

PREFACE

The study on *Sudan's Oil Diplomacy* is necessitated by much emphasis on conflict over controlling strategic oil resources and relatively less attention on the evolving choices for transforming these natural resources into productive assets in the largest country of Africa. Sudan is one of the upcoming oil producing countries in the world. It is infact the third largest oil producer in sub-Saharan Africa that is located in the expanded supply zone of the world oil regime. The exploration and subsequent production of its oil resources is largely undertaken by facilitating participation of foreign oil firms. The oil production through transnational partnership has opened up a new channel of export earnings to sustain Sudan's foreign trade. The country's oil exports account for 70 per cent of total export revenues. The oil industry has consequently become very critical for its economy. The expansion of oil sector in the 1990s has made Sudan strategically vital for the rest of the world. The international attention is over the years increasingly concentrated on the oil fields of Sudan as an alternative to the traditional oil surplus region. In turn, the Sudan Government has started using oil as a major instrument of external negotiation to pursue its foreign policy objectives that are based on military, economic and politico-diplomatic interests of its regime.

Sudan initiated its oil production activity by facilitating the entry of Western players equipped with effective exploration and production technology. The multinational oil firms from North America and West Europe undertook exploration and development of the oil fields, participated in the oil production, extended their involvement in the building of oil infrastructure, and moreover performed retailing function of the oil business in Sudan. The rise in oil production gradually enabled Sudan to begin oil exports in the year 1999. Thus, Sudan in due course of its oil production got integrated with the expanded world oil regime as an upcoming oil producer by forging partnership with Western oil firms.

The oil industry became very critical for the economy by contributing maximum share of export revenues to the country's exchequer. The expansion of Sudan's oil sector was,

however, carried out in the midst of resurging politico armed conflict in the 1980s. The revival of intra-State territorial fight has placed Sudan in an adverse position vis. a. vis. the Western powers. They have accused the regime in Khartoum of using oil revenues for strengthening its security apparatus against the rebels who have been allegedly dispossessed of their homelands in South Sudan due to oil production. The change in political relations led to the withdrawal of major Western oil firms from Sudan's oil industry thereby making the way for Asian oil majors to fill the vacuum.

The expansion of Sudanese oil industry coincides with rising Asian interest in African oil. Asian powers have over the years acquired extensive knowledge and experience in domestic oil production; yet that failed to meet their constantly rising energy demands triggered by economic globalisation. The increasing external dependence compelled these countries to enter into transnational oil ventures. The 9/11 terrorist attack has further propelled the oil seeking countries to diversify their supply lines by drifting away from West Asia and getting closer to Africa. Asian quest for African equity oil has provided a concrete ground for the Afro-Asian interdependence that has evolved in the post cold war economic world order in terms of trade and investment partnership.

As an extension of Afro-Asian economic complementarity, the current regime in Sudan has diversified the pattern of its transnational production linkage through consolidation of multiple Asian participations in its oil sector. Asian oil majors are currently the active players in the upstream as well as downstream segments of Sudanese oil industry. Participation of China National Petroleum Corporation (CNPC), Malaysian Petronas and Indian Oil and Natural Gas Corporation Limited (ONGC) has sustained and carried forward the oil business that has been initiated through Sudan's partnership with major Western oil firms.

The shift that Sudan's external oil engagement has undergone is due to the withdrawal of Western oil majors. The underlying rationale for such approach, therefore, lies in the intents to ensure that Sudan's oil production remains less dependent on the partnership with West, and at the same time to foreclose a probable eventuality where any single

Asian player does monopolise its oil sector. 'Asian Orientation' has consequently become the dominant trajectory of the transnational production partnership that Sudan is currently forging for its oil industry. Sudanese oil sector on the process has created another context for Sino-Indian competitive cooperative engagement that is perceived to be a dynamic aspect of the wider process of globalisation of oil.

The year 1991 is found to be important for comprehending Sudan's approach towards its oil industry, since around that period the Government has decided to adopt block system, the decision that has been implemented in the subsequent year of 1992. Adoption of block system – division of land surface enveloping oil reserves into several blocks for facilitating the competitive bidding by national and transnational actors- are indicative of certain new nuances of the Sudan Government's foreign oil policy. First, it is a break with the earlier policy of granting large concessions to Western oil majors for carrying out exploration and development exercises across the country. Second, it demonstrates the self confidence and self assurance on the part of the State to have possessed proven and potential oil reserves at their disposal. Finally, it indicates the Government's move of circumscribing each individual oil firm's area of operation and, more importantly, diversifying as well as fragmenting the process of oil production through formation of multiple consortia and joint ventures over several oil blocks.

