



# Sudan and South Sudan's Oil Industries: Growing Political Tensions

Comprehensive Information on Complex Crises

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*This document discusses the oil industries in Sudan and South Sudan and the recent diplomatic and security repercussions that have resulted from recent disputes over oil. A brief background on the oil sector and current events will be presented along with a conclusion on the economic status of each country. Related information is available at [www.cimicweb.org](http://www.cimicweb.org). Hyperlinks to source material are highlighted in blue and underlined in the text.*

## Background on Sudan and South Sudan's Oil

According to a United States Institute of Peace (USIP) [report](#), "Oil and State Building in South Sudan", oil was discovered in Sudan in the late 1970s; however, oil production did not begin until the 1990s due to violence and human right violations that prevented large scale investment. Once China, Malaysia and India began to invest in the country's oil sector, oil output increased from 2,000 barrels per day (bpd) in 1993 to 490,000 bpd in 2009. Before South Sudan became independent, Sudan held 0.5% of the world's proven oil reserves and was considered a minor oil producer.



On July 9, 2011 South Sudan became the world's newest independent country. According to an International Monetary Fund (IMF) [report](#), upon independence, South Sudan gained ownership to 75% of Sudan's oil production as the majority of oil fields are located within the boundaries of South Sudan. Though the majority of oil fields are in the South, the pipelines, refining and export infrastructure are located in the North, thereby making South Sudan dependent on Sudan to refine, transport and ship the oil to market. According to the US Energy Information Administration (EIA) there are [three refineries](#) located in Sudan; Khartoum, Port Sudan and El-Obeid with total refinery capacity just under 122,000 bpd. Refined products in Sudan are mostly consumed domestically.

According to the IMF, 98% of the Government of South Sudan's (GoSS) revenue comes from oil, yet [oil production](#) has already decreased from its 2009 peak of about 360,000 bpd. If there are no new discoveries or improvements in recovery methods, South Sudan's oil reserves are expected to halve by 2020. South Sudanese officials have stated that South Sudan loses 40% of extracted oil because of [inferior technology](#). According to the *Sudan Tribune*, South Sudan currently produces approximately 300,000 bpd and since independence has [contracted oil sales](#) worth USD 2.14 billion. South Sudan produces a distinct crude [variety of oil](#) that is low in sulphur and high in waxy content, something Asian importers

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prefer.<sup>1</sup> The Dar Blend and the Nile Blend are South Sudan's main export grades. According to the European Coalition on Oil in Sudan (ECOS) the Nile Blend, a medium, sweet crude, is sold at higher prices than the Dar Blend crude because of its [better quality](#) and can be readily traded in international markets. However, as Nile Blend reserves become depleted, the availability of the higher quality, more valuable product will decline. The Dar Blend is waxy and acidic and has a [limited market](#) because it will erode ordinary refinery metallurgy and not all refineries are equipped to process the acidic product. The limited number of refineries capable of processing Dar Blend was further complicated by US sanctions, which prevented sales to US refineries that could process Dar Blend. Due to these various challenges, the trading prices for Dar Blend fluctuate and are difficult to predict.

### Management of Sudan and South Sudan's Oil Industry

According to USIP, the Chinese National Petroleum Corporation ([CNPC](#)) was the first [large scale investor](#) in Sudan, beginning in 1996.<sup>2</sup> The company was soon followed by Malaysian-owned [PETRONAS](#) and Indian-owned Oil and Natural Gas Corporation Limited ([ONGC](#)). These three oil companies continue to be the main oil companies operating in Sudan and South Sudan and were responsible for developing the current three main oil fields, network of pipelines, refineries and export terminals. The three international companies also hold the [largest stakes](#) in the leading consortia operating in both Sudans: the Greater Nile Petroleum Operating Company ([GNPOC](#)), [Petrodar](#), and the White Nile Petroleum Operating Company ([WNPOC](#)) (see Table I). Sudan National Petroleum Corporation ([Sudapet](#)) is Sudan's national oil company and is active in Sudan's oil exploration and production but, according to EIA, Sudapet has limited [technical expertise](#) and financial resources. The Nile Petroleum Corporation ([Nilepet](#)) is South Sudan's national oil company.

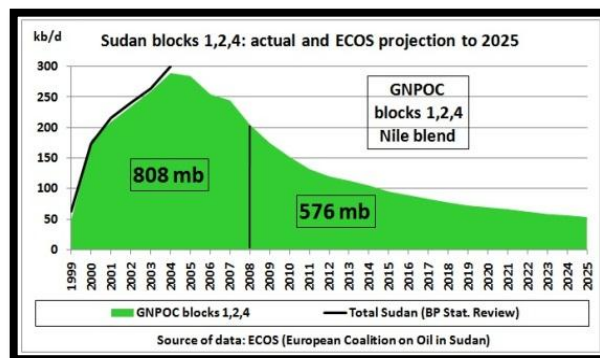
Consortium	Corporations
GNPOC	CNPC (40%), Petronas (30%), ONGC (25%), Sudapet (5%)
Petrodar	CNPC (41%), Petronas (40%), Sudapet (8%), China Sinopec (6%), and Tri-Ocean Energy of Kuwait (5%)
WNPOC	Petronas (67.88%), ONGC (24.13%), Sudapet (8%)

### Major Oil Blocks

\*Reference to "Blocks" in the following sections are illustrated on page 10.

