VIEWS AND ANALYSES FROM THE AFRICAN CONTINENT

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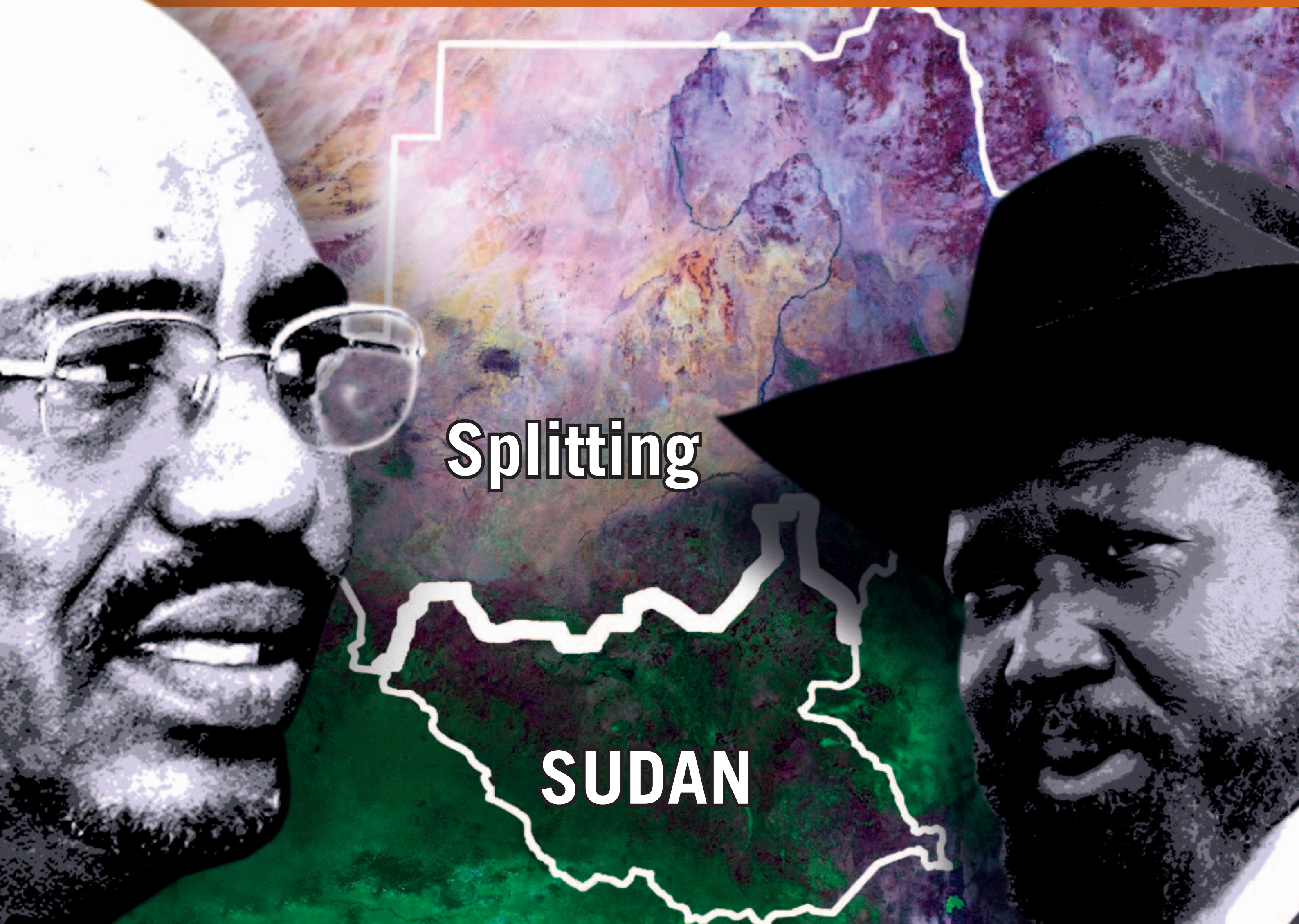
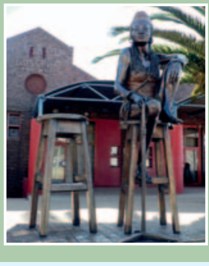


