ORGANIZATION OF AFRICAN UNITY
Secretariat
P. O. Box 3243

منظمة الوحدة الأفريقية
السكرتارية
ص. ب. ٣٢٤٣

ORGANISATION DE L'UNITE AFRICAINE
Secretariat
B. P. 3243

Addis Ababa, اديس ابابا

ORIGINAL: English
DISTRIBUTION: Limited

CM/1042(XXXV)

COUNCIL OF MINISTERS
Thirty-Fifth Ordinary Session
Freetown, 18 - 28 June 1980

REPORT OF THE SECRETARY-GENERAL ON THE OIL INDUSTRY IN SOUTH AFRICA AND THE EFFECTIVE IMPLEMENTATION OF AN OIL EMBARGO

INTRODUCTORY REMARKS

1. Of the many resolutions adopted at the 33rd Ordinary Session of the Council of Ministers Meeting, and later endorsed by the 16th Assembly of the Heads of State and Government in Monrovia, Liberia (July 6 - 20, 1979), two resolutions addressed the issue of sanctions against the white minority regime of South Africa, namely CM/RES 734(XXXIII) Rev. 1 and CM/RES 734 (XXXIII) Rev. 1.

2. In attempting to implement CM/RES 734(XXXIII) Rev. 2, the OAU Sub-Committee on Sanctions, composed of Zambia (Chairman), Algeria (Rapporteur) and the Chief of the OAU Sanctions Section visited New York and London to establish contact with the United Nations Security Council Committee on Sanctions, and the Sanctions Committee of the Commonwealth Secretariat, respectively.

3. While in New York, the OAU Sub-Committee had a joint meeting with the Bureau of the UN Anti-Apartheid Committee on Southern Rhodesia and the UN Security Council Committee on Sanctions. The Sub-Committee was able to address a formal session of the UN Security Council on Southern Rhodesia. It also met separately with UN Secretary-General Dr. Kurt Waldheim and the current President of the General Assembly, Ambassador Salim A. Salim.

4. In London, the OAU Sub-Committee met with the Acting Secretary-General of the Commonwealth, as the Secretary-General was away on an important mission. The Sub-Committee was able, however, to address the Commonwealth Committee on Southern Rhodesia.

5. The Lancaster House Agreements and the subsequent electoral victory of the Patriotic Front in Zimbabwe has caused a shift in focus on the issue of sanctions (from Southern Rhodesia to Apartheid and racist South Africa).

6. According to resolution CM/RES 734(XXXIII) Rev. 1 operative paragraph 18, adopted in Monrovia in July, 1979, the OAU Council of Ministers requested the "Secretary General of the OAU and the UN Special Committee on Apartheid to organize an international conference in 1980 under the joint auspices of the United Nations and the Organization of African Unity". The aim of this conference is to mobilize world public opinion in support of "the effective application of economic and other sanctions against South Africa".

.../

7. CM/RES 731(XXXIII) Rev. 1, operative paragraph 3 "entrusts the OAU Committee on Sanctions with the responsibility of establishing contacts with the oil exporting countries in order to enlist their cooperation in the creating of an appropriate machinery to monitor oil shipments to South Africa and to penalize oil companies involved in such illegal shipment". This report will be presented later.

8. Operative paragraph 8 of CM/RES 731(XXXIII) Rev. 1 is important for the purposes stated. For oil sanctions to be effective against South Africa, there are facts that the OAU Member States must be conversant with, and also forces that they must seek to mobilize.

The General Secretariat wishes to observe that there is a need for serious reflection on the part of the OAU on how sanctions against South Africa can be made to work. Failed attempts of the recent past make it imperative that this issue be taken seriously.

The OAU Secretariat in its drive to make the arms embargo effective has received several Note Verbales from Western Governments which in the main disclaimed or denied charges of violations by companies registered in particular countries. The Secretariat has, in the past, also received assurances of investigations of certain charges brought about by particular anti-Apartheid Groups, and, has so far not received complete reports on these investigations.