#### Greater Nile Oil Project

The Greater Nile Oil Project [is composed of](#) oil fields in Blocks 1, 2 and 4 and covers an area of 48,388 square kilometres that straddles the disputed Abyei region and border region of Sudan and South Sudan. This area includes the Heglig and Unity Fields which are the largest in the region. In 2004, combined production of Nile Blend from Blocks 1, 2 and 4 peaked at almost 290,000 bpd but has since declined to around 120,000 bpd as of 2011 due to natural declines in the oil fields. The Unity field is located in Unity state in South Sudan; however, both



Source: [Crude Oil Peak](#)

<sup>1</sup> In an email response to questions on oil types, James O.H. Niermann, Jr. at [Packard International](#) responded that high sulfur content causes more pollution, causes the oil to be more acidic and is more difficult to refine; therefore Asian countries prefer to get a source of low sulfur crude in order to diminish pollution potential without the extra efforts to control refining. Having high wax content in crude oil allows for more byproducts of fuel production, which has its own worth.

<sup>2</sup> In 1997, the US imposed [economic sanctions](#) on Sudan, citing the Khartoum government's support for terrorism and human rights violations. In 2007, these sanctions were extended in response to violence in Darfur. In November 2011, these sanctions were extended again against Sudan; however, adjustments were made to allow trade with South Sudan. These earlier sanctions prevented US, European and some Asian firms from investing in Sudan's oil sector, while China, Malaysia and India continued to trade with Sudan. In 1992, the US oil giant Chevron, pulled out of Sudan because of violence surrounding the oil fields. French oil [company Total](#) suspended operations in the 1980s because Block B where it operated was no longer secure. Since 2005 Total has a permanent representative in Khartoum and currently has a liaison office in Juba and is planning to restart operations.



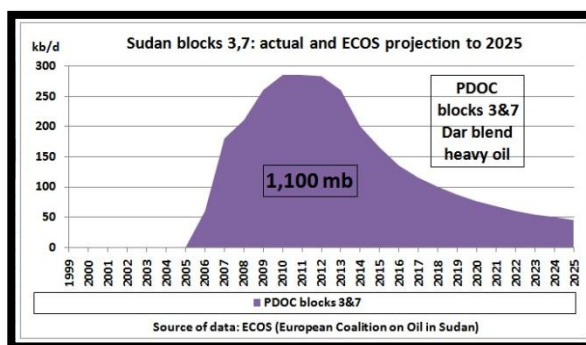
Sudan and South Sudan claim ownership of Heglig field in Block 2. The dispute over the Heglig oil field has led to recent fighting along the border (see page 7). The Greater Nile Project has a 450,000 bpd pipeline that transports fuel from Heglig, Unity and surrounding smaller fields 1,000 miles to an export terminal near Port Sudan. Operators in the fields include: CNPC, Petronas, ONGC Videsh and Sudapet.

*Block 6*

The Fula oil fields, discovered in 2001, are located within Block 6 which lies [firmly in Sudan](#). CNPC, the block's operator, holds 95% equity in the block; Sudapet holds 5%. A pipeline constructed by CNPC links the fields to a Khartoum refinery where the Fula Blend, a highly acidic crude oil, is processed mostly for Sudan's domestic use. In 2011 the block produced 55,000 bpd of crude, an increase from a March 2004 production rate of 10,000 bpd.

*Block 5A, 3 and 7*

Blocks 5A, 3 and 7 are located within South Sudan. The Thar Jath and Mala [oil fields](#) are within Block 5A and are operated by WNPOC. The fields produced about 15,000 bpd of Nile Blend in 2011 and oil was exported through a 110-mile pipeline to Unity field where it was then transported north to Port Sudan on the GNPOC pipeline. Blocks 3 and 7 are located in the northeast of South Sudan and span an area of 72,400 square miles. The Fal, Adar Yale, and Palogue oil fields are located in Blocks 3 and 7 and produced a combined total of around 230,000 bpd of Dar Blend in 2011. These fields are connected by a pipeline established in 2005 that links the fields to Port Sudan.