NOT-SO-SMART SANCTIONS

MOROCCO STILL OUT OF AFRICA



ART AND THE WORLD CUP

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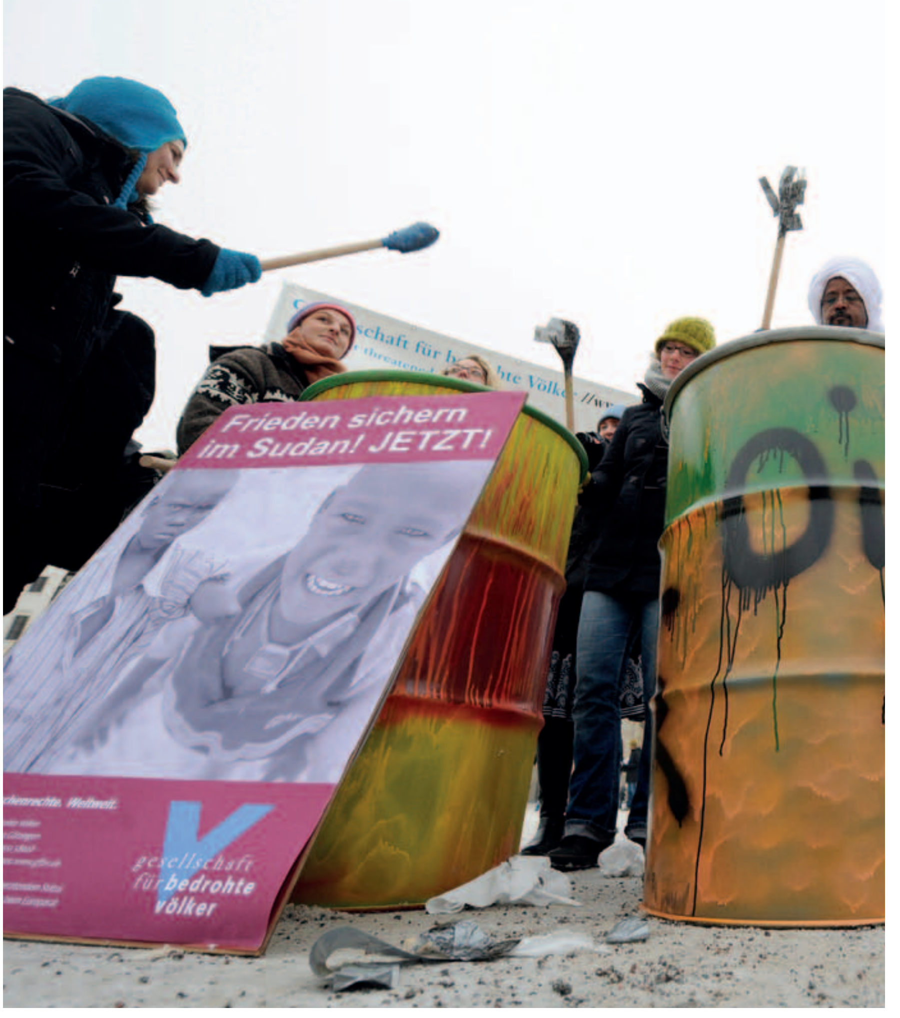
Oil has dominated the economic and political landscape of Sudan during the interim period of the Comprehensive Peace Agreement (CPA) and remains at the centre of festering political tensions between the North and the South. **Luke Patey** argues that preparation for post-2011 oil wealth-sharing arrangements must now take priority in Sudan



Activists bang oil drums during a protest by human rights advocates Amnesty International, to call attention to the allegedly worsening situation in Sudan, in Berlin January 7, 2010.

Gallo Images/AFP

Oil and politics a dangerous mix

Southern oil production accounts for over 80 percent of total crude output in Sudan. However, the South remains attached to over 1 600 km of oil pipeline heading north to Port Sudan and export terminals on the Red Sea. Should the South secede, Khartoum would lose considerable revenue, while Juba would have few immediate options available to sell its oil in large amounts. Without the settlement of oil arrangements, both sides will find themselves standing on shaky ground.

Oil masks a weak economy

Oil has been central to Sudan's economy since crude was first exported from Port Sudan on the Red Sea in August 1999. Over the past decade it has driven an average rate of economic growth of nearly 7 percent. Nonetheless, the oil boom in Sudan has been narrowly concentrated in industrial and service sectors, offering little to the majority of Sudanese. If there was still a window of opportunity to make the prospect of unity attractive thanks to oil, it has abruptly been closed.

