ORGANIZATION OF AFRICAN UNITY
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REPORT OF THE ADMINITRATIVE SECRETARY-GENERAL TO THE COUNCIL OF MINISTERS ON OIL AS A WEAPON AGAINST THE SOUTHERN AFRICAN REGIMES - JUNE 1974

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SOUTH AFRICA'S OIL SUPPLIES AND PROBLEMS

1. Total oil imports in 1972 amounted to $ 272 million, forming the major element in South Africa's total import bill. The amount was expected to rise (at mid-1973 prices) to $ 670 million in 1980. Recent crude oil price increases would obviously increase that figure perhaps several times over, at current rates of increase in consumption. The economy is therefore likely to be badly hit either by the increased import bill, or a shortfall in supplies, or probably combination of both.

2. Imports and exports of petroleum and petroleum products are as follows for the year 1962-69:

	Imports	Exports (S.A. Rand - million)
1962	79.1	7.6
1963	76.2	9.6
1964	90.5	21.6
1965	91.6	23.4
1966	103.2	32.7
1967	112.1	54.3
1968	122.9	70.2
1969	124.8	61.5

Source: South African Statistics, 1970.

3. The increase in exports is probably accounted for by fuel for ships' bunkers and exports. Southern Rhodesia receives the equivalent of six thousand barrels per day out of the 17 thousand she needs. The remaining eleven thousand come from the SONAREP Refinery near Lourenço Marques.

The origin of these imports have been estimated as follows for the year 1967-71:

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(in thousand metric tons)

Imports from:	1967	1968	1969	1970	1971
Iran	2,340*	4,600*	2,400*	1,080*	3,660*
Iraq	1,770*	1,500*	1,500	2,280	2,260
Quatar	2,020*	1,040	1,330	1,950	2,110
United Arab Emirates	1,010*	1,320	-	-	1,770
Saudi Arabia	-	-	2,000	3,500	2,770
Venezuela	-	-	10	-	-
TOTAL	7,150	7,460	7,690	8,810	12,500

*Estimate

Source: Department of Economic and Social Affairs. Statistical Office of the U.N. Statistical Papers: World Energy Supplies, Series J. No. 15, 1961-70, and No. 16, 1968-1971.

4. Other estimates of South Africa's sources in recent months vary, though they show that the Arab States have until the embargo been the major suppliers. The Rand Daily Mail of 29 November 1973 put South Africa's imports of crude at about 100 million barrels a year, divided as follows:

Iran	37.8	million	barrels
Saudi Arabia	23.9	"	"
Iraq	18.3	"	"
Small Persian Gulf States	20.0	"	"

According to the South African Financial Gazette of 16 November 1973 (which probably has good access to Government information), total South African demand for crude oil is 90 million barrels a year (with the rest, presumably being put into the stockpile or re-exported), as follows:

Arab States	72%
Iran	20%
SASOL (local)	8%

According to this, Iran would account for about 22% of imports. Yet another figure which has been offered by the London Financial Times and the South African business journal the Financial Mail is that Iran supplies 25% of South Africa's oil imports.

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South Africa's alternative sources

5. With approximately 75% of its oil imports apparently cut off by the Arab States, South Africa will be searching for alternatives. The major alternative is collusion with the major oil companies, who can supply Middle East oil from tankers rounding the Cape. This seems to be South Africa's best prospect at the moment, since other countries are unlikely to be able or willing to fill the gap left by the Middle East embargo.

6. A common assumption is that the oil produced in Angola will be readily available to South Africa in an emergency. However, Portugal now faces its own emergency, and there is unlikely to be much to spare. While a consortium of South African companies led by General Mining has a 25% interest in the Cuanza oil concession area near Luanda, which produces a small amount from a number of small wells, production there seems to have reached its maximum level, and all of it is committed to the Luanda refinery (which serves the Angolan market with almost none exported). Almost all the oil which is exported from Angola is Gulf Oil's production in Cabinda, which produces about half South Africa's total consumption, at 250,000 barrels per day (b.p.d.). However, the Portuguese Government is entitled to up to 50% of the Cabinda oil — which it is now forced to call upon — and the rest is tied up in delivery contract to the U.S., Japan and elsewhere. South Africa has no leverage over Gulf, which as a result of domestic pressure in the U.S. has withdrawn its small operation there and in Namibia. Even if there were an available surplus in Cabinda, it is difficult to see how the Portuguese Government, even if it wanted to, could direct Gulf to export it to South

7. Nigeria and Indonesia, countries which many consumers are relying on for relief, are obviously unlikely to supply any oil to South Africa. In a sellers' market, they lose nothing from boycotting South Africa. Venezuela has been suggested as an alternative, but again its production is already tied up in long-term contracts, mainly to the U.S. South Africa has attempted in the past to establish links with Venezuela and also Bolivia, apparently without success.

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8. This leaves only two States which might come under direct pressure from South Africa to supply oil. The first is France, since the Compagnie Française des Petroles, a Government-owned concern, has a 17.5% stake in the National Refinery through its subsidiary, Total Refinery South Africa, or TORSA. The contract specifies that Total should supply some of the crude oil for the refinery, and that if its parent company should stop this supply, its shareholding in the refinery would be compulsorily purchased. The same consideration applies to Iran, which through the National Iranian Oil Company (N.I.O.C.) has a 30% stake in the National Refinery.

The Role of Iran in South Africa's Oil Problems

9. The involvement of the N.I.O.C. in the National Refinery was hailed in South Africa as a great triumph for the Government, since it provided a secure source of crude oil, tied Iranian Government interests to the distribution of petroleum products in South Africa, also applied manpower and technical expertise, since there are many Iranian involved in the refinery's construction. The N.I.O.C. is partly controlled by the major oil companies operating in Iran, which probably had a strong influence on the arrangement.

10. The arrangement is part of a recent rapprochment between Iran and South Africa that needs to be closely watched by the OAU. There is a rumour in South Africa of a secret naval agreement with Iran that would cover South African facilities for Iranian ships in the Indian Ocean. This seems to be confirmed by the recent call of an Iranian vessel to South Africa for repairs. The two countries have also established consular relations, and the former South African Chief of Staff of the Armed Forces, General Fraser, has been posted to Tehran as Counsel. The new alignment is probably taking place with the full knowledge and encouragement of the United States Government, which is Iran's major backer.

11. It may also have something to do with the fact that both South Africa and Iran have growing links with Israel. It is interesting that the Iranian Police Force is armed with Israeli-made Uzi machine

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guns, which have also been supplied to South Africa. The three countries have similar views on the Indian Ocean, where they operate in collaboration with the United States' increasing force of nuclear-armed submarines, large surface vessels and various bases — including one on Abu Musa, one of the Islands occupied by Iran in 1971. South Africa has been making strong efforts to persuade the U.S. Navy to collaborate with it, and use South African electronic surveillance facilities specially built for the purpose.

12. It is therefore most unlikely that Iran will voluntarily cut off oil supplies to South Africa, and any vaguely-worded assurances are unlikely to be operative. Only if strong pressure is applied would Iran consider abandoning its newly-formed alliance with South Africa. This could come through the OAU, OPEC and the Islamic States in Africa and Asia. It will be recalled in this connection that the South African Government has been deporting many Moslem communities, and destroying their mosques because they are in areas proclaimed as "white". The Imam Haron, a Moslem leader in Cape Town, was arrested for leading the resisitance to this, and died under police interrogation in 1970. His widow announced that he had been tortured.

13. From South Africa's point of view, on Iran is essential; however, it is unlikely that it will fill the gap left by the Arab States. It has major customers, including Japan, the U.S., Western and Eastern Europe clamouring for oil, and to increase supplies to South Africa would mean a conscious effort to give it priority over other, more powerful customers. Given the political factor involved, such an effort would not seem worthwhile for Iran.

