came under intense pressure to give up part of its huge block in Jonglei State as the cash-strapped government looked for new sources of revenue.

The countries from which the dominant oil companies came also received considerable rewards. In particular, China benefited by satisfying some of its rising energy needs with imports from former Sudan.<sup>19</sup> In return, it defended the government from threats, particularly from rebels and Western countries. Without doubt, their 'relations were characterised by genuine mutual benefit for Sudan's regime, the Chinese government and its national oil companies'.<sup>20</sup>

### Oil sharing and expectations

The Wealth Sharing Protocol of the CPA entitled GoSS to a 50% share of oil revenues generated from the South; and each oil-rich state was guaranteed a 2% share of revenues from oil extracted within its territory. This oil revenue-sharing arrangement, according to General Kiir, translated into annual cash transfers from the central government, or GoS, to GoSS amounting to an average of \$1 billion.<sup>21</sup> So billions of dollars ended in the coffers of GoSS during the six-and-a-half-year interim period of the CPA.

### Corruption and polarisation

A major source of disenchantment with GoSS was poor management of oil revenues. Speaking on Independence Day, 9 July 2011, President Kiir conceded that official corruption had been one of the major challenges during the interim period of the CPA.<sup>22</sup> He argued that when GoSS was formed in 2005, they (the former rebel commanders) 'inherited a corrupt system of civil service that was used as part of counterinsurgency warfare to bribe and soothe Southerners not to join the SPLM but to mobilise them against the SPLM'.<sup>23</sup> True, corruption was rampant in the former Sudan, which was rated in 2006 by Transparency International as one of the four most-corrupt countries on the African continent.<sup>24</sup> However, this alone did not fully explain GoSS's growing 'reputation of mismanagement and fomenting local tensions not unlike the GoS'.<sup>25</sup>

The administration of the former rebel commanders in the areas they controlled during the war was viewed by ordinary people as an institution that provided 'opportunities for the personal enrichment of its senior officers and their sponsors'.<sup>26</sup> Many of the former rebel commanders carried this vice over into GoSS. They appeared to have adopted the stance of 'it is our turn to eat' (ie to reap the benefits from the 'system').<sup>27</sup> A 2012 US State Department report on human rights in South Sudan stated that 'corruption was endemic in all branches of government and was compounded by poor record keeping, lax accounting procedures, absence of procurement laws and the pending status of corrective legislation'.<sup>28</sup>

Mega corruption scandals, of which the most conspicuous is what came to be known as the *dura* or sorghum saga, only highlighted the appalling state of governance in the young state. The *dura* saga began with a unanimous decision by GoSS in 2008 to acquire and distribute *dura* to food-deficit parts of Southern Sudan. Unfortunately, contracts were awarded to fake companies that did not supply the *dura* to the intended beneficiaries. Fictitious documents were used by individuals to line their pockets with ill-gotten funds. In August 2011 the National Assembly, whose constitutional mandate includes overseeing the performance of national institutions, demanded that the government investigate and punish the guilty.<sup>29</sup> The Ministry of Justice formed a committee to investigate the scandal and punish the thieves. So far, the committee is looking into files on the case and no one has been convicted.

The war on corruption, promised by the president, has yet to get under way. The actions already taken are half-hearted: for example, the president reportedly sent letters to 75 former and current South Sudanese officials to return an estimated \$4 billion, which had gone missing, or 'simply put, [been] stolen', to a secret account set up in a Kenyan bank.<sup>30</sup> It is uncertain why the president did not hand over the issue to the Anti-Corruption Commission and Ministry of Justice for a thorough examination and



conclusion. The political will to end impunity appears to be lacking. Corruption linked to tribalism and nepotism, which haunt the new country, is a nightmare that is proving hard to contain.<sup>31</sup>

### Poverty and frustration

Millions were killed or displaced during the war. Many of those who survived by fleeing to relatively safe places, especially Northern Sudan, had to be helped to return to their home areas. This was a complicated exercise overseen by government institutions that were still taking shape. Some of those deserving support fell between the cracks in the weak assistance programme. Consequently, some returnees ended up in destitution, as there was nothing left for them after the war. Whatever economic activities and infrastructure existed before the war had been destroyed. Therefore, abject poverty was the reality for many Southern Sudanese. The misery in the wake of the war was compounded by the lack of funds to provide basic services and relief assistance to the needy, with the bulk of the oil money nowhere to be seen.

