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Oil, Peace and Development: The Sudanese Impasse

Hassan Ali Gadkarim

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[1] This paper is written for Peacebuilding in Sudan: Micro-Macro Issues Research Programme, CMI.

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Oil, Peace and Development: The Sudanese Impasse[2]

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1. Introduction

The issue which this paper tries to address is rather wide, complicated and controversial. The keywords here are oil, peace, and development whose interrelationships and overlapping spheres are beyond the scope of this paper. However, an attempt will be undertaken to describe how oil has engrained its fingerprints on the national economy, the Comprehensive Peace Agreement, and the Government of Southern Sudan (GoSS).

Oil and the armed conflict in Sudan have been looked at from different angles. One theme saw the conflict as impeding oil exploration - and production - and therefore had delayed development which could have been accelerated by introducing this vital resource into the economy. Another interpreted oil production/revenues as a factor prolonging the civil war – by availing resources for the continuation of the civil war at a time when the government was facing great difficulties. The third approach saw competition over oil and the distribution of its revenues as a cause for the conflict.

Regarding these approaches, it could simply be pointed out that the oil element was absent in the first civil war 1955-1972, but when the last war (1983-2005) was being fought, oil had occupied a significant role and all three themes were present. It constituted a source for the government to pay for the war bill and a wealth to be fought over – for sharing its returns. Some also argued that war had delayed the explorations and production of oil, and therefore the development of the country. However, oil yields have become the major wealth which need fair distribution, and which, if properly utilized, will help in the construction and development phases to come with peace.

The Comprehensive Peace Agreement (CPA) which ended the Southern conflict was signed after long, tedious negotiations. These negotiations, among other things, have resulted in an agreement that not only deals with the grievances but tries to tackle the basis of the conflict - the real factors behind it - and to pave the way for peaceful development. The distribution of oil revenues occupies a central position in the Wealth Sharing Protocol – a major constituent in the Agreement.

Peace and oil could help in transforming the economy towards growing productive, interlinked developed sectors capable of providing employment and reasonable incomes for the society's manpower, one where the welfare of individuals is not derived from gender, race or religion but from citizenship, qualification and effort.

Nevertheless, the literature points to the reoccurrence of conflicts as a major danger in the post-conflict period, i.e. peace needs to be sustained, first by eliminating/resolving the factors behind the conflict, and secondly by avoiding their reoccurrence. Other major possible factors leading to future conflict should also be dealt with. A major element in confidence building and peace sustainability is related to the way the different signing partners implement their agreements and solve their disagreements regarding implementation.

[2] This paper is written for Peacebuilding in Sudan: Micro-Macro Issues Research Programme, CMI.

The relationship between the two partners (the SPLM and the NCP) has been tense and conflictual. Distribution of oil “wealth” has been a permanent issue of disagreement.

For example: "Though the SPLM listed eight issues as justification for its suspension, five have been cited as particularly egregious: Abyei, redeployment of forces, the census, demarcation of the North-South border and oil sector transparency. All these impact upon the ultimate division of wealth and power and have a direct bearing on elections and the referendum. Most are also related, explicitly or tangentially, to oil, which is the lifeline for both the NCP in the North and the GoSS in the South."[3]

"While many issues are at play in Abyei, the main motivating factor behind NCP intransigence appears to be oil. With the majority of Sudan’s reserves in the South, the NCP has a major interest in maintaining as great a percentage as possible in the North and avoiding the revenue-sharing provisions for oil within the borders set by the ABC. According to those borders, Abyei includes three major oilfields, whose 2005-2007 revenues were roughly $1.8 billion. After the SPLM suspended its participation in the national unity government, Abyei became the single largest point of contention."[4]

This paper will try – in its second section - to critically portray the Wealth Sharing part of the CPA in general and oil wealth sharing in particular. This will be followed – in section three – by a description of the position which the oil sector has come to occupy within the economy in a relatively short period of time and the implications on its structure. In section four, the share of the GoSS in oil revenues is portrayed and the impact of price fluctuations studied. Finally, the last section attempts to tackle some of the implications of the findings of the previous sections on the development policy/path of the country.

2. The Comprehensive Peace Agreement: Wealth Sharing and Oil

Chapter Three of the Comprehensive Peace Agreement[5], which tackles Wealth Sharing, starts with a section on the guiding principles to ensure an equitable sharing of common wealth. The second section deals with ownership of land and other resources. This is followed by three elaborate sections dealing with oil, its management, and development and sharing in addition to establishing a National Petroleum Commission (NPC). Section six is reserved for the sharing of non oil revenues. The headings for the other sections are: Equalization and Allocation to the National, Southern Sudan and State/Regional Levels of Government in Respect of Revenue Collected Nationally; Fiscal and Financial Allocation and Monitoring Commission (FFAMC); Inter-state Commerce; Government Liabilities; Division of Government Assets; Accounting Standards and Procedures and Fiscal Accountability; Financing the Transition; Monetary Policy, Banking and Currency, and Borrowing ; Reconstruction and Development Fund (Southern Sudan Reconstruction and Development Fund (SSRDF), National Reconstruction and Development Fund (NRDF) and Multi-Donor Trust Funds.

Generally speaking, this - among other things - clearly demonstrates: a) the centrality of the oil issue, b) the tremendous efforts undertaken to reach an agreement on the major economic concerns and the arrangements/settlements the signing of the agreement endorsed, and c) the distinct emerging character of the South vis-à-vis the North.

[3] International Crisis Group - Policy Briefing Africa Briefing N°50 Nairobi/Brussels, 13 March 2008 "Sudan’s Comprehensive Peace Agreement: Beyond the Crisis". SPLM suspended its participation in the GoNU on 11.10.07 for about two months until an agreement reached on 12.12.07.

[4] International crisis Group -Policy Briefing Africa Briefing N°50 Nairobi/Brussels, 13 March 2008 "Sudan’s Comprehensive Peace Agreement: Beyond the Crisis".

[5] The Comprehensive Peace Agreement between the government of the Republic of Sudan and the Sudan People’s Liberation Movement/Sudan People’s Liberation Army, January 2005.

The guiding principles incorporated that the wealth of Sudan shall be shared equitably so as to enable each level of government to discharge its legal and constitutional responsibilities and duties, and to ensure that the quality of life, dignity and living conditions of all citizens are promoted without discrimination on grounds of gender, race, religion, political affiliation, ethnicity, language, or region. The sharing and allocation of this wealth shall be based on the premise that all parts of Sudan are entitled to development and that the Southern Sudan, and those areas in most need of construction/reconstruction, shall be brought up to the same average level of socio-economic and public services standard as the Northern states. That revenue sharing, which shall be conducted within a framework of transparent and accountable government, should reflect a commitment to devolution of power and decentralisation of decision-making in regard to development, service delivery and governance. To achieve these objectives it will take time and effort to build local institutional, human and economic capacity. For this purpose, two special funds shall be established.

"While these principles are acceptable they remain vague as to the relevant indicators to be used to ensure the "equitable sharing" of income and wealth between the various regions in a development context. Principle (a) emphasizes the importance of respecting the administrative constraints of the various levels of government to enable them to "discharge legal and constitutional responsibilities and duties". Such requirements are usually reflected in government budgets. Principle (b) can be understood as emphasizing the importance of promoting non-discriminatory development, where development is broadly defined in terms of the "quality of life" and "living conditions" of all citizens. Both the "quality of life" and "living conditions" are left undefined. Principle (c) could be interpreted as embodying an objective function to guide the design of a wealth allocation formula in the form of minimizing the gap in average "social/economic standard and public services" between the South and the North. Once again the "social/economic standard" is left undefined."[6]

In dealing with the petroleum sector, it is obvious that the agreement is concerned primarily with the Interim Period. It is not clear what will happen after this period. On the positive side, this will, hopefully, allow for new arrangements; national (taking different Northern regions/states into consideration) rather than only the South–North context emphasized in the agreement. New arrangements will therefore be needed in the long run whether the people of the South vote for unity or secession in the 2011 referendum stipulated in the agreement.

Moreover, it might be rational to assume that the situation of the petroleum sector, as far as the current productive areas are concerned, will not change dramatically during the six years of the Interim Period. This should not however, be construed as advocating the continuation of the agreed upon arrangements after the Interim period.

An example manifesting the emphasis of the CPA on the South is that the independent National Petroleum Commission (NPC) to be established during the Pre – Interim Period will be co-chaired by the President of the Republic and the President of the Government of Southern Sudan (GoSS). In addition to these two permanent members, the Commission includes eight permanent members divided equally between the two governments. In other words, ignoring that the SPLM/SPLA is a partner in the national government, the national government which represents, theoretically, the larger North has weight equal to that of the GoSS regarding national issues/functions.

These members are entitled to undertake four[7] of the five functions of the Commission specified in the agreement, namely:

- Formulate public policies and guidelines in relation to the development and management of the petroleum sector.

[6] Ali Abdel Gadir Ali, Conflict Resolution and Wealth Sharing in Sudan: Towards an Allocation Formula Arab Planning Institute Kuwait. (August, 2003).

[7] 3.5.6. In performing functions 3.4.1, 3.4.2, 3.4.3 and 3.4.5 of paragraph 3.4, the NCP shall include only its permanent members. (In the CPA).

- Monitor and assess the implementation of those policies to ensure that they work in the best interests of the people of Sudan.
- Develop strategies and programs for the petroleum sector.
- Develop its (the Commission's) internal regulations and procedures.

Only when performing the fifth function shall the NPC include – in addition to its permanent members - non-permanent members/representatives (not more than three) of an oil producing State/Region in which contracts for the exploration and development of the petroleum are being negotiated and considered for approval. According to the agreement the fifth function is to negotiate and approve all oil contracts for the exploration and development of oil in the Sudan, and ensure that they are consistent with the NPC's principles, policies and guidelines.

If rightly understood, this means that the ten permanent members representing the Government of National Unity (GoNU) and GoSS will develop strategies and programs, formulate policies for the petroleum sector, and monitor and assess their implementation to ensure that they work in the best interests of the people of Sudan and not only those of the Southern Sudan. That is to say, the two parties agreed to share the management of the development of the petroleum sector during the Interim period. In that sense the GoSS has equal right, equal to the national government, of which they are a partner, to perform these functions.

This is one of the dichotomies of the present situation in Sudan where a prevailing assumption of the CPA is that the GoNU represents the North, while the GoSS represents the South. This stems partly from the assumption that the GoNU stands for the North and not the National Conference Party (NCP). In fact, all other actors, even the SPLM/SPLA as a partner in the GoNU, are marginalized; leaving aside the non-representative nature of the government.

That the decisions of the NPC shall be by consensus manifests the lack of trust between and among the two concerned parties. That is to say, not only that the two partners need to agree /compromise if a decision is to be taken but individual representatives should agree as well. In other words, neither another point of view nor the independent opinion of any of the representatives will be tolerated.

The CPA included a detailed clause to safeguard the right of the non-permanent representatives to disagree with any NPC decision to sign a contract for oil exploration/production in their respective state/region. However, and in addition to the non-permanent nature of these representatives, their decision to dispute the decision of the NPC should be collective i.e. all of them should decide to dispute the matter regarding the contract signing. Thus it could be argued that other states were undermined regarding both national policies pertaining to the oil sector and even those relating to contracts in their region/state.

It should be stated that the agreement allows the SPLM to appoint representatives who will have access to all contracts signed before the CPA. These contracts will not be subject to re-negotiations, but the Government of Sudan (GoNU) should implement necessary remedial measures – based on the recommendation of these representatives - to cater for any fundamental social and environmental problems or rights violations arising from those contracts. That means the SPLM can revise the contracts and pursue the matter if remedies are necessary. It is implicit that such implementation of remedies will be restricted to the Southern region. But it is not quite clear as to whether the SPLM will have access to contracts for areas in the North, and if it has, what will then happen if its representatives find fundamental social and environmental problems or rights violations.

