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Stable Oil and Unstable Sudans: Implications for Indian Energy Security

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Abstract

Since 1950s, the undivided Sudan has been under constant turmoil and ravaged by civil wars. In the recent years the problem got culminated in the form of Darfur crisis and subsequent division of Sudan into two parts- Sudan and South Sudan. However, internal insecurity and low intensity warfare over the oil and gas resources perturb national peace and bilateral relations between the two Sudans (Sudan and South Sudan). The oil-rich border regions which are not yet clearly demarcated have drawn attention of both the nations who are in low-intensity war and conflict to gain these regions and resources. Under these prevailing insecured atmospheres, foreign investors and nations who have stakes in the oil fields and pipelines bear the brunt. Hence, Indian investment and stakes in Sudanese oil and pipelines are under scrutiny and immediate concern of the Indian energy policy makers and government. Taking into all these troubles and challenges, the paper is intended to analyse- internal problems of both the nations; oil-rich border regions as areas of conflict and low intensity warfare; impact of conflict and war on exploration, transportation and investment in the oil sector; New Delhi's approach for energy security and Sudan in India's energy map; and policy perspectives.

KEYWORDS: energy security, investment, war ravages, oil and gas, insecurity and prospect

Introduction

The country Sudan has been rife with conflict for decades, and many hoped that tensions would subside when South Sudan broke away from Sudan and became an independent nation. Unfortunately, the split has failed to decrease violence, and the two nations are edging closer to war. The tensions between the two countries have built up to the point where border skirmishes and bombings are drawing the nations closer to more widespread violence. The center of controversy lies at oilfields along the border region, to which both the countries claim and where exact border between the two nations has not yet been demarcated. The two countries have been locked in an exceedingly dangerous game of brinkmanship over billions of gallons of oil, seizing tankers, shutting down wells, imperiling peace process and, thus, losing confidence of the international oil companies and nations. While South Sudan is rich with natural resources, Sudan has infrastructural facilities to process and transport the resources through its territory. However, both the countries are largely dependent on their oil economies and an oil dispute between two countries escalating toward an all-out war. In this crucial but critical situation, the oil and gas companies looking the developments in the region with serious concerns and utmost importance. In some of the cases, they have lost their interest to invest or withdrawn their stakes from the oil-fields in the region. But, for the countries like India, whose economy largely dependent on import of oil and gas requirements, although getting affected by the civil wars, conflict and low-intensity warfare between these two countries, looking for a peaceful solution of the crisis since the crisis has not escalated to a point of no return. New Delhi is making all efforts at bilateral and multilateral level to bring an early end to the crisis. Like international support, efforts have been made to work right at the heart of local communities with tribal elders, community leaders, women and young people, and nations at large to find ways to respond to conflicting issues by abjuring violence and building peace. Contrary to it and prolonged tension in the oil-rich regions may lead to serious repercussion on India's energy interest in both the Sudans (Sudan and South Sudan).

Oil in the war-ravaged Sudans

Sudan has been at war with itself for almost its entire post-colonial history, starting in 1956. After decades of fighting Sudan finally got divided in July 2011, under the Naivasha Agreement (Comprehensive Peace Agreement), 2005, signed between NCP and SPLM that ended 21 years of war between the Muslim Arab-dominated north and Christian-dominated south. The south's departure from north did not put an end to conflicts. Significant problems predicted before the Referendum have been surfaced. Darfur has reemerged as conflict region, with a sharp rise in violent clashes being reported. New splinter rebel groups have taken shape and are contesting with fresh demands in the south and east. Weapons are everywhere in the countryside and tribal battles occur with frightening regularity. Both the nations face separatist movements within their own borders, and clashes along the new border have flared up regularly. Also, a spreading rebellion inside Sudan has prompted the Sudanese government to accuse the south of providing military support to the rebels. Thousands of refugees have fled conflicting areas, logistics over citizenship and the splitting of the national debt have yet to be worked out while both the countries passing through inflation and shrinking economies (www.peacedirect.org and The New York Times, May 21, 2012). While Khartoum has its luxury hotels and shopping malls, the south is where the roads stop. Most significantly, oil which is a major source of revenue has turned bone of contentions between the two Sudans. There are ongoing disagreements over how to split lucrative oil revenues and fate of the contested regions such as Abyei and Heglig (Panthou). But since most of Sudan's oil fields are in the south, the Arab regime in the north cannot afford to let it do so unless Khartoum finds its own oil. Already, the oil is covering the running costs of the civil war i.e. $400 per annum, political tensions fire up new disputes, the threat of low intensity war has become imminent and the problem threatens to derail peace and reconstruction process in the region.