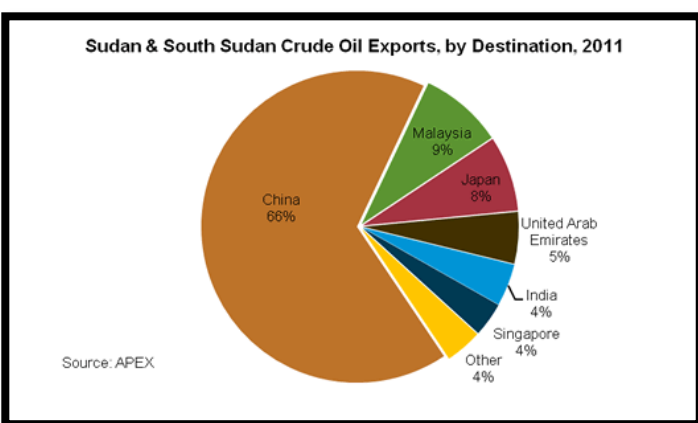


Source: *Crude Oil Peak*

### Major Oil Investors

*China*

An April 2012 [report](#) by the International Crisis Group (ICG) titled “China’s New Courtship in South Sudan”, stated that China established relations with Sudan in 1959 and became actively involved in the oil sector in the 1990s. Following the 1997 imposition of sanctions by the United States<sup>3</sup> on Sudan and deteriorating diplomatic ties with other Western countries, the relationship between China and Sudan strengthened and enabled China to enjoy a monopoly of Sudan’s oil industry. Prior to South Sudan’s independence, China owned [multi-billion dollar](#) investments in Sudan that were predominantly concentrated in Sudan’s oil sector. China dealt almost exclusively with the central government in Khartoum and had “controlling stakes in the biggest energy consortiums operating in Sudan” which gave China an estimated [60% share](#) (490,000 bpd) of Sudan’s daily production, reports *al Jazeera*. Oil coming from the Sudans makes up [5% of](#) <sup>4</sup>



Graph taken from [IEA](#)

[Chinese oil](#) imports. Additionally it was estimated that as of January 2011, 24,000 Chinese were living in Sudan.<sup>4</sup>

Once it became evident that South Sudan would become independent, and China’s investments would be divided between both countries, China began to build closer [diplomatic ties](#) with the South. In November 2010, China

<sup>3</sup> For [information](#) on full US sanctions, please see the US Treasury Department’s Office of Foreign Assets Control.

<sup>4</sup> In January 2012, more than two dozen Chinese road workers [were kidnapped](#) by a Sudanese rebel group in the oil-rich state of South Kordofan.



recognised the new state and upgraded its consulate in South Sudan's capital of Juba to an embassy. On 24 October 2011, the Chinese government provided a grant of USD 31.5 million to South Sudan for [development projects](#) in the areas of water supply, education, health and agriculture. The CNPC has also established a branch in Juba, though their headquarters remain in Khartoum. China is currently the [leading investor](#) in South Sudan's oil sector. Despite China's diplomatic and economic efforts, ICG reports that China's support of Khartoum during the war has led to a perception in South Sudan that "Beijing had underwritten an autocratic regime, helped facilitate the devastation and [economic exploitation](#) of the South and aided in preserving the country's fundamental centre-periphery problem".<sup>5</sup>

In April 2012 South Sudan President Salva Kiir [visited China](#) in an effort to strengthen their diplomatic and economic relationship. South Sudanese government spokesman Barnaba Marial Benjamin described the visit as a success and stated that China had agreed to loan South Sudan USD 8 billion for infrastructure development in the form of "roads, bridges, hydropower, agriculture and telecommunications projects", reports the *Sudan Tribune*. Recently China has also become more involved in the negotiation process between Sudan and South Sudan over disputed oil resources and on-going conflicts along the border. *Al Jazeera* reports that instability between Sudan and South Sudan could threaten China's "multi-billion dollar investments and potentially impact its [growing interests](#) in neighbouring countries like Ethiopia, Chad and Libya". It is for this reason that in August 2011, the Chinese Foreign Minister Yang Jiechi offered to [help mediate](#) between Sudan and South Sudan on issues regarding "outstanding post-secession issues". Additionally, during Salva Kiir's recent visit, Chinese [President Hu Jintao](#) called on both sides to "exercise the utmost restraint and refrain from making reckless moves". In a statement that reflects Beijing's concern over the potential impact of the on-going dispute on China's oil investments, Foreign Ministry spokesman Liu Weimin stated that "Chinese oil companies and their partners have major projects in both Sudan and South Sudan. Their legitimate rights and interests deserve [substantial protection](#)". China is currently not fully supporting one side over the other and their manoeuvring has not gone unnoticed. South Sudanese negotiator Pagan Amum stated in May that "by trying to move away from Khartoum so as to get closer to South Sudan and trying not to get too close to South Sudan so as not to [cause displeasure](#) to Khartoum...neither Khartoum nor Juba will be happy with China".

### *India*

India opened a liaison office in Khartoum in March 1955 and has maintained [diplomatic ties](#) with Sudan. The two countries have several bilateral Agreements and Memoranda of Understanding. According to Gateway House, an Indian council on global relations organisation, of the total 10,000 uniformed personnel of the United Nations Mission in Sudan (UNMIS), one-third comprises [Indian police officers](#) and military. India established a consulate in South Sudan in 2007 and was the first Asian state to recognise South Sudan as an independent country. Gateway House further reports that, in return for India's support of South Sudan on issues of development aid, writing-off of debts and increased economic investments, India expects South Sudan's support for India's bid for permanent membership on the UN Security Council. Though relations are good between the two countries, India has a lesser presence of Indian diaspora living in South Sudan as compared to China.<sup>6</sup> This absence of a significant Indian diaspora can be a drawback, mainly for the private sector, since it results in a lack of a bridging component between investors from India and investments in South Sudan.

