Pursuing Transparency in Sudan’s Oil Industry
By: Alsir Sidahmed

Executive Summary

The exploration and production of Sudan’s oil resources has assumed a high priority for consecutive regimes that have ruled the county since independence. Despite discovery and exploration by Numeri’s Regime (1969 – 1984), the Ingaz regime (1989 – present) has succeeded, against formidable internal and external challenges, in producing oil for local consumption and export.

Success in the production of oil and its export gave the Ingaz regime a sense of ownership of all the operations in this field. The hostile national and international contexts that eventually led to boycotts and sanctions have pushed the regime to develop extreme measures to protect the oil industry – with the industry being a key lifeline for its survival. As such, the oil industry started and developed in an environment characterized by a lack of transparency and prone to corruption.

The lack of transparency has raised suspicions and allegations of corruption that encompass all upstream and downstream operations of the oil industry. These have included issues of volume, reporting, reserves, entitlements of foreign companies, and allocations to producing states and distribution companies.

Although Sudan lost two-thirds of its known oil reserves in 2011, following the secession of South Sudan, allegations of corruption and lack of transparency continue. It is of utmost importance for the current Ingaz regime and any other future government, to tackle the lack of transparency to dispel current and future accusations of corruption. In the meantime, the current government must take all accusations of corruption within the oil sector seriously through proper independent investigation and publishing of all information pertaining to these accusations and the oil sector in general. The implementation of the recommendations detailed at the end of this report will help to lay the foundation for transparency in Sudan in general and in the oil sector in particular.

Framework

A lack of transparency and accountability is a fertile environment for corruption and waste. The general definition of corruption as a form of abuse of public office for private gains, which has been adopted by the World Bank, may not be sufficient. A wider definition that covers the “use of power for profit, preferment, or prestige, or for the benefit of a group or a class, in a way that constitutes a breach of law or of standards of high moral conduct” could be more appropriate.¹

¹ On definition of corruption various sources have been consulted, namely the following: C. Leys, “What is the Problem About Corruption?”, The Journal of Modern African Studies. Vol. 3, issue 02, August 1965, pp. 215-230. Also: Helping Countries Combat
As such, corruption extends beyond illicit personal gains to negatively affect economic growth, undermine public institutions, weaken the quality of services extended to the people and institutionalize a lack of accountability and transparency.

Moreover, a lack of accountability and transparency become an integral part of the daily exercise of power, when the state apparatus is controlled and used to further facilitate gains by ruling parties and elites. The situation becomes more problematic when institutions, firms and individuals turn a blind eye, or receive incentives, through exchange of favors and interests, instead of fighting corruption through correct procedures and regulations. In such an environment, combating corruption and a lack of transparency requires a sustained and long-term process in order to address complex social, cultural, economic and political power relations for rule of law and accountability.

With this understanding, corruption is a well-established phenomenon in Sudan. This is to the extent that two academic researchers from the University of Khartoum concluded, as early as the mid-1980s, that it constituted the “Fifth” factor of production and income generation in addition to profit, interest, wages and rent.²

They pointed out that, two decades earlier in the 1960s, there were only a few millionaires known by name, family, business and source of income. They explained the recent growing number of millionaires and their visible presence, to the emergence of groups of retired military or high ranking civil servants who use their networks of contacts in different ministries and the banking system, and familiarity with the rules and regulations, for personal benefit. These illicit practices include embezzlement of public funds; unjustifiable ownership of agricultural land based on nepotism (mainly in mechanized farms) and the preferential treatment in obtaining shares in commercial enterprises.

Corrupt practices changed significantly with the ascendance of the Islamists to power in 1989, when resources, rent and eventually the state apparatus were used effectively and publicly to serve a narrow political agenda, reward supporters and neutralize or buy off opponents. In other words, corruption and a lack of transparency became tools for political management, shielded by the government authority against any form of accountability or demand for transparency.

The advent of the Islamists to the political scene dated back to 1977, at the time of what became known as the National Reconciliation (NR), whereby the May regime (1969-1985), led by Ja’far Nimeiry, managed to encourage the opposition, organized under the umbrella of the National Front (NF), to join the regime. Among the prominent members of the NF group was the Islamic Charter Front (ICF), the Sudanese branch of the Muslim Brotherhood. The ICF’s hidden agenda and rationale of joining the reconciliation was to build their party membership and economic and

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financial base. In short, their intention was to use the state organs to advance their political and business interests.

In the early 1970s, the May regime had embarked on a free market economic policy to attract foreign private investment, especially in agriculture. With the NR, the Islamists showed no interest in challenging Nimeiry’s control of the political scene, rather their focus was to gain control of the economy. Their influence, economically and politically, started to grow with the flow of petro-dollars into Sudan from wealthy Gulf countries. The reason behind the inflow of capital was a grand strategic government scheme that intended to make Sudan “the breadbasket of the Arab World.” One of the outcomes of this was that Sudan became the first country in the region to allow for an independent Islamic financing experiment. Thus Faisal Islamic Bank (FIB) was established in 1977 with a capital of 6 million Sudanese pounds. The Government of Sudan (GoS) gave preferential treatment to the FIB, with exemptions for example from capital and business profit taxes, control by the Central Bank and government regulations, and public auditing. All of these exemptions empowered the FIB and enabled it to register a 10 percent return on capital in its first year of operation, rising to 176 percent in the following year and to 226 percent, 325 percent and 384 percent consecutively up to 1983.3

However, while these exemptions were intended to help the new Islamic financing experiment to grow and to invest in more sound, productive economic activities, FIB investment instead focused on trade, commerce and interest free loans for quick profits for its shareholders and fellow Islamists party members and sympathizers.

One of the FIB’s main areas of activity was attracting a sizeable portion of Sudanese expatriate remittances. The Bank of Sudan estimated in the early 1980s that, out of US$1.4 billion remittances from Sudanese working abroad, only US$400 million were channeled through official means. The rest went through the black market, with a considerable percentage of this through Muslim Brotherhood-affiliated foreign currency exchange outlets financed and sponsored by the FIB.4

Another example of economic institutions built by Islamists was the Islamic Development Corporation. It was established in 1983 with the intention of pursuing economic activities in various fields. According to its establishing principles, 40 percent of the shareholders were to be Sudanese and 60 percent were to be non-Sudanese Muslims from across the world.5 Similar to the FIB, the Corporation, was granted generous exemptions to enable it to invest in productive development sectors. However, similar to the FIB, the corporation directed most of its activities and investment for fast financial returns that generated quick profits for Islamist shareholders and sympathizers.