Agriculture still employs two-thirds of the workforce, but oil has represented over 90 percent of Sudan's total exports since the CPA was signed in January 2005. A trio of Asian national oil companies – China National Petroleum Corporation (CNPC), Petronas of Malaysia and India's ONGC Videsh (OVL) – has underpinned oil development in Sudan with billions of dollars in investment since the CNPC first entered the country in 1995. Sudan's economic ties with Asia and the Middle East have thwarted longstanding US sanctions and widespread divestment campaigns that have limited Western investment. Despite the growth of oil exports however (at US$11.8 billion in 2008) the oil boom camouflages a critically weak economy.

For years Sudan has been burdened with twin deficits, running an average current account deficit of over US$4 billion in the past five years. The importation of capital goods and foreign services has fed a burgeoning government debt. Oil was projected to comprise close to 60 percent of total Government of National Unity (GNU) revenue in 2008, averaging over US$4.79 billion earned annually from exports and sales to local refineries since 2005.

Nonetheless, average total revenues of US$7.94 billion have been outpaced by expenditures of some US$8.26 billion. Sudan's total national debt stood at a staggering US$33.7 billion in 2008. The Government of Southern Sudan (GoSS) is utterly dependent on oil transfers from Khartoum which amounted to US$6.4 billion from 2005 to June 2009 (roughly 99 percent of total Southern revenues).

Sudan experienced its first oil shock when the major downswing in international oil prices began to take effect in early 2009. It has failed to manage the Oil Revenue Stabilisation Account, designed to shelter government revenues from volatile international oil commodity price swings, and investment in other sectors of the economy has been largely neglected despite record-level oil earnings. Thanks to decreases in spending and new tax measures applied by the GNU, as well as a rise in oil prices back to US$60-70 per barrel by mid-2009, Sudan was able to avoid a complete financial meltdown.

The situation however was bleaker in the South. In the first half of 2009 the GoSS had only received US$313 million from oil transfers from the central government compared to over US$1.2 billion in the same period in 2008. A struggling Bank of Southern Sudan had to rescue the Nile Commercial Bank as it ran out of cash in April 2009. Many southern civil servants went without salaries for months on end as crime, banditry and tribal clashes rose in the region. The resurgence in oil prices will help the GoSS avert disaster.

Inflated expectations

The oil boom in Sudan was exceptional in nature. Following the signing of the CPA, the rise in oil production coincided almost perfectly with skyrocketing international oil prices. As international crude prices rose over 40 percent in value total crude output shot up from 305 000 barrels per day (bpd) in 2005 to 480 000 bpd in 2008. Today however, a combination of exaggerated forecasting, a lack of investment from cautious oil companies, and poor infrastructure has already limited Sudan's oil production. Unless major discoveries are made in the future, flattening oil production, unproven reserves, poor crude qualities, and questionable oversight threaten to undermine peace and stability during the last months of the CPA. The weakness of the oil sector however has gone largely unacknowledged and the inflated expectations regarding production threaten to spark a return to civil war.

Sudan is set to continue to produce increasing levels of oil heading towards 2011. It is also likely to remain sub-Saharan Africa's third largest producer behind Nigeria and Angola in the medium term. There are nonetheless serious question marks hanging over the longevity of production with some estimates placing its peak at under 600 000 bpd on the basis of current production and reserve levels. This is a far cry from the 1 million bpd envisioned by officials at the Ministry of Energy and Mining in Khartoum. Even optimistic forecasts see a unified Sudan or separate Southern Sudan only enjoying another 20 years of strong revenues from oil exports.

Oil and future stability

Mistrust between the National Congress Party (NCP) and Sudan People's Liberation Movement (SPLM) has been fuelled by the incomplete and dysfunctional implementation of many of the CPA wealth-sharing provisions. An effective and a functioning National Petroleum Commission is still missing with southerners playing an inadequate role in the oil sector.

Some notable signs of compromise on oil may nevertheless help to promote avenues of economic mutual interest. The resolution of the Total-White Nile dispute, the Abyei roadmap agreement, and reactions after the ruling of the Permanent Court of Arbitration in The Hague placed key oil fields outside the boundaries of the disputed Abyei region indicate the priority attached among the NCP and SPLM to maintaining steady oil revenues and avoiding a return to civil war. The challenge of determining the conditions of oil resource sharing, whether in a unified Sudan or secession scenario, will nonetheless be tremendous.