According to BP Statistical Review of World Energy, 2011, Sudan (undivided) possesses 6.7 thousand million barrels reserve of oil (0.5% global reserves) and 486 thousand million barrels production (0.6%). However, with the disintegration of Sudan, although the exact figure is not available, some of 75% of the oil lies in the South and oil account for 98% of South Sudan's budget. Likewise, the rest of 25 percent oil constitute about 80 percent of Sudan's annual revenue. In April 2012, hostilities between the two sides erupted when South Sudan captured the important oil-producing region of Heglig from Sudan, which soon regained control of it. Sudanese officials have accused the South of using foreign fighters in Heglig. President Omar Hassan al-Bashir of Sudan warned South Sudan that his nation would drive the “insects” in the South from power (The New York Times, May 21, 2012). President Bashir had earlier threatened to bring down the government in Juba following the loss of Heglig, which provided more than half of its 115,000 barrel-a-day oil output and vital to Sudanese economy. Heglig is situated within the Muglad Basin, a rift basin which contains much of Sudan's proven oil reserves. Salva Kiir Mayardit, the president of South Sudan, said, ‘the South still believed that Heglig was a part of South Sudan and that its final status should be determined by international arbitration’. Heglig is internationally accepted to be part of Sudanese territory - although the precise border is yet to be demarcated. Apart from territorial claims, the attack was basically intended to limit the oil revenue for the Sudanese government (Abraham 2012). But Sudan has made it clear that no price is too much to keep the petroleum producing deposits. Since the attack, production there has been stopped because of ongoing tension and fighting (http://english.alarabiya.net)

West to Heglig, Abyei, the South Kordofan city, serves as a logistics centre for regional oil and gas activity. The area is lying in the border regions of Sudan and South Sudan and it is largely undemarcated. Sudan have occupied Abyei in overwhelming numbers, forcing nearly 100,000 southern Sudanese to flee. In the South Kordofan city, a number of key events have the potential to trigger conflicts. The dangers of renewed violent conflict and humanitarian crisis in Kordofan have been evident ever since the signing of the Comprehensive Peace Agreement. Rather than socio-economic integration and political reconciliation, lubricated by development efforts and a peace dividend, South Kordofan is the locus of an armed standoff with many fearing a return to war. The Small Arms Survey, a Geneva-based independent research project, has also warned that South Kordofan could be the next flashpoint for armed militancy in Sudan. The group cited a recent outbreak of fighting in Abyei, “The growing ethnic insecurity in the region has the potential to deteriorate significantly over the coming months and needs urgent attention to prevent it from spiralling out of control” (www.thenational.ae). It is significant that Sudan pumps about 500,000 barrels per day of crude - nearly as much as Egypt - mostly from oil fields in the provinces of South Kordofan and Unity.

Another point of contention between these two Sudans is how to divide up the oil in the area along the proposed border. Hence, the Greater Nile project’s assets ended up straddling the border. The project consists of blocks, starting from 1 to 4. While Block 1 & 2 lies with the south, the blocks 2 and 4 are with the north. In April 2012, South Sudan’s army seized the Heglig field in Block 2 (http://twentyclicks.in). Greater Nile project includes pipeline of 1600km to transport oil from border regions of the Sudans to Port Sudan of Red Sea for exportation. However, due to tangle, landlocked South Sudan shut down its roughly 350,000 barrel-per-day oil output in a dispute over how much it should pay to export crude via pipelines and facilities in Sudan (http://english.alarabiya.net). Sudan wants South Sudan to pay around $36 per barrel for using their infrastructure. Of this, around $6 per barrel has been asked as transit fees, but Juba has declined it. In the opinion of South Sudanese officials, the demand is “criminal in context” and “unjustified” in orientation (www.livemint.com). While most of the oil and gas productions come from landlocked South Sudan, infrastructure like pipeline and processing facilities lie in North Sudan. The North is seeking tariffs, which are not agreeable to the South, and all these have affected oil production in the region (Business Standard, 26 March 2012).