14. A small but significant part of Iran's exports to South Africa consists of light aircraft fuel, which is not produced in local refineries. This is essential for the privately-owned light aircraft, mobilised into "Air Commando" units, which can be called upon at any time as a major element in anti-guerilla operations. At the very least, Iran could easily refrain from supplying this type of fuel, since the contract with the S.A Government over NATREF participation mentions

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only crude oil supplies.

TRANSPORTATION OF OIL TO SOUTH AFRICA

15. To a large extent, transportation is provided by the companies which operate in South Africa, which also have interests in Middle East production and tanker fleets of their own. However, as a precaution against the threatened oil embargo, following the Joanna V incident in 1966 when Southern Rhodesia was unable to prevent the rerouting of a tanker on foreign Government orders, the S.A. Government decided to purchase its own tanker fleet. It therefore set up Buren Beleggings as a holding company to run the oil tanker business of the S.A. Government's Industrial Development Corporation (52%) and Safmarine, the Government shipping line (48%). The following tankers have been purchased:

	Tonnage
ALLAMANDA	29,400
LANMAR	25,760
LANKUS	77,000
MARLAND	41,240
(formerly the British tanker Bideford)	
KULAND	49,265
(formerly the Shell tanker Ofina)	
THORLAND	50,230
(formerly the Mobil tanker Vanguard, registered in Liberia)	
KOBERG	

The ALLAMANDA, LANMAR and LANKUS are registered in Bermuda, and fly the British flag. The MARLAND, KULAND, THORLAND and KOBERG are registered in Panama. They are all managed by Safmarine and have S.A. crews.

Supertankers	
IST KULU	217,400
GONDWANA	217,400
SINDE	266,200

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16. The KULU and SINDE have been hired by BP tankers, and the GONDWANA by the Royal Dutch-Shell group, and they were all to be used on the route between the Persian Gulf and Europe, as reported in 1970. South Africa probably counts on the fact that the companies will offload some of the oil on at least these tankers in South Africa; alternatively, it may wish to take them over, since the contract appears to provide for this in an emergency. However, there may be some difficulties, since the three supertankers are far too big to enter any South African ports, and would have to rely on the off-shore terminal (although the SINDE is too big even for these). The THORLAND, which is many times smaller than the supertankers, pointed up a weakness in the system when, after a mysterious explosion, it was unable to find even a temporary haven in South Africa, since harbour capacity is so small. All the tankers are on a charter to major oil companies, and some of them do not use the Cape route. Nonetheless S. Africa retains the right to take them over in times of emergency.

17. However, as the Cape Times pointed out at the time of purchase, the oil supply problem is not so much the availability of tankers, which the Rhodesian experience had shown could be hired fairly easily, but the problem of loading South African--bound oil in the first place. If the names of South African-owned tankers were made known at oil-supply points, they could become an expensive liability rather than an asset. With the co-operation of Saudi Arabia tankers destined for S. Africa could be denied entry into the Persian Gulf.

18. In contrast to other industrialised countries suffering from reduced oil supplies, South Africa's position is more difficult, since its competitive export position relative to Europe, North America and Australia would decline, and the re-opening of the Suez Canal would sharply reduce the number of small ships rounding the Cape which at present use South African ports and facilities.

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Consumption of Oil in South Africa (1963 - 1972)

		barrels per day
1963	99,800	" " "
1964	123,000	" " "
1965	124,000	" " "
1966	145,000	" " "
1967	180,000	" " "
1968	215,000	" " "
1969	215,000	" " "
1970	262,000	" " "
1971	284,000	" " "
1972	285,000	" " "

* Divide by 7.3 to convert into metric tons.

19. The Prime Minister, Mr. Vorster, said in October that the country depended on oil for 26% of energy needs. This is much lower than other industrialised countries. However, South Africa's industrialisation depends on rapidly increasing oil consumption. In the ten years ending in 1965, consumption of petrol rose by 61.5%, and the increase has been accelerating: consumption is expected to double in the next ten years, with an annual rate of growth in 1971 of about 9% per year, compared with a world growth rate of 7.5%

20. The proportion of energy provided by oil is also expected to rise steeply, overtaking coal to form about 60% of energy by 1985. Although South Africa has had a major advantage with cheap coal production, it has recently been estimated that if the current coal price is maintained, the estimated reserves of 1,000 years would be reduced to 40 years because of wasteful mining practices, and would have to be carefully conserved. The other alternative commonly mentioned, nuclear power, is not an immediate prospect in South Africa in spite of its large reserves of uranium, since the nuclear power station planned for the Cape has now been scrapped, and an oil-fired one built instead.

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In the light of the energy shortage, the completion of the Cabora Bassa scheme in Mozambique has become even more important for South Africa. It would provide 8% of projected energy needs starting in 1975, if construction goes ahead and power transmission lines can be maintained.

21. 80% of crude oil in South Africa becomes some kind of fuel — 23% diesel, 16% bunker (for shipping) and 5% aviation, and 30% gasoline for cars. The rest becomes asphalt, paraffin and liquefied petroleum gas. Oil users are broken down as follows:

	%
Private motorists	36
Industry	36
Agriculture	11
Commercial	10
Aviation	5

22. It is estimated that the main elements of the wholesale market for oil products is as follows:

	Million litres	Worth (RM)
Petrol	5,000	432
Diesel oil	3,350	151
Fuel oil	3,100	43
Kerosen	655	30

Fuel sales are much lower than in most other countries, although it is important for ship bunkering and in the gas, brick and steel industries.

THE OIL STOCKPILE IN SOUTH AFRICA

23. The stockpiling or large quantities of petroleum was officially announced in 1967 as a response to threats of an oil embargo; it was then stated that the Government intended to stockpile about 3m tons (about four months' supply at 1973 rates of consumption) and that S.A. would then be able to supply Rhodesia as and when necessary. The plan had been drawn up in 1965, under the personal supervision of

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Dr. Verwoerd, then Prime Minister, and it involved stockpiling what would then have amounted to over a year's supply of crude oil, which under rationing and using various other means of alternative power, could last for over two years. However, consumption was much less at that time than now, and the calculations would no longer be valid. It appears that there are three "oil tank farms" with a Government-appointed board of directors; the companies store their own reserves; and large quantities are also stored in disused mines in the Ogies area and one near Sasol. All are situated at convenient points of the pipe-line network.

24. The major constriction on stockpiling is the prohibitive cost, not only of the containers (it is much cheaper to use suitable mines than steel tanks) but also the amount of capital tied in unproductive storage. Unofficial estimates of the stockpiles in Europe, of about 3 months' duration (though for a much larger market) are about $2-3 billion per year. It is no wonder then that the largest single item in the landed price of oil in South Africa is the Government duties and levies, which include "strategic stockpiling costs".

25. Speculation about the actual size of the stockpile fluctuates vary widely. It is commonly said that there is a two-year reserve available. The Pretoria News estimated on Nov. 29, 1973, for example, that with total crude oil requirements at 9 million tons a year against 12.5 million tons of imports, the surplus was being stored at the rate of 3.5 million tons per year: "This seems to be a common fallacy; it does not take into account the substantial re-exports of South African petroleum products (see page 1). The figures quoted also relate to 1971, and like the earlier contigency planning based on two years' supply at 50% of 1965 consumption, has been outdated by the 9% annual rise in oil imports. The Rand Daily Mail estimated on the same day that the stockpile, together with Sasol production of oil from coal, would be "enough to keep us going for three or four months". A major Western Embassy in Pretoria estimates that the underground storage

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for strategic purposes amounts to 4-6 months' supply, while surface storage accounts for about 60 days.

26. Any possibility that South Africa could easily withstand an oil embargo for any length of time seems to be discounted by the official Government reaction to the suggestion by the Opposition leader, Sir de Villiers Graaff, that the extensive stockpile could be drawn on in order to reduce the impact of rationing. Ministers were outraged, and insisted that the strategic reserves had to be preserved for purely military contingencies, and could not be squandered on civilians, even if the health of the economy was at stake. That hardly suggests supplies covering two years of normal consumption.

