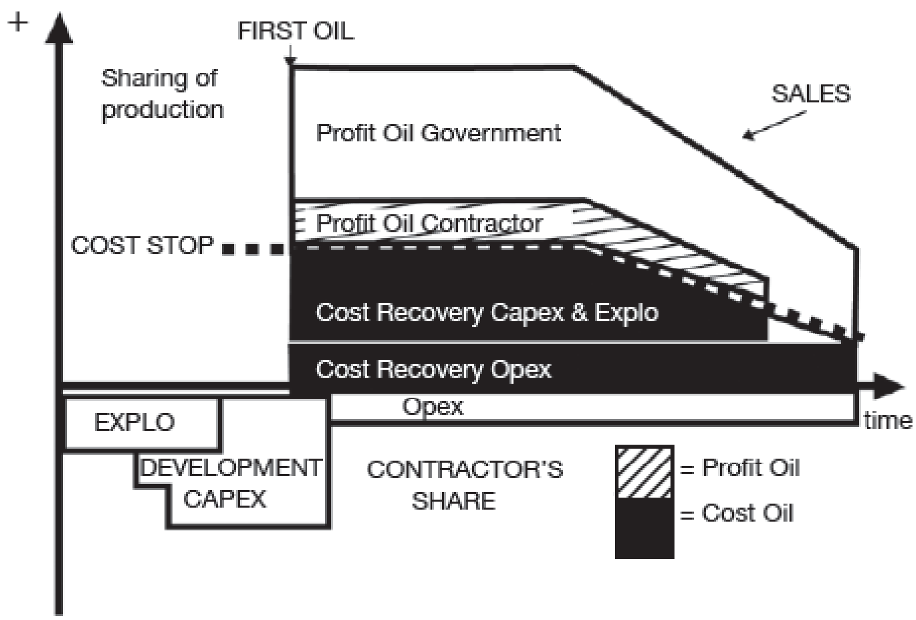
Fact Sheet Five: Economic Organization

Finding, producing, and refining crude oil is not a simple business. It requires an expertise that the Sudanese government, relative newcomers to the business, simply does not have. Because of this, Sudapet, the national oil company, brings in international oil companies. At present (2009), it tends to sign Exploration and Production Sharing Agreements. In these contracts, one part of the revenue from the oil produced pays for the costs of exploration and running costs. The remaining part of the oil, called Profit Oil, is split between the government and the companies. For instance, in the 1997 agreement between the consortium made up of CNPC, Petronas and the ONGC for the exploitation of Blocks 1,2 and 4, if average daily production (in bbl/d) was up to 25,000 barrels, then the government would get 60% and the companies 40%. However, if production moved up to 50%, then the government would gain 80% of the total revenue. The division can be seen in the diagram below.



Source: European Coalition for Oil in the Sudan.

While these figures may seem to really favor the government, it should be remembered that in 1997, when oil prices were at less than $20 a barrel, and the principle contracts were negotiated, the Sudanese oil industry was exempted from paying taxes. To put things in perspective, Petronas posted profits of nineteen billion US dollars in the financial year ending in March 2008 – a year of record profits for the company.

To understand how these arrangements were arrived at, it is important to look at the history of the relationship between multinational oil companies and developing countries. Up until the 1960's, when developing companies had little capital inflow of their own, the contracts tended to completely favor the multinational oil companies: they entitled companies to concessions over very long periods of time, even when they did not explore the area given to them. They lacked any ability to control the prices dictated by the oil companies, or any control over their activities.

In the sixties, these relationships began to change, as oil producing countries began acting in concert (for instance, establishing OPEC), and nationalizing oil resources, believing that currently the international oil companies took the profits from the oil out of the country, and often into the country that just a few years ago had been a colonial power in the developing country.

It was in this era that the Sudanese Petroleum Corporation was created, and equally, when many of the banks were nationalized, out of a shared set of concerns. However, the oil crash of the 70s, plus the need for greater technological skills, sent many governments, including that of Sudan, back to the international oil companies.

This brought with it a new period of move flexible contracts. While we still refer to oil concessions, actually this colonial language is no longer used. Companies like Petronas are referred to as contractors, rather than concessionairies. In these contracts, the types of percentages set out above for Blocks 1,2 and 4 must be agreed ahead of time. These agreements, while more flexible than the previous style of concessions, are nonetheless very favorable to the oil companies. Of the top twenty biggest companies in the world in 2008, eight of them were oil and gas companies if you rank them by sale. By profitability, the top six companies in the world last year were all oil and gas companies.

Further Questions

How do you think oil contracts should be arranged? Is there a way to make them more equitable for the people of Sudan? What are the elements that go into making oil contracts the way they are today – try to relate this fact sheet back to what we know both about Sudan's history and the physical properties of oil.