Thank you, Senator Feingold. Thank you for the

opportunity to be here today, and I want to commend you and Senator

Frist for holding this very timely hearing.

I want to offer a few brief comments on where I think we are

in terms of the U.S.-led diplomatic efforts, and then I would like

to turn to some comments specific to the oil sector in Sudan and

the place it may have.

In terms of U.S. diplomacy, I think it is important to emphasize

that we are at a very important juncture here; and it is terribly important

to keep a focus on U.S. policy toward Sudan.

I think that this is, first of all, because Sudan is the single

chronic conflict in Africa where the Bush administration has pursued

an activist diplomacy at a sustained high level. And as President

Bush indicated in his comments on June 20, Washington leadership

and investment have begun to show early promising results.

We need to build upon these results and to build upon them effectively

and reliably, and this is consistent with some of what

John has argued. We need to intensify our level of effort diplomatically,

analytically and financially.

Today, there is ample reason to be skeptical of Khartoum’s motives

and coherence. And there is good reason to be cautious at a

time when there is intensified fighting, particularly in the Western

Upper Nile.

I want to put in context here that the South is in the most unified

position that it has been in, that we have seen, since 1991. We

are in the midst of a rainy season, and we are seeing a very intense

mobilization by southern armed insurgents in the zone of the

Western Upper Nile. And they are seeing some results.

I do not think at the end of the day the overall balance will

change significantly militarily as a result of these or this intense

fighting. But it is stirring much higher levels. John has detailed

some of this in some of his recent writing quite ably. That is where

we are right now.

We are in a period of intensified diplomatic activity in Nairobi,

in the midst of also some of the highest levels of fighting with the

most unified position involving both Nuer and Dinka fighters in the

South.

For the first time in many years, it is possible to imagine that

there is a just and durable settlement in sight that could reconcile

the tough issues that we have heard about today on church and

state, unity and self-determination, sharing of national oil wealth.

That reality is a direct result of U.S. leadership and also a direct

result of the dramatically altered circumstances that exist in

Sudan and the Horn post-September 11.

Progress is seen in the four achievements that Senator Danforth

created that have been detailed. Progress is seen in the new-found

seriousness of purpose that has been shown by both the Government

of Sudan and by the Sudan People’s Liberation Movement

since the IGAD talks resumed June 4.

Progress is seen also in the new-found determination of the Kenyan

Government. The Kenyan Government, in appointing Lieutenant

General Sumbeiywo, was sending a power signal to us and to

the region of its seriousness of wanting to see concrete results.

That has not always been the case.

Progress is seen in the formation of the troika, linking Washington,

London and Oslo. It has been years that this kind of initiative

has been under discussion. It is now being operationalized.

President Bush’s strong personal stake has been critical to sustaining

the focus. And I think it is fair to say that there is a unity

of purpose that links the Senators, Senator Danforth with Walter

Kansteiner with Andrew Natsios and Roger Winter, that we have

not seen in U.S. foreign policy toward Sudan in many, many years.

These are all important gains.

I do agree there are problems in implementation that should be

overcome. U.S. personnel and resources are insufficient at a time

when the demand on implementation is expanding. The Sudan

team in Washington, Nairobi, and Khartoum are understaffed,

over-stretched, under-financed in the face of multiple proliferating

tasks.

I do think steps should be taken to correct that. I do think that

in Khartoum we need Arabic-speaking officers. We need senior

leadership. In Khartoum, we need additional officers to staff southern

Sudan and liaise to the Sudanese leadership from southern

Sudan.

In Washington, I believe the six officers that are operating there

are greatly over stretched. They are working very, very hard and

they are very able officers, but we need more of them.

And I agree that an immediate priority should be accelerating

the creation of the international monitoring mechanism that Walter

described today that is under or that General Lloyd is attempting

to stand up.

On oil, the second part of what I wanted to address, oil is a highly

charged fundamental factor to the war, and it is going to figure

one way or the other as an obstacle and an opportunity to achieving

peace. Today, the earnings are approximately $1 billion per

year coming out of that sector.

If there is a durable peace, the parties to Sudan’s war will have

to determine and agree on how the oil sector is to be managed and

monitored equitably and effectively in a post-war setting, regardless

of what kind of constitutional and political arrangements are

put in place.