The poverty under which many South Sudanese toil is apparent from the dismal socio-economic indicators of the country. The human development indicator is only 0.379, which is among the lowest in the world.<sup>32</sup> About 83% of South Sudanese live in rural areas, and 78% of households depend on agriculture (crop growing and animal husbandry).<sup>33</sup> Of the population, which was 8.26 million in 2008, 51% subsist below the poverty line and 90% earn less than a dollar a day.<sup>34</sup> Delivery of clean water, health care and education is poor, especially in the rural areas. Only 55% of the population have access to improved sources of drinking water.<sup>35</sup> Infant mortality is extremely high, at 102 per 1 000 live births.<sup>36</sup> The adult illiteracy rate currently stands at 84% among females and 70% among males.<sup>37</sup> Truly, the situation is dire. However, it is also worth noting that improvements are being made. For example, primary education enrolment more than doubled between 2000 and 2005 from 0.3 million to 0.7 million respectively, and doubled again between 2005 and 2009 from 0.7 to 1.4 million respectively.<sup>38</sup>

Unsurprisingly, the poverty bred frustration with the former rebel commanders and leaders in Khartoum. Some people pinned their hopes on ridding Southern Sudan of their influence. They thought that once the oppressors were gone, oil production would be controlled by South Sudanese and all the benefits would be enjoyed by the citizenry of the new country. However, things did not happen exactly as anticipated.

## INDEPENDENCE, SHUTDOWN AND BORDER WAR

The road to independence was arduous and costly. It united desperate groups of Southern Sudanese around the notion of freedom from the 'Arab' and Muslim rule based in Khartoum. Continued unity of the country was viewed as untenable, in part because the leaders in Khartoum were viewed as dishonest, especially in the distribution of oil revenues.<sup>39</sup> In fact, GoSS repeatedly accused leaders in Khartoum of 'hiding *bona fide* information on oil revenues and tampering with oil contracts'.<sup>40</sup> So independence meant ending dishonesty, and also the actualisation of the South's right to control and fully benefit from its own resources.

Civil society groups,<sup>41</sup> especially youth groups, worked feverishly to ensure that their people voted for secession during the referendum, which was to be held on 9 January 2011 and to pave the way for independence six months later. On 9 December 2010, just a month before the referendum, the Youth Forum for Separation, one of the groups, held a big celebration in Juba in which people from all walks of life participated. The demonstrators gathered on the main football pitch and walked to the mausoleum of the late Dr John Garang de Mabior, which is located next to the premises of the National Parliament. At the peak of the event, paramount chiefs from Greater Equatoria, Greater Upper Nile and Greater Bahr el Ghazal – the historical regions of Southern Sudan – slaughtered four bulls and a sheep as a blessing. The sheep was cut into two halves to symbolise the imminent break-up of the country and an end to the bloodshed.<sup>42</sup>

One month later, Southerners went to the polls to decide whether their region was to continue being part of former Sudan or go its own way to establish a new state. The referendum was peaceful, right from the beginning on 9 January to the end on 15 January 2011. A prominent leader of the Episcopal Church, Bishop Paul Pitya Yugusuk, who was the last to vote at the polling centre set up at the Mausoleum of Dr Garang, blew a *vuvuzela* (trumpet) to celebrate the peaceful end of the exercise. Then he said, 'This is the signal not only of the end of the voting but of an end to our slavery, oppression and the beginning of our freedom.'<sup>43</sup> It was an emotional occasion, with many, including the widow of Dr Garang, Madam Rebecca Nyandeng, shedding tears after casting their votes.<sup>44</sup> Many did not imagine this event would happen in their lifetime.

On 9 July 2011 Southern Sudan formally declared its independence, witnessed by the UN Secretary General, presidents and other global leaders. To Southerners, the millions who did not live to see this day did not die in vain. At last freedom had been won and the good days were not far away. Many expected GoSS to clean up its act, and manage oil revenues for the benefit of all.

The mood of optimism was not only confined to Southern Sudanese. Some Northern Sudanese also saw the break-up of the country as a blessing, and expected that their new country, Sudan, would emerge as a united Muslim nation. An editorial of the pro-government *Sudan Vision* predicted that 'secession would give the chance for the north to build a harmonized nation socially and religiously'.<sup>45</sup>

As stated earlier, some foreign business people wanted to continue their activities or start new businesses after the break-up. Some small companies from Canada and elsewhere rushed to buy concessions, as they were aware that the big players from the US would be heading for South Sudan. Needless to say, the big players were interested in investing. For example, Total SA prepared to start operations in Jonglei state by April 2012. This did not happen, however, in part due to security concerns.

Without question, hopes were raised by the peaceful separation. However, the reality that unfolded was less joyful.