In 2010 [India's investments](#) and loans in Sudan were valued at USD 3 billion. USD 2.4 billion of these investments has been made by the oil company ONGC Videsh Limited (OVL) and were "invested in acquiring oil exploration and production assets that straddle both Sudan and South Sudan". India receives 100,000 oil bpd from South Sudan and OVL has a 25% stake in the Greater Nile Oil Pipeline that connects South Sudan's oil to the refineries and port in Sudan. *Business Standard* reported on 07 April that ONGC Videsh Ltd (OVL), the overseas investment arm of Indian state-run Oil and Natural Gas Corporation Ltd (ONGC), had [discontinued crude oil](#)

<sup>5</sup> Jonah Leff, the Small Arms Survey's Sudan project coordinator stated that "China is Khartoum's principal [supplier of weapons](#), and the two countries have enjoyed an arms-for-oil relationship for several years".

<sup>6</sup> Gateway House states that there are an [estimated](#) 10,000 people of Indian origin and non-resident Indians living mostly in and around Port Sudan, Khartoum and other cities of Sudan. South Sudan statistics are not given.



production in South Sudan and reduced production in Sudan since the beginning of the year in response to the geopolitical dispute between South Sudan and Sudan.<sup>7</sup>

### Malaysia

Malaysia's National Oil Corporation, Petronas, has been operating in Sudan [since 1995](#). In January 2008 Petronas was permitted to begin [oil exploration](#) in block 5B, located in South Sudan's Jonglei state, alongside Moldavian company Ascom. In March 2011, Petronas signed a two-year Memorandum of Understanding with the GoSS Ministry of Petroleum and Mining ([MoPM](#)) that outlined general [principals of cooperation](#) between Petronas and MoPM in the areas of upstream oil and gas exploration, development and production.<sup>8</sup> The agreement also set up a framework for sharing expertise in the management of petroleum resources through training programs for the South Sudanese. A Transition Agreement signed between the GoSS and Petronas on 13 January 2011 grants Petronas and its partners the rights to continue with [existing contracts](#) previously signed with Sudan that allowed operations in Blocks 1, 2 and 4, Blocks 3 and 7 and Block 5A. Malaysia agreed in June 2011 to invest more into South Sudan's economy through the establishment of [mining and agricultural](#) industries. According to the Malaysian national news agency *Bernama*, the Malaysian Foreign Ministry [issued a statement](#) in April 2012 that urged Sudan and South Sudan to continue negotiations on all outstanding post-secession issues and reiterated that Malaysia was convinced that diplomacy was the best way forward in Sudan and South Sudan overcoming their differences.

### Division of Oil

At the signing of the Comprehensive Peace Agreement ([CPA](#)) between South Sudan and Sudan in January 2005, it was determined that during the interim period the oil sector would be managed by the National Petroleum Commission (NPC) in order to provide full sharing of information and decision making between Sudan and South Sudan. However, according to USIP, the NPC did not function well and South Sudan began its independence in July 2011 with [limited detailed knowledge](#) of the oil industry. Additionally, within the CPA there were three key questions concerning oil fields:

1. Who owns the oil fields straddling the demarcated Sudan-South Sudan border? This is particularly true of oil field blocks 1, 2 and 4.
2. Whether a revenue-sharing formula would be retained and if not, what price South Sudan would pay to access export pipelines and ports in Sudan?
3. How pre-separation state owned assets, including those held by the state oil company Sudapet, would be distributed after South Sudan's independence?

When South Sudan became independent, many of these issues were not resolved and by January 2012, Sudan and South Sudan became locked in an intense dispute over how to manage the two countries' oil wealth. According to *Reuters*, at the heart of the dispute is the issue of transit fees South Sudan must pay Sudan in order to transport [South Sudan's oil](#) from the oil fields located in South Sudan to the sea ports in Sudan. *Africa Confidential* reports that Sudan was demanding an exorbitant USD 30 per barrel in [transit fees](#), while the international rate is USD 0.40 – 1.00. South Sudan has stated that it will only pay USD 0.63-0.69 per barrel, in addition to a one-time payment of USD 1.7 billion to compensate for Sudan's major loss in oil revenue when South Sudan officially gained independence. In response to South Sudan's refusal to pay the high transit fee, [Sudan seized](#) at least four oil-laden South Sudanese tankers bound for export as compensation until an agreement was reached. In response to the "theft" at the end of January 2012, South Sudan [incrementally shut down](#) all of its oil production, starting in Block 5A and moving to Blocks 3, 7, and oil fields in the Greater Nile Oil Project (*Blocks 1, 2 and 4*). International oil companies operating in the area confirmed that following the oil shutdown, water was injected into the 1,000 mile pipeline to prevent clogging and that some of their foreign workforce was sent home. According to EIA, it is difficult to project how quickly companies will be able to restart production with estimates ranging from one month to over six months.

<sup>7</sup> In 2003 the Canadian [energy group Talisman](#) sold its 25% stake in the Greater Nile Oil production and pipeline project to ONGC Videsh. Talisman chief executive Jim Buckee stated that the decision was made based on "US pressure" which threatened to exclude Talisman from US financial markets, reports *BBC*.

<sup>8</sup> "Upstream" is a common term used to refer to searching for potential underground/underwater oil and gas fields, drilling of exploratory wells and drilling and operating the wells once oil and gas are discovered.



