CHAPTER 6

Oil and Politics in Sudan

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Sudan’s attempts to tap its oil resources to secure domestic energy needs and generate hard currency have shown mixed results, mirroring its fraught efforts to achieve political stability while alternating between long periods of military rule and brief spells of parliamentary government. The oil industry in Sudan has gone through two principal phases, separated by an interlude when exploration was interrupted: the period of oil exploration, from the 1950s until the exit of Chevron from Sudan in 1992, followed by the decade of substantial oil production, 1999–2011. The separation of South Sudan in July 2011 marks a new phase, requiring the reorganization of the industry to cope with reduced production and the division of assets between two independent countries.

With the separation, Sudan lost one-third of its territory and three-quarters of its productive oil fields. Urgent questions now are whether Sudan will be able to increase oil production in its remaining territory to meet its domestic needs and generate income, and whether it can replace lost oil revenue from the south by making greater use of other natural resources. Both Sudan and newly independent South Sudan face the difficult challenge of using their oil industries to further their mutual interests and build on their interdependencies by reaching an agreement on sharing of revenues and facilities. If they fail to meet this challenge, they risk having the vital oil industry become a permanent arena of mistrust, tension, and war.
In its initial phase of development, the oil industry in Sudan was dominated by the US firm Chevron. Chevron was the first company to prospect for oil in the southern and western parts of Sudan instead of in the Red Sea area, where oil exploration had previously been concentrated. The company also helped Sudan adopt an exploration and production-sharing agreement as a legal framework for the country’s oil industry. And although Chevron itself did not begin production, it was the technical data it collected, later used by Asian companies, that enabled Sudan to join the club of oil producers in 1999.

Initial oil discoveries in Sudan, around 1980, came at a time of high world energy prices and during a period of relative peace in Sudan. One of Chevron’s managers concluded optimistically in an early report that “Relations between the US and Sudan are good… and foreign investment, particularly American, will be more secure in Sudan than many other African and Arab countries” (Hatley 1992, 161). But the peaceful interlude did not last long enough to allow Chevron to reap the benefits. A new rebellion broke out in southern Sudan in 1983, and one of its first targets was a Chevron company camp, chosen as a strategic target in order to block future oil production and deny the government vital resources. The adoption of Islamic sharia laws by the regime of President Gaafar Nimeiri a year earlier strained Sudanese-US relations. In addition, more lucrative business opportunities in the Caspian Sea and the drop in global oil prices made the Sudan oil project less attractive to Chevron. In 1992, Chevron pulled out.

The Islamist regime in Khartoum, however, continued to pursue the goal of utilizing the oil discovered. It opted for the strategy of exporting the oil rather than refining it for domestic needs. It also managed to extricate the concession from Chevron, making it available to other investors. As relations were strained with Western countries, it found an alternative in Chinese investment. By that time, China was active in the world oil import market and eager to secure overseas oil supplies.

The partnership with China was preceded by an abortive attempt at an agreement with Iran to develop a field that has the capacity to pump out 25,000 barrels per day (bpd). Sudan opened negotiations with Iran in 1991, but despite promises by President Hashemi Rafsanjani, and six months spent by Sudanese professionals shuttling between Khartoum and Teheran, the attempt was halted because of lack of finance.1 Similar efforts to approach other oil-producing countries in the Gulf also proved fruitless.

Next the regime signed a contract with a small Canadian firm, State Petroleum Corporation, set up by Lutfur Rahman Khan, a Canadian of Pakistani origin. The firm managed to promote the concession and produced...