### **Unresolved disputes**

Carried over from the CPA era were several disputes, including differences over oil, borders, Abyei and debts, which escalated after Southern Sudan had completed its referendum. The people of the oil-rich Abyei area should have voted at the time with Southerners to choose whether to remain in Northern Sudan or join Southern Sudan,

but this did not happen because of a disagreement over who was eligible to take part. Southern Sudanese leaders insisted that only the sedentary Dinka Ngok were to participate in the referendum. However, the leaders in Khartoum wanted the Misseriya tribesmen, who seasonally come to the Abyei area for pasture and water for their animals, to be included in the vote. The African Union High Level Implementation Panel (AUHIP), under former South African President Thabo Mbeki, made an effort to help the concerned parties peacefully resolve the disputes, but progress was very slow.

On 8 March 2011 negotiators from the two sides concluded six days of talks and agreed 'to seek clearance of the country's debts, facilitation of trade, division of oil sector firms and introduction of a new currency in the south ahead of its split in July'.<sup>46</sup> The country's debts were estimated in 2010 to be \$37.8 million, a burden leaders in Khartoum wanted to rid themselves of. This is yet to happen.

On 12 March 2011 the chief negotiator for Southern Sudan, Pagan Amum, announced that the GoSS had suspended participation in the AUHIP-mediated negotiations 'after uncovering a plot overseen by President Omar al Bashir to topple it ahead of Southern independence in July', and warned that 'the south was considering cutting off oil supplies to the north in response to the alleged plot'.<sup>47</sup>

This threat was not taken seriously by Khartoum, whose interest was continuing the 50:50 sharing of oil revenues; an arrangement that was to expire on 9 July 2011, when the country was to split. The state minister for the federal ministry of energy and mining of the former Sudan, engineer Ali Ahmed Osman, said that Southern Sudan needed co-operation on oil more than the North, as the 'infrastructure such as ports, pipelines, central treatment units and ancillary services, cadres and companies' were in the North.<sup>48</sup>

Moreover, the state minister pointed out that total oil production in the former Sudan was 470 000 bpd, of which 115 000 bpd was produced from the North. He predicted that oil production in the North would rise to 325 000 bpd in 2012, with increases in production from Blocks 2 and 4 in the Heglieg area at the rate of 55 000 bpd; Al Foula 100 000 bpd; Blocks 17 and Sharif 20 000 bpd; Al Rarat 15 000 bpd, and new explorations in Khartoum basins (ie Khartoum state, Gezira state and White Nile state, River state and parts of Northern Kordofan).<sup>49</sup>

GoSS rejected oil-revenue sharing, and insisted on paying for the use of Northern oil infrastructure so as to continue getting its oil, about 350 000 bpd, to international markets. Khartoum accepted the idea of payment for the use of its facilities, but the figure it proposed was considered by Southern Sudan as unreasonable. Khartoum had demanded \$36 per barrel but Juba was only prepared to pay less than \$1.

As the disagreements deepened, bombings in the North–South border region, where some oil wells were situated, became more frequent. The borderline had not been agreed on, and some Southerners alleged that the bombings were intended to occupy oil-rich areas on the Southern side of the border. So the differences over the border had much to do with rival claims over oil wells along the border.

In May 2011 Sudanese troops swooped into Abyei, taking control of it. The soldiers pillaged the town, as nearly 20 000 civilians fled southwards under awful conditions. Then President al Bashir dismissed the Abyei administration, which was led by a Southerner and deputised by a Northerner. The AUHIP sponsored a closed-door meeting between President al Bashir and General Kiir in Addis Ababa on 13 June 2011, at which a deal was reached on withdrawal of the Sudanese soldiers from the region, and the deployment of

4 200 Ethiopian peacekeepers under Chapter Seven of the UN Charter to protect civilians and humanitarian workers as well as police the North–South border.

In the oil-rich Unity state, violence also escalated as militia groups, allegedly sponsored by Khartoum, engaged the South Sudanese army. In retaliation, state authorities tried to force out Northern oil workers but they were overruled by GoSS. Khartoum also benefited from continued oil flow, and did not want the rebels, some of whose leaders were domiciled in Khartoum, to interfere with it.

As tensions soared along the border, rhetoric from Khartoum increased. During a rally in Port Sudan in June 2011, President el Bashir threatened to shut down the pipeline if the South failed to allow the North to continue with the 50:50 oil revenue-sharing, or to pay for each barrel sent through Port Sudan.<sup>50</sup> The leaders in Khartoum raised the stakes by unilaterally marketing oil from Southern Sudan on the grounds that they had not been paid for the use of their pipelines for seven months. The then GoSS Minister of Energy and Mining, Garang Diing, described the action as ‘an illegal business’.<sup>51</sup> Clearly, leaders in Khartoum had adopted a more hawkish attitude, in part because an agreement had eluded both parties. As a consequence, the two parties headed for a showdown.