The sector is too fundamental to the present and to the future,

and it crosses both sides. If the southern—the fields in the Sudd,

where there are three billion to four billion barrels of unexploited

oil, are brought into production, over time the oil sector will shift

to be 80 percent concentrated in the South. The pipeline and the

refinery are in the North. Power has resided historically in the

North.

There is going to have to be some resolution of this issue.

A durable and convincing peace settlement will allow Sudan to

significantly increase its total revenue levels. If there is a durable

compact and some vision of how to develop this sector, it could be

doubled in size within a 7- to 9- or 10-year period.

Now, under present realities, as long as war continues in Sudan,

the oil revenues will remain pretty much constrained, and they will

decline over time.

The national fields—or national production will be confined to its

present first phase exploitation in the Western Upper Nile where

production is about 230,000 barrels a day. It may rise up to

250,000, and then it will begin to decline steadily.

Until the war is ended, there is little prospect of bringing into

production the far larger fields in the South, the three billion to

four billion barrels that I alluded to earlier.

Current production areas in Western Upper Nile will continue to

attract intensified military activity by both the government and the

SPLA. That will sustain insecurity, humanitarian dislocation, allegations

of war crimes and other human rights abuses. I do not believe

that the fighting that we see in Western Upper Nile will result

in a significant change in the battlefield situation.

If a negotiated peace is achieved, it will be possible to expand the

oil sector. It will be possible to double its production. However, to

do that will require substantial patience and determination and

take several years to achieve.

Once war has ceased, there will be a strong interest, I would

argue, in both Khartoum, and the South in bringing or in enlarging

the consortium and bringing a Western major oil firm in in order

to bring the Sudd into production. But that will only be possible

if there is a durable political compact between the parties that

builds the confidence of external investors.

A credible accord will require the government and the SPLA to

convince the international energy community on elementary security

over an expansive geographic territory. The parties will have

to have joint agreement on elementary security over an expansive

geographic territory. And they will have to have some revenue

sharing accord.

I want to emphasize here that the previous accord, the Addis

Ababa Accord of 1992, predates the advent of the oil sector in

Sudan. There is no historical precedent for revenue sharing in the

oil sector.

It is going to have to be crafted carefully and a revenue sharing

formula will have to have adequate specificity and transparency. It

will have to include some form of strong third-party verification. It

will have to rest on competent management structures that are

transparent.

There are a number of models. We can talk about those. They

will probably be influenced fundamentally by what kind of broader

political and constitutional arrangements are agreed upon.

Oil is not going to drive the settlement. This revenue sharing

model will be derived from that.

As an interim measure, there was mention made earlier about

the possibility of an escrow account. The Government of Sudan

could dedicate a very substantial share of current oil revenues to

social and developmental purposes and allow an internationally

monitored escrow account.

But I also want to emphasize, in closing here, that the two sides

right now on revenue sharing in the oil sector are very, very far

apart. And I think we need to be conscious of that. They are suspicious

of one another. There are internal factions who are very,

very pessimistic that it would make sense to be entering negotiations

around these.

There are two broad scenarios that I have laid out. One is: You

have continued war. You have no agreement. The sector peaks at

250,000 barrels and begins to decline, and there is no benefits to

the South.

A second is: They agree upon a compact that enlarges the pie,

that doubles it, that brings very substantial benefits over time to

both sides based on fairly conservative estimates.

I first wish to commend Senators Feingold and Frist, Chair and Ranking Minority

of the Senate Foreign Relations Africa Subcommittee, respectively, for their leadership

in holding this timely hearing on Sudan. I also wish to express my personal

gratitude for the opportunity to appear here today.

I will offer a few brief comments on U.S.-led international efforts to end Sudan’s

war and areas where implementation should be strengthened. After that, I will

briefly address issues specific to Sudan’s oil sector and its place in a negotiated settlement.

It is critically important, at this juncture, to keep a focus on U.S. policy toward

Sudan.

President Bush did just that on June 20th, at the dinner honoring the late Reverend

Leon Sullivan, when he stated:

. . . we will . . . continue our search for peace in Sudan. My policy towards

Sudan seeks to end Sudan’s sponsorship of terror and promote human

rights and the foundations of a just peace within Sudan itself. My envoy

for peace in Sudan, former Senator John Danforth, has made progress toward

a cease-fire and improved delivery of humanitarian aid to such places

as the Nuba Mountain region of Sudan.