The reluctance in Khartoum to give up oil revenues is met by an utter distrust and lack of sympathy from the southern elite. The GoSS faces high levels of uncertainty concerning its oil-dependent budget, which is compounded by a lack of transparency

CITY OF MATLOSANA

2010 LEGACY CITY

- The City of Matlosana will be hosting SMME Business Conference and Expo from 11 June till 10 July 2010.
- As one of the principle activities the city will be having a Soccer Viewing Area where local business and communities can reap the benefit of watching all FIFA World Cup Soccer, from the opening ceremony to the final.
- We have decided to run an SMME Expo and Conference side-by-side so that our local SMME's can benefit in some small way from this mammoth event that is coming to our country.
- The city is looking for partners, sponsors and exhibitions to add value to the event.

LOCATION

- The 4-week event will be hosted at the PC Pelser Airport, one of the city's Priority Investment Opportunities.
- The city will be launching the findings of the DBSA feasibility report at the conference as well as various investment opportunities that have arisen from the feasibility study which is currently in circulation.
  (A copy of the study is available on the council website www.matlosana.org under Investment Opportunities)
- The airport offers a unique and rustic opportunity to host a successful 2010 SMME Expo with side-by-side events.

OBJECTIVES

- To involve and include our local businesses and community in 2010 World Cup Soccer and create a legacy for our local community through 2010.
- To create a marketing and networking platform for local business and invite corporate SA to the city to create a legacy for our business community.
- To expose and promote our city to potential investors during 2010.
- To sell our Airport Business Plan to investors and at the same time promote our local business to potential expansion or investment.
- To create a happy and festive atmosphere at the airport in support of 2010.

PLANNED ACTIVITIES

- Matlosana Legacy Record Music Festival.
- SMME Expo and Conference.
- The Biggest Air show Ever (Attracts up to 10 000 people).
- Daily Soccer Activities Corporate 5-a-side and School Tournaments. These will also include life skill workshops daily for coaches and sport administrators with evangelist outreach programmes.
- Mini Olympics involving all sporting codes. This also include peoples with disability sporting code.
- Miss Matlosana 2010.
- BOLT AND ENGINEERING DISTRIBUTORS - Mining Expo.
- Drag racing.
- Speed and Sound Expo.
- Matlosana Heritage Tours - daily.
- Carnival Activities for school children daily.

EXPO CALENDAR

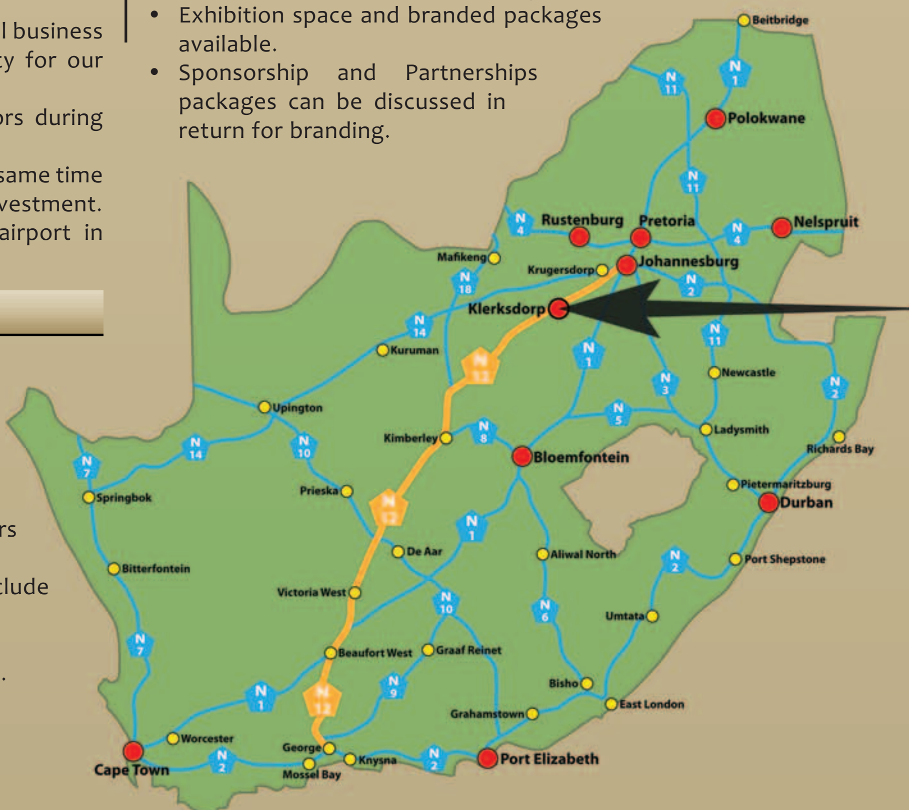
DATE	THEME
11 June – 14 June	Music Festival, SOCCER and SMME Expo. OPENING GAME.
16 June	Youth Day Gospel Concert and Outreach Program.
18 June – 21 June	Speed, Sound and Drag Racing & SOCCER.
25 June – 28 June	Bolt and Engineering Distributors - Mining Expo, Air show & SOCCER.
3 July – 5 July	Miss Matlosana 2010, Sport, Leisure & SOCCER.
9 July – 11 July	Legacy Records - 2010 Talent Search Expose. WORLD CUP FINAL.
11 June – 11 July	SOCCER Viewing Area & SMME Exhibitions - daily.