Since the SPLM governs the Southern Sudan during the Interim Period and therefore has the power to select the GoSS's permanent representatives in the NPC, it could be argued that it retained powers non-equivalent to those of other parts of Sudan in matters of a national nature. This may look to contradict what the agreement advocated in the guiding principles for the management and development of the petroleum sector which stated: "Empowerment of the appropriate levels of government to develop and manage, in consultation with the relevant communities, the various stages of oil production within the overall framework for the management of petroleum development during the Interim Period"[8]. Even if actual production was only taking place in the South, some surveys and explorations – which could be argued as stages of production - were and will cover Northern states.

Moreover, the communities in whose areas the development of subterranean natural resources occurs also have the right to participate, through their respective states/regions, in the negotiation of contracts for the development of those resources. In that sense, the agreement emphasizes the right of communities to negotiate contracts. It is noted that they have no right to participate in setting up national policies or the frame for the regulation and management of petroleum development in the Interim Period. This seems to contradict with the guiding principles of the CPA in respect of an equitable sharing of common wealth which says: That revenue sharing should reflect a commitment to devolution of power and decentralisation of decision-making in regard to development, service delivery and governance.

Guiding principles for the management and development of the petroleum sector during the Interim Period include the following:

- Sustainable utilization of oil as a non-renewable natural resource consistent with the national interest and the public good, the interest of the affected states/regions, the interests of the local population in affected areas, and national environmental policies, biodiversity conservation guidelines, and cultural heritage protection principles.
- Give due attention to enabling a policy environment for the flow of foreign direct investment by reducing risks associated with uncertainties regarding the outcome of the referendum on self-determination at the end of the Interim Period.
- A stable macroeconomic environment that emphasizes stability of the petroleum sector.
- Persons enjoying rights in land shall be consulted and their views shall duly be taken into account in respect of decisions to develop subterranean natural resources from the area in which they have rights, and shall share in the benefits of that development.
- Persons enjoying rights in land are entitled to compensation on just terms arising from acquisition or development of land for the extraction of subterranean natural resources from the area in respect of which they have rights.
- Regardless of the contention over the ownership of land and associated natural resources, the Parties agree on a framework for the regulation and management of petroleum development in Sudan during the Interim Period.

The implication of the nature of oil as a non-renewable resource will be dealt with later. Regarding the question of a stable macroeconomic environment, it could be interpreted as emphasizing the stability of the petroleum sector; since it is expected to occupy, and has recently acquired a central role in the Sudanese economy; to achieve stability of the economy. However, this seems to be a difficult task bearing in mind the tendency to neglect other important sectors and the dominance of the petroleum sector. This is in addition to the changing international conditions which, sometimes, adversely affect the domestic economy.

A no less complicated and difficult task is to create and maintain an environment conducive for foreign direct investment (FDI). Reducing risks associated with uncertainties regarding the outcome of the referendum could be achieved through: a) a clear commitment/promise from the GOSS to honour agreements (signed before and during the Interim Period) and the adoption of favourable policies for inflows of FDI. For FDI, this is a necessary but not sufficient condition for substantial flows; and b) a clear commitment from both the GoSS and GoNU to honour their agreements and commitments, even if the outcome is cession. This requires that both governments need to entertain the idea of secession and what will then happen, especially with regard to the joint border blocks which extend over both regions. Needless to say that since secession is a possibility, it is not in any way wise to ignore its

[8] See clause 3.1.2. Of the CPA.

repercussions and fail to work hard to have a plan B to ensure a peaceful and stable relationship realizing mutual interests.

That been said, a closer look at the sharing of oil revenue should be undertaken. Net oil revenue is clearly defined in the agreement to include both revenues from exports as well as deliveries to the refineries. An agreed upon benchmark price, reflecting the economic conditions, will be fixed annually. Any revenues above this price will go to the Oil Revenue Stabilization Account. From the remaining oil revenue at least 2% will be allocated to the oil producing states/regions in proportion to output produced in such states/regions. This may mean that this 2% will be fixed since any increase in this ratio will lower both the GOS and GOSS shares. The fierce continuous struggle over sharing/distribution of oil revenues since the beginning of the agreement's implementation does not leave much chance for fulfilling expectations of a share higher than 2%. Moreover, the agreement does not specify the procedure for allotting more than this 2% share for the producing states/regions.

It could be inferred that the stabilization account will be on a monthly basis since the GOSS receives its share on a monthly basis; i.e. if the current price is above the benchmark price, the difference goes to the account; if it is less than the benchmark price, the shares are compensated from the stabilization account. This is, of course, different from the Future Generation Fund which, according to the agreement, shall be established once national oil production reaches two million barrels per day. This production criterion may, as part of the National Government's normal budget process, be reduced down to one million barrels per day. Supposedly, this Fund will not depend on a benchmark price put on the volume of production, which reflects the rationale of the Fund and the rationing of exploitation; i.e. if this generation exploits this non-renewable resource extensively, and then the future generation's share will be there in deposit.

However, this seems to be a very unrealistic clause for at least three reasons. First, poverty is widespread among the Sudanese population and every resource needs to be fully and properly exploited to reduce - not to say eradicate - poverty. In the meantime, utilizing resources, expanding production and developing the economy and reducing poverty seem to be more appropriate than accumulating funds for future generations, even if it may be in the best interest of those generations. Second, the agreement and most of the Sudanese strategies and policies are based and dependent to a large scale on foreign aid/grants, mainly because of the insufficiency of domestic resources, actual and anticipated. It requires some imagination to anticipate the possibility of having a fund for future generations in such a situation bearing in mind the economic history of different regimes. Third, the Interim Period seems to be insufficient to reach these levels of production.

The current financial/economic performance of the government does not allow for any optimistic expectations regarding public expenditures in particular and budgets in general; i.e. revenues are not sufficient to cover the current expenditures, let alone those of the future. Although the idea may resound in many of the declared policies, when it comes to implementation and reality it could easily be defeated by the fact that the current generation is suffering. Regardless, the CPA does not suggest/specify any ratios for deductions for the Fund, if, of course, production happens to reach the set limits for introducing it (one/two million b/d).

On the contrary, when it comes to the shares after the deduction of revenue that goes to the Stabilization account and the relevant states, the agreement clearly indicates that 50% of the revenue derived from oil producing wells in Southern Sudan will be allocated to the GOSS, while the other 50% goes to the National Government and States in Northern Sudan. No arrangement is proposed for sharing the revenue derived from oil produced in the North. In that case, it could be inferred that the two parties did not anticipate the occurrence of this situation, at least during the Interim Period.

That leaves these arrangements, in addition to those for the South, open to negotiations in the post Interim Period. In the north, all scenarios will be possible. For a united Sudan, the sharing of oil revenues will be expected to pose a serious problem in the future. If the South becomes independent, this will raise different sets of questions especially on how a partnership/arrangement could be struck to realize mutual interests of the two sovereign states.

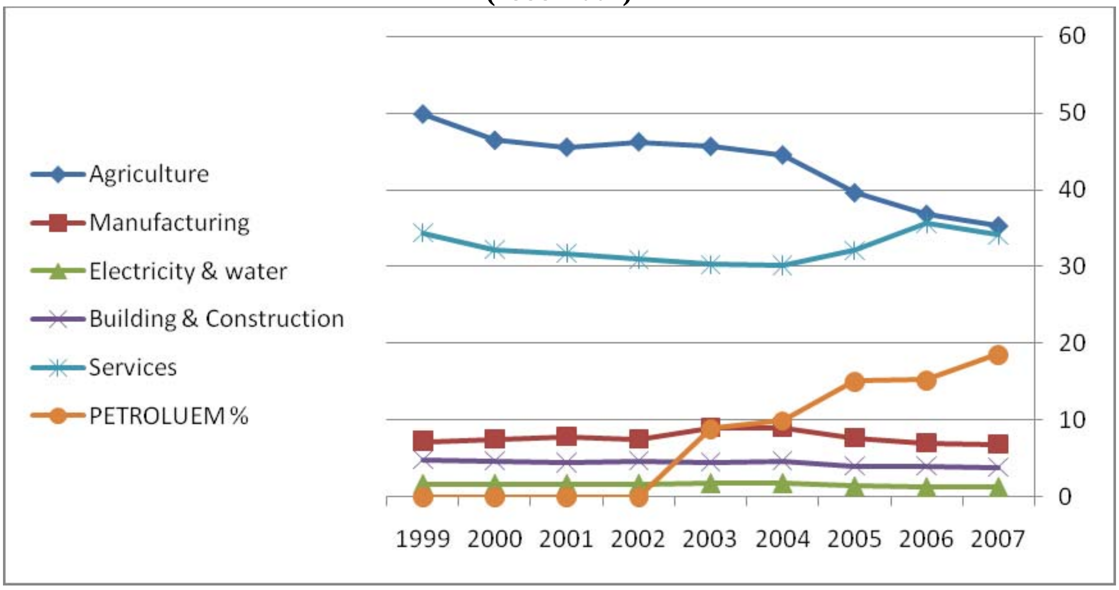
3. Oil in the Sudanese Economy

Though serious oil surveys/explorations started before the current regime, it has the credit of success in transferring the country into an oil producing/exporting one. Oil has gradually assumed a corner stone position within the Sudanese economy. This could be demonstrated by its importance in, at least, three major economic variables: the GDP, the foreign trade sectors especially the exports side, and the government revenue. Needless to say that significant weight/contribution of oil to one or all of these economic indicators means a considerable impact over almost all aspects of the economy and society.

3.1 Oil Contribution to the GDP:

Up to 1999, the year which witnessed the beginning of Sudanese exports of oil, the petroleum sector contribution to the GDP was negligible. Prior to that date, the shortage of petroleum products was a permanent handicap impeding the economy with all its negative implications especially on production and development.

Figure (1): The Composition of the Sudanese GDP – In Percentage (1999-2007)



Source: See Appendix (1).