### **Oil revenue loss and violence**

About seven months after the split, in January 2012, South Sudan shut down oil production entirely, causing serious economic and other problems and pushing it close to war with Sudan. In Sudan, protestors came to the streets to push for the overthrow of the Sudanese regime. Meanwhile in Juba, there were chilling talks of a total collapse of the economy, as the shutdown meant the entire loss of oil revenues that made up 98% of overall national income.

The escalation of tensions worried global powers, which pushed the leaders of both countries to find a way out of the impasse. Southern leaders in particular felt unprecedented pressure, as the shutdown was seen widely as ill-advised, even by traditional supporters such as the US administration. Inside South Sudan the decision was received with celebration by most people, even though it was not widely and intensely discussed. However, some people, especially the well informed, were skeptical about its wisdom. For example, Alfred Taban, the owner of *Juba Monitor*, a local daily, wrote in his column that ‘The oil shutdown caught most South Sudanese completely off guard. It was an emotional decision and it was wrong. It was suicidal. There was no plan B for our survival.’<sup>52</sup>

Conflict continued to soar as Sudanese planes repeatedly dropped bombs in areas along the border claimed by South Sudan, and pro-Khartoum militias engaged the South Sudan army or SPLM/A in deadly confrontations in the Unity state. On 10 April 2012 the South Sudanese army routed the Sudanese soldiers stationed in the contested oil-rich area of Heglig, which the South Sudanese call *Panthou*. The remnants of the Sudanese army fled north and some oil infrastructure in the area lay in ruins. Oil flow from the area, estimated at 50 000 bpd, to Khartoum ceased, compounding Khartoum’s economic woes.

Utterly humiliated, Sudan mobilised for a total war with South Sudan, which vowed Khartoum would never recapture Heglig/Panthou by force.<sup>53</sup> President al Bashir promised to teach South Sudan, whose rulers he labelled ‘insects’ a final lesson.<sup>54</sup> He ordered the closure of the border with South Sudan, and an end to trade and transport between the

two countries. Moreover, President al Bashir said that he would never allow South Sudan oil to pass through Sudan even if half of the oil was given to his country.<sup>55</sup> Furthermore, his regime launched a diplomatic offensive, which won it some sympathy from the international community.

South Sudanese leaders, bathing in the victory, failed to effectively counter the Sudanese regime's machinations abroad. Hence, South Sudan was widely condemned, even by traditional allies such as the US, for the action of its forces in Heglig/Pathou. The UN Security-General, Ban Ki-moon, described the takeover as 'an infringement on the sovereignty of Sudan and a clearly illegal act'.<sup>56</sup> The UN Security Council (UNSC), the US and other Western powers urged an unconditional withdrawal.

In South Sudan, the reaction of the UN and world leaders was received with incredulity. President Kiir slammed the international community for not holding Khartoum responsible for the fighting along the border area.<sup>57</sup> He claimed that the Sudan armed forces had occupied Abyei in May 2011 and bombed his country many times, but world leaders had done nothing to convince Khartoum to desist from its aggression.

Despite disagreeing with the stance of the international community, the South Sudanese government withdrew its troops from Heglig/Panthou. The Sudanese army claimed it had beaten back the South Sudan army. This was contested by the South Sudanese government, which insisted that it had withdrawn its soldiers because of international pressure, and reiterated its ownership claim over Heglig/Panthou.

On 2 May 2012 the threat of an all-out war compelled the UNSC to adopt Resolution 2046 (2012), ordering the immediate cessation of hostilities, withdrawal of forces and resumption of talks under the AUHIP auspices. The UNSC then set a deadline of 2 August 2012 for reaching a comprehensive agreement on all outstanding issues, including oil, Abyei, borders, and citizenship, failing which both countries would face sanctions.

On 3 August 2012, a day after the deadline, negotiators reached an accord on oil, closely averting sanctions. South Sudan agreed to pay \$9.10 per barrel for the use of the PDOC pipeline and \$11 for the GNOPC pipeline. This was far below the \$36 per barrel that Sudan had demanded, and much more than the less than \$1 per barrel that South Sudan had insisted on paying. In addition, South Sudan agreed to provide about \$3.2 billion over three years to cover Sudan's budget deficit caused by the loss of oil revenues as a result of the split.