The Institute for Security Studies ([ISS](#)) reports that in February 2012, the African Union's High Level Implementation Panel (AUHIP) proposed [two options](#) to end the deadlock. The first required a "30-day transition period" in which South Sudan would continue to use the North's infrastructure while negotiations continued. The second would have required South Sudan to pay Sudan approximately USD 4 billion over five years as compensation for Sudan's lack of access to the oil fields. Additionally, South Sudan was to pay Sudan the value of 35,000 bpd. *Bloomberg* reports that South Sudan's President Salva Kiir rejected the [mediation proposal](#) because he felt that the deal would have kept South Sudan dependent on the north for oil exports.

In order to reduce South Sudan's dependency on northern oil infrastructure, South Sudan signed a memorandum of understanding with the Kenyan government to build an [oil pipeline](#) from South Sudan to the Kenyan port of Lamu.<sup>9</sup> According to the *Sudan Tribune*, a spokesman for South Sudan reported that potential investors have been identified.<sup>10</sup> In mid-April 2012, the Japanese firm Toyota Tsusho completed a [feasibility study](#) on the construction of a pipeline to transport South Sudanese oil to Kenya. It is expected that Toyota Tsusho will soon present a financial proposal on constructing the pipeline.<sup>11</sup> South Sudan has also sought Chinese investment in the new pipeline; however, the *New York Times* reports that China did not commit to any major [pipeline investments](#) because Beijing does not want to appear to be taking sides in the ongoing dispute.

### Recent Border Insecurity

The CPA stipulated that the border between Sudan and South Sudan would be determined by the end of the interim period which ended in July 2011 upon South Sudan's independence; however, the demarcation of the border has not been achieved. According to a 2010 Concordis International [report](#) on Sudan, the CPA did not fully address North-South border disputes. The ability to reach a border agreement goes beyond simple demarcation but also requires peaceful coexistence between border communities. According to the report, "the presence of divergent interests, marginalisation, complex alliances, a militarised culture and the availability of arms, also means that local actors risk drawing the CPA parties back to larger scale conflict if their interests are not perceived as being met". Additionally, many communities on the border region feel that "insecurity and uncertainty at the border is driven by national interests". There are both intensified local and national disputes over land along the Sudan-South Sudan border and contemporary and historical political and economic claims on land ownership. Control over areas with large oil reserves has been a main source of conflict.

### *Abeyi, Blue Nile and South Kordofan*

Oil was discovered in Abeyi in 1979 which resulted in the region's growing strategic importance for both Sudan and South Sudan. Leading up to a July 2009 ruling by the Permanent Court of Arbitration, Abeyi included the [oil towns](#) of Heglig, Bamboo and Diffra which contributed a combined total of 25% of Sudan's annual oil production (76,600 bpd). However, in July 2009 the court ruled that Heglig and Bamboo were outside of Abeyi. Diffra is currently the only oilfield in Abeyi and produced less than 1% of Sudan's annual production in 2009. Though Abeyi has decreased in importance as it relates to oil production, because of its geography it is still a contentious region with potential for reigniting war between Sudan and South Sudan.<sup>12</sup> Abeyi is an extremely fertile region and the River Kiir (in Dinka)/ Barh el-Arab (in Arabic) continues to flow throughout the harsh dry season thereby causing the land to be important for multiple people groups. The [Dinka Ngok](#), a subsection of South Sudan's largest ethnic group, the Dinka, live in Abeyi. The Misseriya, a



<sup>9</sup> South Sudan also signed a MOU with [Ethiopia and Djibouti](#) that would enable a pipeline to be built connecting South Sudan's oil fields to a pipeline ending at the port of Djibouti, reports *Bloomberg*.

<sup>10</sup> South Sudanese rebels operating in Unity state have threatened the [proposed construction](#) because, according to the rebels, "the decision was taken without adherence to democratic principles".

<sup>11</sup> Michael Hsueh, a London-based analyst at Deutsche Bank AG (DBK) said that the dispute between South Sudan and Sudan over oil and the resulting removal of 360,000 barrels of oil from global markets has placed an "additional burden" [on Japan](#). South Sudanese low-sulfur crude is suitable for many oil-fired generators that are commonly used in Japan. In December 2011, Japan imported 142, 613 kiloliters of crude from South Sudan. As a result of South Sudan's oil shutdown, Japan has increased its purchases from Sudan.

<sup>12</sup> The [Abeyi Protocol](#) stipulates the division of Abeyi's oil revenues among several groups in the region.