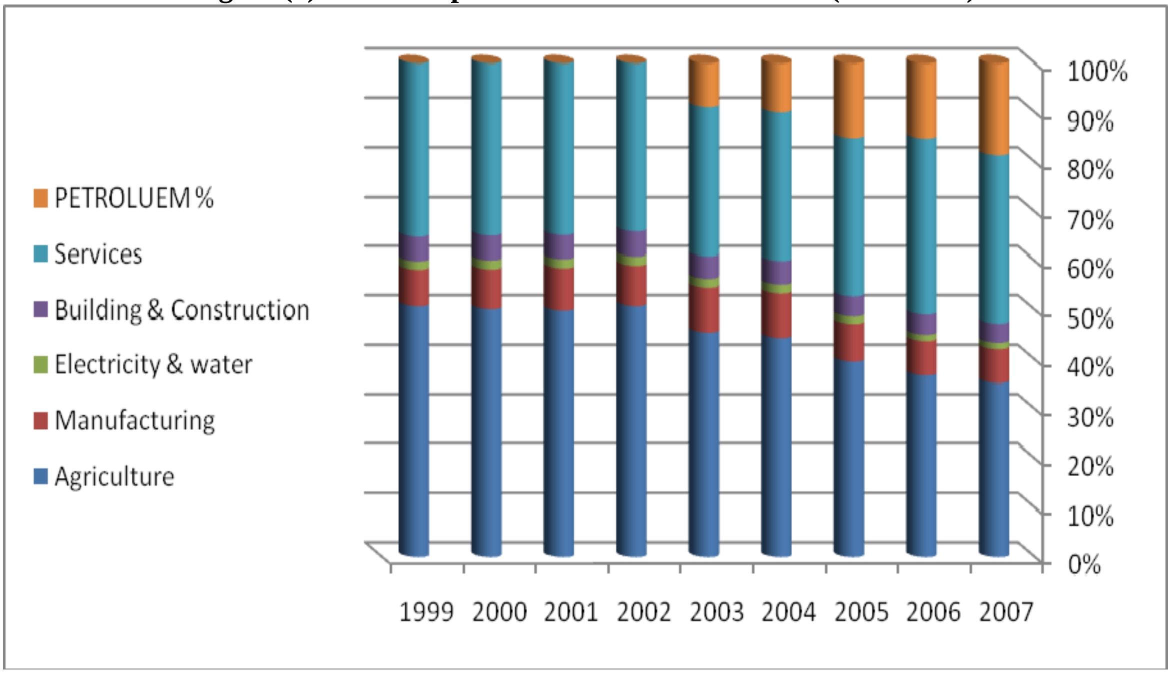
Figure (1) above clearly illustrates – among other things – three trends in the composition of the Sudanese GDP, namely: a) an increasing contribution of the oil sector to the GDP – from less than 1.9% in 1999 to 18.6% in 2007, b) a declining significance of the agricultural sector – from half the GDP in 1999 to about a third (35.3%) in 2007, and c) there was no or only a slight change in the other sectors' - the services, building and construction, and electricity and water - contributions. Figure (2) below illustrates in a different way the composition of the GDP. The relations of each sector to the rest are better visualized as well as each sector contribution to the total GDP i.e. to the 100%.

It goes without saying that since total GDP has generally been increasing in absolute terms, then a declining contribution of any sector does not necessary imply a decline in the absolute magnitude of the sector's worth. Thus, though percentage/relative contributions assist in showing the relative importance of each sector, they are not very helpful as proxies of the changes in real quantities .i.e. the difference between ratios and absolutes.

For example, agriculture contribution to GDP rose from the equivalent to SDG 6494 thousand (SDD 649.4 million) in 2001 to SDG 8670 thousand in 2007, while services climbed from the equivalent of SDG 4523 thousand to SDG 8383 thousand during the same period. The first rose by about a third in six years but its importance dropped from contributing 45% to 35% of GDP while the latter contribution increased by more than 85% in absolute terms and its percentage contribution to GDP increased from 31.7% to 34.1%.

It could be argued that the structure of the economy has been changing from dominance of the agricultural sector towards that of the petroleum sector. It seems that the petroleum sector has not, yet, contributed largely to the development of the other sectors and if this trend continues it would dominate the GDP, posing a high risk on its stability.

Figure (2): The Composition of the Sudanese GDP (1999-2007)



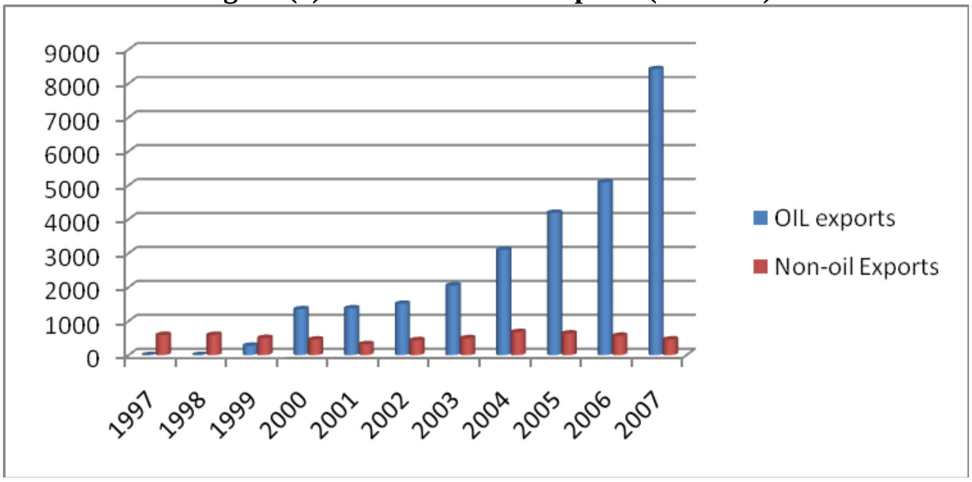
Source: See Appendix (1).

3.2 Oil Contribution to Foreign Trade

The difference between absolute and ratio/percentage figures could be clearly illustrated by referring to figures (3) and (4) pertaining to the composition of exports during the period 1997–2007. Figure (3) and Appendix (2) depicts a hiking trend in the value of oil exports from $275.9 million in 1999 to $ 8418.5 million in 2007, and instability/decline in the value of non-oil exports with a minimum value - $322.1 million - in 2001 and a maximum amount of $677.3 million in 2004. In 2007 it was about $460.7 million.

Figure (4) gives the relative contributions of the two exporting sectors. The decline in the significance of the non–oil exports (from 100% of the export earnings to less than 10%) is incomparable with the relatively lower drop in its earnings which could be attributed to the alluded to escalation in the revenues from oil exports.

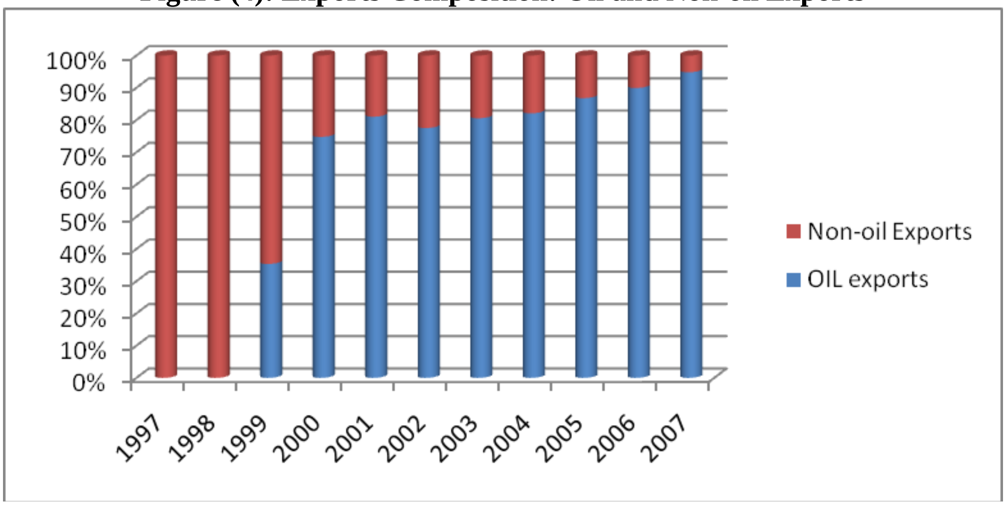
Figure (3): Oil and Non-oil Exports ($Million)



Source: See Appendix (2).

The latter's contribution exceeded the 90% mark in the year 2007. The high risks of such a dependency on one product for the country's export earnings are obvious and do not need more explanation. Moreover, this, as well, does not show that oil has played a positive role in the development of non-oil exports, and some may even argue that on the contrary it has lessened the incentive for non–oil exports expansion.

Figure (4): Exports Composition: Oil and Non-oil Exports



Source: See Appendix (2).

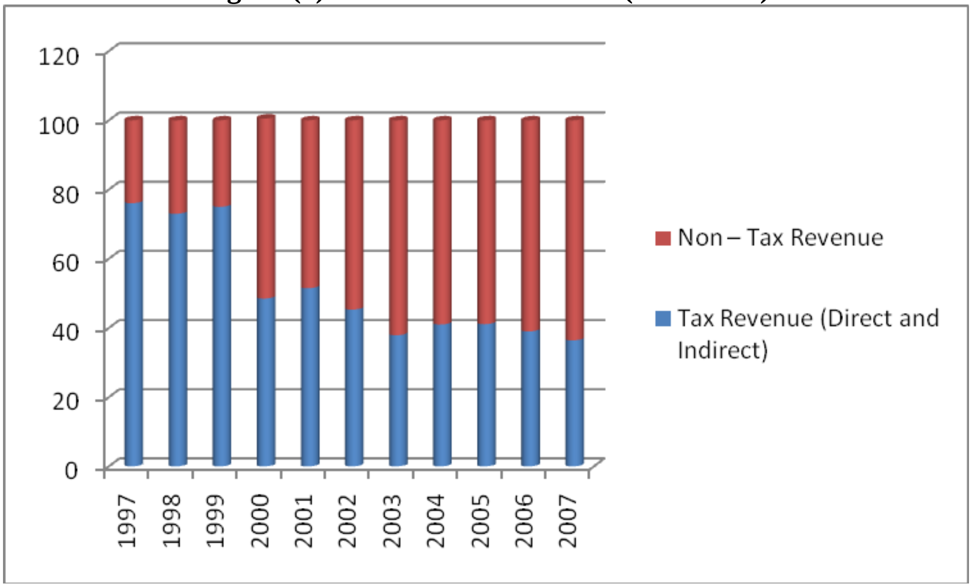
Appendix (2) also portrays enlightening information on the volume of imports and the balance of trade. For example, the total value of exports grew from $780 million in 1999 to $8879 million in 2007- oil exports went up from $276 million to $ 8418 during the same period. Imports climbed from $1256 million to $7722 million at the same interval. It should be mentioned that though the eminent burden of importing oil products had been greatly minimized/eliminated, imports have sharply risen resulting in a deficit in the balance of trade in 6 out of the 8 years referred to. In addition to the requirements of peace, it could be argued that the relative large proceeds of oil had helped in stimulating the expansion in imports.

3.3 Contribution to Public Revenue

Government revenue has also witnessed radical changes due to oil production. Figure (5) shows that there is nearly the same distribution of revenue between non–tax and tax revenues during the period 1997-1999. After this, the share of the non–tax revenue expanded at the expense of tax proceeds.

The significant increase in revenues initiated by oil production in 1999 proved to be unstable and risky. The sharp drops in oil revenues in 2006 and in 2008/2009 manifest this high risk. This is also aggravated by the expansion in spending which emanates, partly, from post–conflict requirements.

Figure (5): Government Revenue (1997-2007)



Source: See Appendix 4.

"At the national level, budget credibility is hampered by limited costing and prioritization of sector and thematic policies during the budget preparation process, as well as execution volatility. Aggregate annual expenditure deviations from approved budget have improved since 2000, though 2006 experienced a low 87 percent execution rate due to oil revenue shortfalls. Monthly variation of MOFNE releases is a significant issue. Without a predictable flow of resources to spending units, execution of spending plans is hampered, and of particular concern are the effects on financing of capital expenditure. "[9].

"Remedial actions within the context of the IMF program were taken by the authorities in 2006 to cut expenditures. This included an increase in domestic fuel prices to trim the subsidies of domestic fuel consumption by half and large withdrawals from the Oil Revenue Stabilization Account (ORSA). The latter have exhausted the fund and preclude its ability to provide relief from future revenue shortfalls without significant replenishment"[10].

This is ironic in that at a time when people were anticipating some loosening of "the tied belt", they were shocked by more stringent measures – the type they thought of as belonging to the pre-oil era. Moreover, early large withdrawals from the Stabilization account do not allow optimistic speculations as well; leave aside thinking of future generation(s).

[9] The World Bank, "Sudan: Public Expenditure Review", synthesis Report, December 2007. (p.v).
[10] The World Bank, "Sudan: Public Expenditure Review", synthesis Report, December 2007. (P.6-7).