South Sudan wanted a speedy resumption of oil production but Khartoum appeared to be in no hurry to achieve this. Leaders in Khartoum agreed to implementation of the oil deal on condition that the security disputes with South Sudan be resolved. One of their demands was that South Sudan disarm the rebels fighting in the Southern Kordofan. This demand was rejected as impossible by the South Sudanese government, which argued that it was merely a ploy to delay the resumption of oil flow.

As some progress was being made on the oil dispute, violence along the border continued to claim civilian lives. On 20 November 2012 the spokesman of the SPLM/A said that a Sudanese Antinov plane dropped 24 bombs on the village of Kiir Adem, which lies along the border of the South Sudan's Northern Bahr el Ghazal state with Sudan, causing the death of seven civilians. On the following two days more bombings were carried out in the north of the same village. The minister of information and broadcasting, Dr Barnaba Marial Benjamin, claimed that the bombings were meant to jeopardise the resumption of oil production.<sup>58</sup>

With violence escalating and the return to oil flow stalled, leaders in South Sudan had to grapple with the economic repercussions of the sour relations with Sudan. They responded with drastic cutbacks in spending and other measures, while hoping that Khartoum would change its stance and allow oil to flow again.

### **Austerity**

The shutdown of oil production dealt a major blow to the economy of the nascent state. Reflecting the gravity of the situation, a leaked briefing by a senior World Bank official to senior members of the government and other stakeholders predicted the collapse of the economy in a matter of months. Some viewed the action as suicidal. Although the predicted collapse did not materialise, there was no question about the dire state of South Sudan's economy. Among other predicaments, inflation had risen, the value of the local currency against the dollar had plummeted and shortages of essentials had become acute.

The government struggled to weather the hard times by adopting cuts in spending, improving tax collections and taking out oil-backed loans. However, it was not easy to borrow, as creditor countries were not sure of repayment. The US apparently had been discouraging potential creditors from giving money and, instead, urged the government in Juba to resolve the differences with Khartoum so as to resume the flow of oil.<sup>59</sup>

China also sought to persuade both countries to resolve their differences peacefully and turn on the tap. It provided limited financial support, promising bigger loans to South Sudan after oil had begun to flow. Minister Benjamin announced a Chinese loan of only \$158 million to be used to complete the building of Juba International Airport.<sup>60</sup>

The adoption of tough austerity measures hit government employees hard. According to a circular from the Ministry of Labour, Public Service and Human Resource Development, housing allowances for employees were reduced by 50% and all job specification allowances were eliminated with effect from July 2012. Some of those who had their monthly incomes reduced reacted with anger and walkouts. For example, doctors in a hospital in Wau, Western Bahr el Ghazal state, went on strike. The misery of employees was made worse by shortages of essential commodities, especially fuel, and hikes in prices. Long queues developed outside some fuel stations. Moreover, the shortage of fuel and lack of money meant that Juba town was left in darkness, as the generators could not be run at the main power station.

At state levels, which relied on block grants from the national government, matters were worse. Central Equatoria state, for example, had been toiling under the weight of the economic problems, forcing state officials to warn of the potential inability of the state to function. The state minister of finance, Jacob Aligo, was quoted as telling members of the state parliament that 'the state is facing unprecedented financial difficulties, and soon its institutions will not continue to carry out their day-to-day functions, which used to be financed by revenues that are now being centralised'.<sup>61</sup> The financial crises facing Central Equatoria were compounded by new measures introduced by the national government to raise local tax revenues.

In May 2012 the national government agreed to a plan with the 10 states to centralise the collection of non-oil revenues. The states were supposed to be given one half of the collections every month. However, Central Equatoria claimed not to receive its share of tax collections for three months, making it hard to meet payments. Feeling deceived, Aligo

declared the centralisation of tax collections as ‘unconstitutional’ and ‘urged the state parliament lawmakers to move to get the state’s money back’.<sup>62</sup> No doubt, the financial squeeze, resulting from the shutdown of oil production, not only made life difficult for ordinary citizens, but also put a strain on the relations between the national government and some of the 10 state governments.

The dire straits of the economy eased when the two countries agreed to the oil deal in August 2012, even though the austerity measures were to remain effective. The prices in the market gradually reduced. The exchange rate of the dollar against the South Sudanese pound also went down.<sup>63</sup> The prices were expected to decline further as the relations between the two countries continued to improve.

## PRESSURE, AGREEMENT AND OIL FLOW

### Sanctions threat

The hostile ties between the two countries, and hence the likelihood of the return to war, compelled the international community to engage with both countries. In particular, the big powers pressured the leaders of both countries to seriously negotiate an end to their disagreements.