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5 That approach paid off later when Islamists from other parts of the world helped their fellow Sudanese when they took power in various areas including the oil field. The first company, State, to get in Sudan after Chevron left was owned by a Canadian Muslim of Pakistani origin, Lutfurrahman Khan.
Following the fall of Nimeiry in 1985, the Islamists created a new party, the National Islamic Front (NIF). The party members were politically cornered, being the last of the group of political parties that remained in support of the failing regime. However, using their financial power, they were able to launch an intensive media campaign aimed at tarnishing their opponents. This tactic was to a great extent successful; it enabled them to escape punishment and political isolation and, following the 1986 general elections, occupy the third position in parliament. Thus the party gained legitimacy and a remarkable margin to maneuver against its political opponents.

When the NIF carried out its coup d’état in 1989, it had a clear strategy on how to control power at the various levels, through an aggressive state policy aptly termed “empowerment”, whereby non-NIF cadres and employees in the army, police and civil service were purged and replaced with committed party members, sympathizers or at least neutral figures. In the early 1990s, a leading NIF figure Ahmed Abdel Rahman, felt confident enough to tell a local newspaper; “political empowerment alone is not enough. It has to be supported by economic empowerment”.

The 1989 coup, officially named the National Salvation Revolution, or Ingaz in Arabic, represented a qualitative and quantitative shift from previous regimes’ records on exercise of power, transparency and corruption. The coup was masterminded and carried out by the NIF, who took a significant calculated risk by employing its civilian members to carry out the coup to ensure that the attempt succeeded and the new regime stabilized.

One of the clear targets of the NIF was to control the oil sector, given its economic importance, enabling the state to efficiently perform its activities and to protect and secure the new regime in office. As such ‘pumping’ out the discovered oil became an urgent priority.

**Background**

Although Sudan has a long history of prospecting for oil that dates back to its early days of independence, it was Chevron, the US corporation, who progressed Sudan’s oil industry through three developments:

- It introduced the concept of the Exploration Production Sharing Agreement (EPSA) as a legal framework for the oil industry in Sudan;

- It moved its activity to the western and southern parts of the country, while traditionally prospecting for oil had been concentrated on the Red Sea area;

- By 1982 Chevron had discovered enough commercial oil quantities that enabled it to start discussing ways to meet domestic needs of petroleum products and export at the same time.

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6 [http://sudaneseonline.com/cgi-bin/sdb/2bb.cgi?seq=msg&board=120&msg=1191247806&rn=1](http://sudaneseonline.com/cgi-bin/sdb/2bb.cgi?seq=msg&board=120&msg=1191247806&rn=1)
Accordingly, a pipeline project was considered and preparatory steps were taken to implement it. However, it came to a standstill following the outbreak of the second civil war in Southern Sudan, between the Government of Sudan and the Sudan People’s Liberation Movement/Army (SPLM/A). The attack on a Chevron camp in February 1984, by the SPLM/A, led to the suspension of its activities in the most promising areas, although Chevron continued to maintain its possession of a half million square kilometers concession area. Notwithstanding its suspension of operations, Chevron was able to accumulate a great deal of technical information that eventually enabled Sudan to join the club of oil producers. These early developments represent the first phase in the establishment of Sudan’s oil industry.

The second phase coincided with the period following the coming to power of the Ingaz regime. The new regime was faced with the question of how to make a breakthrough in the oil dossier by convincing Chevron to resume operations or to relinquish its concession.

Following the reluctance of Chevron to resume operations, the Ingaz regime opted for the second option of extricating the oil concession from Chevron and freeing the area for new investors. This was a delicate process since Chevron made it clear that it would only hand over the concession to a private company and not to the Sudanese government, a move that would enable the company to claim tax rebate. The NIF, or Ingaz regime, now in full control of all branches of the state, selected a loyal Islamist businessman, Mohamed Abdallah Garelnabi, the owner of Concorp Construction Company and other businesses in Uganda, to front on its behalf, based on an agreed commission. The regime’s ideologue and the strong man at the time, Hassan Alturabi, arranged the transaction, though Garelnabi did not have an official position. All arrangements were initiated and completed in 1992, outside official channels, despite the legal implications for the state. It took more than a year to return the concession to government custody and enable it to make the returned area available for potential investors.

Following the successful return of the concession, through Concorp, the government moved first to award part of the concession, Blocks 1 and 2, to the Canadian firm State. This continued to operate for three consecutive years without interruption, proving that security safeguards in the exploration areas were adequate. Moreover, the Canadian firm managed to raise proven reserves by 270 million barrels to reach 635 million barrels, but given its weak financial and technical resources, it was forced by the government to open up to a consortium of Chinese and Malaysian companies to continue with the project. That was how the Greater Nile Petroleum Operating Co. (GNPOC) was born.

During the second phase, the Ingaz regime managed to establish the “Eastward Move”, which aimed to lure new, big Asian players like the China National Petroleum Corp. (CNPC) of China, Petronas of Malaysia and the Oil and Natural Gas Corporation Ltd (ONGC) of India, at a later stage. In fact, this “Eastward Move” was the only choice for the regime given the reluctance of Western companies because of security concerns, the civil war and the increasing suspicion about the regime’s Islamic tendencies and extremist practices.
During this period, the regime was successful in reaching an ‘ideal’ option of producing enough oil to meet both domestic consumption and export. These exports generated some of the much-needed hard currency that would provide foreign operating companies with dividends from their investments in Sudan.

Moreover, during this phase, there were certain factors that influenced the development and shape of the oil sector in Sudan, especially in the area of transparency. First and foremost, the Ingaz regime was the only regime in the history of the Sudan that managed to achieve oil exportation, a dream that had haunted many previous governments. The previous three regimes of Nimeiry (1969-1985), General Abdel Rahman Sowar Edahab (1985-1986) and Sadig El-Mahdi (1986-1989), had all failed to make this break-through and pump crude oil out of wells for domestic use and export. Accordingly, the Ingaz regime, has a sense of ‘ownership’ of this achievement and hence the ‘right’ to do whatever it liked in Sudan’s political, social and economic spheres, including the oil sector.

Second, the regime ascended to power through a military coup, with a clear ideological agenda to re-engineer the Sudanese society along the premises of that ideology. In such an environment, what counted most was how to accomplish their agenda and achieve their political goals, irrespective of accountability and transparency, and regardless of what are the best and most sensible economic policies. One of the early indicators and moves of this government trend was the appointment of the leading Islamist, Ali Osman Mohamed Taha, as Minister of Social Planning in 1993. He was to put the society re-engineering plan into effect, through the supervision of youth, women, arts, sport, charities and other relevant activities at the grassroots level. To achieve this goal, the regime devoted substantial political and economic resources, including oil revenue.

Third, the question of security in the oil sector was one of the most important factors that influenced the behavior of the regime. First, there was the security threat that had forced Chevron to suspend its operations for a consecutive eight years. Accordingly, security concerns became high on the list of priorities of how to safeguard the oil operations. The concern continued throughout this phase to various degrees, depending on the political situation. Second, in September 1993, only days after the first shipment of oil was exported, the pipeline that carried the oil from production field to Port Sudan for export, was attacked. A further three, but unsuccessful, attempts to disrupt the flow of oil were made by the armed opposition. These incidents required the regime to heighten the oil security measures and increase the secrecy about all oil information.