In view of these experiences, and in view of the fact that various companies have violated and continue to violate sanctions against South Africa, it becomes imperative for the OAU to give serious attention to the question of an effective oil embargo against South Africa. To facilitate understanding the problem, this report presents a composite picture of the oil industry in South Africa and suggestions for the effective implementation of an oil embargo against the Pretoria regime.

9. The General Secretariat wishes to acknowledge that the only comprehensive study on the Oil Industry and South Africa was conducted by Messrs Martin Bailey and Bernard Rivers. This study was circulated by the Centre Against Apartheid, the original of which we received from the Authors.

10. The importance of the detailed facts and with due regard to prospective joint UN/OAU Conference on Sanctions Against South Africa, makes it imperative for the Secretariat to reproduce the excerpts that are most jermane to the issue of an oil embargo.

11. Finally, in acknowledging the importance of this reproduced document, the Secretariat notes with appreciation the pertinent information it has received from both the Centre Against Apartheid and Messrs Bailey and Rivers.

THE OIL INDUSTRY IN SOUTH AFRICA*

The Companies

The oil industry in South Africa is dominated by five foreign-owned oil companies: Mobil, Caltex, Shell, BP (British Petroleum), and Total. Mobil and Caltex are American, Shell is Dutch/British, BP is British, and Total is French. The South African operations of the first four companies are 100 per cent owned by their parent companies in Europe and America. The fifth company - Total-South America - is 66 per cent owned by its French parent company, and 34 per cent owned by South African interests. These five main oil companies control 85 per cent of the oil market in South Africa, and operate 91 per cent of the service stations.

Four other companies - Sasol, Trek, Esso and Sonarep - have smaller operations in South Africa. Esso (United States) and Sonarep (Portugal) are foreign-owned. Trek, although partially foreign-owned, is South African controlled. Sasol is South African-owned.

The market share held by each company, and the number of service stations operated, are given in table 1. The ownership of the five main oil companies is elaborated on in table 2, and table 3 deals similarly with the four smaller companies.

The nine oil companies have all established a number of subsidiaries which are registered in South Africa. Tables 4 and 5 list the principal subsidiaries (omitting holding companies and minor subsidiaries). They also show the shareholding of the parent company, and the main activities of each subsidiary.

It is important to appreciate not only that the five main oil companies in South Africa are foreign-owned, but also that their parent companies are all amongst that small group of Western "majors" which control the world's oil industry. These "majors" are so powerful that the turn-over of each one exceeds the GNP of most of the world's nations.

The importance of the "majors" for South Africa was emphasized in a 1971 supplement on oil in the Johannesburg Financial Mail:

* Source: Oil Sanction Against South Africa by Bernard Rivers and Martin Briely for the Centre Against Apartheid; Acknowledged Reproduced Segments in accordance with the Centre's wishes.

"Without the massive resources of the big international oil companies, applied through their South African subsidiaries, the oil industry would not have built into a R700 million business. A stake in the South African market is of great benefit to the oil "majors", for it is a lucrative one and ripe for expansion. In return they have put a vast amount of capital and know-how into the country."

Table I Market shares of the oil companies in South Africa

	Market Share [1]		Number of Service Stations	
The five main oil companies				
Caltex	19.9%		985	
Mobil	18.1%		978	
BP	17.5%	84.8%	867	4 242
Shell	17.5%		853	
Total (Oil Co.)	11.8%		559	
The smaller oil companies				
Sasol	7.4%		0	
Trek	4.5%		228	
Esso	2.0%	15.2%	104	419
Sonarep	1.3%		87	
Grand Total:	100.0%		4 661	

Source: Financial Mail, 22 July 1977

---

1. These figures may well refer to the market shares of each company at retail service stations (selling petrol, diesel and lubricants). The overall market shares of each company for all oil products (not just those sold at service stations) could vary slightly, but probably not by more than one or two per cent from these figures.