Vulnerable and less adept at handling threats of sanctions compared with their counterparts in Khartoum, South Sudanese leaders had to heed demands made on them. On 3 August 2012 the then US Secretary of State, Hilary Clinton, made a short visit to South Sudan, and brought the weight of the US to bear on the leadership in Juba. It was widely reported that:<sup>64</sup>

[The] Secretary of State publicly twisted the arm of [the] South Sudan president to reach a deal to pay greater sums to Sudan for transporting via pipeline the oil South Sudan pumps out of the ground [...] The two sides were far apart in negotiations until the day after Clinton appeared in South Sudan, browbeating the South Sudanese president to reach a deal.

This visit was followed on 24 August 2012 by one from the Chinese Special Envoy on African Affairs, Zhong Jianhua, who reiterated China’s support for a negotiated settlement of the disputes between the two countries. Thus the US and China, though rivals on many issues, felt the need to work together on this particular stalemate. They effectively used the UNSC system to coerce the two countries to draw back from the brink, and embrace a peaceful resolution of the differences dividing them.

### Co-operation agreement

The negotiations on outstanding issues, mediated by the AUHIP, concluded on 27 September 2012 with deals on oil, border security, citizenship and other issues. This successful round of talks started on 4 September, and was joined on 23 September by President al Bashir and President Kiir, who signed the deals in Addis Ababa after four days

of intense negotiations. Unfortunately, the two sides failed to clinch deals on Abyei and a number of disputed areas along the common border.

However, concerns remained not only about the pending disputes, but also about the implementation of the signed deals, as Sudan had a track record of dishonouring agreements. Many hoped that the continued engagement of international powers and the dire economic situation of both countries would convince the two leaders to implement their commitments honestly, especially the oil deal.

The oil agreement was supposed to lead to the speedy resumption of oil flow. Before the deal was inked, the ministry of petroleum and mining in Juba was already gearing up to restart operations. Its minister, Stephen Dhieu Dau, told the press on 2 September 2012 that it would take four to six months to resume production from Blocks 3 and 7, and much longer, from 10 to 12 months, from Unity oilfield.<sup>65</sup> The reason for this, according to Dau, was that the facilities required maintenance because of the damage inflicted on them by recent fighting along the border.

Minister Dau also stated that the government, with the help of investors, was working on refineries in Unity and Upper Nile states, which would produce refined products for the first time in June of the following year. The daily output of the first refinery would be 11 000 bpd and the second 9 000 bpd.<sup>66</sup>

These positive developments were welcomed warmly by the international community. The Chairperson of the Commission of the African Union, Dr Nkosazana Dlamini Zuma, commended the parliaments of both countries for ratifying the agreements. On 24 October 2012, the African Union Peace and Security Council deliberated on the agreements and the broader issue of implementation of the 2 May Security Council Resolution 2046. It gave the two parties six weeks to conclude negotiations on the Abyei dispute, which did not happen.

Within South Sudan, the 27 September 2012 agreements generated significant acrimony. In Northern Bahr el Ghazal state, ordinary people demonstrated against parts of the agreement dealing with the border disputes. They complained about the inclusion of the so-called 14 Mile in the proposed border buffer zone, claiming that this area, which is along the south bank of the Kiir or Bahr Arab River, had always been their territory and had never been contested. Some politicians from the state also rejected the deal; for example, Governor Malong reportedly claimed that 'the negotiators never consulted us. They do not know where these areas are. They have no knowledge about them at all. We will not accept. We will just fight.'<sup>67</sup>

Pagan Amum, the chief negotiator for South Sudan, claimed that those rejecting the agreements had not read them. Others claimed that the country had to reach the agreements to get out of the difficulties caused by the closure of oil production. The minister of water resources and irrigation, Paul Mayom Akec, allegedly told a group of civil society activists that 'we must be realistic to ourselves. We all know the conditions we are in. We have been denied loans since April. We have been made unpopular in the region because of shutting down oil production.'<sup>68</sup> These explanations, however, did not convince some highly knowledgeable people. For example, the last oil minister in Khartoum before the split, Lual Deng, argued at a public event organised by The Sudd Institute, a new think tank, on 17 November 2012 that the oil deal was worse than the 50:50 oil revenue sharing, which leaders in Khartoum wanted continued beyond the split of the country but which those in Juba vehemently rejected. He explained that:<sup>69</sup>



[The Government of the Republic of South Sudan or GoRSS] is paying GoS \$44.5/bbl and not \$10.00/bbl as claimed by our team or \$26.00/bbl as reported by some of our analysts. Our VP Dr Riek is 100% correct to have reached a figure of \$40.00/bbl. The new formula in my view for oil sharing would be 55.5% to GoS and 44.5% to GoRSS over the period of 42 months (i.e. 3½ years) if the average price of oil is \$80.00/bbl.