The foreign Asian partners, being state companies, had their own strategic and political calculations that sometimes came at the expense of transparency and accountability. They did not have shareholders or a public opinion to take into consideration.

Then there were efforts, led by the United States, to target and isolate the regime given its policy of intensifying the civil war and given growing anxiety regarding its regional alliances with a wide range of extremist groups in the Arab Muslim worlds. Six years before the start of oil exports in
1993, the US put Sudan on its list of states sponsoring terrorism, and in 1997, before the start of actual exports, it added tough economic sanctions. In 2007, eight years after the start of oil exports, the US issued a list of sanctioned individuals and entities including some companies active in Sudan’s oil sector. As a result, over time foreign companies dealing with Sudan found it difficult to meet simple requirements, like transferring agreements, signing bonus money or paying for spare parts through the ordinary banking system. Faced with such restrictions, the regime started to look for ways around these, which in turn became an added factor for the regime to apply more secrecy and open a window for corruption.

These international and local situations, combined with the heightened rebel activity during this period with clear backing from neighboring states, meant the regime became convinced that it was being targeted by Western powers. The regime’s main concern became its survival and how to access needed technology and expertise for the oil industry, regardless of transparency, accountability or following established good practices in biddings and offers.

The oil industry by its very nature is a capital- and technology- intensive industry, as well as elitist. It was so secretive that some members of the legislative and executive branches of the government were kept completely in the dark.7

Because of the high suspicion and the feeling that Sudan was being targeted, secrecy became the norm. Even the Exploration and Production Sharing Agreement (EPSA) was not officially published, for two reasons. Firstly, to give room for maneuver for the regime in any future negotiations and not be restricted by clauses of a published official EPSA, and secondly, the regime was afraid that a published EPSA could be used by opponents, Sudanese or foreign, in their anti-government campaigns.

However, failing to publish the EPSA makes it difficult to calculate the cost oil, which refers to the costs and investments incurred by foreign companies to get the oil out of the ground, and to find out what actually reaches the government coffers. In fact, cost oil never ends as companies continue to commit more capital to expand their investments, develop and tap new fields. This should require continuous follow-up and transparency in terms of updates and flow of information.

Seven years after Concorp concluded its deal with Chevron, in the end of June and early July 1999, Garelnabi was interviewed by Al-Ray Al-Aam, a daily newspaper published in Khartoum, after he was bestowed with the Achievement Award by the President of Sudan. In the interview, Garelnabi did not mince his words when he said that some officials were fronting for foreign companies to serve their interests. A leading veteran journalist and commentator, Mahgoub M. Salih, in an article published in the same newspaper, demanded the government to investigate the serious allegations made against high ranking government officials by Garelnabi. The allegations included the misuse of power by political affiliates of the ruling party and ministers

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7 The oil industry was shrouded in secrecy from the beginning. Badreddin Suliman who worked with the regime for 17 years as member of parliament, a minister and an adviser said that oil issues were never discussed in these platforms, quoted in “Oil Years in Sudan” (online version), by Alsir Sidahmed, Key Publishing House Inc., Toronto, 2014.
who used their official and political influence to pose as agents for foreign firms where they have shares and commissions. However, the demand for investigation was unheeded, thus strengthening the belief by about the people of Sudan that corruption and lack of transparency is rampant.

The third phase in the history of the oil industry in Sudan followed the signing of the Comprehensive Peace Agreement (CPA) in 2005. The agreement contained clauses on wealth-sharing that basically addressed the issue of sharing oil revenues and enabling the SPLM to have an eye on the activities of this sector. The CPA allowed the SPLM team to review the production sharing agreements concluded with foreign companies and to put in place a mechanism to supervise and calculate oil sales. It also allowed the SPLM team to appoint state ministers in both the finance and energy ministries to ensure that South Sudan was having its revenue shares as stipulated in the Agreement and that it was fully aware of all activities and operations in the oil sector. It worth noting that this was the first time the regime allowed an outsider of the Islamic movement and the party into the oil sector.

Although this phase had witnessed the peaking of oil production to more than 500,000 barrels per day (bpd), it was also characterized by continuous complaints from the Government of Southern Sudan (GoSS) that it was not receiving its fair share of income from oil exports. During this phase there was hope to instill some transparency in this sector, but unfortunately, this was squandered. This was partly because of the continuous acrimony between the National Congress Party (NCP) and SPLM, who gave priority to their political agenda rather than improving the oil sector performance and transparency.

The fourth and last phase started with the secession of South Sudan, which took with it more than two thirds of the known oil reserves in the country. This has also brought to light the issue of the remaining reserves and whether they would be enough to at least meet domestic needs in Sudan.

This phase witnessed the second public bid round in 2012, during which agreements were concluded in direct negotiations between the government, represented by the Ministry of Energy and Mining, and various prospecting firms. Nine agreements were signed with barely known companies from all over the world, which have hardly made any noticeable impact in the development of the industry, or added to the country’s ability to produce more oil.

Sudan’s overall fragile diplomatic relations, weak economy, continuous high security risk and political instability have weakened the country’s bargaining power and eventually made it willing and ready to accept unfavorable terms and even compromise some of its national interests. The Chevron concession, for instance, was big award for a single company, the intention being to lure other foreign companies to come and work in such unstable environment. However, there was no other company of such a reputation and track record that showed interest in working in Sudan. It was evident that the favorable environment that preceded the establishment of the GNPOC, after a fierce competition between twelve reputable international companies, was not conceivable in this phase. In the end, three more producing blocks came on-stream as a result of
direct negotiations and award as opposed to public bidding. In a similar move, an interim agreement to establish a Sino-Sudanese petrochemical company, the White Nile Petrochemical Co., was concluded. According to the agreement, the company should be Sudanized after a specific period of time. In 2009, investors from the Arabian Gulf approached officials in the company to buy the Chinese shares, but their offer was turned down based on a high-level government directive to keep the Chinese shares intact.

The weakness of the regime in dealing with foreign companies became clearer when the oil prices increased substantially, crossing $60 a barrel in 2005, from around $12 a barrel when the contracts were originally negotiated a decade earlier. The price increase netted huge profits to the operating companies from their production of oil in Blocks 1, 2, 4 and 5-A. The windfall profit was estimated by the European Coalition of Oil in Sudan (ECOS), an umbrella group of NGOs interested in oil in Sudan, to have reached EUR 4.7 billion between 1999 to 2005, with payable taxes outside Sudan. Although the Sudanese regime could have pressed to investigate the split ratio between cost and profit oil, bearing in mind that these companies were already exempted from taxes, it failed to do so, despite rumors that these companies were making illicit payments to keep things as they were. There were three main reasons that could explain this situation; firstly, there was a lack of political will to investigate these illicit tax payments due to the feeling that the country was in a weak position to force such claims; secondly, the CPA prohibited renegotiation of oil contracts (although that term was originally intended for a different political reason); and finally, the belief that the government should keep to signed contracts, notwithstanding financial losses.8

The current active oil companies in Sudan are:

- Petro-Energy, which operates in Block 6, with 95 percent of its shares owned by CNPC and the remaining 5 percent by Sudapet, a national oil company which acts as the government’s arm.