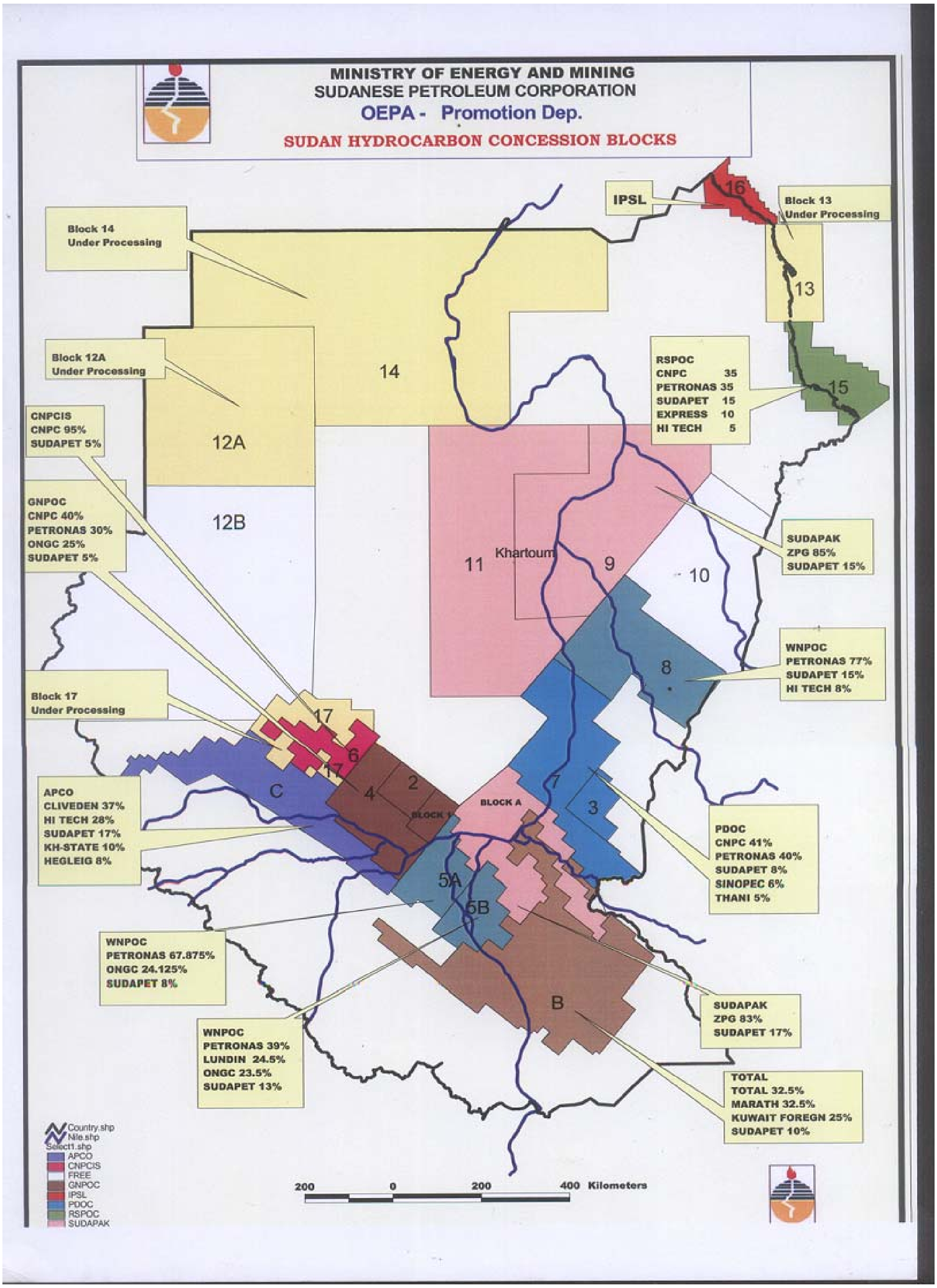
In a nutshell, oil dominance over exports and government revenue exposes a staggering vulnerability, especially in the context of growing government expenditure (peace, transfers to the states, services provision ….) on the one side and the volume of exports on the other. The 2006 and the 2008/2009 crisis due, mainly, to the decline in oil prices clearly illustrate the instability such a situation may create. The least that can be said is that oil has not yet contributed to the restructuring of the Sudanese economy but further to an uncertain dependency.

4. The Share of Southern Sudan

The map below and Appendix (12) show oil concessions in Sudan. Concessions have been accorded for most of the demarcated blocks, a small number are under processing and an even fewer number are still free blocks. Blocks in the southern Sudan compose of EA, B, 5A, and 5B. Blocks 6, 8, 9, 10 (free), 11, 12A, 12B, 13, 14, 15, 16 (Halayib) are located in the North. Though most of the producing fields, now, are in the South there are also a few producing fields in the north as well as vast concession areas. The Table (Appendix 12) presents the consortiums and the different ownership/participation ratios. Major investing companies are Chinese, Malaysian, and Indian in addition to the Sudanese partners.

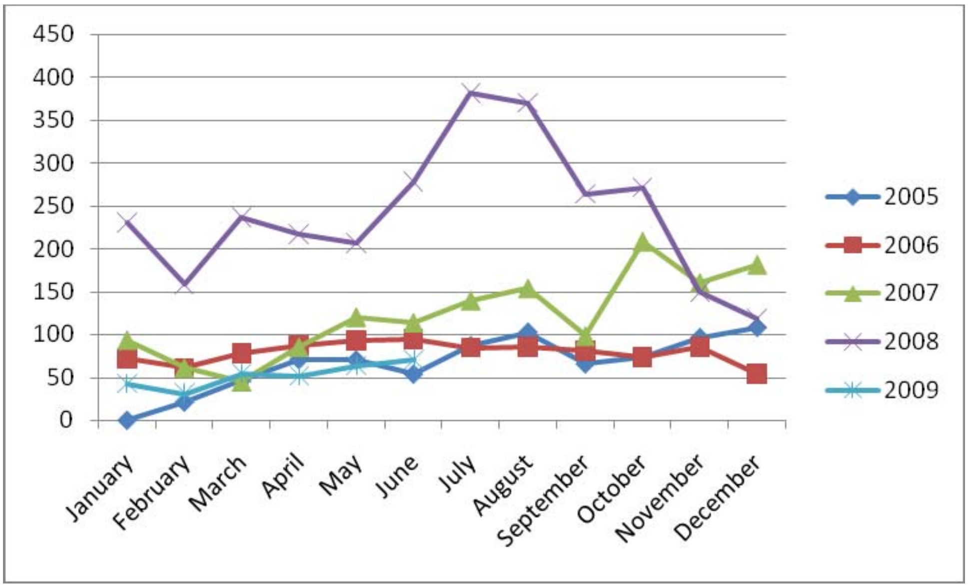
Production is now largely concentrated in Blocks 3, 7 (Dar blend) and Blocks 1, 2, 4 (Nile blend), and to a lesser extent Block 6 (Fula crude) and block 5A (Tar jath crude). This concentration stems from the fact that Chevron Company had extensively surveyed these areas resulting in the availability of reliable information. It goes without saying that in such a risky investment, companies would prefer to start where there is information, especially of the promising kind.

It should also be stated that the size of blocks reflects, among other factors, the risk involved. To encourage companies to undertake concessions in less surveyed areas and/or in areas poorly endowed with infrastructural and logistical resources, larger blocks are given to widen the scope of exploration and thus chances for success. This is particularly relevant where companies shoulder all the risks under production sharing agreements which is the only type of agreement adopted in Sudan. In addition to other factors, this may encourage the formation of consortiums. However, when economic production starts, it is distributed into cost oil and profit oil. The portion designated as cost goes to the companies to compensate for their earlier expenditure, while the segment realized as profit is distributed between the government and the companies/contractors. It goes without saying that this government share represents the crude production which is referred to when distribution/sharing is tackled.



As alluded to earlier, the Southern Sudan has to be paid, according to the CPA regarding oil produced in the South, from the share of the government in line with the 50% - 50% criteria after deducting government costs and the 2% due to those productive states.

Figure (6): Revenue Share of Southern Government
US $ million



Source: See Appendix (5).

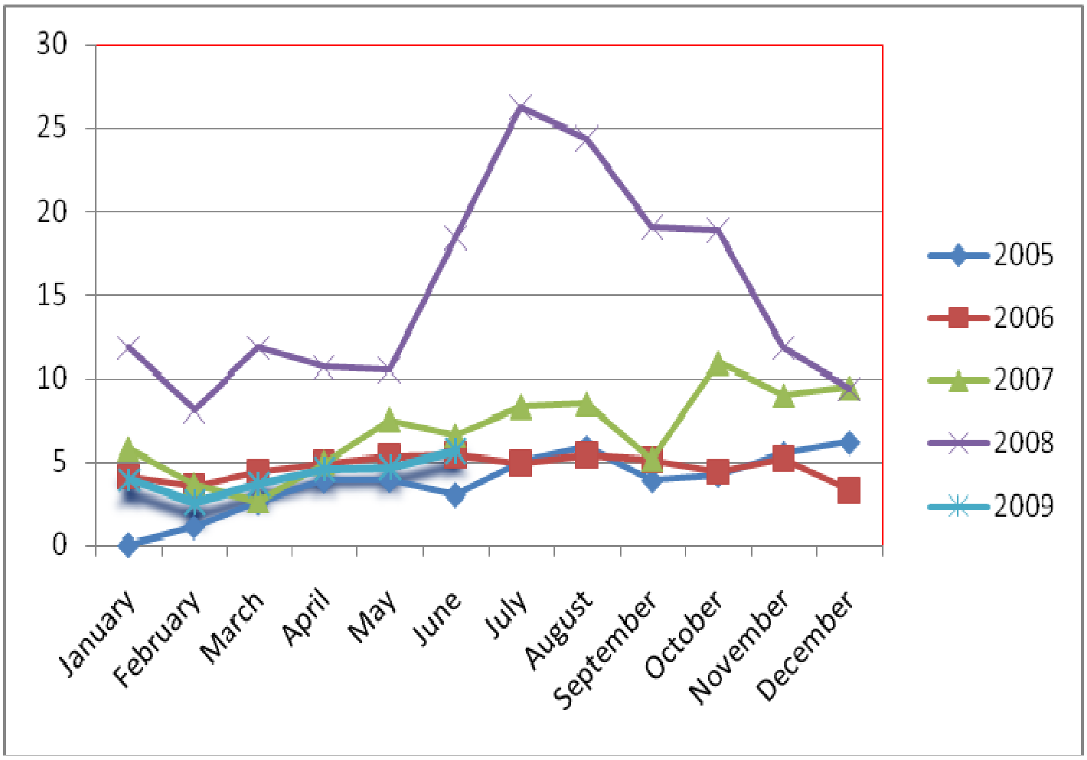
Figure (6) clearly illustrates that although the Southern government revenue share had been generally expandig year after year since 2005 it had shown some overlapping between the years 2005 and 2006 and even the year 2007 especially in March when the share fell bellow the 2005 and 2006 levels. The 2006 levels were lower than those of 2005 in July, August, November and December. The 2007 levels were lower than those of 2006 in February and April and lower than those of 2006 and 2005 in March. Though 2008 revenues were exceptionally high they were lower than those of 2007 in November and December. It should be mentioned that total revenues had increased by about 20% in 2006, and by 53% in 2007 before almost doubling (rising by 98%) in 2008. However, the decline in November and December of 2008 was followed by crisis- type failures in the first six months of 2009 where revenues fell bellow those of 2006, 2007, and 2008, and in April and May revenues dropped even below those of 2005.

It is apparent that these revenues could vary from month to month and year to year with frequent sharp fluctuations which are difficult to anticipate, therefore exposing the GoSS to an extremely vulnerable position.