Impact on foreign investment

Global Witness, the international watchdog group, reported that images from the Landsat satellite showed a grid pattern of oil companies stretching 315 miles across Darfur's desert in the northwest near the Libyan border have begun in 2009. The eastern drive is headed by the Red Sea Operating Cop., a consortium grouping the state-owned Sudapet, the China National Petroleum Corp., Petronas of Malaysia, Express of Nigeria and two Sudanese firms. (www.upi.com). Several firms have oil concessions in Darfur. These include the Great Sahara Petroleum operating Co., a consortium of Saudi Arabian, Yemeni, Sudanese and Jordanian firms. Khartoum wants oil companies to develop a new oilfield in southern Darfur and is planning to offer the zone to investors. Oil companies such as Canada’s Talisman Energy, Sweden’s Lundin Oil, Malaysia’s Petronas and China’s state-owned China National Petroleum Corporation (CNPC) are business partners of the government of Sudan and Rolls Royce of Britain has provided engines to push the oil along the pipelines.

Reinforcing India’s efforts to secure energy resources overseas, state-owned Oil and Natural Gas Corp. Ltd. (ONGC) is in talks with South Sudan to help it build oil pipelines, crude oil stores and refineries in the newly formed African nations. ONGC Videsh Ltd (OVL), the overseas unit of ONGC, has invested $2.5 billion (Rs. 12,825 crore) in petroleum exploration and production in undivided Sudan as part of the Greater Nile Petroleum Operating Co. (GNPOC), in which it owns a 25% stake. Its partners are China National Petroleum Corp. (40%), Petronas Carigali Overseas Sdn Bhd (30%) and Sudapet Co. Ltd. (5%) (www.livemint.com). OVL has 25 percent stake in GNPOC (Block 1, 2 and 4) which now produces 120,000 barrels per day. The production is unaffected but OVL officials say that it may get impacted if the squabble between the two nations continues further (The Indian Express, 11 Oct 2011).

Recent killings in Sudan's oil-rich South Kordofan and Unity provinces are casting a cloud over India’s future in these rising African oil powers. This year, Sudanese armed forces recovered the body of a Chinese oil worker who had been kidnapped with eight colleagues at a gunpoint in South Kordofan nearly two weeks earlier. The Sudanese authorities also found a final survivor from the group, after recovering four bodies. The remaining three kidnap victims escaped from the captors (www.thenational.ae). The nine persons were abducted while working for GNPOC, a consortium of Chinese, Malaysian, Indian and Sudanese state oil companies led by China National Petroleum. In a separate incident, three Sudanese employees of the Yemeni oil company HTC Yemen were killed and two of their Yemeni co-workers kidnapped during an ambush in Unity province. The abduction of the Chinese workers was the third such incident in South Kordofan recently (www.thenational.ae). The Sudanese Tribune report provoked anti-foreign worker online responses to the deaths of Chinese oil workers- "Who cares about aliens?" Sudan detained three foreign oil workers and accused them of spying for South Sudan, a charge the South denied. Col. Sawarmy Khaled, a Sudanese Army spokesman, said, the arrests proved that South Sudan was using foreigners for destabilizing Sudan. In response to all these insecurity issues and to secure uninterrupted flow of oil, both the governments, particularly Sudan, have waged scorched earth military campaigns. Indiscriminate killing and burning are in full swing all over the exploration and extraction areas. The oil areas have become both extraction and killing fields. War itself is something that the local population has no particular need for or interest in. But as always they are the ones who are paying the price.