- GNPOC, operating in Blocks 2 and 4, with 40 percent of the shares, followed by Petronas with 30 percent, ONGC of India with 25 percent and the remaining 5 percent filled by Sudapet. ONGC’s share was originally allocated to the Canadian firm, State, which sold it to a fellow Canadian firm, Talisman, which in turn sold the share back to ONGC in 2002.

- Star Oil, which operates in Block 7. 66 percent of its shares are owned by ANSAN (of Yemen) and 34 percent by Sudapet, the highest percentage owned by Sudapet in any joint venture. Its total oil production has been averaging around 110,000 bpd – 120,000 bpd. However, the company has failed to reach the expected 200,000 bpd mark to satisfy local consumption.

Following the 2011 independence of South Sudan, producing Block 1 that belongs to GNPOC, Blocks 3 & 7 of Petrodar and Block 5-A of WNPOC or Thar Jath, became part of the new country,

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8 European Coalition on Oil in Sudan, “Why oil companies should be taxed”, Utrecht, the Netherlands, 2007.
leaving Sudan with Blocks 2 & 4, inherited from GNPOC, in addition to Block 6, operated by Petro-Energy. The latter became the most important source of fuel for the country, by producing 60,000 bpd, used mainly by the Khartoum refinery to help meet local consumption. A 147 km long, 12-inch diameter, pipeline was built in 2012 to connect the eastern and western ends of the Block where Sufyan and Shawkah fields are located and is expected to come on-stream soon. Through the new pipeline, crude from these two fields could make use of the Central Processing Facility (CPF) at El-Fula.

**Oil producing fields in Sudan:**

<table>
<thead>
<tr>
<th>Block Name</th>
<th>Name of the field</th>
<th>Operating company</th>
</tr>
</thead>
<tbody>
<tr>
<td>B-2</td>
<td>Heglig, Bamoboo</td>
<td>GNPOC</td>
</tr>
<tr>
<td>B-4</td>
<td>Diffra,</td>
<td>GNPOC</td>
</tr>
<tr>
<td>B-6</td>
<td>Fula, Hadida</td>
<td>Petro-Energy</td>
</tr>
<tr>
<td>B-17</td>
<td>Al-Barasaya</td>
<td>Star Oil</td>
</tr>
</tbody>
</table>

- Source: Compiled information from the Ministry of Petroleum and Gas.

In addition to oil production, the Sudanese government embarked into an ambitious program to build required downstream infrastructures for domestic oil consumption, processing and export. These infrastructures included the central processing facilities (CPF) that treat produced crude for export, the East and West pipelines, the El-Obaid and Khartoum refineries, and the oil storage facilities at Bashayer terminal on the Red Sea, located 15 miles south of Port Sudan.

The first pipeline was constructed by GNPOC, 1610 km long and 28 inch in diameter, extending from Heglig to Bashayer with a designed capacity of 450,000 bpd. The GNPOC consortium was given permission by the government to carry crude oil up to 60 percent of the base capacity of the pipeline, leaving 40 percent for future use, as the government committed itself to not build another pipeline or allow others to build pipelines. Furthermore, the consortium gave the government the option to own the pipeline after 15 years or receive a 16.2 percent return on investment.

The tariff on oil export was calculated initially to be between $4 and $6 a barrel based on the price of the barrel at the time. However, given the high oil prices, the consortium is believed to have recouped its investments as early as 2006. This had led the two parties, the government and the consortium, to initially enter into an arbitration process to resolve the issue. However, a breakthrough was reached in 2010, following a visit to Beijing by an NCP delegation, headed by Nafie Ali Nafie and Alzubair Ahmed Alhassn, the party’s economic chief. The high-level nature of the delegation shows how the issue was handled politically, given the strategic relations between China and Sudan. The deal reached gave the government a 70 percent retroactive ownership of the pipeline, starting with the year 2007, and accordingly a sum of $572.16 million would be owed to the Sudanese government. Although the government had anticipated that a higher sum could be secured, more emphasis was given to the value of its political relationship with China.
than financial gains. In 2014, the pipeline ownership was finally handed over to the Sudanese government, which handed its operation to the Sudanese Petroleum Pipeline Holding Co. (SPPHC).

Another 32-inch export pipeline was built from Al-Jabalain to Bashayer, a distance of 1472 km, to also carry the crude from Blocks 3 & 7. The two pipelines were known to be the longest in Africa. A third pipeline with a length of 172 km, was constructed to connect the Thar Jath field to Heglig and a fourth, with a length of 97 km, to connect Block 6 with the Heglig export pipeline. Lastly, a 716 km pipeline was built to carry crude from Block 6 to the Khartoum Refinery.

The strategic significance of these export pipelines became clear with the separation of South Sudan. Given the fact that it is a land-locked country, South Sudan needs Sudan’s downstream facilities in terms of the CPFs in both Heglig and Al-Jabalain, in addition to the two pipelines and the Bashayer terminal facilities for storage and lifting, to export its crude to world markets. Later on, these oil facilities became central to the oil deal between the two countries and the September 2012 agreements between the GoS and GoSS to normalize relations, including with the demarcation of the borders which has bearing on the oil reserve ownership. The oil deal, in addition to lessening the tension between the two countries, has enhanced the geostrategic importance of Sudan, providing it with desperately needed hard currency transportation fees and crude for the Khartoum refinery.

**Sudapet**

One of the most important developments to take place within the oil industry was the establishment of Sudapet in 1997, to represent the government in various consortia and develop eventually as a national oil company. Sudapet is 100 percent owned by the Ministry of Energy and Mining.

Sudan’s shares in petroleum licenses are held by Sudapet, which is controlled by the Sudan Petroleum Company (SPC), and range between 5 to 33 percent. The authority over any transaction or joint venture with other companies is exercised through the Deputy Chair of SPC. However, Sudapet never publishes annual reports, its financial positions or data regarding its upstream or downstream operations and instead keeps details about its operations in these fields in the dark.