27. It may be of interest to note that the coastal oil terminals, storage tanks and refineries are connected up by two pipelines. One takes crude oil from Durban to Ogies (where some oil is stored underground), supplying Natref (where the Sasol mine storage is located) and the strategic surface storage in the Eastern Transvaal, another line, also from Durban, carries refined petroleum via Richards Bay to the Rand Industrial area. The pipelines seem to be vulnerable to sabotage; in 1967, for example, the Durban-Rand line exploded and burned twice in one week, at Ashburton near Pietermaritzburg.

SASOL'S OIL FROM COAL PLANT

28. Sasol is a Government corporation, which controls a refining complex at Sasolbourg producing about 40% of South Africa's total petroleum needs. However, only a small part of this (12,000 b.p.d. or 7.8% of total consumption) is derived from the famous oil-from coal process, which the South Africans often refer to as a panacea for their energy problems. It is based on the Fischer-Tropsch process speeded up by an adaptation known as the Kellog process. It is the biggest undertaking of its kind in the world, and after enormous capital investments, has made a profit in recent years — the only plant of

its kind.to do so. This success is attributable to the vast coal field in the area, the plant's position at the heart of the Rand distribution centre, and the availability of water in the Vaal River not to mention the large Government subsidies and marketing advantages (for example, Sasol can sell a higher-octane petrol at the standard price than the commercial oil companies).

29. There are also gas-from-coal enterprises in South Africa, which lead the international field; they are situated at Saslburg (the Gascor plant), the Johannesburg City Council's Gas Department, a private gas producer in Cape Town, and a municipal undertaking in Port Elizabeth. The gas seems to be mainly for household use, and is the only source of gas in South Africa.

30. The Sasol oil-from-coal plant is now to increase its coal gasification capacity by almost 40% at a cost of about R40 million in an attempt to reduce the dependence on imported petroleum. However, gas is not a direct alternative to oil for many purposes, and the amount of expense involved in the process and installation of gas-burning equipment for the consumers is very large in proportion to the benefit involved.

31. As far as the increased production of petroleum from coal is concerned, the existing plant could make only a marginal contribution. The question of producing all of South Africa's oil needs is secondary to the immediate problems involved in a 2nd oil-from-coal plant. This could not in fact be justified in economic terms, even at the increased oil prices, and the motivation would be purely strategic, as Dr. Verwoerd admitted as early as 1966. The Chairman of Soekor, the Government's oil agency, estimated recently that many millions of Rands would be spent, the equivalent of 84 years of current oil exploration costs, and that even then the two plants could supply only about one-fifth of current oil requirements.

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REFINERIES IN SOUTH AFRICA

32. South Africa has no shortage of refinery capacity; in fact it has an overcapacity, and a reduction in crude oil supplies could increase refining costs, since they increase if a plant is under utilised. There are now five, with one under construction and two more planned. They have all been built, thanks of the international oil companies, since the Second World War. They are:

Refinery	Companies	Installed capacity (B.P.D.
SARPER (S.A. Petroleum Refineries Reunion, Durban	Shell, BP	172,000
Mobilref Wentworth, Durban (SAFOR - S.A. Oil Refining)	Mobil Oil	54,000 planned: 90,000 in 1974
Caltex, Milnerton near Cape Town	Standard oil of California Texaco	50,000
Satmar Boksburg	South African Torbanite Mining and Refining Co. (part of the Anglovaal group) (Uses crude oil from the other companies operating refineries)	3,900
NATREF (National Refinery)	National Iranian Oil Co. 30% Total Refinery South Africa, or TORSA, subsidiary of C.F.P. 17.5% Sasol - 52.5%	120,000
Richards Bay (white enclave in "Zulu homeland")	Trek Shell and BP General Mining and Esso	120,000 projected for 1978; but there are questions about starting construction).

33. The Natref plant is not justified economically, but was decided

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on in 1967 so that there should be a State-controlled refinery inland, near the stockpile (at Sasolburg), for security reasons in view of sanctions against Rhodesia and the threat to South Africa. An application by Mobil to expand its own refinery was refused. It is 20 - 25% more expensive for being built inland, and contravenes many of the Government's industrial policies, which indicates the strategic importance attached to this --- the most important industrial project in South Africa for many years --- and the significance of involving Iran as a guaranteed supplier. However, it does not seem to help South Africa in the present situation, which is one of an overall shortage of crude oil. Even if Natref is kept going, the other refineries will be producing relatively little (assuming a fairly effective embargo). This might, of course, be the deliberate strategy adopted by the Government to force the companies to procure their own supplies, by various devious means.

34. If oil were brought in from new sources, partially from Cabinda, this would entail considerable refinery problems for the South African installations, which are designed for Middle East crude. This would also be true if South Africa were to find its own oil reserves; the example of Australia, which was in a similar position, indicates that enormous expenses would be involved in adapting the refineries to the variety most likely to be found in South Africa. Nevertheless, this remains the biggest hope for South Africa, and it has done everything possible to encourage commercial exploration.

POSSIBLE IMPACT OF THE OIL EMBARGO ON SOUTH AFRICA'S ECONOMY

35. There seems no doubt that the South African Government is seriously worried about the embargo. As Dr. Kuschke, Head of the Industrial Development Corporation, said in 1970, even after all the measures to safeguard oil supplies had been taken, "Dependence on imported fuels is one of SouthAfrica's most vulnerable points". Observers close to the Government report greater concern than is officially admitted in public statements. One indication of the importance attached to this is the protests from the chiefs of the "Bantu homelands", all nominated by the South African Government and who, on questions of foreign economic involvement, all follow the official line of encouraging

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investment. Those protesting about the damage that will be done by the embargo include Chief Mangope of the Bophutha-Tswana, Chief Buthelezi of Kwazulu, and even two of the new Bantustan chiefs installed in Namibia — Chief Mayavero of "Kavango" and Ndjoba of "Ovambo".

36. The most immediate effect of the embargo was a shortage of lubricants, and marine diesel and fuel oil were in short supply. Ships were given priority ratings, with Safmarine at the head; some ships with low priority were stranded in South African ports, while others refrained from calling there. From December 10, the fuel conservation measures such as lower speed limits, etc, were tightened up, with petrol sold only weekdays from 6 a.m. to 6 p.m. The target date for the start of rationing is March 1, and it is reported to be more severe than originally planned.

37. With its strategic stockpile carefully conserved, the main impact of the embargo will be on the economic strength of South Africa, which is ultimately the guarantee of the whole apartheid system and the main reason for Western involvement with it. It is reported that industrialists and businessmen, although generally confused by the sudden embargo, feel that even if it is only partially effective it will have a negative effect on the growth of the economy, Since the fuel restrictions were announced in South Africa, the local stock market has fallen by 20%.

38. The Standard Bank, in a special review of the latest events, has concluded that the oil embargo makes it necessary to reassess the country's hitherto favourable prospects. The cutback on oil supplies will not only result in a shortage of fuel but also in shortages of a large range of oil-based raw materials which could disrupt industry. The Bank's review also says that the embargo could have adverse indirect effects, particularly on the country's "rather fragile" business mood. Sales of motor vehicles are likely to be depressed as long as rationing is in force, and this will affect other industries. If the shortage is protracted, previously optimistic forecasts of real economic growth will have to be scaled down considerably. The world fuel crisis may hold up an imminent revival in private manufacturing investment. The immediate

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domestic implications have not yet been serious, with comfort taken from the fact that 80% of the country's energy is derived from coal, that much of the growth in oil use by industry has been at the ports, and can be switched back to coal but only in the long term and at considerable cost. However, oil's key role is in road transportation and agriculture and also for diesel locomotives and the main anxiety is that world recession may harm S. Africa's exports and their prices - and also that oil costs will give another spurt to inflation, besides damaging the motor industry and all plastics and chemicals manufactures dependent on oil resources.