Other people were upset with the government for not coming out with a good alternative after shutting down oil flow; for example, Alfred Taban, the owner of *Juba Monitor*, complained that:<sup>70</sup>

People thought by closing down the oil wells, the government had a backup plan. It turned out the government did not have any such plans except the long term plans of constructing a pipeline to Kenya and Djibouti and a mini refinery somewhere. These plans will take years to materialize yet the situation of most people is desperate. The people are disappointed.

Despite the disillusionment with the agreements and government's performance, the main danger to the agreement was posed by Khartoum. Like past agreements, this deal was bound to face difficulties during implementation.

The first meeting of the Joint Political and Security Committee, which was mandated to deal with concerns and complaints from either side, that took place at Juba in the beginning of November 2012 was not successful. The South Sudan delegation, led by General John Kong Nyuon, the minister of defence and veteran affairs, reported that the Khartoum delegation, which was under the leadership of Abdel Rahman Mohamed Hussein, the minister of defence, had made impossible demands. It claimed that 'Khartoum demanded South Sudanese government to disarm its former SPLM/A Brigade 9 and 10 currently in Southern Kordofan and Blue Nile states left there after South Sudan seceded'.<sup>71</sup> On 20 November President Kiir confirmed that resumption of oil production, which was planned for 15 November 2012, would not happen because of new security demands from Khartoum.

Following the unsuccessful November meeting, discussions resumed in Khartoum in December. Pagan Amum, the Secretary General of the ruling party, SPLM, and other senior officials met their counterparts from Sudan. Amum said on 2 December 2012 'that the two parties, Sudan and South Sudan, agreed to resume the pumping of South Sudan's oil through Sudan by the end of December 2012'.<sup>72</sup> Shortly after, he was contradicted by Sudan's second vice president, al-Haj Adam Youssef, who reportedly told the foreign media that 'unless the security is sorted out, nothing is going to be implemented [regarding oil]'.<sup>73</sup> Amum subsequently stated that the government 'regretted the intransigent position Khartoum had adopted by renegotiating and refusing to implement the agreements including the resumption of oil flow'.<sup>74</sup>

To breathe life into the negotiations, the new Ethiopian prime minister, Hailemariam Desalegn, visited Khartoum and later Juba on 27 December 2012.<sup>75</sup> He invited both leaders to a summit to remove obstacles in the way of implementation of the agreements. This and other efforts eventually led to a positive outcome.

### Pursuit of alternatives

Frustrated by what they perceived as impossible demands from Khartoum, South Sudanese leaders seriously sought alternatives to pipelines to Port Sudan. Their focus was on new routes to get oil to international markets and local refineries.

The South Sudan leaders worked on plans to construct pipelines to ports in Djibouti and Kenya. In March 2013 they agreed to a deal with an international firm to conduct a feasibility study for constructing a pipeline to pass through Ethiopia to the Djibouti port of Douraleh.<sup>76</sup> To be completed in three months, this was the second pipeline study the country was undertaking. The other study concerned the proposed pipeline to the Kenyan port of Lamu. Unfortunately, some experts expressed their reservations in investing in several pipeline projects because of the low oil reserves.

The South Sudanese leaders also devoted attention to trucking oil. On 12 March 2013 representatives of South Sudan, Ethiopia and Djibouti signed an agreement that would allow South Sudan to transport oil by trucks to the port of Douraleh in Djibouti.<sup>77</sup> The cabinet of South Sudan subsequently approved plans to build a road from Palouge to Pagak in Upper Nile. This road, when completed, would be used to transport oil from Blocks 3 and 7, which used to produce about 80% of the country's oil, to the Djibouti port. South Sudan hoped to truck 10% of its oil, nearly 35 000 bpd.<sup>78</sup>

Another alternative was the construction of refineries. On 15 November 2012 President Kiir laid the foundation stone for a new refinery in Thiangrial in Upper Nile state. He told the gathered crowd that 'we [were] supposed to resume oil production last week, but Khartoum refused on security grounds, which is not our problem'.<sup>79</sup> According to the minister of petroleum and mining, Stephen Dhieu Dau, the Thiangrial Refinery project would be ready after 10 months with a capacity of 10 000 bpd.<sup>80</sup>

All these options, however, would not provide a speedy resolution for the deteriorating economic situation in the country. Thus, reaching a deal with Khartoum remained the best, even though difficult, option.