Since September the 11th, there’s no question the government of Sudan

has made some useful contributions in cracking down on terror. But Sudan

can and must do more. And Sudan’s government must understand that ending

its sponsorship of terror outside Sudan is no substitute for efforts to

stop war inside Sudan. Sudan’s government cannot continue to talk peace

but make war, must not continue to block and manipulate U.N. food deliveries,

and must not allow slavery to persist.

Keeping a focus is important not only because of the grave human costs of Sudan’s

chronic war, but also because the war has mobilized a remarkable coalition

of important American constituencies, like none other in Africa in recent years.

It is also important because Sudan is the single chronic conflict in Africa where

the Bush administration has pursued an activist diplomacy at a sustained, highlevel.

And as President Bush indicated, Washington’s leadership and investment

have begun to show early, promising results. To build upon these returns, effectively

and reliably, now requires an intensified level of effort, diplomatically, financially

and analytically.

Today, there is ample reason to be deeply skeptical of Khartoum’s motives and

coherence. At the same time, fighting, concentrated in the oil-producing Western

Upper Nile region, has intensified.

Nonetheless, for the first time in many years, a just, durable settlement is again

imaginable, that might reconcile the tough issues of church and state, unity and

self-determination, and the sharing of Sudan’s national wealth, among other issues.

This is because U.S. leadership, bolstered by dramatically altered circumstances

within Sudan and the surrounding region, post-September 11, have created opportunities

for peace in Sudan that did not exist before.

Progress is seen in the four achievements of Special Envoy Senator John Danforth:

the Nuba Mountain cease-fire agreement, plus agreement by the two sides to

international monitoring of the Geneva Convention, an international commission to

investigate slavery and abduction, and disease eradication efforts.

Progress is seen in the newfound seriousness of purpose, exhibited by both the

Government of Sudan and the Sudan People’s Liberation Movement, in the most recent

round of IGAD peace talks that opened in Nairobi on June 17th. Southern political cohesion has been strengthened in recent months. The SPLM leadership has

shown increased openness to dialogue on the critical issues that must be resolved

before there can be peace. Khartoum has systematically normalized its relations

with its neighbors, recommitted itself rhetorically to peace, and cooperated with

Washington on counter-terrorism.

Progress is seen in the conspicuous, newfound determination of the Kenyan Government,

led by General Lazarus Sumbeiywo, to move this round of the IGAD talks

toward real results, intended to lead to a comprehensive settlement.

And progress is seen in the joint efforts of Washington, London and Oslo to put

their substantial support behind Kenya. The troika has brought new pressures upon

both sides, and helped significantly to inform discussions on the critical issues tabled

at the IGAD talks.

President Bush’s strong personal stake is obviously critical to sustaining the Administration’s

focus and determination on Sudan. At the same time, former Senator

John Danforth, Assistant Secretary of State Walter Kansteiner, and USAID Administrator

Andrew Natsios have demonstrated resolve and creativity in carrying forward

U.S. policy. This month, they will be joined by Ambassador Ranneberger.

However, notwithstanding the Administration’s growing unity of purpose, there

are enduring problems in implementation of U.S. policy which need to be corrected.

U.S. personnel and resources to support U.S. policy toward Sudan are insufficient,

at a time when there is simultaneous demand both to implement the four initiatives

developed by Senator Danforth and provide extensive support to the IGAD talks.

Presently, the Sudan team is under-staffed, over-stretched, and under-financed in

the face of multiple proliferating tasks. Analysis of Sudan’s complex, quickly evolving

internal political developments, critical to informing U.S. diplomacy, is uneven

and often weak.

If U.S. policy is to be effective, it requires an adequately staffed embassy in Khartoum

that includes skilled Arabic speakers and resident senior leadership. It requires

in Nairobi at least two resident officers to liaise with southern Sudanese

leadership. It requires in Washington a team to backstop implementation that is

considerably larger and more stable. Some recent progress has been seen in adding

staff and resources, and the present teams in Washington, Khartoum, and Nairobi

deserve high praise for their performance under difficult circumstances. However,

recent efforts to increase capacities still fall short of requirements, and more needs

to be done. As the implementation agenda continues to widen, there is a continued

risk of overload, confusion and paralysis unless quick action is taken.