Energy security and Sudans in the Indian energy map

With the oil consumption of 3,319,000 barrels per day in 2010, India is the fourth largest oil consumer in the world, and as per the International Energy Agency (IEA), "India in order to stay on its current growth trajectory will have to increase its energy consumption by at least 3.6 per cent annually, which will lead India's energy demand to double by 2025, compelling it to import 90 per cent of its petroleum requirements". It is projected that by 2025, India will overtake Japan as the world's third-biggest importer of oil, with consumption of 7.4 million barrels a day (Taipei Times, 16 October 2011). India's gas consumption of 61.9 billion cubic metres in 2010, an increase of 21.5 per cent over the previous year, ranked it tenth-largest consumer in the world (BP Statistical Review of World Energy, 2011). In the early years, domestic factors such as socialist economic policy and international factors such as India's strong ties with the Soviet Union influenced India's choice of energy suppliers. Since the 1990s, the expanding growth rate of the economy has obligated Indian policymakers to view energy as a security issue, and the concept of energy security has increasingly entered into the arena of foreign policy discourse and national security. In 1996, to facilitate the acquisition of energy assets abroad, the government established Oil and Natural Gas Corporation-Videsh Limited (OVL). The "Hydrocarbon Vision 2025" and "Integrated Energy Policy" of the Government of India noted, "energy-insecure country will be unable to take country's rightful place on the global stage as a great power and one route to energy security is through the diversification and investment in oil and gas ventures overseas." Synchronizing this, Indian foreign policy approach is now concerned with two major aspects of energy bases abroad: diversification and investment. Looking into all these aspects, India finds Sudan and South Sudan as geostrategic partners for its energy security. Undivided Sudan possess 6.7 thousand million barrels of oil reserves (0.5 percent at global level) and its production of 486 thousand barrels constitute 0.6 percent of the total world productions. Likewise, undivided Sudan has 85 billion cubic metres of natural gas and it constitutes 0.05 percent of the world total (IEA Statistics 2011). The Sudanese estimated oil reserves are small compared with those in the Gulf countries, but the crude from it is light, sweet, viscous and low in sulphur content. This makes for easier and cheaper refining than Middle Eastern oil, and the existing sea-lanes can be used for quick and cost-effective delivery of oil from both the Sudans (Pradhan 2012).

In 2010-11, Sudan contributed the second-largest single share after Russia of OVL's oil (about 30%), most of which (27%) came from the assets of the Greater Nile Oil Project (http://twentyclicks.in). OVL of India had invested close to $3 billion in the united Sudan (www.upi.com). But, New Delhi today is locked in a "fierce geopolitical battle" for Sudanese oil. India is losing about $400,000 (2 crore), including a loss of $ 0.4 million to the project every day due to shutdowns in Sudans. Against regular production of 130,000 barrels per day (bpd), the current production is around 60,000 bpd. OVL gets a 25 per cent share in the production (Business Standard, 26 March 2012). The escalating conflict between Sudan and South Sudan, which has led Juba to suspend production and shipment altogether, is threatening to imperil OVL's investment of $3 billion in both the Sudans. The growing security concerns pressed Indian government to send its special envoy, Amarendra Khatua, to Khartoum and Juba to protect national oil interests in these regions. Both the Sudans have assured India that its oil assets in those countries were safe and will not be affected by the ongoing 'skirmishes' between the two over oil and territorial issues (http://irna.ir/). Although the reality goes otherwise, a conducive atmosphere is the immediate requirement for India to have better trade with South Sudan and Sudan.

Prospect of peace and oil

The Security Council calls upon the governments of Sudan and South Sudan to halt military operations, exercise maximum restraint and sustain purposeful dialogue in order to address peacefully the issues that are fuelling the mistrust between the two countries. The feeling within the Peace and Security Council is that it is time now for the two leaders to display the required leadership so that the two countries would avoid a disastrous war which the two people do not need (Abraham 2012).

The Collaborative for Peace, 2006, has brought peace building organizations from across North and South Sudan together to collectively help tribes and communities move away from violence. They work right at the heart of local communities with tribal elders, community leaders, women and young people, to find ways to respond to conflict without violence. In December 2010, the Collaborative was asked by the government to be the voice of civil society in negotiations to improve transparency with oil companies. Their influence and impact is increasing. The collaborative has turned as a significant force in defending and enhancing peace process in the struggling Sudans. There are also instances where both the Sudans are going with the negotiations. For example, South Sudan and Sudan have voiced confidence that a deal will come soon to easy out tension in the region.