**Where is the Oil Money?**

With the successful production and export of oil, the flow of oil income started to appear in the country’s economy. While the first shipment of oil exports netted Sudan about $2.2 million, government revenue from oil exports increased substantially as of 2000, with the rise in production and international prices. On average, the government’s net share started with 42 percent in each producing field during the early years of production and increased significantly to reach 76 percent. This increase was due to the rise of oil prices worldwide coupled with the declining percentage of cost oil owed to operating companies as stipulated in their EPSA.
Yearly oil production and value:

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
<th>Value $ (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>13,848,883</td>
<td>275,885</td>
</tr>
<tr>
<td>2000</td>
<td>49,516,509</td>
<td>1,240,697</td>
</tr>
<tr>
<td>2001</td>
<td>56,162,168</td>
<td>1,269,222</td>
</tr>
<tr>
<td>2002</td>
<td>62,198,718</td>
<td>1,396,455</td>
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<tr>
<td>2003</td>
<td>72,430,017</td>
<td>1,934,020</td>
</tr>
<tr>
<td>2004</td>
<td>81,159,260</td>
<td>2,957,243</td>
</tr>
<tr>
<td>2005</td>
<td>79,243,100</td>
<td>3,948,318</td>
</tr>
<tr>
<td>2006</td>
<td>88,472,017</td>
<td>4,704,025</td>
</tr>
<tr>
<td>2007</td>
<td>137,785,872</td>
<td>8,052,734</td>
</tr>
<tr>
<td>2008</td>
<td>135,610,415</td>
<td>10,845,592</td>
</tr>
<tr>
<td>2009</td>
<td>128,041,627</td>
<td>7,008,340</td>
</tr>
<tr>
<td>2010</td>
<td>130,843,303</td>
<td>9,406,038</td>
</tr>
<tr>
<td>*2011 up to June</td>
<td>66,890,769</td>
<td>6,508,393</td>
</tr>
</tbody>
</table>

*South Sudan separated on July 8 2011 and Sudan stopped being an oil exporting country.

- Source: Compiled from Bank of Sudan and other sources. Figures covered oil produced and entitlements of both the operating companies’ shares and that of the government including amounts used in domestic refineries.⁹

Although there was an initial dispute in terms of which government authority should have control over the oil money, the Ministry of Finance won over other government entities and oil revenues were deposited at the Bank of Sudan. An account with the French bank BNP Paribas in Geneva was used to receive proceeds of oil sales, which were then transferred to Sudan. However, the Ministry of Finance complained about the inflexibility and difficulty in accessing hard currency that would enable it to successfully discharge its responsibilities. Historically, the SPC belonged to the Ministry of Finance, and was accustomed to levy 5 percent on the value of all crude oil and oil product imports in order to meet its running cost. When substantial oil export revenue became available, the SPC started to receive 5 percent out of the total value of the government share of oil export. This formula started in 1999 and did not stop until 2004, just before the conclusion of the CPA. Later on, the percentage was reduced to 3 percent because of concern that a high percentage may trigger complaints from Southern Sudan.

Oil production continued to improve and climb over time. According to the British Petroleum Statistical Year Book, it increased from 63,000 bpd in 1999, the first year of production, to 174,000 bpd, 211,000 bpd, 233,000 bpd, 255,000 bpd, 325,000 bpd and 355,000 bpd in following successive years. In 2006 production increased to 397,000 bpd and to half a million following

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⁹ Quoted in “Oil Years in Sudan” (online version), by Alsir Sidahmed, Key Publishing House Inc., Toronto, 2014.
production from Blocks 3 & 7, peaking at 510,000 bpd for a brief period in early 2007. However, production then started to decline, averaging between 450,000 and 470,000 bpd, with small increments replacing and compensating for aging fields. This decrease in production was due in part to having continental oil wells that have a shorter life span when compared to marine wells - as in the case in oil producing countries in the Arabian Gulf region. Another reason was the shrinking capital investment by oil companies because of security risks.

Following the peak of oil production and the high prices in 2007 and 2008, government revenue also peaked from $3.7 billion to $8.3 billion during 2008. The Ministry of Finance calculated the revenue from oil sales in the 2008 national budget based on $63 for the Nile Blend barrel of oil, while its price surpassed the $100 mark as of January 2\textsuperscript{nd} 2008. This underestimation of oil prices brought the government an estimated windfall profit of $2.5 billion to $3 billion. By 2008, oil revenue accounted for 60 percent of the total government revenue. Unfortunately, the budget revenue surplus was not used appropriately to reduce the deficit in other production sectors such as agriculture. The Agricultural Revitalization Program (ARP), which was launched to jump start agricultural production, was in a desperate need of supplement to meet its budget of $4 billion. The Oil Revenue Stabilization Account (ORSA), established after the CPA to receive additional income when prices exceed the budgeted ceiling, could have also benefitted from this oil surplus. However, neither of these two possible productive and beneficial investment options were taken and instead the extra funds were squandered.

The decade of oil production and exports from 1999 to 2011 was estimated to have generated about $60 billion for the Government of Sudan. However, not of all these funds were deposited into Sudan’s accounts. Some of the revenue went to cover shares and other obligations such as the investment costs and profit shares of foreign companies, the GoSS’s share which was about $12 billion, and the percentage of oil allocated for local consumption. These deductions leave an approximate amount of $30 billion more or less, which was believed to have gone into the government’s coffers during this period. By all measures, this was the biggest income to enter into the government treasury in hard currency since the country’s independence. There were no clear plans of how to use these funds and who was entitled to authorize such a use. Although all oil revenues were usually deposited into an account at the Bank of Sudan, the handling of these funds depended on how politically powerful and well-connected a person was.

According to a World Bank report, Sudan completed a decade of its longest and strongest economic growth in its history since independence, because of oil revenue. The size of the economy had increased by more than 500 percent from $10 billion in 1999 to $53 billion in 2008. According to figures published by the report, the per capita income increased by 60 percent to reach $532 over the same period.\textsuperscript{10} Moreover, with the improved revenue, the government’s credit standing also improved which allowed it to embark on massive borrowing to meet the cost of its development plans in infrastructure and social fields.

However, the gains in oil revenue had dramatic negative effects on other aspects of the economy. The share of the non-oil sectors in exports, for example agriculture, fell from 25 percent in 2000 to 5 percent in 2008.

A substantial percentage of the oil income was allocated to military expenditure. According to the Stockholm International Peace Research Institute (SIPRI), military spending amounted to little over $1 billion in 2001, which accounted for 2.5 percent of the GDP, and to $2.5 billion in 2004, 4.7 percent of the GDP, before going down to $2.29 billion in 2006. While the SIPRI, the International Institute for Strategic Studies (IISS) and the World Bank do not publish figures on the military budget and standing in later years, according to an official booklet, “Sudan: The Land of Opportunities”, published by the Ministry of Information in 2011, the country occupied the fourth rank in Africa in terms of military expenditure. Moreover, some of the oil revenue was used by the ruling party’s influential figures for political patronage, to win the 2010 elections and to buy political alliances.