An immediate related priority should be accelerating the creation of the international

monitoring mechanism to investigate alleged violations of the Geneva Convention.

That instrument is important to bringing new pressures upon the parties

and, most importantly, bringing an end to bombings of relief sites. Little progress

has been seen in recent months in establishing it, not through willful neglect, but

because of a sheer excess of demands upon limited staff.

Oil is a highly charged, fundamental factor in Sudan’s war and will inexorably

figure both as an obstacle and an opportunity to achieving peace.

If there is to be a durable peace accord, the parties to Sudan’s war will have to

determine and agree on how the oil sector is to be managed and monitored equitably

and effectively in a post-war setting. Settling on a workable strategy to divide and

distribute oil revenues will likely be an arduous and complex process, for which

there is no historical precedent in Sudan’s experience. Under the best of circumstances,

realizing big, mutual financial gains will require several years.

Nonetheless, a durable and convincing peace settlement eventually will allow

Sudan to significantly increase its total revenue levels. An equitable division of an

expanding oil revenue pie could help consolidate a durable peace, contribute to a

broader reconstruction process, and possibly encourage the more rapid arrival of

concessionary donor flows. In turn, a durable peace could ensure that the Sudan’s

energy pie continues to grow.

As long as war continues in Sudan, Sudan’s oil revenues will be highly constrained,

and the sector itself will be a potent negative factor.

National production will be confirmed to first-phase exploitation in the Western

Upper Nile (WUN) oil fields, which have an estimated reserve of 600 million to 1

billion barrels. Current production of 230,000 barrels per day may rise in the near

term to approximately 250,000 barrels per day, but shortly thereafter production is

projected to decline.

Until the war is ended, there is little prospect of bringing into production the far

larger fields, estimated at 3-4 billion barrels, that lie in the southern Sudd zone,

dominated by southern armed movements.

Current production areas will continue to attract concentrated military activity by

the government of Sudan and the SPLA. Recently intensified military action in and

around the WUN oil fields will sustain insecurity and uncertainty and continue to

generate displacement, disruption of humanitarian access, continued credible allegations

of war crimes, and other human rights abuses. Fighting is not likely to lead

to a significant change in the battlefield situation.

These factors will sustain doubt among Sudan’s external partners and instability

in current production arrangements, prompting periodic suspension of exploration

and production activities and the possible sale of operations.

These factors will also intensify international NGO activism surrounding Sudan’s

oil sector, sustain strong interest among mobilized constituencies in the United

States to impose capital market sanctions on Sudan’s external oil partners, and otherwise

impede normalization of Sudan’s international status and image.

If a negotiated peace is achieved, it will be possible to expand Sudan’s oil sector

considerably—in time. However that will require substantial patience and determination

to surmount several formidable hurdles over several years.

Once war has ceased, there will be strong interest in enlarging the consortia of

external partners, including new Western major oil firms, in order to bring the Sudd

zone into production and increase overall energy sector competitiveness. However,

only a credible, durable political compact among the parties to a peace accord will

build confidence among external investors that the Sudanese partners are reliable

and predictable.

A credible accord will require that the government of Sudan and the SPLA convince

the international energy community that they have achieved a workable consensus

on joint future management of Sudan’s energy sector. This step will be essential,

regardless of how precisely they agree to divide power politically and constitutionally.

The parties will also have to demonstrate their joint capacity to guarantee elementary

security across the expansive geographic area of present and future production.

This will likely require a provision in the demilitarization agreements to take

account of the special security requirements of the present and future oil producing

areas.

Oil did not figure in Sudan’s 1972 Addis Ababa Agreement, and there is no historical

precedent in Sudan for negotiating oil-revenue distribution. A revenue-sharing

formula will be required that has adequate specificity, simplicity, and transparency,

has provisions for negotiated adjustments, includes some form of strong third-party

verification, and rests on competent revenue management structures. A number of

models are possible, including for example, a simple negotiated division between

north and south based on relative population sizes, or a division among the federal

government and smaller federal units, with bonus allocations for producing regions.

The selection of an appropriate formula will be shaped significantly by the political

and constitutional design of the peace accord.