39. S. African whites were shocked when they learned that the bulk of South Africa's oil imports did not come from Iran as had been believed. Only 1/3 came from Iran while the rest was from two Arab States which have already cut 25% of the supply. The remainder was to be cut by 5% a month from December 1973 to April 1974. S. Africa's supply from the Arab States will have been cut by more than half.

40. Some of these effects have already begun to be felt. The October rise in the price of oil is expected to increase the consumer price index immediately by 0.5% and by 1.5% once all the indirect effects are felt. Inflation is already a major problem in South Africa, the oil shortage and price rises will obviously make it much worse. In addition, the sales of new cars in December, traditionally the best sales months, have dropped by 50%. A serious recession in the motor industry would affect many of the current growth profits of the economy. The Director of the Federated Chamber of Industries has said that the fuel crisis could directly affect 10% of South Africa's manufacturing industry, and that layoffs are expected in the key petrochemical, transport and related sectors. This will exacerbate another underlying problem in South Africa — the growing numbers of unemployed Blacks, which is estimated to be growing at the rate of 50,000 a year anyway. Thousands of workers have already been laid off in the motor industry, and many more are expected. This phenomenon recalls the fear expressed by Prime Minister Vorster in 1970, when he admitted that apartheid in its present form depended on a continued high level of growth:

41. "The greatest danger confronting South Africa is not so much the threat from outside her border, serious though that may be, but

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mass unemployment and disturbed race relations".

42. The effect on business confidence is related to this threat of unemployment. It is commonly said that the most damaging aspect of the oil embargo is its timing: as the Financial Mail put it in November, "A sharp reduction in supplies now could stall the economy just when it is shifting into the top gear". Prof. J. Suzman, Chairman of the Economic Affairs Committee of the Associated Chambers of Commerce, agrees,

"The main effect is likely to be the impact on confidence just as we are entering an upword swing in the investment cycle. There has been a relatively low level of fixed investment in private manufacturing in the last six years. Now, with inventories down, people are starting to think of going in for heavy investment programmes".

43. However, the necessary high level of imports, for such investment particularly the vital capital goods, may now be difficult to obtain owing to the reduction of shipping. South Africa is exceptionally dependent on shipping for its external trade, since its natural market, the African continent, is largely closed, and most of its trade is conducted with Europe, North America and Japan.

44. Domestic transportation is, if anything, even more of a problem. Commenting on this, the Economic and Financial Review of Union Acceptances Ltd., a local financial concern, commented at the end of November:

"... the long distances between centres coupled with a relatively under-developed public transport system — both within cities (amd) between them — would make rationing harder to bear than in Europe".

Even a radical change to other forms of energy than oil, often referred to as an easy solution, is seen at as a major problem:

45. "It must be expected also that such changes will be punctutated by periods of disruption, brought about by the political, economic and

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social difficulties which will accompany them".

46. Much of the traffic presently going by road will try to switch to the railways, but capacity here is limited, especially for bulk mineral exports. The major new railway expansion scheme, the SishenSaldanha rail and port scheme for the export of iron ore to Japan, could well be jeopardised, since Australia, major competitor in this field, can now offer more secure and shorter shipping routes for iron ore. Although only 10% of the railway locomotives are run on diesel, the rest being coal or electric, the railway modernisation programme had projected that by 1988 about 40% of them would run on diesel, and that these would be concentrated on bulk export routes, vital for the balance of payments programme.

47. Aviation fuel for small aircraft has been the most directly affected, although not by the embargo as such but by the delay of a tanker from Iran. Supplies were virtually cut off for a three-week period, grounding all private aircraft and many commercial ones. The light aircraft fuel is sold only by Shell, Mobil and BP.

48. It is worth noting that it is in the most modern and fastest growing industries, such as petrochemicals and the motor industry, that the oil embargo will be felt most immediately; and that it is here that recent foreign investment, especially from the United States, is concentrated. A top executive of General Motors, asked how long the company would stay in South Africa if it was making a loss, pointed out that the profit margin was already thin, due to Government requirements of local content, and that if the oil embargo was effective, then GM would certainly make a loss -- in which case they would simply leave. Since GM is the largest corporation in the world, its departure from South Africa would have considerable effect on foreign investors.

49. The weakening of the economy is likely to give more scope for action to the Africans inside South Africa. For example workers on the coal mines will become more crucial to the whole economy (as the British experience shows), and a strike would be more effective than previously.

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50. Some of the deportation plans for dumping urban Africans in "Bantu homelands" may have to be postponed for lack of transportation. Already, there is opposition in Cape Town to the planned removal of Coloured people from the town, since new townships outside would mean more transport and the consumption of more petrol in moving the essential work force into the city each day. To some extent, workers on the poverty line find themselves forced to strike, as they did at Durban in 1973, because of the increased cost of living (including bus fares, which because of removals are a universal necessity) and static wages. They will obviously suffer in the short run, and for this reason it is important to make the embargo as effective as possible, in order to force a change in the shortest possible time.

51. In the long run, there are certain benefits which South Africa might derive from the world energy crisis, provided that it manages to survive its own problems. There is much international interest in its oil-from-coal process, where it is a leader in the field. Its vast uranium enrichment process which South Africa undoubtedly has, could be used to tie the Westrn World even more closely to the present regime. British and French Government interests are already involved in the uranium mine at Rossing, in Namibia, which is due to start production in 1975. Japanese firms have shown interest in a joint enrichment project, but have gone into partnership with Australia; West German interest are currently negotiating for a joint venture, and they could well agree to provide the massive financing needed for such a project. The major short-term problem would be the large amount of extra electricity needed to operate the plant, although Cabora Bassa could help here.

52. South Africa's still considerable reserves of coal can also be a source of new alliances with major Western interests. However, in the short term at least the massive extra shipping required is not in and or a sharp drop in the level of shipping traffic, prospect, due to South Africa's shortage of bunker fuel. This shortage, is likely to become worse if the Suez Canal is re-opened soon. As a result of the closure in 1967, the total number of ships calling at South African

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ports which were diverted from the Canal was considerable: 2,380 in the last 6 months of 1967, 3,639 in 1968, 2,958 in 1969 and 2,940 in 1970. The amount of oil reaching Europe by way of the Cape in early 1967 was very small, but by the end of the year it had become the major route. Although the tankers do not normally stop at the Cape, they are a potential source of supply if the companies agree to divert them to S.A. ports and also provide South Africa with a strong argument that the Cape Route is of major strategic importance to the West. As a result of the closure of the Canal, South Africa has derived a number of other benefits, including the growth of off-shore services for passing shipping, shipping insurance, repair facilities, harbour expansion and related activities. There has also been a steep increase in the number of passenger liners calling there, which obviously benefits the tourist industry. More large liners visit Table Bay than any other world port, and this is seen as a direct result of the closure, which included meetings of the World Bank, IMF and reported later that he was impressed with the "new look" that the world was taking at South Africa:

"I do not think we fully realize the importance to South Africa of the closing, politically, economically, and strategically". Since 1967, however, the South Africans have recovered from the shock, and fully exploited this new propaganda weapon. A re-opening of the Canal would also deprive them of a potential means of pressure on East African countries — one of the ways in which it has been suggested that South Africa might fight the embargo is by refusing bunkering the other services to shipping <u>en route</u> to East African ports. One additional result of a re-opening of the Canal, assuming that Safmarine would not be allowed access to it, would be a competitive disadvantage to the South African line.

Possible Reaction from S. Africa

53. There are three major ways in which South Africa could fight back, and in all of them the position taken by the Arab States will be crucial.

54. The first is the refusal of facilities to ships supplying Middle Eastern and East African countries. If the Suez Canal were

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re-opened, these countries would be supplied via the Canal, and South Africa would have no leverage.