**Oil as Collateral to Loans**

Oil production and reserves have played an important role economically in Sudan and have been used as collateral for loans and credit. Though figures and facts were hard to come by due to a lack of transparency, weak economic institutions and poor supervision, scattered information paints a relatively clear picture, at least as far as loans from China. Yousef Ramadan, who was representing GoSS in the calculation of crude production and export volumes to ascertain the correct share for the GoSS, noted in a meeting that the oil volumes ready for export for April 2010 were only one million barrels, while according to production figures, it should have been 4.8 million barrels. When he inquired about the missing 3.8 million barrels, was told that these had been allocated to meet the Chinese oil-for-loans arrangements.11

In early April 2010, Dr. Nafie Ali Nafie, the then assistant to the President for NCP Affairs, chaired a meeting at Republican Palace, attended by the Finance Minister, the Governor of the Central Bank and a number of NCP economists. The meeting addressed, in part, the issue of the Chinese debts which had jumped from $66.8 million during 1980-1989 to reach $2.48 billion during 1990-2008 - indicating the strong strategic ties between the two countries. The oil-for-loans arrangement with China reached a critical stage when Albashir, in one of his speeches, announced that China had stopped providing funds under this arrangement. Osama Abdullah, the Minister of Electricity and Dams, told the parliament on November 13 2012, while answering a question from an MP, that the work in El-Fula electricity project had stopped because of the government’s inability to meet oil shipments to China to cover loans and that discussions were underway to find a solution to the problem. The estimated loan amount for this project was $680.3 million, but only $366.5 million was disbursed by China. In January 2013, official media announced that China had extended a $1.5 billion in loan to Sudan.12 In a related discussion, the new Minister of Electricity and Water Resources, Motaz Moussa, said a delegation from Sudan would visit China to follow up on a number of issues, including problems related to loans and

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11 Personal interview with the author April 1, 2010. Khartoum.
12 Sudan Tribune (online), November 14, 2012.
funding for the electricity sector. He went on to add that the main goal was to convince Chinese contractors to resume working in El-Fula electricity plant which was suspended in 2011 as a result of funding issues and delayed payment.

Scattered sources of information indicate that the Sudanese Government had initially committed itself to supply China with 1.5 million barrels of oil a month for 15 years with a five-year grace period at the beginning. The loans received under this type of transaction were estimated to be more than $5 billion, according to banking and diplomatic sources. During the oil bonanza, Chinese loans increased from 17 percent in 1999 to 73 percent in 2007 of total loans received by Sudan. The bulk went to the electricity sector - with 43 percent, water and irrigation 26 percent and agriculture 3 percent.13

The advent of oil production and export in Sudan coincided with a highly divided political environment between the government and its opponents including the SPLM/A and other opposition forces. In such an environment neither the government nor the opposition forces paid much attention to the importance of transparency in the oil sector or any other sector for that matter. Moreover, the presence of South Sudanese, with the SPLM and other political parties in the government after the CPA, did not help to improve transparency. Attempts by Dr. Lual Deng, the State Minister of Oil during the Government of National Unity 2005 – 2001 (GoNU), to place Southern Sudanese officials throughout the production chain from the wellhead to lifting stage at Bashayer, did not materialized because of a lack of trained Southern Sudanese. Eventually, the State Ministers and other bodies depended to a large extent on figures and information provided by the central government, without having their own figures or a mechanism for an independent verification.

Similarly, there were hardly any NGOs that followed closely the performance of the oil sector. Even the call initiated by State Minister Deng to join the Extractive Industries Transparency Initiative (EITI) and establish NGOs to monitor the oil sector was not realized.

The conclusion here is that, many international and national actors believe that oil revenues were used by the government for political ends, to buy supporters and fuel the civil war. Accordingly, a fierce western media and political campaign erupted targeting first operating companies such as Talisman. The company’s annual meetings became a magnet for demonstrations to the extent that its shares traded 20-30 percent lower than their actual value because of bad publicity. The campaign went as far as calling for divestment from Sudan including its oil industry.

**Sector Performance and Issues**

**(a) Under reporting of Sudan’s oil production**

Because of a lack of transparency and the highly divisive political environment, the issue of under reporting of Sudan’s oil production has been around since the early days of production. The first

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source to declare that Sudan was pumping more than it actually announced was Taban Deng, one of the leaders of the SPLM/A group that was battling the Sudanese Government. In an interview in 2001, he said that Sudan was producing up to 600,000 barrels per day, or three times what had been announced then.14 However, the most serious allegation came eight years later in 2009, when a London-based research group, Global Witness (GW), published a public analysis of Sudan’s oil figures showing discrepancy between the figures of Sudanese Government and those released by CNPC. The report said there were discrepancies of:

- 9 percent for the Greater Nile Petroleum Operating Company’s blocks in 2007
- 14 percent for the Petrodar Operating Company’s blocks in 2007
- 26 percent for the Greater Nile Petroleum Operating Company and Petro Energy’s blocks in 2005

These findings covered six of the seven productive oil blocks in Sudan.

The GW report went on to say “Our findings do not necessarily mean that Khartoum has cheated the South out of money, but they do highlight the need for transparency. Unless the Government of Southern Sudan and Sudanese citizens can verify that the revenue sharing is fair, mistrust will grow and the peace agreement could be jeopardized”.15

When Dr. Lual Deng assumed office at the federal petroleum Ministry, he invited GW to present its report before the Ministry and CNPC. The meeting took place at the Friendship Hall in Khartoum during August 2010 and was chaired by Sir Derek Plumbly of the CPA’s Assessment and Evaluation Commission (AEC). During the meeting, both the government and CNPC attributed the discrepancy to two factors; on one hand the CNPC figures represent gross production which included water, gas and solid objects like stones, in addition to some amount of oil that was used in the fields. On the other hand, the figures published by government represented the net oil ready for export in addition to oil consumed in the field or lost in transportation. GW did not challenge those explanations during the meeting, however, it raised skepticism about these explanations in a later report saying that “Global Witness view these explanations as highly unusual for a major, internationally operating oil company.”16

In the report, GW said also that, despite promises from Sudanese Government and CNPC to provide them with more information, nothing happened. Moreover, it quoted a message from Dr. Deng in which he instructed his officials not to provide any information to GW.

It is important to bear in mind while discussing under reporting of oil production, that oil volume produced was to be divided into two parts. One called “cost oil”, roughly 40 percent of the volume produced and used to cover costs and investments incurred by foreign companies to get the oil out of the ground. The second is the “profit oil” that constituted about 60 percent. The profit percentage was in turn divided roughly 80-20 percent, 80 percent to go to the government

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and 20 percent to go to the foreign partners. The question then is why the Chinese or any other company would tolerate the under reporting of production figures by the government and ultimately reduce their income from cost and profit oils? Another question that remained unanswered, was the fate of the unreported oil. It is a known fact in the industry that any barrel produced has to be accounted for either by selling it in the world markets or using it for domestic consumption. In both cases it has to be tracked to enable a better picture about supply and demand. For example, when production of Dar crude from Blocks 3 & 7 was delayed, the price of oil increased because of the tight market supply situation at that time. The delay of production and its impact on the international prices, was covered by major publications that monitor the global development of the oil market such as the Organization of the Petroleum Exporting Countries (OPEC), the International Energy Agency (IEA), the Energy Information Administration (EIA) and the Center for Global Energy Studies.17

The lack of transparency was the main reason behind raising questions about oil production, volume reported, revenue and spending. When the GoSS started to question oil production and sales figures, a committee was formed, comprising officials from the North and South, to review and publish figures of oil production. To the dismay of many, the committee only published figures related to the share of Southern Sudan, without similar figures on the share of the North. During the tenure of the Government of National Unity (GoNU), the Ministry started to publish daily oil production figures, but not revenue ones. It is important to recognize that, regardless of the government’s willingness to publish oil figures, which only came about because of pressure from the GoSS, there must be demand from grassroots movements for such information.

