



global witness

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## **Oil production figures underpinning Sudan's peace agreement don't add up, warns Global Witness**

The 2005 peace agreement between north and south Sudan, which brought to an end one of Africa's longest-running and most bloody wars, was based on an agreement to share oil revenues. However, new evidence uncovered by Global Witness raises serious questions about whether the revenues are being shared fairly. "If the oil figures published by the Khartoum government aren't right, the division of the money from that oil between north and south Sudan won't be right," said Global Witness [1] campaigner Rosie Sharpe.

The Global Witness report, *Fuelling Mistrust: the need for transparency in Sudan's oil industry*, is the first public analysis of Sudan's oil figures. It documents how the oil figures published by the Government of National Unity in Khartoum are smaller than the equivalent figures published by the China National Petroleum Corporation (CNPC), the operator of the oil blocks. While the respective figures for the only block located entirely in the north, and therefore not subject to revenue sharing, approximately match, those for blocks which are subject to revenue sharing do not. There were discrepancies of [2]:

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

These findings cover six of the seven productive oil blocks in Sudan. A comparison of government and company figures was not possible for the White Nile Petroleum Operating Company's block as no company figures were available.

Mismatches of this magnitude represent potentially massive sums of money. If it was found that the oil figures published by the Government of National Unity have been under-reported by, for example, 10%, the southern government would be owed more than \$600 million (on the basis that the Government of Southern Sudan has received more than \$6 billion in oil revenues since the signing of the peace agreement). This is more than three times the south's combined annual budgets for health and education.

"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 jeopardised," said Sharpe.

The Khartoum government publishes figures on its earnings from the oil industry but neither the Government of Southern Sudan nor Sudanese civil society have any way of verifying them. Khartoum is wholly responsible for marketing and exporting the south's oil: it compiles the figures on how much oil is produced and the price for which it sold. The southern government is not involved, despite the fact that oil revenues make up 98% of their income.

"The oil production and sales figures upon which the revenue sharing depend should be verified by independent third party audit and by legislation passed by Sudanese lawmakers that requires oil companies to disclose their payments," said Sharpe. "The peace agreement's international guarantors, including the UK, US and Norway, need to do more to promote transparency. China [3] and Japan [4], who are the main customers for Sudanese oil, should also push for greater transparency, which will help ensure stability and a reliable supply."

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Hi-res photos and images available from Global Witness' website, including of Greater Nile Petroleum Operating Company headquarters in Khartoum; Petrodar Operating Company headquarters in Khartoum; map of Sudan's oilfields; diagram illustrating the discrepancies in government and company oil production figures outlined in this press release

Notes:

The report will be launched at a press conference in Nairobi, on Sept 7, at 10am local time. To arrange to attend or to receive a transcript, contact Amy Barry on +44 7980 664397.

[1] Global Witness is a UK-based non-governmental organisation which investigates the role of natural resources in funding conflict and corruption around the world.

[2] Global Witness wrote to the Ministries of Finance and Energy and Mining in Khartoum and CNPC in Beijing to ask how they compile and check oil production figures, but, two months later, has not received any replies.

[3] China gets five percent of its crude oil from Sudan. The Chinese state-owned company, CNPC, is the biggest equity partner in all but one of the currently productive oil fields in Sudan and has made substantial investments in oil exploration, drilling, pipelines and export facilities. Renewed conflict in Southern Sudan threatens China's energy security and its investments. It is in China's interest to use its influence in Sudan to help reduce the risks of conflict by, amongst other things, promoting transparency in Sudanese oil sector and requiring its state-owned companies to publish the payments they make to the Khartoum government.

[4] Japan is one of the main purchasers of Sudanese oil, which it uses both in its refineries and as fuel for power stations. A significant number of the world's refineries that can deal with Sudan's most abundant oil, the highly acidic Dar blend, are in Japan. Japan should use the leverage that this near monopoly on refining Dar blend provides them to urge Sudan to adopt the recommendations outlined in this report.

Notes on oil production figures:

- Discrepancy of 9% between government and company production figures for the Greater Nile Petroleum blocks in 2007 (blocks 1, 2 and 4)

Blocks 1, 2 and 4 are licensed to the Greater Nile Petroleum Operating Company. CNPC is the operator of these blocks. CNPC's annual report for 2007 states that 'Daily oil production remained at 270,000 barrels' for these blocks. The Ministry of Finance in Khartoum states figures on oil production in terms of barrels per month. When converted into barrels per day, the minimum production in 2007 was 230,130 barrels per day (in November) and the maximum was 256,273 barrels per day (in March). In other words, even the most productive month according to the government was less productive than the figure published by CNPC. On average, throughout the whole of 2007, the Ministry of Finance in Khartoum states that production was 245,614 barrels per day. This is 9% smaller than the figure presented by the operator of the oil blocks.

- Discrepancy of 14% between government and company production figures for the Petrodar blocks in 2007 (blocks 3 and 7)

Blocks 3 and 7 are licensed to the Petrodar Operating Company. CNPC is the operator of these blocks. CNPC's annual report for 2007 states that oil production 'reached 10 million metric tons' for these blocks. Using the density of Sudanese crude oil given on the US government's Energy Information Administration website, this equates to 74.5 million barrels. The Ministry of Finance in Khartoum states that production in 2007 from blocks 3 and 7 was 64.0 million barrels. This is 14% less than that stated by the oil company.

- Discrepancy of 26% between government and company production figures for the Greater Nile Petroleum and Petro Energy blocks in 2005 (blocks 1, 2, 4 and 6)

These figures are for the combined production of blocks 1, 2 and 4, licensed to the Greater Nile Petroleum Operating Company and block 6, licensed to Petro Energy. CNPC is the operator of these blocks. The CNPC annual report for 2005 states that "[In] Our projects in Sudan [...] crude production reached 16.38 million metric tons". Using the density of Sudanese crude oil given on the US government's Energy Information Administration website, this equates to 122 million barrels. The Khartoum government has published figures for the volume of oil produced in blocks 1, 2 and 4 in 2005, but has not published figures for production in block 6. Figures on the Ministry of Finance website state that production in blocks 1, 2 and 4 in 2005 was 75.8 million barrels. Three estimates of the volume of oil produced in block 6 were obtained, and, in order to be conservative, the largest estimate, sourced from the CNPC website was used. This put the maximum total production in blocks 1, 2, 4 and 6, according to the Khartoum government and CNPC, at 90.7 million barrels. This is 26% less than the figure stated in the CNPC annual report.

- No significant discrepancy between government and company production figures for block 6, 2007
- Block 6 is licensed to Petro Energy. CNPC is the operator of this block. The CNPC annual report for 2007 states that oil production remained at 'more than' 40,000 barrels per day in block 6. The Ministry of Finance in Khartoum states that production per day during 2007 varied from 36,027 barrels per day (in January) to 42,454 barrels per day (in August). On average, throughout the whole of 2007, it was 39,280 barrels per day, not hugely different from the 40,000 barrels per day stated by the oil company, although not actually 'more than' 40,000 barrels per day, as is stated by CNPC.