CONFERENCES AND WORKSHOPS

1. Create your own employment
2. Unlocking wealth creation
3. Innovate or die
4. From rags to riches

CONTACT DETAILS FOR MORE INFORMATION

- Contact: Sandy Botha on 082 886 9076
  or Thomas on 018 487 8157
- Your involvement and participation in this event will certainly contribute to creating a LEGACY for the City of Matlosana businesses and community at large.
- Exhibition space and branded packages available.
- Sponsorship and Partnerships packages can be discussed in return for branding.



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regarding oil revenue transfers. Southern Sudan has generally received its 50 percent allocation of oil revenues from Khartoum. Nonetheless, reservations remain regarding the actual production and price figures on which GoSS transfers are determined.

An agreement struck after the SPLM suddenly withdrew from the GNU in October 2007 to bring GoSS appointees into the various oil consortia has still not been fully implemented. Khartoum now also sends oil transfers to the Bank of Southern Sudan in Sudanese pounds, hampering the ability of GoSS to maintain strong foreign currency reserves. Altogether, the GoSS and SPLM have been provided with few reasons to wish to remain locked in a political agreement with the NCP after 2011.

In the absence of a transparent arrangement on oil revenue sharing after 2011 and improved conditions for communities living in oil-bearing regions, armed conflict will continue to remain a threat. The poor transparency record of Khartoum on oil revenue transfers indicates that it may be unwilling to separate from its oil revenues without a political fight or indeed a return to war.

Conversely, the SPLM has been given little assurance during the interim period of the CPA that it is dealing with a fair and open partner. It is keen to defend oil territory it sees as rightfully belonging to the South. The Southern elite regards their future survival and prosperity as an independent state as inextricably bound up with stable revenues from oil.

Regardless of the results of the scheduled 2011 referendum, many fear that a protracted Niger Delta-esque scenario is evolving in Southern Sudan.

It is doubtful how long the shaky political situation in the North and South can maintain some form of stability without steady oil revenues after 2011. Norway has engaged the NCP and SPLM in discussions on establishing post-2011 oil revenue sharing agreements, but it is unclear how far these efforts have progressed; more concerted support from the international community may help negotiations.

Any new deal on oil should also not repeat the lack of transparency and accountability that exist in current arrangements. Attention must be paid to other aspects in order to avoid the emergence of a vacuum in oil sharing management: border demarcation between the North and South, international standards on environmental and social management, possible renegotiation of commercial contracts with foreign companies in the South and the usage of pipelines and related oil infrastructure will need to be established and regulated.

Key Sudanese and international stakeholders involved in the oil sector should support initiatives aimed at developing a comprehensive framework for negotiations between the NCP and SPLM on post-CPA oil wealth-sharing arrangements. Specifically, it should engage China, India and Malaysia to be more active partners in supporting such post-2011 arrangements and other aspects of industry management.

*Luke Patey is a PhD candidate with the Research Unit on Politics and Governance of the Danish Institute for International Studies. This is the edited version of an article that first appeared in the report of the European Union's Institute for Security Studies titled Post 2011 Scenarios in Sudan (November 2009).