While the south holds oil reserves, the north has the refineries and pipelines; therefore, conventional wisdom argues that the two sides need each other for their economies to survive and rise from brink. Discovery of oil produces conflict, but, conflicting parties should come together to reach at some kind of agreement with some equal and absolute gains. As the international community, such as United Nations and African Union, trying to get the two sides talks, both the nations would not let it go a missed opportunity.

Importance accorded by New Delhi to South Sudan was borne out of the fact that Vice-President Hamid Ansari attended the formal ceremony that marked the birth of the new nation of 10.6 million people. Most significantly India wants early resolution of conflicts between two nations. By sending special envoy to Sudans, New Delhi primarily intended to promote peace between these two countries and protect India's vital energy interests in the region.

Still struggling to establish itself, South Sudan has awarded the first batch of oil contracts since independence to the China National Petroleum Corporation, the China Petroleum and Chemical Corporation, Malaysia’s Petronas and India’s OVL. Whether these companies offered South Sudan the best deals, or whether their choice is indicative of a shift in the new government’s political orientation remains to be seen. (http://dailymaverick.co.za). However, in the absence of any processing facility, it is seeking help from India and others to explore oil, build pipelines and refine crude oil. Hence, India should reciprocate the expectations of South Sudan.

The south, too, is active on the oil front, trying to find an alternative route to get its oil to market since the only pipeline there runs northward to Port Sudan on the Red Sea. One option that has gained some traction is a new pipeline southward through Uganda to Kenya's Indian Ocean ports of Lamu or Mombasa. The Japanese, the second biggest buyer of Sudan's oil after China, has offered to build such a pipeline for $1.5 billion. (www.upi.com). China also has offered its cooperation in this field (The New York Times, May 21, 2012). The proposed pipeline will break South Sudan’s dependence on Sudan. Under this security and geopolitical circumstances, India should also come forward to become a party to the South Sudanese endeavour for alternative pipeline. On the other side of Sudans and looking at Darfur, the Sudanese government is reported to be looking for new oil reserves within its own territories and if successful, it could halt a threatened renewal of one of Africa's bloodiest civil wars (http://www.upi.com/Business). Under this opportunity, India with its expertise, technologies and investment potentials can cooperate and work with Sudan in finding new reserves of oil and gas resources and their exploration and processing as well.

Conclusion

The problems of Sudans like many of the conflicts in Sub-Saharan Africa are inextricably intertwined with the vast and rich natural resources contained in these two countries. In these war-ravaged Sudan and South Sudan, peace remains a fragile issue. While the natural resource-oil is stable with its reserves, the intentions to grab these resources by these two Sudans have made them unstable and brought both the nations into the brink of war. Both Sudan and the South are reliant on their oil revenues, but, the two countries are not yet able to agree on how to divide the oil wealth of the former united state. Both the sides have not agreed on issues such as claims over the resources and transportation fees. Either way, there are plenty of obstacles to be overcome before South Sudan and Sudanese oil can be exploited efficiently. Government forces have launched scorched earth policies to drive civilians, and the rebels who live among them, out of the oil fields. It is feared that disputes over oil could lead the two neighbours to return to war. The fate of the oil-rich border regions are still undecided, with the possibility of renewed violence.

Under these critical circumstances, research, exploration, refinery and transportation of oil are at stake; multinational companies and countries that have investment in both the Sudans are insecured and are uncertain of their future course of action. The future of oil and gas, bright or bleak, much depends on Khartoum and Juba, 'how to overcome black curse'. Steps have been taken by both the government and international community towards resolving the bilateral and security issues faced by both the countries. But, all these have not reached to a momentum. India, waiting eagerly for an early resolution and permanent settlement of dispute between Sudan and South Sudan, so that, it can promote its geopolitical interests and energy requirements. Both pessimism and optimism looms large in the horizon of Indian policy makers. If required and opportunity comes, India should be a party to the settlement of dispute in the region and engage international community in this regard. But, while doing so, it should bring Sudan and South Sudan into its confidence for smooth and reliable supply of oil and gas for its greater national interest of energy security.

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