55. The second is the question of South Africa's gold. It has been suggested in the press, possibly at the prompting of Government officials that South Africa could either offer gold in exchange for oil ("the ideal introduction to the lucrative Black market in oil") or withholding gold from the free market to force up prices to an intolerable level, then offering gold at discount for oil. An article in the Sunday Express reasons that Arab countries are requiring a higher percentage of payments in gold, which places them largely at the mercy of South Africa's gold-selling policy, since it is the major supplier to the international market. With the fluctuation of exchange rates, general uncertainty and the consequent rise in the price of gold, South Africa has already benefited from the international oil crisis. If the Arab States adopt policies which strengthen gold still further (for example, by buying large amounts, or requiring payments in gold for oil, this will directly benefit South Africa and make its position much stronger, both economically and politically).

56. The third and perhaps the most immediate possibility of leverage is the use of Botswana, Lesotho and Swaziland as hostages, and to a lesser extent Zambia. Zambia is in a much stronger position than at the last embargo attempt against Southern Rhodesia, in 1969, since the construction of the pipe-line for Dar-es-Salaam and construction of a refinery at Ndola, opened in 1973.

THE CASE OF BOTSWANA, LESOTHO AND SWAZILAND

57. Already, strong suggestions have been made to the three enclave States that they could form a "united front" in fighting the oil embargo. South Africa obviously wants to put pressure on them to oppose the OAU and OPEC decisions. Dr. Diederichs has warned that they will suffer, since they derive most of their petrol from South Africa, and

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"unfortunately, they will have to suffer to the same extent we will have to suffer". Mr. Vorster has gone even further, and on December 4 said in a radio message: "Our neighbours are fully aware of the seriousness of the situation and precisely how vulnerable they are should the position deteriorate". It has been suggested that South Africa could cut off these States completely, using them as hostages for a restoration of its own supplies. However, this would not be a simple matter, since distribution is done by the refining companies, and could antagonise Western countries to some extent, if the pressure is too blatant. It will be necessary to watch the situation carefully, and press ahead with the stated intention of arranging alternative supplies for the three States involved, as well as compensation for the loss of revenue (for Swaziland, from the tourist industry from South Africa, hard hit by rationing, for Botswana some disruption of the mining development). The three States actually consume very little energy, partly because South Africa had deliberately stifled development possibilities there. The benefit to South Africa of cutting off oil supplies would therefore be negligible.

58. In the interests of Botswana, Lesotho and Swaziland, just as those of the Black population of South Africa, it is important to make the oil embargo as effective as possible, in order to bring about the objective of majority rule with the minimum amount of difficulty.

Oil Embargo on Southern Rhodesia

59. Percentage consumption of energy at the time of UDI is indicated below:

End use	Oil %	Coal%	Hydroelectricity %
Mining	small quantity	75	25
Agriculture	70 %	-	30
Road Transport	100	-	-
Rail Transport	7	93	-
Other	8	50	42

60. This table reveals that agriculture and Road Transport could be severely hit if oil sanctions are strongly enforced. Already the regime has withdrawn, as from January, 1974 from operating the three Boeing 720s

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from flying and has replaced them with the old Viscount in order to save about 27,000 litres per month. The embargo is causing high prices in petro-chemical products, fertilizer, synthetic rubbers etc. A new company that was formed by Anglo-American and the Plate Glass Group to manufacture glue laminated timber locally a substitute for imported soft woods is finding difficulties to begin because of petrol shortage.

61. Any reduction in South African oil supplies will be felt in at least the same proportion in Southern Rhodesia. Although South Africa may make special arrangements to help them, they could hardly expect more favoured treatment The Lourenço Marques refinery can supply only 6,000 b.p.d. to Rhodesia even under optimum conditions, and since it is now to use Cabinda oil there will probably be some difficulties in the refining process. Normal consumption in Rhodesia is about 17,000 b.p.d., so the rest of its needs have to come from South Africa. That country's exports to Rhodesia amount to about 4 % of its own consumption As in South Africa, the attitude of the oil companies will be very important. Caltex, Mobil and Shell have all been observed supplying oil to Rhodesia from their South African operations.

62. When an oil embargo was first imposed on Southern Rhodesia in 1968, severe rationing became necessary which reduced consumption by 40%. However, the economy has far less flexibility now that it had then, with the cumulative effect of years of partial sanctions and the fact that most practical means of evading the sanctions have all been exhausted. The foreign exchange position and the vital railway network are in particularly bad condition. It is in Rhodesia that the military effect of the oil embargo is likely to be felt first since its capacity to fight a major anti-guerilla war was already imposing a heavy strain on the economy and the morale of the white settlers, net immigration had dwindled to almost nothing. The petrol shortage is bound to affect South Africa's calculations regarding Rhodesia. High-level meetings between South Africa and Rhodesia commanders took place immediately after the Algiers embargo announcement, and the sensitivity of this issue is demonstrated by the fact that Vorster felt obliged to apologise officially for an editorial in the Rand Daily Mail, which

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had commented, "with our own oil supplies now so precarious, is it not in our interest to exert major pressure on Rhodesia to achieve a settlement ?"

63. The situation points up the importance of sanctions against Rhodesia, as one aspect of the mounting pressure which has made the oil embargo decision so critical for Southern Rhodesia Industries, rejecting the regime's claims that there was no cause for concern, told the South African press that his members regarded the Arab decision as "critical". "We can only assume that already limited supplies will dwindle further." One of the fuel conservation measures being considered by the regime apparently includes suspending the use of Air Rhodesia's three Boeing 720s, whose purchase from the US in violation of sanctions was hailed as a great victory by the regime.

64. As one means of reinforcing the effect of the oil embargo on Southern Rhodesia, it is becoming increasingly important that sanctions should be observed more conscientiously; that the U.S. House of Representatives be pressed to repeal the Byrd Amendment allowing the importation of Rhodesian minerals; and that countries such as Japan, France, West Germany and many others be urged to implement sanctions conscientiously.

THE OVERALL ENERGY SITUATION IN PORTUGAL AND THE COLONIES

65. While Angola is practically self-sufficient in oil, and refines its own, metropolitan Portugal, Mozambique, Guinea-Bissau, the Cape Verde and Azores Islands, Sao Tome and Principe depend on imported oil, most of it from the Arab States of the Middle East until the present embargo. Oil imports are crucial both for basic energy needs even though one third of metropolitan Portugal's needs are met by a network of hydro-electric dams, to replace the former coal imports from Britain — and for the increasing military requirements relating to the wars in the colonies. Total consumption of crude is now about 6.5 million tons a year in Portugal and the colonies.

TABLE I

The oil imports into Portugal and the colonies are as follows:

	%
Iraq	39.2
Saudi Arabia	25.1
Abu Dhabi	11.2
Iran	6.7
Various other sources	6.5
Angola	11.3

66. Significant quantities of refined oil particularly of higher grades and air craft fuels, come from Spain, Italy and Holland. As a result of this, the Portuguese Government was very concerned about the possibility of a boycott by the Arab States, and when they agreed to allow the American base on the Azores to be used to supply Israel during the October war, they insisted on this being given as little publicity as possible. While it is true that the oil currently being exported from Cabinda to the U.S., Japan and elsewhere is available

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to the Portuguese, it has clearly been more economical and technically more convenient to use Middle Eastern oil, and the changeover would involve disruption, extra costs and refining difficulties.

67. A report presented to the Portuguese Government on 10 October, 1973 by the General Director for Combustibles in the Ministry of Economics is quoted as warning:

"We are on the eve of a serious and unexpected crisis: our petroleum reserves are limited to three months at most. The stability of the regime and the security of its African provinces could be in question if effective and urgent measures are not taken in case the Arab countries should decide to place a sudden embargo on the supply of 'crude' to this country".