This points to a serious situation, especially that the GoSS's budgets estimate oil revenues to constitute more than 80% of total annual revenues - which include foreign grants and different kinds of transfers from the federal government.

In comparing this with the alluded to pressures on the national budget, the Sudan: Public Expenditure Review (PER) stated that: "The fiscal pressures in the South have proven even more acute. The overall balance in 2006 moved sharply into cash deficit due to limited spending discipline as well as oil revenue shortfalls in the second half of the year. Aggregate spending was driven by outlays on wages and operations that were roughly double planned amounts, while capital expenditures were cut sharply. In the first half of 2007, oil revenue shortfalls continued, GOSS significantly over-estimated non-oil revenue, and in the face of huge development needs, expenditure plans in the 2007 budget were significantly expanded relative to 2006.

Figure (7): Revenue Share of Producing States
US $ million



Source: See Appendix (6).

The cash reserves that could have provided cushions were largely run-down last year and are no longer available. One risk is that planned investments in roads, schools, clinics and so on will be squeezed by the burgeoning payroll."[11]

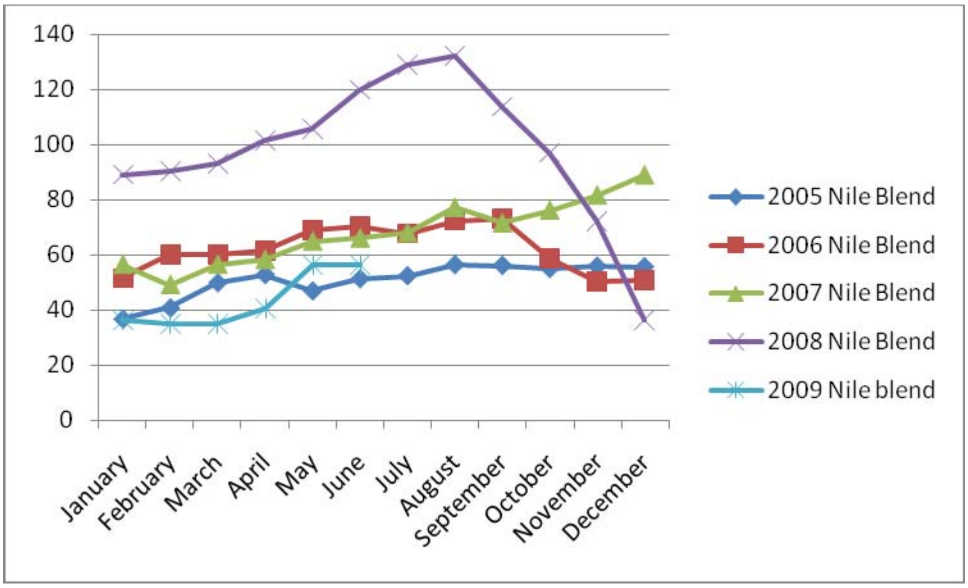
The instability of the revenue shares of the producing states resembles those of the South as Figure (7) illustrates, but, of course, with different magnitudes.

5. Price Instability

Figures (8) and (9) underneath portray the price level of the two main Sudanese blends, namely the Nile and Dar. There was a sharp drop in the Nile blend prices during the second half of the year 2008 reaching the lowest level in the period 2005-2008 in December. These relatively low prices continued over the first half of 2009 – the lowest ever Nile blend price ($35.09 p/p/d) was recorded for both February and March. The highest price (in August 2008) during the period January 2005 to June 2009 is more than 3.75 times that of the lowest (February/March 2009). This demonstrates both the abruptness and enormity of some changes/adjustments in the international oil prices. The yearly and monthly variations (ups and downs) could be traced in Appendix (7) suggesting instability in both the short and long terms. It could be noticed that curves representing different years cross each other at different points in these figures.

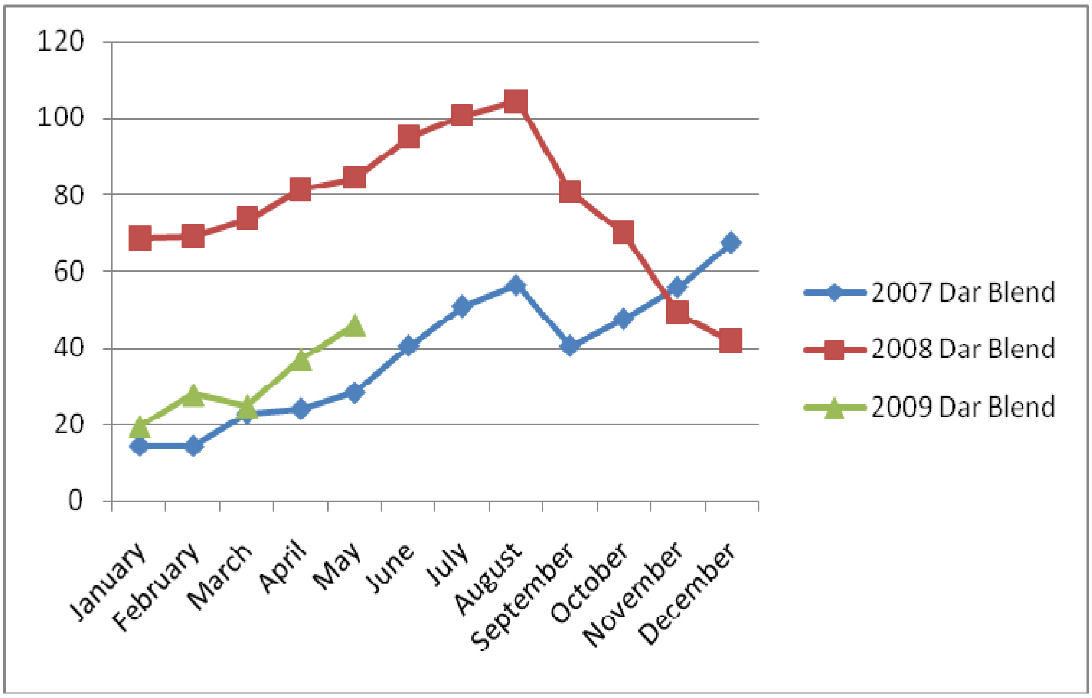
[11] The World Bank, "Sudan: Public Expenditure Review", synthesis Report, December 2007. (P. 7).

Figure (8): Price for Crude Oil Exports – Nile Blend
2005-2009. US$/barrel



Source: See Appendix (7).

Figure (9): Price for Crude Oil Exports –Dar Blend
2007-2009. US$/barrel



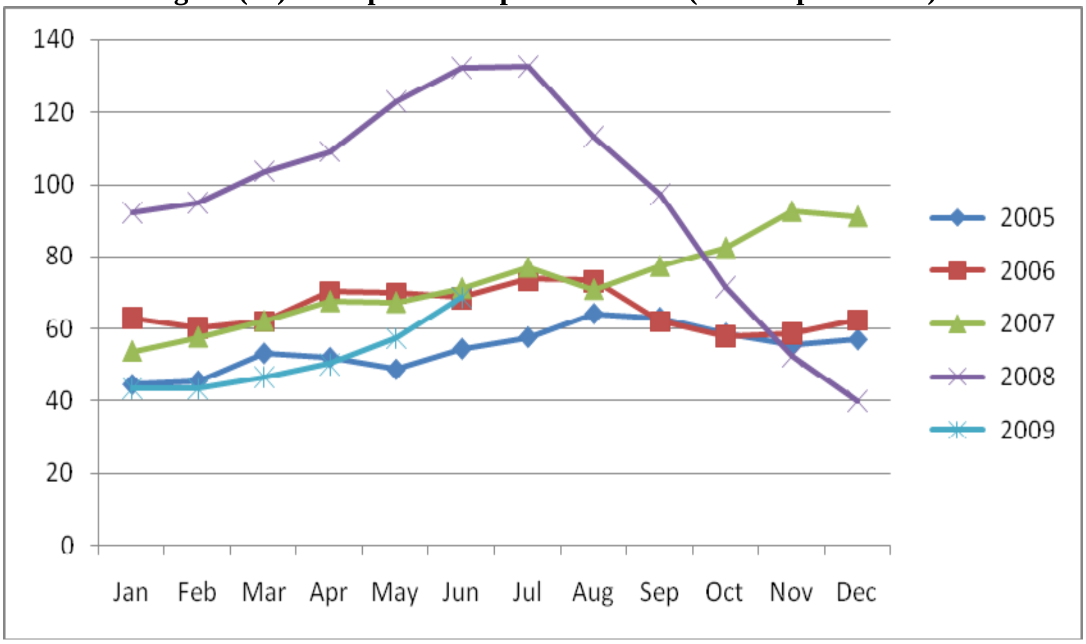
Source: See Appendix (8).

It could be argued that a variety of political, strategic and security factors play important roles in determining the international oil prices which weakened the accuracy of predictions along the usual known economical analysis methods. Oil, as a strategic good, has developed its special rules which embody these factors as well as economic ones affecting demand and supply. For example, flourishing trends in the international economy lead to expansion in demand and vice versa. Climate conditions are also among the factors affecting the side of demand, in addition to speculations. On the supply side it could be argued that it has recently achieved some flexibility due to huge discoveries, proven reserves, and the relative decrease in exploration, production and marketing costs. It is not the technical and knows-how factors which may restrict this supply flexibility, but the political and strategic factors.

In spite of OPEC's great influence, the oil market could be described – for factors relating to the division of international political and economic power – as a buyers' market. Producer countries are dictated by their external relations/position especially with developed importing countries.

The complexity and delicateness of the international oil market have resulted in these unpredictable sharp changes in its price which pose great challenges for both its producers and consumers. In the final analysis this dictates the prices for the Sudanese oil. Figure (10) shows trends for Brent resembling those for the Sudanese two blends.

Figure (10): Europe Brent Spot Price FOB (Dollars per Barrel)



Source: See Appendix (9).

However, the impact of the international prices on sudanese revenues from oil is intensified by other factors which include the changes in the level of production, the mix of production of the two major blends, and the exchange rate. For example, the expansion of production of Dar blend, with its lower prices, may lead to a more than propotional (to price drop) drop in revenue. The exchange rate on the other side is rather affected by the prices of oil and the level of production (and revenue) of Sudan. Fluctuations in the exchange rate are, partly, both a cause and result of the variations in oil revenues[12].

6. Vulnerability, Resource Curse and Managing the Economy

The principal consequence of the instability in prices and the resultant instability in revenues accruing from oil to Sudan is placing the country in a cycle in which revenues fluctuate significantly from year to year. In such a vunerable situation it would be rather difficult for national governments, regional governments, and states to plan, implement, and efficiently accomplish long-term, or even short-term,

[12] For the changes in the exchange rate, please refer to appendices 10 and 11 below.

development planning. This is not only true for oil producing regions/states but also for non-producing ones. The volume of transfers from the national government to the states are direcly linked to its revenues, a large portion of which accrues from oil. Needless to say that this puts more pressure on government expenditure, particularly on social services (education, health,…) which need large and uninterrupted amounts of money from the national government.

This vulnerability is admitted, rather timidly, by the government. For example, in June 2009 a government letter of Intent addressed to the IMF[13] claimed that Sudan has been impacted by the global crisis which has sharply reduced oil revenues and foreign direct investment (FDI). This is aggravated by the alluded to weight of oil in both export earnings and government revenues. The fall in oil prices also contributed to a sharp decline in foreign exchange reserves. Here, one could remark: first, that the Ministry of Finance and National Economy which has co-signed the Letter[14] had been denying any significant impact of the global crisis on the Sudanese economy, as if the economy is immune to external shocks. Second, it should be emphasized that this kind of shock, drop in international oil prices, is not a new phenomenon but a reoccurring one disturbing both oil producing and exporting countries. Sudan, as a late comer, should have been aware of such traumas of dependency on oil production. The GCC countries, for example, who have experienced such shocks, have been striving to diversify their economies and lessen their dependency on oil. Third, FDI was mainly flowing into the petroleum sector and was not playing an important role in other sectors. In the light of the unstable political and economic conditions and the undeveloped infrastructure, the investment climate could not be described as conducive. Thus the global crisis could not be blamed for the drop in FDI.