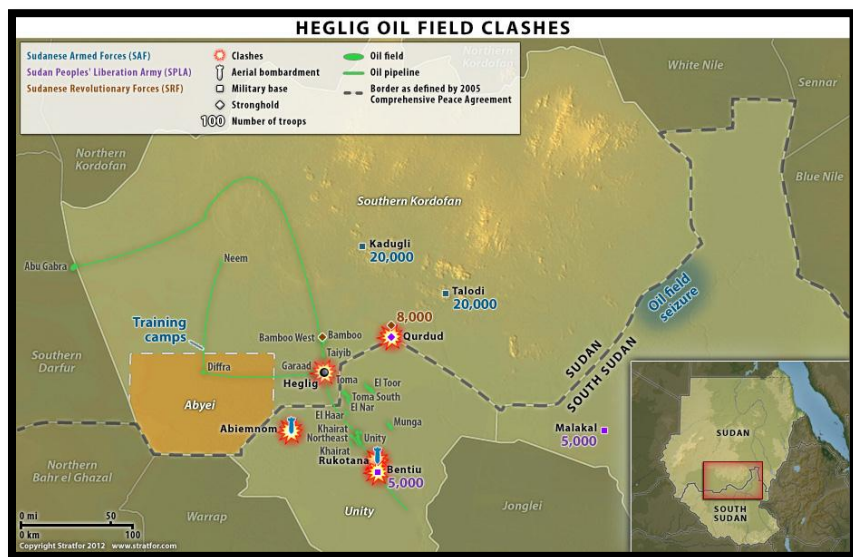
nomadic group who live in Sudan, spend part of the year in Abeyi with their cattle as they travel to greener pastures in South Sudan. Nearly every year there are clashes between the two ethnic groups.

Blue Nile and South Kordofan are [oil producing](#) border-states that remained under Khartoum's northern administration when South Sudan became independent. Many fighters, who once fought with the South Sudanese Sudan People's Liberation Army (SPLA) as they sought to gain independence from Sudan, remained in the North when South Sudan became a country. The group became known as the Sudan People's Liberation Movement-North (SPLM-N). The *Sudan Tribune* reports that clashes between the SPLM-N and the northern government's Sudanese Armed Forces (SAF) began in South Kordofan in June 2011 and in Blue Nile in September when the northern government attempted to [disarm the rebels](#). According to *Al Jazeera*, SPLM-N is [fighting to topple](#) Sudanese President Omar al Bashir rather than trying to gain independence or join South Sudan. In November 2011, the Sudan Revolutionary Front (SRF) [coalition was established](#) between major rebel groups in Darfur, South Kordofan and Blue Nile with the mission of overthrowing Bashir's government.

In Blue Nile state, Malik Agar, the head of the SPLM-N rebels, reported that as of 09 May 2012 more than 200,000 people were in [dire need](#) of humanitarian assistance. *Médecins Sans Frontières* (MSF aka Doctors Without Borders) reported that the two border camps of Doro and Jaman have received over [80,000 people](#) since November 2011 and continue to register new arrivals as a result of bombings and fighting in Blue Nile. In March 2012, Peter Greste, an *al Jazeera* reporter, documented evidence of [destroyed villages](#) and crops and reported that thousands of people in South Kordofan have fled their homes in fear of attacks by Sudanese government forces. Greste states that "what is concerning is the attempts to drive a lot of the African tribes off their lands and to deprive them of resources". Sudanese officials have denied the reports that the army is behind the attacks and has placed the blame on the SPLM-N.

### *Heglig Oilfield*

Tensions in South Kordofan escalated in March and April 2012 when fighting broke out in Heglig. Heglig is located within the Greater Nile Oil Project which was developed in 1996 and is [currently operated](#) by the GNPOC consortium. Heglig contains a large oilfield which Khartoum has controlled and which currently generates almost half of Sudan's oil revenue, making it an important source of income for the government. A pipeline stretches 1,000 miles from Heglig to Port Sudan. According to the *Integrated Regional Information Network (IRIN)*, Heglig is a [disputed region](#) that is claimed by both countries. Sudan has cited a 2009 ruling by the Permanent Court of Arbitration in The Hague which states that Heglig is not part of the disputed [Abeyi region](#), and therefore, not included in Abeyi's possible vote on secession from Sudan. According to *Reuters*, maps issued by the court appear to put Heglig in Sudan's South Kordofan state. The *BBC* reports that Heglig is internationally recognised as [Sudanese territory](#). South Sudan has countered these claims, stating that the ethnicity of the local population is South Sudanese.



It is difficult to determine when fighting began within the Greater Nile Oil Project region, which comprises parts of both Sudan and South Sudan, due to [conflicting reports](#) by both governments and rebel groups within the region. Sudan accused South Sudan of [supporting the SPLA-N](#) in attacks that took place on 23 March in Heglig. Both the SPLA-N and the South Sudanese government deny that an attack took place. On 26 March, clashes broke out along the border with South Sudan claiming that Sudan had bombed [main oil fields](#) in Unity state, an

Source: [Stratfor](#)



oil rich region located within the Greater Nile Oil Project in South Sudan's Unity state. *Al Jazeera* reporters witnessed an attack by [Sudanese jets](#) on an oil pipeline in the contested region of Heglig on 04 April. South Sudanese forces responded with [anti-aircraft fire](#) and reported that a Sudanese MiG-29 jet fighter was brought down during the fighting. Following further fighting, South Sudanese [troops seized](#) Sudan's Heglig oilfield from the Sudanese Armed Forces (SAF) on 10 April and according to the *Sudan Tribune*, South Sudan's government shut down [oil production](#) in Heglig.