Increasing Sudan’s total oil revenues to the benefit of all parties will be a slow,

multiyear process. As an interim measure, the government of Sudan could dedicate

a substantial share of current oil revenues to social and developmental purposes

that benefit the south and north, through an internationally-monitored escrow account.

Thank you.

The short answer is: We really do not know well

enough. And we should know better and we should be making a

special effort, I think, in terms of the administration’s efforts to understand

this dimension much better because, until we do, we will

not know what kind of incentives are at play here.

And if you take the Government of Khartoum, there is not much

transparency there. The oil revenues are tied, obviously, to weapons,

or to conventional weapon procurement. They are tied to

privatized industries that have been parsed out over the years to

NIF insiders.

Much like many other oil rich companies, there tends over time

to be an increase of these kind of special relationships which, if you

are going to change the way it is managed, you are going to run

up against these vested interests.

On the SPLM side, in terms of the way they manage their own

affairs, I do not—many have commented that there is not a whole

lot of transparency there, either, in the disposal of many of these

resources. And how they are thinking about the future and management

of their affairs is—it becomes critically important, too.

And how they imagine the use of the wealth, and how they imagine

a fair equitable distribution will become very important.

Yes, just a couple of quick points that are very

consistent with John’s analysis. Both sides, I think, realize they are

in an indefinite military stalemate, even at intensified levels of

fighting.

The oil wealth is not translating into a strategic breakthrough

for Khartoum on the battlefield. The increased cohesion among

southern Nuer-Dinka armed elements is not translating into an

ability to bust through on their side. So that is one point.

The second is I think you can see in the behavior of the parties

in Nairobi evidence of increased realism, which is encouraging.

And, third, I think part of this is intensified pressures on both

sides. On the Khartoum side, they are running in an almost-halfbillion-

dollar-a-year budget deficit right now. They cannot move

forward on all sorts of things internal until they have fixed their

relationship with the United States and gotten back into a more

normal relationship globally and gotten access to critical support in

Bretten Woods institutions and others. And they are not going to

get that until they are square with Washington. And they are feeling

that pressure.

The southern insurgents are seeing an erosion of military and

material support from within the region and from other places in

Africa that have historically been very generous in supporting

them. They are seeing that wane very dramatically. These pressures

are pushing the parties, I believe, toward a more realistic assessment

of the need for peace.

Senator Danforth, I thought, was very smart in

the first phase in laying down very specific benchmarks with

timelines attached to them for, ‘‘Are you on,’’ or ‘‘Is this a yes or

no,’’ and ‘‘When do you begin to deliver,’’ and sign.

We are now in a period of very intensified diplomatic activity

with Senator Danforth, Assistant Secretary Kansteiner, others

traveling into the region and engaging in trying to push and draw

in other European support behind the pushing-on in this period.

What are the timelines that we need to think about? One is: The

Nuba Mountain cease-fire cannot last indefinitely on its own. There

needs to be a demonstrated broader process on the search for a

comprehensive peace settlement.

So the next phase, I would think, would be seeing delivery of a

framework agreement signed sometime within the next near term

of 60 days, 30 days with an objective of getting the gaps filled within

another 90 or 120 days.

President Moi is looking to end his career and retire from office.

And this is an important final achievement in his legacy that he

is seeking.

The dates of his departure are themselves up for grabs at the

moment. And that is a shifting timeline. But it is nonetheless one

that is out there and is going to occur in the near to medium term.

And it is going to set some additional pressures in place.

Since the advent of the NIF government in mid-

1989, there has been a very, very grave erosion of civil life within

Khartoum. I mean, Sudan as a country had a very illustrative history

of faith-based institutions, of media, of universities, of a diversity

of political parties. And that memory is very alive.

But there needs to be a systematic effort at restoring that dimension

and mobilizing it. And I do not have—I do not think there are

any easy or quick possibilities for that, but it needs to be part of

the discussion.

In terms of southern Sudan, the churches—and I think Paul is

best positioned to speak directly to this—but the Council of

Churches have been absolutely integral to preserving life and civil

life, civil institutions, an independent voice in southern Sudan. And

their role becomes ever more important in this period. And then

they are not shy about expressing themselves on the bigger political

issues.