68. There is some question whether Cabinda crude, which is rich in sulphur and has high wax content, could be used in Portuguese and Mozambican refineries. High-sulphur oil in any case corrodes the equipment of refineries not specially constructed for it. Probably the best-informed commentators on Portugal, Aquino de Braganca and Antonio de Figueiredo have stated that the refineries need to be modified before they can refine Angolan crude.

69. It is reported that the Portuguese Government sent an emissary to Iran to negotiate an increase of the 6.7% of imports that that country currently supplies. However, since Portugal is one of several countries begging for an increase, the prospects are uncertain. Four big prospecting international groups, including one formed by Shell and the Portuguese group Sacor, are to spend about $35 million in the next three years drilling for oil along the Portuguese coast. A contract has recently been signed between Portugal and the firms Portugal Sun Oil Co. (a subsidiary of the U.S. Sun Oil Co.), Ameriada Hess Corporation of Portugal, and Phillips Petroleum Co. Portugal (a subsidiary of the U.S. Phillips Petroleum Co.), which is valid for six years, with a possibility of extension to a total of 40 years. It covers the concession for prospecting, development and exploitation of oil on the continental shelf of metropolitan Portugal. Each concessionary

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from refining the Cabinda crude. The communiqué adds that Cabinda Gulf, as well as other Angolan producers, have already been supplying the Portuguese refineries. It may be that the Cabinda crude can be used in a mixture with the lighter Angolan oil. The New York Journal of Commerce has said that it can be used in metropolitan Portugal only in limited quantities.

73. Bruce Loudon, a journalist with good Government sources, has reported in the Financial Times:

"What is clear is that at about the time of the beginning of the Middle East crisis Gulf executives were in Lisbon. They left after a few days with smiles reported all round.

"Informed speculation is that as part of the Azores airlift deal the Cabinda oil is taken by the US in direct exchange for crude that is more suitable for Lisbon's refinery needs. (This is already, to some extent, a requirement of the standing agreement between Gulf and the Portuguese Government). Hence Lisbon's confidence despite the reported threat of a "total trade boycott" by Arab countries".

74. The suggestion here is that the U.S. Government, as part of its promised support for Portugal following the use of the Azores for the Middle East war, is backing the Gulf Oil deal with Portugal. This possibility has to be confirmed by the euphoric statement made by Dr. Kissinger, the U.S. Secretary of State, before his talks with Portuguese officials in Lisbon; he said that during his Middle East trip:

"I was reminded of the fact that Portugal stood by its ally, in the recent difficulties, and the United States is extremely grateful for this.

"When visiting this country, that is known for its navigators, that explored the world with physical and moral courage, I would like

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to say that so far as the United States is concerned, our journey together is not finished.

75. "I bring greetings from the President to the leaders of Portugal and look forward to full, frank, and freindly talks and I know we will be even better friends than we are now". It was later reported that among the issues discussed with the Foreign Ministers were: the renewal of the Azores Base agreement, Portuguese African policy and the Angolan oil and uranium resources, and the American proposal for common action in the energy crisis. It may not be a coincidence that Kissinger's interest in the oil and uranium resources, and the American proposal for common action in the energy crisis was expressed in terms of talks that must have focussed primarily on the question of the Azores Agreement.

76. The original Azores Agreement was signed in December 1971, with the Portuguese side unwilling to commit itself for more than two years because they reasoned that the "American Cow" could be milked for even more after the expected upswing in the economy.

77. The agreement therefore expires at the end of February 1974, although in fact many of the provisions remain in force. The published terms include: $400 million in Export-Import bank credits (some of which have been used to send helicopters and light aircraft, including crop-spraying planes, to Mozambique; however, the Portuguese are apparently dissatisfied with the red tape involved in the deals, and have not drawn on anything like the full amount); $30 million in "Food for Peace" sorghum and corn for the dairy industry (a major industry in Angola, linked with white settlement programmes) in Calender Years 1972 and 1973; $5 million in drawing rights for "non military" excess equipment from Vietnam and elsewhere, from Defence Department

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stocks (travellers in Mozambique report that the Portuguese army is using these items of equipment on a large scale, ranging from military trucks to individual rations); $1 million in "educational assistance" for an undefined programme, also from the Defence Department's budget, the loan of hydrographic survey vessel and the US takeover of support costs for its military assistance group in Lisbon.

78. Shortly after the Agreement was made public, the US Government refused to submit it to the Senate as a Treaty, to which it has the right to advise and consent, since they claimed that the Azores were a NATO facility, and that the agreement was a minor one under the NATO charter. It is now clear, however, that its usefulness is almost entirely confined to US intervention in countries outside the NATO area. The Government was somewhat embarrased, also, by the discovery by US researchers of the terms of the announcement by Dr. Caetano in Portugal:

"The treaty is a political act in which the solidarity of interests between the two countries is recognised and it is in the name of that solidarity that we put an instrument of action at the disposal of our American friends, who are also our allies". Critics of the agreement also recalled the statement by the Portuguese Foreign Minister, Dr. Rui Particio, at the time of the controversial sale of two Boeing 707s to Portugal, backed by the Ex-Im Bank, in 1970:

"If I buy an American car; can Americans tell me how I can use it ? If I want to drive it in Africa, I will drive it in Africa." The two aircrafts were immediately put to use as troop transport between Portugal and the African colonies. Since then, several more Boeing aircrafts of various sizes have been delivered to Mozambique and Portugal, in terms of the Azores Agreement.

79. The new agreement on the Azores is currently under negotiation, with the Portuguese in a positon to demand virtually anything they want. Their first concern is of course backing for their colonial wars in Africa. High-level Government sources both in the US and Portugal have made it clear that the US has already given a major commitment in

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terms of voting in the United Nations General Assembly over the delicate question of Guinea-Bissau. The US voted alone in the General Committee against a debate in the Assembly on the question, and then voted against the resolution welcoming the declaration of the new Republic of Guinea-Bissau. This commitment to Portuguese colonialism would indicate that the new concessions to Portugal under the new agreement will be very substantial, although it is quite possible that the more important clauses will remain unpublished because of the official US position in opposition to colonialism.

THE OIL SITUATION IN MOZAMBIQUE

80. Because of the strategic situation of Mozambique, and the concern obviously felt by South African and Rhodesian forces about the extent of FRELIMO penetration towards their own borders, the supply of adequate petroleum products there is of major importance. Since the territory has relatively little industry, there is little room for reduction in consumption without that affecting military operations.

81. In 1972, all of Mozambique's crude oil came from Iraq, amounting to 776,111 tons. In 1973, it appears that at least some of this was coming from Saudi Arabia; according to the South African Star, this comes from Ras Tanura. Three vessels with 59,000 tons of crude were reported in November to be heading for Mozambique from there, which together with existing reserves would be enough for more than three months' normal requirements. It seems, however, that the third tanker was ordered to unload before leaving port. It is not known how much was lost this way, since the Mozambique authorities have clamped tight censorship on anything to do with oil.

82. The effects, it appears, have already been as severe as anywhere. Measures restricting consumption were announced on November 13, following a series of talks between the government and oil companies on the oil crises. Apart from essential services, motorists were to be rationed to 20 litres of petrol a week. The restrictions soon began to affect tourism in Mozambique — which relies largely on South African visitors — just at the time of the peak summer vacation period.

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83. The Mozambique refinery, which is run by the (Sociedade Naçional de Petroleos de Moçambique) Sonarep Company, controlled by the State but backed mainly by French capital, is adequate for Mozambique's requirements with some to spare for Southern Rhodesia, Swaziland, South Africa (for the total group), Malawi and Djibouti. Refinery capacity is 850,000 metric tons per year. Sonarep has a monopoly of distribution in Mozambique, under the brand name Sonap, and is expanding into South Africa and Namibia.