One of the most important instruments that promotes transparency is the freedom of the media. In Sudan, the media’s role in publishing and analyzing information about oil production and export is minimal. This has been due to the difficulty of accessing credible and reliable information and also because of how media outlets are run. On some occasions, the Ministry of Oil would provide some figures and analysis of oil production, however these were rarely carried or discussed by newspapers or other media outlets.

(b) Reserves

As early as 2008, before the secession of South Sudan, a WikiLeaks cable questioned the ability of Sudan to raise its daily oil production from 500,000 bpd to 600,000 bpd. Although, the cable pointed out that production from Blocks 3 & 7 might increase, oil produced by GNPOC from Blocks 1, 2 and 4 would show ‘serious decline’ unless new fields were discovered.18 The World Bank and ECOS believe that oil production in Sudan had already peaked and the two producing basins of Muglad and Melut have reached their highest potential. Following the separation of South Sudan in 2011, the impression was that Sudan has ceased to be an oil exporter and even may not have the ability to meet its domestic needs.

The oil reserves in Sudan came under spotlight in 2014 when the Petroleum Minister, Makkawi Awad, said that Sudan’s oil reserves stood at 4 billion barrels. That statement actually raised more questions than answers. The new figure of 4 billion barrels of oil reserve was more than fivefold the latest official figure of 762 million barrels, stated by former Oil Minister Dr. Awad Al-Jaz in 2012. In the following year, the US EIA quoted the BP Statistical Year Book that Sudan reserves were put at 1.5 billion barrels.

All these different figures for Sudan oil reserves lack a clear indication of whether they refer to proven reserves, with estimates based on actual testing, or probable reserves, with estimates based on shows not actual testing, or possible reserves, with estimates based on exploration indicators like seismic surveys. However, the consensus within the domestic oil industry experts is that Sudan has 4.4 billion barrels of ‘Original Oil In Place’ (OOIP), out of which 1.29 billion barrels are recoverable oil, in addition to 1.38 trillion cubic feet (tcf) of gas. Yet, the overall average Recovery Factor (RF) of crude oil from Sudan’s fields is approximately 27 percent, which means out of every 100 barrels of OOIP only 27 barrels could be extracted successfully.

(c)Products and distribution market

Meeting the domestic needs for petroleum products has always been one of the main worries of any Sudanese government including the Ingaz. With the success in oil production for export and local consumption, the distribution market for local petroleum products flourished in a haphazard way, aggravating the existing environment of waste, lack of transparency and corruption. During the decade long oil bonanza, local consumption grew annually by an average of 10 percent between 2000-2011 to peak at 132,000 bpd.19 That growth was attributed to the thriving transportation sector, electricity, industrialization and smuggling of these petroleum products. However, following the separation in 2011, local consumption dropped 30 percent to 95,000 bpd in 2012, with minor variations around that figure.20 The high demand for petroleum products led to the mushrooming of distribution companies. Currently, there are 33 active companies, mainly in the field of gasoil and gasoline distribution.

Out of these 33 companies, at least four are fully owned by the government, one is a joint venture between the government and the private sector, three are foreign-owned by CNPC and Petronas, and the rest are privately owned by local businesses. Some of these companies are believed to be owned by the National Intelligence and Security Services (NISS) and Popular Defense Forces and the inner circle of influential government leaders, but information and details about this type of ownership is kept under a tight lid. While some of these companies are gas or diesel service stations only, others provide other oil products as well. With the haphazard growth and the increasing number of these companies, the sector is bound to face enormous problems in its future development without strong government regulations.

Prior to 1989, there were only four companies that were in fact branches of well reputed international firms, namely; Shell, Mobil, Total and Agip. Their operations in Sudan were

19 http://www.eia.gov/beta/international/analysis.cfm?iso=SDN
20 Ibid
governed by corporate standards adopted by their parent companies. However, after the discovery, production and export of oil, and because of a lack of knowledge and proper administrative procedures, the market witnessed high growth in distribution companies of different sizes, operations, geographical locations, expertise and mission. By comparison, a country like India with 1.4 billion people, has only four major distribution companies. Three of them are owned by the government, the fourth is privately owned, and all of them adopt and operate along international standards.²¹

**Main active distribution companies:**

<table>
<thead>
<tr>
<th>Name of the Company</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-Nile</td>
<td>Government-owned</td>
</tr>
<tr>
<td>2-Bashayer</td>
<td>Government-owned</td>
</tr>
<tr>
<td>3-Gadra</td>
<td>Government-owned</td>
</tr>
<tr>
<td>4-Wataniya</td>
<td>Government-owned</td>
</tr>
<tr>
<td>5-Nawafil</td>
<td>Government + Private</td>
</tr>
<tr>
<td>Petronas</td>
<td>Foreign-owned</td>
</tr>
<tr>
<td>CNPC</td>
<td>Foreign-owned</td>
</tr>
<tr>
<td>Oiliba</td>
<td>Foreign-owned</td>
</tr>
<tr>
<td>Bee</td>
<td>Privately-owned</td>
</tr>
<tr>
<td>Petrola</td>
<td>Privately-owned</td>
</tr>
<tr>
<td>Amonia</td>
<td>Privately-owned</td>
</tr>
<tr>
<td>Aman</td>
<td>Privately-owned</td>
</tr>
<tr>
<td>Warm Seas</td>
<td>Privately-owned</td>
</tr>
</tbody>
</table>

- Source: Compiled from different reports.

The government-owned companies are the biggest, the most privileged, with good connections and they receive preferential treatment in payment and access to oil products, while those privately owned with no significant connections with the ruling circles are at a relative disadvantage. In reality the government controls all aspects of the oil markets. It is in charge of crude oil production, processing and transportation. It is also responsible for covering the gap between production and consumption through imports and determining the prices of all oil

²¹ Ibid
products. Distribution companies operate on a standard margin of profit that applies to all distributors regardless to their share in the consumer market, which raised speculation about competition, since some of these companies found it difficult to receive enough supplies in order to raise their volume of sale and profit, while others with connections or owned by government entities receive preferential treatment.22

During the abundance of oil supply, it was easy for agents of service stations to receive credit of any amount of petroleum products they wished for and pay suppliers a week or ten days later. However, after the secession of South Sudan and the dwindling supplies of oil and its products, a new system was introduced that required distributors to pay in advance for supplies, hence those without enough cash would be left out of the market. To better manage this situation of scarcity, the SPC introduced a quota system based on information about each distribution company or agency. Although this system was intended for fair distribution and equal treatment, the authorities in many cases favored companies owned by the government, its political supporters and those who have connections inside the decision-making circles.