In the Memorandum attached to the Letter of Intent[15], Memorandum of Economic and Financial Policies (MEFP), the government gave an analysis and set out the measures it intends to undertake to minimize the impact of the global crisis on the economy. It was suggested that policy measures will aim at attracting investment, especially in the agricultural sector. Policies will include easing structural rigidities, liberalizing investment policies and the labor market, reducing the cost of doing business, reforming the legal system, providing the requisite infrastructure, and improving the general business environment. In fact, these factors are among those which impede economic development in general and investment in particular and have greatly contributed to the structural malformations alluded to in earlier sections. Seriously tackling such forms of internal problems may prove to be more fruitful than blaming external factors.

Moreover, the diagnostic trade integration study (DTIS)[16] which examines internal and external constraints to Sudan's integration into the world economy found that the major constraints are primarily, although not exclusively, internal. On the positive side the study emphasized that Sudan's exports are faced with relatively few barriers, that Sudan enjoys preferential access to major industrial markets, and she is a member of several important regional free trade agreements. All these and other opportunities, if tapped would pave the way for expanding non-oil exports. On the negative side, according to the study, Sudan's import tariff regime is among the world's most restrictive. This regime has led to high domestic prices which acts as a disincentive to exports by encouraging producers to sell locally instead of exporting, discouraging them from importing inputs that could raise productivity, and limits their ability to integrate into global supply chains.

In addition, the study carried on, potential exporters are hampered by a number of taxes, charges, and fees – some imposed solely on international trade while others are levied on goods as they move through the domestic economy—that further undermine the competitiveness of Sudan's exports in

[13] See International Monetary Fund Sudan" Staff–Monitored Program for 2009-10" IMF Country Report No. 09/218 July 2009.

[14] It has also been signed by the Governor of Bank of Sudan.

[15] Attachment ii. Sudan: Memorandum of Economic and Financial Policies. June 18, 2009. Attached to International Monetary Fund Sudan" Staff–Monitored Program for 2009-10" IMF Country Report No. 09/218 July 2009.

[16] "Revitalizing Sudan's Non-Oil Exports: a Diagnostic trade Integration Study (DTIS) Prepared for the Integrated Framework Program", December 2008.

world markets. Furthermore, Sudan's ability to compete in the world markets is constrained by low productivity in the agricultural sector, obsolete capital, unskilled manpower and excess capacity in the manufacturing sector, high transport costs and, recently, exchange rate appreciation. Thus for making trade a lever for economic growth and poverty reduction, the study suggested raising productivity, reducing trade costs, rationalizing the incentive regime and improving trade institutions.

Moreover, the alluded to Memorandum,[17] understandably, puts more emphasis on fiscal policy and reform especially in the areas of tax policy and public financial management. Although the fiscal problem primarily reflects weak cash management and financing rigidities, difficulties to enforce tight spending ceilings also contributed to the difficulty of the situation. However, the dramatic and unexpected drop in oil revenues created significant liquidity pressures, also resulting in an accumulation of domestic arrears. In such a situation, the problem of arrears has become a vicious circle; arrears are eased when oil prices are high and accumulated when they fall. This calls attention to the difficult environment for the private sector. This sector is not only impeded by arrears but by discriminatory policies in exemptions from various taxes, competition of public entities, poor infrastructure, unstable economic policies, various unjustified taxes and fees, unstable exchange rates and foreign transactions policies, among other things.

The Memorandum's other suggested measures include expediting the privatization process, reforming the petroleum pricing regime by introducing an automatic adjustment system, and initiating the establishment of a targeted safety net for the poor. The Memorandum referred to the under-preparation National Poverty Reduction Strategy Paper (PRSP) which was expected to be ready by end of 2009. The Memorandum stated that the PRSP will place heavy emphasis on a macroeconomic framework consistent with post-conflict challenges, decentralization, an enabling environment for private sector growth, and capacity and institution building.

The long preparation time of the PRSP may not reflect a sincere commitment in that direction. It is the persistent failure to tackle the above mentioned difficulties and to implement these recommendations - and other rational ones - within a consistent framework, which mainly hinders the development of the country. However, external factors are rather accused; e.g. the Memorandum anticipated that the global crisis may delay the effect of government efforts to further reduce poverty, or the blame is put on factors such as the resource curse.

What is called the resource curse refers to the situation where abundant natural resources (especially non-renewable ones) revenues are accompanied with economic stagnation and political difficulties (corruption, armed struggle…..) rather than with development and stability. Alayli[18] divides the resource curse into the economical phenomenon known as the Dutch disease and political economy factors which may lead to the support and strengthening of autocratic and corrupt regimes. In a nutshell, the Dutch disease refers to the deterioration of other sectors due to the boom in the particular tradable resource sector. The boom helps in appreciating the country's exchange rate which in turn adversely affects the competitiveness of other sectors, leading to unemployment and a drop in production. Other causes include instability of revenues from the natural resource sector because of fluctuations in the international prices, mismanagement of governments, or incompetent institutions.[19]

However, the causal link could be looked at as indirect and conditional rather than a direct causation. "Natural resources and oil wealth should be of benefit to countries. The fact that they often are not is because of failures of governance that are connected with failures of democracy and public accountability."[20] Moreover, it could be argued that the difficulties faced by the Sudanese economy has little to do with what some believe to be the oil "curse" but simply due to the limited vision and the mismanagement of the economy. The scale of mismanagement that put the Gezira Scheme – once

[17] Attachment ii. Sudan: Memorandum of Economic and Financial Policies. June 18, 2009. Attached to International Monetary Fund Sudan" Staff–Monitored Program for 2009-10" IMF Country Report No. 09/218 July 2009.
[18] Mohammed Ali Alayli "Resource Rich Countries and Weak Institutions: The Resource curse Effect", December, 2005.
[19] Wikipedia, the free encyclopedia.
[20] Mohammed Ali Alayli "Resource Rich Countries and Weak Institutions: The Resource curse Effect", December, 2005.p 3.

the backbone of the country‘s economy – in the back benches and may be as a liability on the economy.

Although cotton was experimented with in the Gezira area as early as 1914, the Gezira Scheme started after the construction of Sennar Dam in 1925. The cultivated area reached about 2.1 million feddans after the Managil extension was attached to the project. Hence, it is one of the largest agriculture schemes in the world and the oldest in Sudan. Cotton was the major product, accompanied by promising weaving and spinning industries. Other products included wheat, groundnuts, horticultural products and fodder. Tenants also reared animals, especially cattle and goats. However, the Scheme was deteriorating not only in terms of its agricultural products but also the related industries: weaving and spinning, grain mills, edible oil and some food industries.

A World Bank report[21] assessing the main factors which constrain the sustainable development of the Gezira Scheme ascertained that it has become one of the least efficient projects, irrespective of the fact that it uses thirty five percent of Sudan's current allocation of Nile water and produces two-thirds of the country's cotton exports. The report found that the Scheme is plagued by a large debt burden, institutional weaknesses due to its centralized administration, and financially unsustainable monopoly service enterprises, infrastructural and technical deficiencies, uneconomic production because of low average yields, and social inequities.

The well-known Gezira Scheme has deteriorated and the Gezira State, one of the richest Sudanese states, is financially malfunctioning. Recently, one of the State’s major creditors (contractors/ suppliers) took her to court for default and the court put some of her assets/cars[22] under custody. Eventually, a settlement was reached and the detained assets were released.

The Gezira Scheme played a great role in the economy and, as a national project, had significantly contributed to the central budget and as such to the different regions of the country. The Gezira Scheme/state example reinforces the argument for revising the current state of affairs regarding the distribution of revenues, including the oil revenues. The Gezira state/scheme has been excluded, or offered an insignificant portion, from these revenues in spite of all its history as the backbone of the whole country’s economy. This does not only raise emotional feelings but sound economic questions. Would some investment from oil funds in the Gezira Scheme contribute to its revival, bearing in mind its nature as an existing agricultural project based on renewable resources, with its tenants, irrigation system, suitable climate, manufacturing potential…etc. The revival of this national project and others would enhance, in the long run, the diversity and stability of the economy instead of depending on a non-renewable resource. This, it could be argued, will benefit not only the Gezira Scheme and other national projects but will also benefit the oil producing areas which will be sharply hit when they are dried up.

7. State Ownership of Oil

Generally speaking, since oil has become one of the most important wealth and power sources and is strategically vital for countries’ development, its ownership and control by the government seems to be a national necessity. Moreover:

- Allowing the private sector ownership of such resources, especially in a developing country, poses a number of risks. In the light of the weak nature of this sector especially when confronting or cooperating with foreign companies exposes the sector and the economy to both economic and political domination, an issue still raises a great deal of sensitivity.

[21] World Bank: “Sudan: Options for the Sustainable Development of the Gezira Scheme” , Report No. 20398-SU, October 27,2000.
[22] These included some of the top state officials’ cars.

- State ownership of such resources may ameliorate the state's functioning especially in providing services, security, developing infrastructure, and achieving goals like income equality. Oil will provide an important source for government revenue in the persistently deficient resources gap situation.
- The domestic private sector could not be entrusted, at this stage of development, to optimally manage such resources for development.
- The complex land tenure systems and disputes over ownership/use of natural resources, especially in countries like the Sudan, add to the dangers of private ownership of oil resources.

Regarding oil's nature, especially as a non-renewable resource, also deserves special attention, at least for the following reasons:

- Its utilization should balance between the benefits for the present and future generations. This may be more feasible in a national perspective than in a regional or a narrower context.
- It should be exploited bearing in mind the main goal as creating sustainable economic activities rather than maintaining its own sustainability.

The significance of the state - central - ownership of oil and its accruing revenues/rents should not be construed as excluding the private sector and the States'/regions' levels of government from being involved and employed in its various explorations, production, and marketing phases. In fact such involvement is encouraged within the declared principal roles of both the private sector and the various levels of government. That being said, the core question which should be emphasized asks how the wealth from the extraction of oil could be shared, as part of an equitable (national) wealth sharing formula?

8. The Share of Production States

Oil producing areas are usually faced with at least two negative consequences:

- The exploited area(s) suffer in the first phase - production phase – in economic, social, and environmental terms. Ways and means for fair compensations for the inhabiting communities should be developed and implemented.
- In the long-run, when the oil is depleted, these communities are faced with another pattern of economic, social and environmental repercussions.

The CPA[23] was justified for calling for consistency of oil production with the national interest and the public good, the interest of the affected states/regions, the interest of the local population in affected areas, and the national environmental policies, biodiversity conservation guidelines, and cultural heritage protection principles. Furthermore, the agreement does not ignore the producing states, and called the NPC to take into consideration:

- The extent to which the contract provides benefits to local communities affected by the development.
- The extent to which the views of the state/region and the affected Groups are incorporated in the proposed contracts.
- If the NPC decides to approve the contract, persons holding rights in land who are aggrieved by the decision shall seek relief through arbitration or in a court of law.

However, in addition to the general nature of the above considerations, it should be restated that the producing states' share, according to the CPA, is only 2% of the net revenue of the government according to the production sharing agreements, while the share of GoSS is about 49% - equal to that

[23] See the CPA, (pp. 49-53).

of the federal government. This, of course, applies to the revenues accrued from oil produced within the specified state.