84. Supplies of crude will now come from Cabinda Gulf Oil, which has signed a contract to meet the total crude oil requirements of the territory 1,800,000 tons a year. The first shipments were expected before the end of November 1973. This is presumably in terms of the Portuguese Government's claim of 50% of Cabinda Gulf production. Although posted prices for Middle East oil had previosly been lower than those charged for Cabinda oil (and presumably would not be more expensive, even after the recent increases, since the Portuguese Gulf Agreement stipulates sales at current world rates), the official Portuguese news agency AGIM claims that the sale of heavy-oil products will offset increased costs.

There are now plans to extend the Lourenço Marques refinery to increase its capacity from 800,000 tons to 2,5 million tons a year.

Mozambique's Oil Needs

85. Mozambique's daily oil requirement is around 11,000 barrels, all of which has traditionally come from the Middle East. The value of Mozambique's crude oil imports is shown in Table Two below. It should be noted that two conflicting sets of figures are given: those in A, provided by the Standard Bank and Banco Standard Totta de Moçambique, indicate much higher crude oil imports than those recorded in Column B, given by the United Nations, which may refer solely to oil imports from Iraq, Mozambique's largest supplier.

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Table 11

Value of Crude Oil Imports, Mozambique, 1969 - 72 in (£ million)

	A	B
1969	-	6.5
1970	10.2	6.5
1971	14.1	-
1972	12.1	-

Sources: Column A: Standard Bank, Economic Review, Mozambique, March 1973; Mozambique Economic Information, Banco Standard Totta de Moçambique, December 1972. Column B: UN Document A/9023/Add.3.

Table 111

Value of Mozambique's Crude Oil Imports from Iraq, 1965 - 69 in (£ million)

1965	4.2
1966	5.5
1967	5.2
1968	6.5
1969	6.5

Source: UN document A/83/Add.1

This picture of dependency on Arab oil is confirmed by figures supplied by the UK Department of Trade which give the total value of Mozambique's imports from oil-exporting countries and the Middle East. These imports can be presumed to comprise almost entirely oil. It should be noted, however, that these figures are extraordinarily low by comparison with those for oil alone given in Table Three and Table Four. This is probably due to the highly political character of this type of information covering such sensitive areas as oil imports destined for the illegal government in Rhodesia.

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Table IV

Value of Mozambique's Imports from Oil-exporting and Middle East Countries, 1968 - 72, in (£ million)

	1968	1969	1970	1971	1972
Middle East	7.34	7.43	7.99	11.58	15.34
Iraq	5.66	5.70	5.44	8.94	12.40
Saudi Arabia	.39	.43	.60	1.25	1.90
Oil-Exporting Countries	7.52	7.26	7.78	10.93	14.30

Source: UK Department of Trade, Annual, 1968 - 72

Table V

Value of Mozambique's Output of Refined Petroleum Products, 1965, in (£ million)

1965	6.1
1970	10.2
1971	12.1
1972	11.4

Source: Standard Bank, Economic Review, Mozambique, March 1973; Mozambique Economic Information, 1972, Banco Standard Totta de Moçambique.

It is clear that, with its existing refinery capacity and assured supplies of crude oil from Cabinda, Mozambique will be able to meet its refined petroleum needs and continue to export to South Africa and Rhodesia.

86. Implications for South Africa and Rhodesia

South Africa has been a big market for Mozambique's refined petroleum exports. A Lloyds Bank review of Mozambique in March 1973 commented thus:

> "the refining of imported crude oil, mainly for the South African market, is an important activity ..... The Republic of South Africa, owing to its geographical location, is ... a natural market for the territory's exports, particularly oil".

Table Six shows the value of Mozambique's exports as refined petroleum products, almost all of which went to South Africa, Rhodesia and Portugal.

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Table VI

Value of Exports of Refined Petroleum Products, 1969 - 72, Mozambique, in £ (millions)

1970	5.3
1971	5.4
1972	4.2

Sources: Standard Bank, Economic Review, Mozambique, March 1973; Mozambique Economic Information, Banco Standard Totta de Moçambique, December 1972.

THE OIL SITUATION IN ANGOLA

87. Angola has substantial production of petroleum, and the increase in this production is one of the most striking features of the Portuguese exploitation of the colony's resources. Crude petroleum production increased from 537,000 tons in 1967 to over 6.5 million tons in 1972. According to the Angola Department of Geology and Mines, the production of Cabinda Gulf Oil in 1974 is expected to be 7.5 million tons, and that of Petrangol and its associates in the main part of Angola, 1.2 million tons, making a Total of 8.7 million tons.

88. Revenue for 1972 from taxes on petroleum production, collected by the Portuguese authorities in Angola, was estimated at 1,000 million escudos, which is more than twice the corresponding estimate for the previous year. This estimated revenue from petroleum represents some 17% of the total revenue estimates of the territory, which largely bears the cost of the colonial war, and it is clear that the petroleum industry, apart from providing the essential supplies for the war effort, is a major and increasing source of financial support as well.

Table VII
Angola: revenue from the petroleum industry, 1966-1972 (million escudos)

Year	Estimated	Actual
1966	4.2	4.2
1967	87.5	39.1
1968	141.0	38.2
1969	522.1	503.4
1970	218.5	512.8
1971	460.0	-
1972	1,080.0	-

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Source: Table compiled from Angolan sources in UN Doc. A/9023 (Part III), Annex, para. 20.

90. In order to step up the direct participation of the Portuguese Government in the results of petroleum production, new legislation was introduced in 1972 reserving to the Government the right to associate a government-owned company with the concessionaire on a joint-venture basis for the exploitation of deposits found by the concessionaires. Such provisions were already included in the contract with Argo Petroleum, and will reportedly be included in all future contracts, as well as revisions of contracts at present in force. A further measure was taken early in 1973, when the Government determined that petroleum concessionaires must maintain a reserve of crude petroleum corresponding to at least one quarter of all locally produced petroleum products consumed in the Territory during the previous year. The companies are therefore contributing a major part of the strategic reserve of petroleum, in addition to their provision of technical expertise, capital, 50% of profits in taxes and royalties paid to the Government, payments to the mining Development Fund, contractual agreement on the part of all of them to give preferential purchase rights to 50% of production to the Governments, and available political benefit in the fact that US and other foreign companies have a major interest in the preservation of the colonial regime in Angola.

91. The presence of domestic oil production is also of course a contributing factor to the attraction of other kinds of foreign investment to Angola. Local consumption of gasoline increased from 87,000 tons in 1969 to 140,000 tons in 1972, while the consumption of diesel in the same period went up from 359,000 to 463,000 tons. Local needs for petroleum are met by the refinery in Luanda, which became adequate for Angolan consumption in 1964. In 1965 - 6 a new element was introduced into the refining process in the concentration on production of "jet fuel" to meet military needs and the fuelling requirements of aircraft using Luanda airport. In 1966 the output and local consumption of petroleum products from the Petrangol refinery was as follows:

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Table VII

	Output	Local consumption (tons)
Butane gas	8,575	8,653
Gasoline	60,114	57,697
Gas oil	130,905	158,399
Lighting petroleum	7,041	12,521
Jet fuel	44,067	30,958
Fuel, extra heavy	50,410	40,167
Fuel 1500	187,366	56,809
Bunker C	104,112	-
Asphalt	10,869	7,873
TOTAL	603,459	382,077

Source: UN Doc. A/7320/Add.1, Annex, Apdx.11, para. 30.