The haphazard development of the distribution sector with no established procedure, supervision and regulations from the government, could partially be attributed to the social, economic and political environment that existed during the early years of oil production. The government was in desperate need to export oil for hard currency revenue, and most importantly, to refine crude internally for local consumption in order to ease the pressure on its own stability. Because of these pressures, the government did not develop clear policy, procedure and regulations to govern this sector. However, many observers believe that paying little attention to this important aspect of the oil industry was intentional in order to help consolidate the government’s Tamkin (empowering) policies within the oil sector.23

In turn, the enormous number of distribution companies made it difficult for the SPC to carry out its supervisory role effectively during the time of the oil bonanza. With oil production dwindling, the inefficiency of the distribution system became more apparent and acute. Ironically, an old study presented to the government suggested the establishment of two major companies to provide better service in the field of distribution, under a strong regulatory body like the SPC. However, that study and its suggestions were not heeded by the government.24

To address these difficulties, the government is required to start a professional debate on the whole energy sector and how to deal with the sensitive and complex political, social, economic and environmental issues related to the oil industry. As for the distribution market, some professionals call for a freeze on new licenses, the establishment of bigger distribution entities and the updating of regulations and procedures.25

(d) Service companies

22 Quoted in “Oil Years”
23 http://www.sudaress.com/sudanile/63535
24 http://www.sudaress.com/sudanile/63535
25 Ibid
In addition to facilities established to provide required infrastructure for the development of the oil industry, a number of service companies were also established to acquire knowledge and expertise in areas related to the up-stream and down-stream operations. Moreover, the establishment of these service companies would provide employment and training for Sudanese, and generate income through owning shares in oil revenue.

High on the list of these service companies are: Petroneeds, Asawer Oil & Gas, the National Upstream Solutions (NUS), Ram, Heglig, Exico, Napesco and Dynamic. While some of these companies are providing real services, others are only agents, or in most cases are only fronting with no credible track record. Reports, though unsubstantiated and difficult to prove, purport that some of these companies were essentially established to bypass US sanctions against the GoS and hence were registered under private ownership.

Petroneeds, one of the qualified companies, is believed to be one of those owned and controlled by NISS, while Asawer and NUS are owned and controlled by Sudapet. These companies bid for contracts with the government, then subcontract these contracts to others as a way to trickle down wealth and keep the regime sympathizers happy through providing business and lucrative jobs.

The supremacy of security concerns of the regime led to the appointment of its committed members and sympathizers in high positions in the oil industry. Indeed, loyalty became the main criteria for appointment except in some cases when there was a need to make use of trusted neutral candidates. Because of the security concern, the ruling party feeling that it won the oil sector and the ‘empowerment’ strategy, the oil sector in general and service subsector in particular, is dominated by what a WikiLeaks called ‘Gray Companies’. It is estimated that there are about 400 parastatal companies involved in various oil industry, trade and other economic fields. The single most important objective of these companies is to ensure the economic and political dominance of the ruling party, through financing its operations and elections and providing jobs and businesses to its supporters. The WikiLeaks added that, the dominance of the NCP in social and economic life will continue for some time through these grey companies, even if it is removed from government. To make the situation more complicated, some of these companies are registered as foreign businesses and are afforded tax breaks and capital and profit repatriation to help bypass the US sanctions.26

**Concluding Remarks**

Joining the club of oil producers and exporters has been one of the dreams of the people of Sudan as well as successive governments. To its credit, the Ingaz regime was successful in realizing that dream despite its lack of legitimacy, the civil war, unfavorable market conditions and mounting pressures from the West. This, coupled with its ideological nature and growing feeling that it has been targeted by its domestic opponents and foreign powers, led the Ingaz regime to develop a

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strategy to use the discovered oil wealth for its own political and economic survival. As such, the issue of transparency took a back seat and instead, high spending on security, political patronage, nepotism, ‘empowerment’ and corruption became the norm.

According to the World Bank Worldwide Governance Indicators, corruption in Sudan is a severe problem. Although clauses in a number of laws in Sudan provide for mechanisms to address official corruption, the application of these is curbed by many factors and is at best weak. The limited access to public information is a contributing factor in the lack of transparency and in the prevalence of corruption. The report of the World Bank also indicated that, transparency in the oil sector in Sudan is limited even when compared to experiences of other oil producers in developing countries.

Although the oil bonanza is over according to the World Bank 2009 report, its ramifications are continuing, especially the issue of transparency. For example, in a 2014 report Transparency International (TI) ranked Sudan as number 173 out of 175 surveyed countries, scoring 11 as it did in the previous year of 2013 and 13 in 2012. TI reviews the level of corruption in the public sector from 0 which is highly corrupt to 100 which is very clean. In 2015, TA observed that political corruption is the main challenge in the region, where the ruling elites have concentrated power within a small group to safeguarded their personal interests through undue influence, network and patronage, and where they operate with clear impunity.

Moreover, the US State Department 2014 report on human rights noted that, despite legislation to curb illicit practices, government corruption at all levels is widespread with little official efforts to enforce the law and prosecute violators. The report added that while the law requires high officials, as well as their spouses and children, to disclose publicly their income and assets, there are no clear sanctions for noncompliance, despite the fact that the anti-corruption commission possesses discretionary powers to punish violators. Moreover, there are no laws that provide for public access to government information, nor does the government provide such access.

These testimonies show clearly that there are structural problems that will continue to hamper any drive towards more openness and transparency in Sudan.

**Recommendations**

The Ministry of Petroleum and Gas is required, for sake of the transparency, to announce and publish information related to the oil industry throughout the chain from the wellhead to consumer. This should include:

- The daily production; government share; companies’ entitlements; refineries’ intake; volume of exports; income generated; the share of the producing states and expenditure on social development.
- The EPSA, transportation and usage of the pipelines, storage and the refineries’ charges for crude oil.

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27 [http://www.state.gov/j/drl/rls/humanrightsreport/index.htm#wrapper](http://www.state.gov/j/drl/rls/humanrightsreport/index.htm#wrapper)
• An annual report of Sudapet operations, finances and its share performance in other operating companies.

Additionally:
• In oil producing areas, the Ministry and oil companies should involve the local communities in decision-making, employment opportunities, wealth generating activities and safeguarding of the environment.
• The media need to play a more active role than just seeking information from concerned Ministries, subjecting this information to rigorous analysis that would enlighten readers about the details of the oil sector.
• The producing states need to be more persistent and vocal in securing their entitlements, getting their fair share of fiscal allocations, and be transparent on how such shares are used.