Fighting continued between both sides throughout April and into early May 2012. *Al Jazeera* reports that an *Agence France-Presse (AFP)* news agency correspondent said he saw "[piles of corpses](#)" clad in South Sudanese military uniforms scattered beneath trees. A South Sudanese soldier in Unity state said that there were many bodies on the front line and that it was "impossible to bury them or bring them back". General Kamal Abdul Maarouf, a Sudanese army commander, reported that 1,200 South Sudanese troops had died; a figure South Sudan has denied. South Sudan's army has countered saying that 19 of their soldiers were killed and 240 Sudanese troops had died. South Sudan's army reported on 22 April that it had [removed its troops](#) from the Heglig oil field it had seized on 10 April. Officials stated that South Sudan withdrew in order to avert a return to all-out war with Sudan.

On 02 May, the UN Security Council (UNSC) [unanimously backed](#) a US-drafted resolution calling on Sudan and South Sudan to unconditionally withdraw troops to their own territories and immediately halt the current violence. Additionally, both sides must resume negotiations within two weeks and reach an agreement within three months on outstanding issues. If either side fails to abide by the terms, then "additional measures" could be taken which could include sanctions. A number of opposition parties in Sudan have called on the government to [accept the resolution](#); however, there are those within the Sudanese government who [oppose the plan](#). AU mediator Thabo Mbeki has warned the UN that political hardliners in both of the Sudans are locked in a "logic of war" and are gaining more influence over the [negotiation process](#). Though Sudan and South Sudan have accepted the AU's seven-point plan, Sudan has insisted on retaining the right to self-defence and South Sudan has also maintained that its actions in the Heglig region were for self-defence. Only a day after the UNSC resolution was passed, South Sudan and Sudan began [accusing each other](#) of continuing acts of violence in defiance of the resolution. The UN Interim Security Force for Abyei reported that South Sudan withdrew its [police force](#) from the Abyei region on 11 May, five days before the UNSC 16 May deadline for both sides to remove their forces from the region; however, Sudan's foreign ministry stated on 13 May that Sudan would only remove its forces from Abyei after a joint [administrative body](#) for Abyei is established.

Sudanese officials allege that South Sudanese who occupied the disputed border region between Sudan and South Sudan intentionally damaged the [Sudanese pipeline](#). South Sudan's army countered the Sudanese accusation and stated that Sudan had bombed the Heglig area "indiscriminately" which resulted in the damage to the pipeline. According to the Satellite Sentinel Project ([SSP](#)), a Harvard University humanitarian initiative, the SSP found [evidence of destruction](#) of key oil pipeline infrastructure in Heglig. SSP could not determine when the damage to the pipeline occurred or identify the party that damaged the fields. Sudan reported on 02 May that the Heglig oil field had been repaired and Sudan was pumping oil, though it could take months to return to full production.

### Implications of Border and Oil Dispute on Sudan and South Sudan

According to USIP, "although Sudan is a small player on the global oil stage, oil has been a [dominant factor](#) in the economies and domestic and international politics of north and south since it was first discovered in the late 1970s". The IMF had forecasted that following South Sudan's independence in 2011, Sudan's real gross domestic product would [decline by 7.3%](#) in 2012. *AFP* reports that an economist who declined to be named stated that it was estimated that the damage to the Heglig oil field during the fighting with South Sudan [depleted oil](#) revenues by a further 20%. The dispute with South Sudan over oil transit fees has resulted in an approximately USD 2.4 billion shortfall in Sudan's [public finances](#). South Sudan has been even more negatively impacted. According to the *Sudan Tribune*, a leaked [confidential report](#) by the World Bank states that South Sudan is potentially headed for an economic collapse in response to the shutdown of oil production earlier this year. The report predicts that there will soon be a "sharp" drop in the influx of hard currency and that once citizens realize that their currency lacks value, there will be a run for US dollars. The World Bank's Director of Economic Policy and Poverty Reductions Programs for Africa Marcelo Giugale stated that once this run begins "the currency will almost



certainly collapse”. An analysis of South Sudan’s foreign reserves shows they could be depleted by July 2013 “at which point state collapse becomes a real possibility”. Giugale further stated that an economic collapse “could result in social and political fragmentation, unrest and instability”. Additionally, the lack of state revenues will force the government to impose budget cuts on the SLPA, which is a [fractious force](#) that includes many former enemies of the government.

In addition to the economic challenges posed by the conflict over oil, both countries are faced with other obstacles at home. South Sudan is confronted by heavily-armed, ethnic-based fighting that has resulted in thousands of deaths. Additionally, a looming major [food crisis](#) could be made worse by the lack of government revenue. On the other side of the border, Sudan is battling student protests, the simultaneous rebellions in Darfur, Blue Nile and South Kordofan state, strict US economic sanctions, International Criminal Charges (ICC) genocide charges against President al Bashir, and lack of political cohesion within the ruling National Congress Party (NCP); all of these have put the Sudanese government on the defensive. The ICG states that if Bashir’s government were to fall, it “could trigger a [wild scramble](#) by multiple armed actors for control of Khartoum and other parts of the country that would be hard, if not impossible, to restrain”. In addition, both countries have been accused of supporting rebels on the other side of the border, thereby enabling a constant stream of weapons into each other’s country.<sup>13</sup> A coalition of African and Arab civil society organisations have warned that a return to war between Sudan and South Sudan could cost the region a loss of over [USD 100 billion](#). The coalition believes that both of the Sudans would lose a combined total of USD 25 billion in gross domestic product (GDP), while neighbouring countries could lose up to USD 25 billion in GDP. It is expected that international peacekeeping and humanitarian costs for the region could exceed USD 30 billion.