More remarks may be raised regarding the share of the states. First, the negative direct impact on the producing area(s), the tendency that the manpower and the private sector within that area do not usually qualify for or are excluded from the opportunities made available by oil production, in addition to the difficult situation which emerges when oil resources are depleted should qualify that area for an increased share, i.e. more than 2%, or at a minimum thorough studies need to be undertaken to determine the level of damage and accordingly fix the appropriate share.

Second, there is the question of the proximity/location of the producing area(s). A neighbouring area in another bordering region will be directly affected by the process of oil production, more than areas within the producing region which are further away from the producing areas. That is to say, distribution of revenues according to regions (North –South or otherwise) may exclude areas which are adversely affected by oil operations, simply because they do not lie within the producing area and/or region. In that case it is logical to assume that these border areas should not only be entitled to shares, but these shares should be, ceteris paribus, more than those distributed to other far away parts within the producing region. The relentless regional border disputes reflect, to a large extent, the struggle over shares from oil revenue where regions compete for oil revenues. It also reflects the anticipation of a new sovereignty in the South.

Third, attention should be drawn to the important observation that producing states do not have the wide and various endowments of resources the national government has. Thus, drops and fluctuations in oil revenues due to price failures or other factors leave them, to say the least, in a risky unstable dependency situation. That may be one reason for why it may be more appropriate to advocate the pooling of national resources - at least revenues from national projects including oil - and then disburse them according to an agreed upon formula which assigns more weight to the socio-economic situation/needs of the different regions/locations.

“Prices and revenue instability has an even greater impact on LGUs (Local Government Units) of a nation, particularly if a substantial amount of their revenues are tied to resource rents. This is because LGUs, unlike the national government, often do not have access to other sources of revenue with which they can stabilize revenue flows over time”[24].

Though the producing state’s dependency on oil at the current time is analogous to that of the national government, it could be argued that the national government, unlike individual states, has great potential to diversify its sources of income. In fact, this diversity in sources for revenue seems to be one of the rational recommendations to reduce the risks linked to dependency on oil.

[24] Allen L. Clark, “Government Decentralization and Resource Rent Revenue Sharing: Issues and Policy”, East-West Center Occasional Papers, Economic Series, No. 1, November 1999. (p. 8).

9. Distribution of Oil and other Revenues

Many formulae had been adopted for revenue sharing and intergovernmental transfers to the different Sudanese states/regions.[25] However, a well thought of formula developed by Ali[26] is based on a transparent objective of reducing poverty in the country: It takes account of the spread of poverty as measured by the head count ratio, thus taking into account not only the population weight of each region but also the weight of those who live below the relevant poverty line, accounts for the structural nature of the responses of poverty to economic development in each region, and accounts for the differential growth performance of the two regions (North and South).

He acknowledged that the formula which will be based on his framework - for the design of an appropriate allocation of wealth between the South and the North regions - requires adequate knowledge of the poverty parameters involved. Furthermore, “These poverty parameters depend, among other things, on precise knowledge of the distribution of population between the two regions. In this respect the ultimate application of the proposed framework requires a population census to be conducted. Unfortunately, this time around the census instrument needs to be designed in such a manner as to seek the determination of the ethnic composition of the population. This in turn requires agreement on the definition of who is a Southern Sudanese.”[27]

However, it seems that any sincere efforts to develop well-thought-of initiatives which may contribute to the development of the country in general and wealth sharing in particular will be faced with political actions/struggle to fabricate parameters to suit one side or another. One such predicament is the dispute over the results of the eagerly waited for census. The dispute over the results of the census, between the two partners (NCP and SPLM), has not yet been dissolved. It should be mentioned that neither rigorous technical discussion has taken place nor technical solutions have been thought of to solve this dilemma. Whether one partner had made-up results or the other partner incorrectly refuted the output of the census primarily to achieve party objectives in relation to elections and wealth sharing, this does not contribute to the development path of the country put deepens the crisis.

As mentioned above, a sustainable formula for wealth sharing requires dependable information pertaining to the number, living standards, and other indicators relating to the different communities/populations. Not only that but the flow of reliable statistics is indispensable for monitoring, evaluating, assessing and improving such frameworks/formulas. However, the spread of the above mentioned practices, especially among the principal actors in the political arena, which distort and/or produce divergences and conflicts around the essential and necessary indicators and parameters endanger both political and economic stability.

That is to say, even if sound frameworks for development and equitable distribution of wealth are advanced, which is not an easy and straight forward task in itself; their proper application will be rather impossible if the essential parameters for such exercises are distorted and compromised.

It could be argued that in the struggle between the two major powers - especially over the petroleum sector during the civil war, peace negotiations, in the CPA, and in the post-conflict period - they developed an approach based on getting the most from the other partner depending on mere political

[25] For detailed analysis of revenue sharing and intergovernmental transfers in Sudan see, for example: The World Bank, "Sudan Public Expenditure Review", Synthesis Report, December, 2007; Ibrahim Suleiman, "Wealth sharing and Intergovernmental Transfers in Sudan", UNICONS, June 2008.

[26] Ali Abdel Gadir Ali, Conflict Resolution and Wealth Sharing in Sudan: Towards an Allocation Formula Arab Planning Institute Kuwait. (August, 2003)

[27] Ali Abdel Gadir Ali, Conflict Resolution and Wealth Sharing in Sudan: Towards an Allocation Formula Arab Planning Institute Kuwait. (August, 2003)

power/tactics and even external pressures rather than on coherent rational and sound grounds. Within such an environment the struggle over oil has, to some extent, been overestimated and became one of the major factors behind undermining many important other factors.

10. The Future and Oil

The Referendum on self-determination for the South scheduled for 2011 will, to a large extent, influence the political arena in the remaining months. It will be utilized by the different political powers, specially the ruling NCP and the SPLM in their struggle and maneuvers for gaining more power and wealth, within a united or a separated Sudan. Oil will attain a cornerstone position in such struggles whether the prospects are for a united or divided Sudan.

In the case of a united Sudan, the share of wealth and oil revenues will be, as many other arrangements stipulated in the CPA and the interim constitution, open to dialogue and change. The new elected government of Sudan (GoS) will be responsible for ratifying the permanent constitution and power and wealth sharing arrangements. This government, which is dominated by the NCP, may utilize its political position to renegotiate with the new GoSS/SPLM these arrangements with the aim of reaching some compromises suitable for both sides. The relative bargaining power of the two sides and therefore the outcome will depend on many factors. The most important factor in such negotiations/fight is whether the particular side's position is for unity or secession.

Since the positions of both sides are rather unclear four scenarios could be envisaged during the pre-referendum period:

- First Scenario: Both NCP and SPLM prefer Unity.
- Second Scenario: NCP interested in Unity – SPLM interested in Secession.
- Third Scenario: NCP interested in Secession – SPLM interested in Unity.
- Fourth Scenario: Both NCP and SPLM aim for Secession.

Having these scenarios in mind, the situation is even further mystified by a variety of factors, to mention a few:

1. It will be difficult to ascertain the authentic position of each side since both sides are ready to tactically adopt an opposite position (opposite to their real position) so as to gain more bargaining leverage and therefore more gains and benefits.
2. The struggle will be based on the narrow interests of the two parties, or more specifically, those of the powerful groups within these parties.
3. While the SPLM may be in a position to directly influence/dictate the outcome of the referendum, the NCP will try to influence the outcome via influencing/compromising with the SPLM.
4. Another important element which should be emphasized is that external pressures/interventions have been assuming a greater role in Sudanese politics. Some external powers, motivated by their interests, have found a vast room for maneuvering and exerting pressures on the different political groups. This room has been possible mainly due to the continuation of crisis and disasters and the aggressive and confrontational attitude among the major Sudanese political actors. This is even more apparent in the case of the two partners (the NCP and SPLM), who, among other actors, seek external support ***against*** their opponents.

The first scenario, where both NCP and SPLM prefer unity, seems to be straight forward where negotiations regarding oil revenues will be based on the previous arrangements stated in the CPA. However, by recalling the experience of the peace negotiation and post-conflict periods, conflicts and struggle, to gain more grounds, will prevail until a final new arrangement is agreed upon.

In the second scenario, the NCP may stick to the same arrangements given by the CPA or may be willing to offer even more concessions to attract the SPLM to the unity alternative. The concessions offered, regarding oil in particular and wealth and power distribution in general, will to a large extent affect the SPLM position. This is based on the inference that this is the understanding, of both sides, for making the unity option attractive.

This is as divergent and conflicting as the third scenario, where one of the sides thinks in term of a unified Sudan while the other is contemplating post secession arrangements. However, the main difference between the two scenarios may be that the SPLM may reconsider its secessionist position in the second scenario if the NCP offers an attractive package – including the sharing of oil revenues. In the third scenario though the NCP may use its power to make the unity unattractive, it has no or little direct mechanism to influence voters. On the other hand, the NCP secessionist position in the third scenario may not be altered unless it is threatened, for example, that a disastrous situation, which will endanger its rule, will prevail in the case of Secession.

In the fourth scenario, it will be in the interest of both parties to peacefully negotiate the arrangements for separation as soon as possible. Though oil will constitute a large part of those negotiations, many other issues will need to be settled as well. These thorny issues will include the borders, citizenship and nationality, assets and debts, future relationship between the two countries, transitional arrangements and so on.

The struggle/maneuvers regarding oil during the unity–secession debate and the implications of the outcome of the referendum, on oil, have many facets. First, the availability and abundance of oil reserves in both regions (the north and the South). The contradictory, or non-reliable, projections of oil reserves in the South and North add to the perplexity. Probabilities range from abundant oil reserves in the South and meager or none at all in the North, to abundance of oil reserves in the North and depleting reserves in the South. Thus, future/long run predictions for oil availability in the two countries, if a separated Sudan is the outcome, are difficult to derive. However, in the short-run most of the oil production will be in the South which clearly means sharp cuts in revenues in the North if separation took place. Though there will be some joint fields, the dangers of the North dependency on oil, sketched earlier, will undoubtedly materialize.

Second, the problem of agreeing on the borders has been and will be one of the major disputable issues. This will be a hurdle whether being thought of as borders between two regions or between two sovereignties, although in the latter the struggle will be more intense. Without undermining the importance of livelihood arrangements relating to the people living in border areas, oil distribution is and will be the main motivation for the two parties in their contest in drawing the borders.

Third, is the question of whether the separated South will continue to depend on the facilities - for oil refining, transport and exportation – in the North. Most probably, the North will secure some revenues in the short run for providing these services. In the long run the situation may change. This will be one of the questions which will be surrounded by a lot of manipulation. However, the availability of solid infrastructure in the North will be an advantage and incentive for explorations there.

Fourth, how will the Southern government, in case of separation, deal with the dilemma of honouring agreements with foreign companies involved. This entails, among other things, settling their debt and respecting the companies' long run arrangements/understandings with the pre-secession governments.

These and other related issues will determine how the main actors, especially the NCP and SPLM, will react/act in the pre-referendum period. But whatever the outcome of the referendum will be, an important issue to debate and settle will be the distribution of wealth among the various regions of Sudan, or the remaining regions after the departure of the Southern region. As has been mentioned earlier, a model dealing with oil revenues as national and at the same time recognizes the short and long term impact on producing areas need to be developed. It should take into consideration the levels of development needs of the different regions and transfer national funds accordingly.