From this it can be seen that although total production exceeds consumption by a large margin, there is a shortfall for certain products between 1965 and 1968 some of the crude oil had to be imported. Since the refinery uses the Petrangol crude, the oil embargo will make no change in the balance of production of particular commodities, and little if any disruption as far as Angola is concerned. The official opening of a seventh expansion was held on November 5, 1973 which increased the refining capacity to 1 million tons. This will mean that virtually the whole of Petrangol's production will be utilised by the Luanda refinery, leaving the Cabinda crude, which is more expensive and time-consuming to refine, for export to metropolitan Portugal, Mozambique and the traditional consumers. In September 1973, Gulf Cabinda exports amounted to 4.0 million barrels, approximately 600,000 tons, of which 5 shipments went to the USA, 4 to Canada (for refining for the US market) and one each to Japan and metropolitan Portugal. As indicated by the following table, exports have always been almost entirely of Cabinda crude, once Gulf Oil had started there:

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Table IX

Angola: Production and exports of oil

	Production	Total exports	Exports from Cabinda (tons)
1960	66,850	0	-
1961	104,429	0	-
1962	471,236	114,951	-
1963	799,657	317,715	-
1964	904,737	361,050	-
1965	655,365	114,182	-
1966	631,319	1	-
1967	537,152	3	-
1968	749,514	16,764	62
1969	2,457,512	1,502,391	1,446,909
1970	5,065,105	4,269,374	4,247,184
1971	5,721,331	4,746,964	4,740,081
1972	7,055,144	6,829,308	6,829,307

Source: African Development, London, November 1973

92. The recent refinery expansion does not solve Angola's escalating needs of certain petroleum products. The Provincial Secretary for the Economy, Dr. Antonio Augusto de Almeida, said during the opening ceremony that owing to the inbalance of refined products (shortage of gasoline, diesel and gas against an excess production of fuel oil), Angola would have to import in the current year 45% of the gasoline required, as well as 75% of the diesel and 60% of the liquid propane gas (l.p.g.). Although Petrangol had already been authorised to increase its capacity further to two million tons a year, it would not be before 1976 that this situation could begin to be corrected, and imports in 1974 might reach 1,000 million escudos — about $25 million. This would obviously lead to price increases. Sacor, the other major Government-owned company, was authorised to build a refinery in the south, and has already applied to increase its production capacity to 2 million tons, while another project is under review to produce refined products from bituminous asphalt, with the participation of Under Wood Corporation. The London based

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"Angola Energy Ltd." has applied to build a refinery for export of Moçamedes the furthest town from Cabinda. These two projects appear to be some way into the future, since no decision has yet been taken as to the exact location of Sacor's refinery, which was to have started operating in 1975. It might also be difficult to find the crude oil necessary even for an expansion of the Petrangol refinery to a million-tons capacity, since Angolan production in 1974 is projected at only 1.2 million tons, and may already have reached its peak. The use of Cabinda crude could only involve further technical problems.

CABINDA GULF OIL OPERATION

93. The operation of the Cabinda Gulf Oil Co. is crucial to the position of the Portuguese in Africa. In 1972, Cabinda Gulf paid the Portuguese at least $61 million, and total payments over the period 1958 - 72 amounted to $209 million, and this repesents the bulk of US investment in Angola. In 1972, the Corporation's net income from Angola was about $30 million. Mainly due to Cabinda Gulf's effort, Angolan exports of crude oil increased from 4.7 million tons in 1971 to 6.8 million tons in 1972, an increase of 43.9% bringing in some $140 million in foreign exchange, equivalent to 25.4% of all Angola's export earnings.

94. The importance of the Cabinda operation lies not only in the financial contribution by Gulf to Portugal — which pays for 60% of the cost of the war in Angola — but also that the Government can take the 12.5% royalties in kind and has preferential access to another 37.5% of production. In addition, according to Gulf's Orange Disk magazine, "the Government has reserved the right to purchase their needs for domestic consumption as well as the right to take all production in the event of war or national emergency."

95. In 1972, Cabinda Gulf produced 6,297,985 tons of crude oil, of which 80,790 tons were supplied to the refinery in Luanda (which can use small quantities in a mixture with Petrangol oil) and the remainder exported as follows:-

.../...

Table X

	Metric tons	
Canada (for US market)	2,269,161	35.4 %
US and Trinidad & Tobago*	1,807,647	29%
Japan	1,327,488	21%
Portugal	484,948	7.7%
Spain	258,709	
Denmark	69,272	
TOTAL	6,217,195	

*Trinidad & Tobago has stopped the importation of Cabinda oil for its refinery, but it is likely that the same amount will reach the US market by another route.

96. November 1973 exports from Cabinda Gulf's fields amounted to 4,801,423 barrels, approximately 650,000 tons. There were 6 shipments to the US, 4 to Canada, 2 to Portugal and one to Japan, showing little change of the previous pattern. If exports from Cabinda continue to go to the US and Canada, then it must be assumed that Gulf, backed by the US Government is providing a different kind of crude more suitable to Portuguese refineries (see pages 3-4), probably from US sources.

97. The prospect of Cabinda Gulf increasing its production does not seem likely. There were enthusiastic statements made by the Gulf directors a few years ago, and in 1967 the Portuguese Government announced "a strike as big as that in Nigeria", and estimated "15 million tons by 1970". However, it appears that Gulf greatly exaggerated the technical prospects. Soon after drilling began, the pressure dropped sharply. The Petroleum Press Service has stated that following the production of 7.3m tons in 1973, production may decline in late 1974, since some of the older fields would start to decline in output. According to the Service, "the company has had many disappointments in its search efforts here, and has now given up onshore, with the recently relinquished onshore acreage comprising a quarter of its total former permit area." Cabinda is

.../...

continuing to drill in its off-shore concessions, because more oil must always be found to replace ones losing pressure and running dry; the last four wells drilled by Reading and Bates, the contractors, have all been good ones, two of them with a daily capacity of 13,000 barrels each and the four of them capable of producing 40,000 bpd, which is equivalent to about 2 million tons a year (just over a quarter of present production. However, there is no way of knowing whether this will enable Gulf to raise production above 7.5m. ton level, or merely enable it to maintain that rate for a longer period. A technical description of the Cabinda concession appears in the Rand Daily Mail, of 1 December 1973.

98. Gulf Oil Corporation has claimed that its investment benefits the people of Cabinda. However, a report in the Portuguese press said that their presence had led to an increased cost of living in Cabinda, making living conditions "unbearable" for those living on wages. A Gulf stockholder who was recently invited to visit the operation has reported that the US technical personnel are "rednecks", or racists, that facilities on the drilling rigs are segregated, and that their Portuguese personnel are also paternalistic:

99. "It was more than awkward to witness such obvious racial overtones in your Angolan office". She was told by local officials that they had opportunities to withdraw from Cabinda, but had not done so. She states, "a corporation which moves into a colonial country without perceiving the inevitable conflict or trying to work for an improvement of relations with the majority concerned is taking a narrow and dim view of democratic procedures", and concludes that Gulf is supporting Portuguese colonialism without even trying to make such limited local contributions as they could in the circumstances.

.../...

Table XI

Crude Oil Production in Angola, 1967 - 1972 (in tons)

1967	537,152
1968	749,514
1969	2,457,512
1970	5,065,105
1971	5,721,331
1972	7,055,144

Table XII

Crude Oil Production in Africa and the Middle East, 1972 (in barrels per day)

Nigeria	1,818,000
Gabon	1,131,000
Angola	140,000
Total Africa	2,089,000
Middle East	17,997,000

100. Angolan Oil Exports and Portugal's Oil Needs

It is clear from the above that Angola's oil output is growing fast, though it is still small by Middle Eastern or Nigerian standards. Angola' oil output is greater than metropolitan Portugal's imports of about 6.5 million tons while Angola exported nearly 7 million tons. Angola's 1973 output was expected to reach nearly 9 million tons.

101. But in the past almost all of Portugal's oil has come from the Middle East, not Angola. And nearly all of Angola's oil exports have gone to Canada, the United States and Japan.

102. Angola's oil exports have quadrupled since 1969

1974-06

Report of the Administrative Secretary-General to the Council of Ministers on Oil as a Weapon Against the Southern African Regimes- June 1974

Organization of African Unity

Organization of African Unity