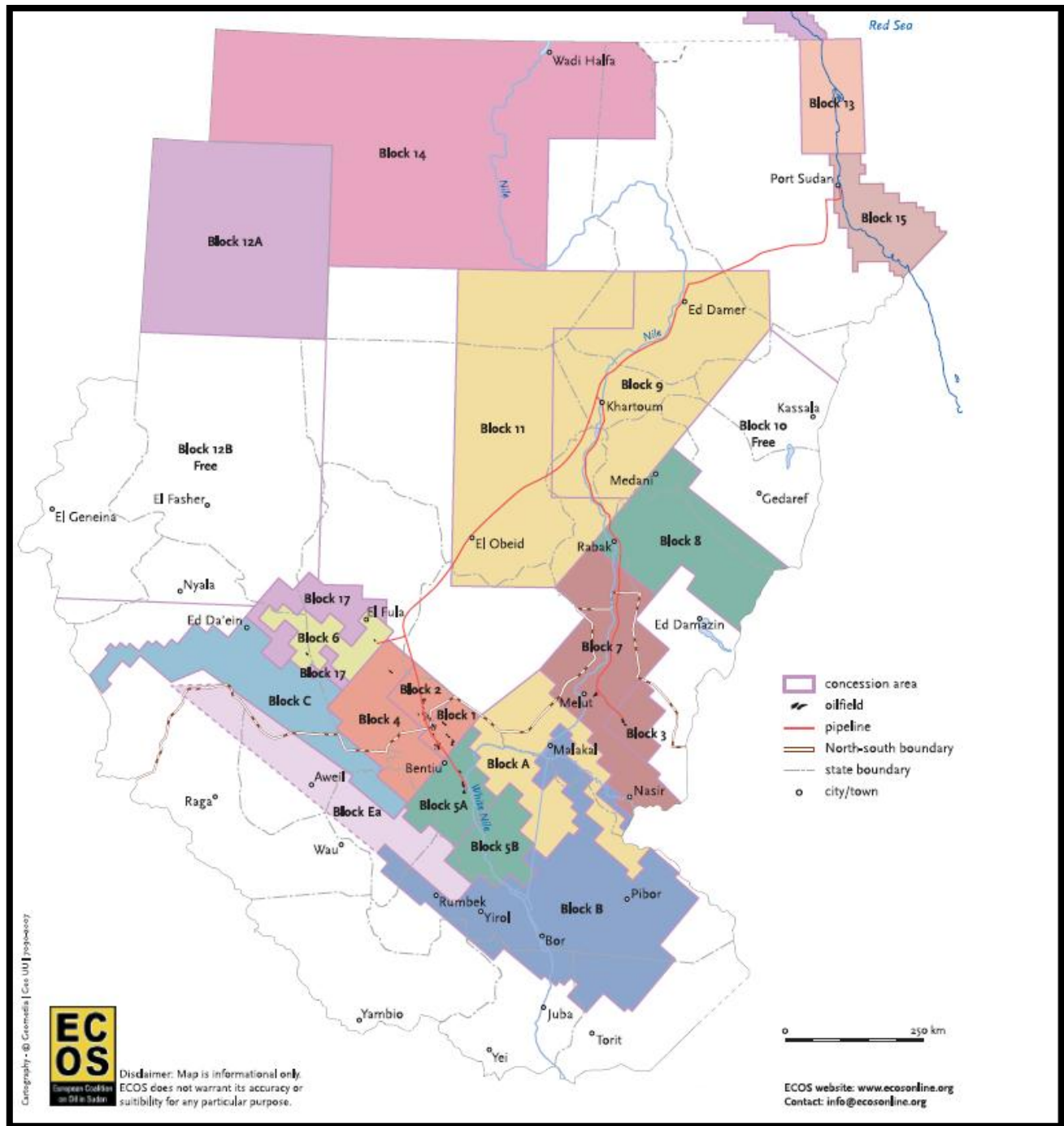
### Conclusion

ICG believes that [long term solutions](#) for Sudan and South Sudan involves solving unresolved post-referendum issues, implementing the unimplemented provisions of the Comprehensive Peace Agreement, and domestic reforms in both countries. Additionally, diplomatic pressure needs to be exerted on both countries by the UNSC, AU, as well as such partners as China, the United States and key Gulf States. As seen above, the oil industry is a vital component of both countries’ economies and must be functioning to its full capacity in order for both of the Sudans to develop their respective economies and move their countries forward.

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<sup>13</sup>For more information on weapons in South Sudan, see Small Arms Survey Sudan Human Security Baseline Assessment April 2012 [Issue Brief](#) “Reaching for the Gun: Arms flows and holdings in South Sudan”.

Distribution of Blocks in Sudan and South Sudan



Source: *European Coalition on Oil in Sudan (ECOS)*