The diversification of oil production partnership, which has gained prominence with the adoption of block system, has reached another landmark in the year of 2003, when the participation of ONGC has been facilitated in a strategically crucial oil project in Greater Nile Valley. The entry of the Indian oil major in Greater Nile Valley, in fact, reaffirms the shift that Sudan's external oil engagement has already undergone for Asian orientation, and also indicates its trajectory towards further diversification by forging multiple Asian partnerships in its oil sector. The domestic priority for modernising oil industry, thus, gets clearly reflected in Sudan's foreign policy preference in terms of making calibrated engagement for transnational production partnership.

This study on *Sudan's Oil Diplomacy, 1991-2003* identifies five objectives that remain the issues of primary concern while investigating the subject. They are: to locate Sudan in the expanded world oil regime, to examine the criticality of oil sector in Sudan's economy, to explore the pattern of oil production in Sudan, to identify the shift in Sudan's transnational oil production partnership and to assess the determining significance of oil in Sudan's foreign policy behaviour.

The study also tries to test three hypotheses which are assumed to be very central to investigation of the subject. First, Sudan's oil reserves are located in the expanded supply zone of the world oil regime that has undergone fundamental transformation under globalisation. Second, the country has consolidated the participation of Asian players in the oil industry to reduce its dependence on western oil firms. Third, Sudan has further diversified its transnational oil production partnership by encouraging multiple Asian participations.

The study is descriptive and analytical by making use of primary and secondary sources. The primary sources include documents and reports obtained from the Ministry of Energy and Mining (MEM) of Sudan Government as well as transnational oil firms including ONGC operating in Sudanese oil sector. The secondary sources comprise books, and research, newspaper and web articles. The central focus of the study is on the contour of diplomacy that Sudan has developed while negotiating with the countries that have got their oil firms operating in its oil sector. Since Sudan's oil diplomacy remains in an evolving and transitional stage, the study is substantiated by a fieldwork for authenticating the findings that have come up, after an exhaustive survey of the literature available in India. The field study includes, besides others, interviews with analysts and practitioners who are based in Sudan, and are directly or otherwise involved on a constant basis in the process of formulating Sudan's foreign oil policy.

The study consists of six chapters. The *First Chapter* sets a conceptual parameter for the succeeding chapters to follow by analysing the present resource paradigm as compared to the classical geopolitics. Then, it devotes to conceptualise the world diplomatic system.

The conceptualisation of diplomatic system is followed by an analysis of the current world oil regime within the wider energy discourse. The chapter subsequently locates Africa in the extended world oil regime, and looks at emerging options for oil surplus African countries for reorientation of their transnational production partnership under the wider frame work of Afro-Asian economic complementarity.

The *Second Chapter* looks at oil sector in the wider context of the State reconstruction and peace building processes in Sudan. Then, it makes a detailed account of both upstream and downstream segments of the oil industry that operates under the broader framework of transnationalised oil regime. It also enumerates the legal safeguards available for both upstream and downstream operators. Finally, the chapter analyses risk factors that are associated with the oil production in Sudan.

The *Third Chapter* begins with energy demand scenario in industrialised West that constitutes the traditional demand zone of the world oil regime. Then, the chapter looks at Sudan's partnership with the United States (US) on the oil sector in the wider context of American interest in African oil. It subsequently examines Sudan's oil engagement with another North American partner that is Canada. The chapter also makes an assessment of Sudan's partnership with West European players, including Sweden, Switzerland, Austria, United Kingdom (UK), France and Netherlands.

The *Fourth Chapter* begins with energy supply-demand outlook in Asia that constitutes the extended demand zone of the world oil regime. Then, the chapter looks at Sudan's partnership with China on the oil sector in the wider context of Chinese interest in African oil. It subsequently examines Sudan's oil engagement with another Asian partner that is Malaysia. Then, it looks at Sudan's partnership with India in the broader perspective of Indian interest in African oil. The chapter also tries to describe the Sino-Indian engagement in the Sudanese oil sector.

The *Fifth Chapter* begins by identifying the foreign policy priorities and preferences that are pursued by the regime in Sudan while crafting its oil diplomacy. Then, it tries to

compare as to how oil has determined the country's relations with industrialised West on the one hand and Asia on the other. The chapter also looks at Sino-Indian interface that is manifested in Sudan's oil engagement. It finally highlights the constraints that Sudan's oil partnership has to encounter in course of reorientation of its trajectory towards Asian participation.

The *Concluding Chapter* sums up the findings of the above five chapters, and tries to outline the contour of the Sudanese 'Oil Diplomacy'.