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The Threat of International Sanctions on Sudan's Oil Sector

How Feasible? What Likely Impacts?

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BACKGROUND

The CSIS Africa Program convened a meeting on Sudan on November 4, 2004, to explore the possible future imposition of oil sanctions on Sudan. CSIS Africa Program director J. Stephen Morrison chaired the meeting. Jason Small, Sudan desk officer at the State Department; Robert Ebel, chairman of the CSIS Energy Program; Roger Diwan, managing director of PFC Energy; and John Prendergast, special advisor to the International Crisis Group's president, discussed the probable impacts of sanctions on Sudan's oil sector upon Khartoum's behavior, global energy markets, and U.S. bilateral trade relations with China, the country with the largest equities in Sudan's oil sector (40 percent).

Prior to the November 4 meeting, the previous UN resolution on Sudan (1564) raised the threat of possible future sanctions on Sudan's oil sector, should the government of Sudan fail to take appropriate actions to secure Darfur and protect civilians. On November 5, the secretary general briefed the Security Council. A copy of his report, which describes a continued deteriorating security environment and noncompliance by both the government of Sudan and rebel groups, can be obtained at http://www.un.org/Docs/sc/sgrep04.html. In the opinion of most observers, the UN Security Council is unlikely to impose sanctions on Sudan's oil sector, owing to opposition by China and others. However, it is possible that the United States, with a select group of European and other countries, might in the future consider acting outside the UN system to impose sanctions on Sudan's oil sector. This might involve the coalition pledging not to buy oil from Sudan, as well as second-party sanctions to deny U.S. and European port access to ships transporting Sudanese oil. The most recent UN resolution on Sudan (1574) adopted by the Security Council on November 19 in Nairobi, Kenya, makes no further reference to the threat of international oil sanctions on Sudan's oil sector. However, oil sanctions remain a live issue for future UN Security Council consideration.

PRINCIPAL CONCLUSIONS

Currently, global oil production stands at 82 million barrels per day (b/d), just enough to meet global demand. Recently, several unanticipated events have strained oil supply: Hurricane Ivan in the Gulf of Mexico; interethnic violence in Nigeria's Niger Delta; political instability in Venezuela; slow oil production recovery in Iraq; and the slowed advance of Russia's energy sector. Together, these factors, along with declining North Sea oil fields, have tightened already constrained global energy markets, leaving little spare production capacity worldwide. Among major oil producers, only Saudi Arabia has significant spare capacity. These circumstances have heightened market fears and created extreme sensitivity to any potential external shock that might further decrease oil supply or prevent supply from keeping up with growing demand. In this context, the mere threat or anticipation of international sanctions on Sudanese oil might lead jittery markets to overreact and ratchet upwards already record-high oil prices.

Second, there is a popular misperception that sanctioning Sudan's oil sector would be a powerful "stick" that would rein in the government of Sudan's egregious behavior, particularly, in the Darfur crisis. The likely outcome is that international sanctions on Sudan's oil sector would have little, if any, effect on Khartoum's actions. Indeed, adopting sanctions could have the unintended effect of strengthening the government's position. Sudan exports 60 percent of its oil to China, and the remainder of its exports is destined for other Asian countries. Sanctions will not stop Sudan from exporting its oil to China, but could further strengthen existing ties between Sudan and China, a growing power with which the United States has

complex, and at times, strained relations. Furthermore, international sanctions on Sudanese oil will prompt Khartoum and some Arab League member states to construe this action as proof of a wider, Western anti-Arab, anti-Muslim plot. This might have the negative effect of emboldening hardliners within the ruling National Congress Party (NCP), formerly the National Islamic Front. The conclusion? The international community should deemphasize international sanctions on Sudan's oil sector and instead seriously pursue other measures that have a higher probability of success in altering Khartoum's behavior: an embargo on arms sales to the government; a travel ban on senior government officials; and freezing the assets of two or three major NCP companies.

Third, international oil sanctions on Sudan, whether merely debated or actually implemented, will significantly strain U.S.-China relations. In 2004, China's demand for oil imports was 6.4 million barrels per day (b/d). Given China's burgeoning energy needs, and given its 40 percent stake in Sudan's oil sector, China might view interference of any kind in Sudan's oil sector—be it a blockade, a voluntary embargo, or denying port access to ships transporting Sudanese oil—as an act of war. Already, there is sentiment within China policy circles that the threat of international sanctions on Sudan's oil contained in Resolution 1564 is in fact principally directed at China, rather than Sudan, and that the threat touches China's national interests.

Key slides from the PFC Energy presentation are presented herein.

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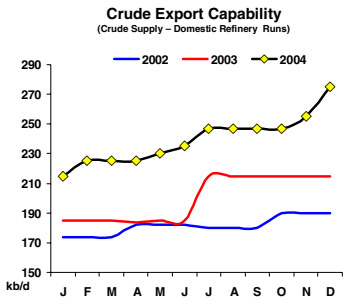
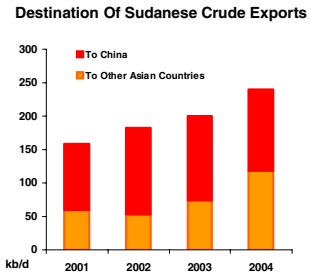
Sudan Export Capability
Potential Exports



Sudan has a potential to export over 250 kb/d by 2004 according to Supply and refinery runs information

Sudanese Export Balance
Asia Is The Preferred Destination

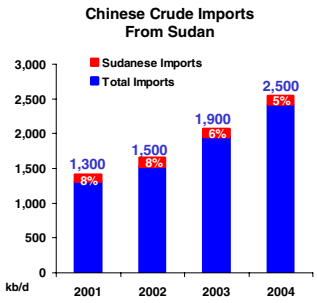


Destination Of Sudanese Crude Exports

	2001	2002	2003	2004
Potential Exports	159	182	200	239
Chinese Imports	100	129	126	121
Other Asian Imports	59	53	74	118

Exports to other Asian destinations have increased over the years, as more Sudanese crude is available and China is not able to accommodate all the volume, although this country takes the lions' share.

Sudan Importance On China's Balance
Increased Imports Lead To Lower Sudanese Participation



Supply from Sudan has decreased in importance in the overall Chinese balance due to the changing base. When Chinese imports soared in 2003 Sudan lost specific weight.

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