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View Point

The Fallout of South Sudan Oil Shutdown

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South Sudan decided to halt its oil production in late January in retaliation to Sudan's confiscation of the crude pumped into pipelines that run through the north's territory to Port Sudan. Khartoum claimed that the reason for this was Juba did not pay the transit and refinery usage fees. Both countries at present are locked in a heated controversy over the issue of the transit fees. So far the AU mediated talks have failed to persuade both sides to reach a mutually agreed settlement. If the oil impasse prolongs, it will have serious impact on the economic stability and security of the region, which does not augur well for India too.

South Sudan, with its capital at Juba, became independent from Sudan on 9 July 2011 under a 2005 comprehensive peace deal that ended the long-drawn civil war between both North and the South. But the independence did not bring economic independence to South Sudan. When South Sudan seceded it took three quarters of Sudan's oil, which used to generate 50 percent of Sudan's revenue. But Sudan retained control over the refineries and pipelines passing through its territory. For using the oil infrastructure in order to export oil to global markets Juba has to pay transit fees to Khartoum. The fee demanded by Khartoum is US$36 a barrel which Juba is unwilling to pay, as the fees do not confirm to standard international rate of US $1 per barrel. The non payment of the transit fees on the part South Sudan had prompted Sudan to seize several shipments of oil as compensation, and in response South Sudan took this extreme step of stopping oil production.

Breaking the present impasse now seems to be a tremendous challenge for the AU and other international actors who are involved in the negotiations. Moreover the strained relations between the two countries due to dispute over border demarcation, especially the status of the disputed region of Abeyi, debt sharing, the citizenship status of South Sudanese in the north, the alleged use of proxy forces in armed conflicts on both sides of the frontier, has widened the divide between both countries. South Sudan, in order to avoid its problematic dependence on the North has proposed to build alternative pipelines through Kenya and Djibouti - a pipeline to the port of Lamu, and to Red Sea port respectively. However such plans to be realized will take at least three years, considering the difficult terrain and the technical and security challenge in constructing the pipelines. The viable option for South Sudan at present is to settle the issue quickly. The continuing stalemate will prolong the oil disruption and as oil being the economic life line for both countries the stalemate will impact the financial stability of both countries.

For South Sudan oil revenues make up 98 percent of its budget. If oil is disrupted for long it will have a negative impact on the foreign investments and local businesses, a shortage of dollar reserves and rise in inflation. It will also face immense difficulty in paying government salaries and incurring administrative costs, as the government depends on oil money to pay its public sector workers and its vast and growing army (SPLA), which consumes an estimated 40 percent of the national budget. There are also fears that such situation could provoke social unrest.

To deal with the present crisis Juba has announced a series of austerity measures. However it would not be of much help. The situation in the country as a whole is extremely precarious. As far as Khartoum is concerned the shortage of dollars has already started to bite and inflation is soaring high. The Central bank has reduced the supply of dollars to the market and foreigners working in Sudan are struggling to transfer salaries home. Economic and security implications are grave for both Sudan and South Sudan, but for South Sudan the gravity is much more.

As regards India the ongoing crisis will adversely affect its energy and economic interest. India's leading public sector oil company ONGC Videsh Limited (OVL) has significant investments totalling US$2.5 billion in Sudan in production and exploration. It has acquired 25 percent of the shares of the biggest oil consortium, the Greater Nile Petroleum Operating Company (GNPOC). Annually the OVL's blocks provide approximately 2.4 million tons of crude .In addition to the oil blocks, which are now in South Sudan, India has built a 741-km-long multi-product pipeline linking Khartoum Refinery to Port Sudan. Besides oil in South Sudan, India has also invested around US$450 million in power plant, in sugar industry as also in railways in Sudan. Many private sector companies like Tatas, Kirolskar and Reliance are also engaged in building commercial relations in Sudan.

The oil shutdown has put India's investments both in oil and economic sector in jeopardy. South Sudan's loss of 350000 barrel of oil per day is going to affect India's annual crude supply. Oil industry experts also say even if South Sudan resumes production soon it will not be able to produce the same amount daily. As far as India's economic investments in Sudan is concerned India will find difficulty in getting back its payment because after Sudan lost out its oil wealth to South Sudan it has been wavering to repay back the loans. If the present crisis situation where Sudan is facing shortage of dollars it will be impossible for Sudan to pay back the loan amount.

Given the immense strategic significance of Sudan and South Sudan what should be India's approach in this situation. So far it has been observed that the AU, international community and China, are making huge efforts to bring both sides to reach a mutually agreed settlement. However, India has been very conspicuously absent from these negotiating efforts. An urgent peaceful settlement is in the interest of India. Considering the stakes that India has in this region, India cannot afford to be just a silent observer, rather voice its concerns regarding the threats to the stability of the region. India needs to play a more proactive role in building peace and in the process protect its interest. It must try to influence two countries to come to the negotiating table and showcase good faith.

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