

Understanding Sudan

A Teaching and Learning Resource



Fact Sheet Twelve: A sample oil contract

May 1, 2009

Dear Government of National Unity,

I write to you as a representative of the Muqlad Oil Exploration Group (MOEP) – a consortium composed of three French oil & gas companies. We know that in April 2009, India's overseas exploration company ONGC Videsh Ltd (OVL) decided to abandon exploration in oil Block 5B. We would like to bid for this block, and outlined below is our initial offer.

Financial Terms

We know that in your arrangement with the GNOPC, you agreed to a non-taxable agreement in which after operating and exploration costs are paid, then the GNOPC gets 40% of every oil barrel up for the first 25,000 barrels. Beyond this output, however, it was agreed that GNOPC will receive a lower proportion of oil proceeds.

In our view, while these terms may have been reasonable during the high oil prices of the last few years, we find them financially unviable currently. The diminished price of oil means that such terms are no longer financially viable for a major oil company today.

Equally, there will be elections in 2010, and a referendum on whether the South wants to secede from the North in 2011, both events are bound to trigger considerable instability, politically and economically. Furthermore, there has also been continued violence in Abyei and Darfur in 2008/9, as well as kidnappings of oil workers in 2008. These conditions mean that the operating costs for starting up an oil exploration will be exceptionally high, due to increased security.

We are also seriously concerned about the persistent problem relating to the competing claims on block 5B by OVL and the Moldovan Company Ascom. We are reliably informed that the SPLM/A has recognized their rights on block 5B. We would like your assurances that this matter will be resolved in our favor. In other words make it clear and binding that Ascom has no rights to drill on block 5B.

Finally, we know that Lundin has already overseen three exploratory drills in Block 5B, and have come up dry beach time. This paucity, thus far, of viable wells also increases our costs.

Cognizant of these dynamics which pose considerable political and economic challenges and instability, we require a 60:40 split, in favor of our consortium, based on the model contract you established with the GNOPC, in a tax-free environment, with a concession granted for twenty five years. The proposed revisions are based on our wealth of experience and knowledge about the global oil markets. Oil export rates, for example, have declined sharply this year and Dar crude is getting increasingly difficult to sell, and that you will appreciate that this is a very generous offer on our part.

In addition, we require the following guarantees:

Security: In these dangerous times, we require from you, GNU, a commitment to a dedicated force that will ensure total security for our team, and for the oil, if any is found.

Infrastructure: We will be willing to subsidize teams from HFL, a French subsidiary company of ours, to build roads connecting the exploration points.

Environment: As you are no doubt aware, block 5B lies in the largest fresh water wetland in the world. We require assurances from both the government of Sudan, and the government of South Sudan, that we will be freely allowed to work, and that no complaints will be made from either side during the process of our work. In addition, you will make the necessary arrangements to come to an understanding with and take responsibility for any disputes that may arise from the communities which reside in the area.

We trust you will find our terms most reasonable.

Yours Sincerely,

MOEP.