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Appendix (1)
Composition of the Sudanese GDP
1999 – 2007 (in %)

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Agriculture	49.8	46.4	45.5	46.2	45.6	44.5	39.6	36.8	35.3
Manufacturing	7.3	7.5	7.9	7.5	9	9.0	7.7	7.0	6.9
Electricity & water	1.7	1.7	1.7	1.7	1.8	1.8	1.4	1.3	1.3
Building & Construction	4.9	4.7	4.5	4.7	4.6	4.8	4.1	4.0	3.9
Services	34.4	32.2	31.7	30.9	30.2	30.1	32.1	35.7	34.1
PETROLUEM %	1.9*	7.5*	8.7*	9.0*	8.9	10.0	15.1	15.2	18.6

Source: Estimates calculated from Bank of Sudan Annual Report, various issues.
* Mining & quarrying.

Appendix (2)
Oil and foreign Trade
$ Millions

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Exports	594.2	595.7	780.1	1806.7	1698.7	1949.1	2542.2	3773.8	4824.3	5656.6	8879.2
OIL exports	-	-	275.9	1350.8	1376.6	1510.9	2047.7	3100.5	4187.4	5087.2	8418.5
Non-oil	594.2	595.7	504.2	455.9	322.1	4380.	494.5	677.3	636.9	569.4	460.7
Imports	1422	1732.2	1256.2	1552.7	2300.9	2446.4	2881.9	4075.2	6758.8	8073.5	7722.4
Trade Balance	- 827.8	- 1136.5	- 476.1	254	- 602.2	- 497.3	- 339.7	- 297.5	- 1932.5	-2416.9	1156.8

Source: Estimates calculated from Bank of Sudan Annual Report, various issues.

Appendix (3)
Government Budget and its Financing
1997-2007
SDD Millions

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total Ordinary Revenue	108.6	159.2	205.2	331.4	365.2	472.2	703.6	1023.9	1218.4	1507.5	1794.1
Total Current Expenditure	117.4	157.5	197.5	300	342.8	377	563.3	793.6	1043.5	1471.3	1598.6
Surplus/Deficit	- 8.8	1.7	7.7	31.4	22.4	95.2	140.3	230.3	174.9	36.2	195.5
Development & Investment Expenditure	10.7	18.0	29.5	52.2	76	140.8	172.9	310.3	341.2	354	360.6
Overall Deficit	- 19.6	- 16.3	- 21.8	- 20.8	- 53.6	- 45.6	- 32.6	- 79.9	- 166.3	-317.8	- 250.9
External Financing	2.4	7.3	10.5	11.7	5.4	8.3	22.4	49.9	48.1	96.7	173.2
Domestic Financing	17.2	9.0	11.3	9.1	48.2	37.3	10.2	30.0	118.2	221.1	77.7

Source: Estimates calculated from Bank of Sudan Annual Report, various issues.

Appendix (4)
Government Revenue
1997-2007
(In Percentage)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Tax Revenue	76.06	73.0	75.0	48.5	51.5	45.3	37.9	41.0	41.1	39.0	36.4
Non – Tax Revenue	23.94	27.0	25.0	52.0	48.5	54.7	62.1	59.0	58.9	61.0	63.6

Source: Estimates calculated from Bank of Sudan Annual Report, various issues.

ppendix (5)
Oil Revenue Share of Southern Government
US $ million

	2005	2006	2007	2008	2009
January	0	72.4	93.20	231.39	42.07
February	21.20	61.4	60.66	158.48	30.84
March	47.00	77.9	44.53	237.14	54.50
April	70.90	86.8	85.00	217.09	51.60
May	70.50	93.1	120.04	207.06	63.43
June	53.90	94.5	113.54	278.47	70.43
July	87.20	84.8	139.55	381.95	
August	102.90	85.6	153.57	370.65	
September	65.90	81.1	97.92	264.32	
October	73.60	73.5	208.36	272.04	
November	96.80	85.8	160.17	150.74	
December	108.50	54.6	181.29	118.78	
Total	798.4	951.5	1457.83	2888.11	

Source: Compiled from data presented at the site of the Ministry of Finance and National Economy: http://www.mof.gov.sd/

Appendix (6)
Oil Revenue Share of Producing States
US $ million

	2005	2006	2007	2008	2009
January	0	4.08	5.77	11.88	3.94
February	1.09	3.47	3.62	8.12	2.58
March	2.56	4.41	2.65	11.86	3.69
April	3.86	4.92	4.91	10.67	4.59
May	3.88	5.29	7.53	10.50	4.67
June	3.03	5.36	6.58	18.45	5.70
July	4.97	4.85	8.32	26.27	
August	5.89	5.38	8.50	24.35	
September	3.87	5.07	5.15	19.11	
October	4.21	4.41	10.94	18.87	
November	5.51	5.14	8.98	11.88	
December	6.17	3.29	9.44	9.39	
Total	45.04	55.67	82.39	181.35	

Source: Compiled from data presented at the site of the Ministry of Finance and National Economy: http://www.mof.gov.sd/

Appendix (7)
Price for Crude Oil Exports – Nile Blend
2005-2009
US$/barrel

	2005	**2006**	**2007**	**2008**	**2009**
	Nile Blend	Nile Blend	Nile Blend	Nile Blend	Nile Blend
January	36.77	51.59	56.60	89.12	36.32
February	40.83	60.23	49.16	90.26	35.09
March	49.97	60.21	56.59	93.13	35.09
April	52.95	61.53	58.36	101.47	40.74
May	47.00	68.85	65.00	105.76	56.46
June	51.43	70.34	66.17	119.80	56.46
July	52.54	67.81	68.13	129.00	
August	56.57	72.54	77.31	132.23	
September	56.33	73.25	71.71	113.77	
October	55.15	58.89	76.31	97.05	
November	56.02	50.33	81.82	72.15	
December	55.83	50.899	89.14	36.32	

Source: Compiled from data presented at the Ministry of Finance and National Economy site: http://www.mof.gov.sd/

Appendix (8)
Price for Crude Oil Exports –Dar Blend
2007-2009
US$/barrel

	2007 Dar Blend	2008 Dar Blend	2009 Dar Blend
January	14.50	68.59	19.46
February	14.38	69.07	27.75
March	22.80	73.72	24.75
April	24.06	81.37	37.09
May	28.33	84.37	46.06
June	40.56	95.19	
July	50.88	100.81	
August	56.38	104.61	
September	40.57	80.70	
October	47.62	70.03	
November	55.92	48.91	
December	67.59	41.70	

Source: Compiled from data presented at the site of Ministry of Finance and National Economy: http://www.mof.gov.sd/

Appendix (9)
Europe Brent Spot Price FOB (Dollars per Barrel)

	JAN	FEB	MARCH	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
2005	44.51	45.48	53.1	51.88	48.65	54.35	57.52	63.98	62.91	58.54	55.24	56.86
2006	62.99	60.21	62.06	70.26	69.78	68.56	73.67	73.23	61.96	57.81	58.76	62.47
2007	53.68	57.56	62.05	67.49	67.21	71.05	76.93	70.76	77.17	82.34	92.41	90.93
2008	92.18	94.99	103.64	109.07	122.8	132.32	132.72	113.24	97.23	71.58	52.45	39.95
2009	43.44	43.32	46.54	50.18	57.3	68.61						

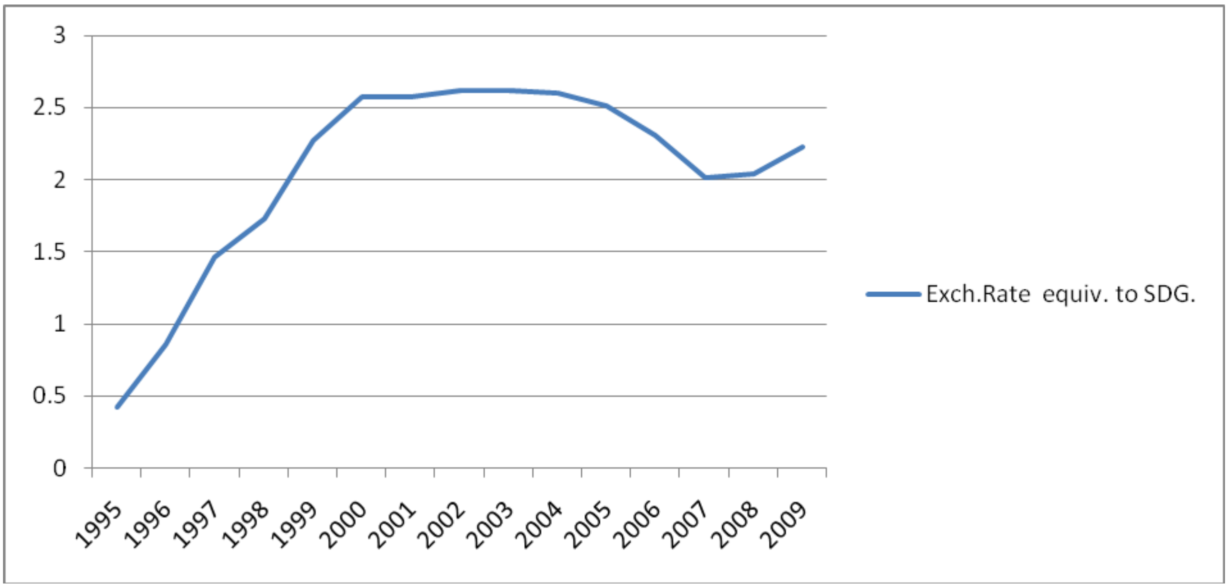
Source: U.S. Energy Information Administration: Independent Statistics Analysis. http://eia.doe.gov

Appendix (10)
Exchange Rate (1995-2009)

January 1995	424.43
1996	854.81
1997	1462.00
1998	1724.18
1999	227.25*
2000	257.40
2001	257.44
2002	261.44
2003	261.55
2004	259.97
2005	250.62
2006	230.43
2007	201.04
2008	2.0355*
2009	2.2295

Source: Bank of Sudan site.
*Introduction of Dinar.
** Introduction of SDG

Appendix (11)
Exchange Rates
1995-2009



Source: See Appendix (10).

Appendix (12)
Sudan Hydrocarbon concession Blocks

South Sudan	North Sudan	North - South
Block B, Total - 32.5% TOTAL - 32.5% MARATH - 25% KUWAIT FOREGN - 10% SUDAPET ***Block Ea, Free*** ***Block 5A, WNPOC*** - 67.875 PETRONAS - 24.125 ONGC - 8% SUDAPET ***Block 5B, WNPOC*** - 39% PETRONAS - 24.5% LUNDIN - 23.5% ONGC - 13% SUDAPET	***Block 6, CNPCIS*** - 95% CNPC - 5% SUDAPET ***Block 8, WNPOC*** - 77% PETRONAS - 15% SUDAPET - 8% HI TECH ***Block 9,11, SUDAPAK*** - 85% ZPG - 15% SUDAPET ***Block 10, FREE*** ***Block 12A, UNDER PROCESSING*** ***Block 12B, FREE*** ***Block 13, UNDER PROCESSING*** ***Block 14, UNDER PROCESSING*** ***Block 15, RSPOC*** - 35% PETRONAS - 35% CNPC - 15% SUDAPET - 10% EXPRESS - 5% HI TECH ***Block 16, IPSL***	***Block A, SUDAPAK*** - 83% ZPG - 17% SUDAPET ***Block C, APCO*** - 37% CLIVEDEN - 28% HI TECH - 17% SUDAPET - 10% KH-STATE - 8% HEGLEIG ***Block 1,2,4, GNPOC*** - 40% CNPC - 30% PETRONAS - 25% ONGC - 5% SUDAPET ***Block 3,7, PDOC*** - 41% CNPC - 40% PETRONAS - 8% SUDAPET - 6% SINOPEC - 5% THANI

Source: Ministry of Energy and Mining, Sudanese Petroleum Corporation.

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