### Turning on the tap

On 12 March 2013 Sudan and South Sudan inked in Addis Ababa the Implementation Matrix deal, which set out a timeline and framework for implementing the nine agreements reached on 27 September 2012. The deal was welcomed readily by the UN and the US, which said that each of the agreements of 27 September 2012 should be implemented independently without conditions. Sudan frequently insisted on implementing the other agreements after the deal on security had been carried out.

The Implementation Matrix deal provided a clear timeline and framework to create a Safe Demilitarized Border Zone, which was to be monitored by the UN peacekeeping force in Abyei (the UN Interim Security Force for Abyei) as part of the Joint Border Verification Monitoring Mechanism. The border agreement required that forces from both sides move 10 km from the border according to a map proposed by the AU.

Apart from setting a timeline for resolving security disputes, the deal also stipulated a firm date for the resumption of oil production. Minister Dau issued an order for oil companies and oil pipeline operators to restart oil production on 14 March 2013.<sup>81</sup> The order also stated that the shutdown had 'served its purpose to protect the sovereignty

and patrimony of the nation'.<sup>82</sup> Some days later the minister confirmed receipt from the Government of Sudan of an official notification ordering oil companies to start preparations to receive South Sudan crude oil.<sup>83</sup>

On 7 April 2013 Dau turned on the oil tap in Block 5A in Thar Jath oil field, Unity state, and announced that for the time being only 10 000 bpd would be produced.<sup>84</sup> On 5 May 2013 oil flow resumed in Palouge, which produced Dar Blend, heavy and sour crude. Experts believed that production would begin at around 50 000 bpd and rise to 150 000 bpd.

During May 2013 President Kiir was expected to travel to Khartoum and later to Port Sudan to witness the first shipment of oil from South Sudan after the 15-month shutdown. However, problems have surfaced that could complicate the planned trip. On 20 May 2013 the Chinese ambassador to South Sudan was summoned by the government to clarify the stoppage of oil flow. The following day the president reportedly confirmed, during a speech at a graduation ceremony of police officers, the stoppage of oil flow. He allegedly said:<sup>85</sup>

Despite the commitment to build cooperation with Sudan, to live side by side and concentrate on building prosperous and viable nations, [the] Khartoum government had again taken the unilateral decision to stop oil flow following the outrageous allegation that South Sudan is supporting rebels against the Khartoum regime.

After an emergency meeting of the Council of Ministers on 22 May 2013, Minister Benjamin told reporters that oil would continue to flow, and that there was only a brief disruption of oil flow due to technical reasons.<sup>86</sup> The Sudan Embassy in Juba also admitted that there were problems between Juba and Khartoum over oil, which the two parties were trying to solve.<sup>87</sup>

Now that oil has begun flowing, it is not known whether the revenues will be managed in the public interest. Politicians have been promising that oil revenues would be used to improve education, health, and infrastructure, especially roads, bridges, electricity and agriculture. Time will tell whether this promise will be kept. For now, the reality is that oil revenues have not led to the improvement of the livelihood of ordinary people, who are still waiting for better days.

## CONCLUSION

Since the decades of war formally ended in 2005 with the signing of the CPA, the ordinary people of Southern Sudan – which changed its name to South Sudan on 9 July 2011, the day of independence from the rulers of the former Sudan – have been waiting for the benefits from oil development. For them, oil has been a curse.

The CPA entitled GoSS to 50% of revenues from its territory, amounting to billions of dollars in remittances from the central government based in Khartoum. A large portion of the windfall should have been used to improve the quality of life of ordinary people. This did not happen. Instead, much of the oil money was mismanaged or diverted into uses that did not serve the public good. The former rebel commanders in positions of power and those close to them have led lives of affluence. Truly, oil has been a blessing for the privileged few.

As the former rebel commanders unashamedly amassed wealth, many people wondered what had become of the virtues that had fired their revolutionary zeal during the liberation struggle. Moreover, many struggled to find differences between their behaviour and those of the despised erstwhile oppressors from the former Sudan.

Unfortunately, events took a turn for the worst shortly after independence. Without wide consultation, the former rebel commanders turned off the oil tap, plunging the country into near economic meltdown. The poorly paid civil servants and other vulnerable people suffered the worst impact of the shutdown.<sup>88</sup>

After 15 months, the former rebel commanders turned on the oil tap in April 2013. Hopes have been raised again. However, as the tensions between two countries have not ceased, uninterrupted flow is not guaranteed. In reality, the expectations of good things to come might be misplaced at the moment.

## ENDNOTES

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- 2 South Sudan was called Southern Sudan before the split.
- 3 The former Sudan was organised into 26 states, of which 10 formed the Southern region.
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## SAIIA'S FUNDING PROFILE

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