Table II Ownership of the five main oil companies in South Africa

1) Caltex in South Africa is 100 per cent owned by Caltex Petroleum Corporation, an American company, which in turn is jointly owned by the Standard Oil Company of California (Socal) and Texaco.

2) Mobil in South Africa is 100 per cent owned by Mobil Corporation, an American company

3) BP in South Africa is 100 per cent owned by British Petroleum, a United Kingdom company. Fifty-one per cent of the shares in BP are held by the United Kingdom Government. The United Kingdom Government has the right to nominate two directors to the BP Board with the power to veto decisions. In 1914, when the United Kingdom Government acquired its shareholding, it was established that there would be no interference in the normal commercial operation of BP, but that the veto could be exercised over certain specified matters (which included foreign matters).

4) Shell in South Africa is 100 per cent owned by the Shell group, which is 40 per cent owned by the British-based 'Shell' Transport and Trading Company, and 60 per cent by the Netherlands based Royal Dutch Petroleum Company (N.V. Koninklijke Nederlandsche Petroleum Maatschappij). Shell's South African holding company is technically owned by Shell Petroleum Supply, registered in London, but the close interlocking ties between the two parts of the Shell group mean that responsibility for Shell's South African operations lies with both the British and Dutch companies.

5) Total in South Africa is controlled by the French company, Compagnie Francaise des Petroles (CFP). The French Government has a shareholding in CFP representing 40 per cent of the voting rights which is considered sufficient to represent control. Four State Representatives are members of the Administrative Council of CFP. In 1969 CFP sold part of its shareholding in its South African subsidiary to local investors. At present CFP holds a 65.83 per cent shareholding in Total-South Africa. The remaining shares are held by three local investors: Volkskas Bank (18.96 per cent), Union Corporation (11.11 per cent), and Old Mutual Insurance (5.0 per cent).

Table III - Ownership of the smaller oil companies in South Africa

1) Sasol: Sasol is a wholly owned subsidiary of the Industrial Development Corporation of South Africa (IDC), which in turn is owned by the South African Government.

2) Trek: Trek Beleggings is the only oil company in South Africa which is largely owned by local non-state interests. Shareholders in Trek are Shell (17.5 per cent), BP (17.5 per cent), General Mining and Finance Ltd. (22.5 per cent), Federale Volksbeleggings, Industrial Selections, and the state-owned Industrial Development Corporation of South Africa (9.5 per cent).

3) Esso in South Africa is 100 per cent owned by Exxon Corporation, an American company.

4) Sonarep: Sonarep-South Africa is a subsidiary of Sociedade Nacional de Petroleos (Sonap), a Portuguese company. Sonarep-South Africa obtained its oil from a refinery in Maputo (Mozambique), which was owned by Sociedade Nacional de Refinacao de Petroleos (Sonarep). CFP had a 26 per cent shareholding in Sonarep, with the remainder of the share held by Portuguese interest, but in May 1977 the Maputo refinery was nationalized by the Mozambique Government, and is now known as Empresa Nacional Petroleo de Mocambique (Petromoc).

Table IV Principal subsidiaries of the five main oil companies in South Africa

Subsidiary	% shares owned	Activity
CALTEX [2]		
Caltex Oil (South Africa)	100%	Refining and marketing
South African Oil Refinery	23.8%	Lubricant refining
MOBIL		
Mobil Refining Company Southern Africa	100%	Refining
Mobil Oil Southern Africa	100%	Marketing
South African Oil Refinery	32.9%	Lubricant refining
Condor Oil	100%	Lubricant refining
Vialit	100%	Manufacture of road surfacing materials
Roadmix Holdings	26%	Road surfacing materials
BP		
BP Oil South Africa	100%	Marketing
Shell and BP South African Petroleum Refineries	50%	Refining
Shell and BP South African Manufacturing Company	25%	Lubricant refining
BP Development Company of South Africa	100%	Oil exploration
Trek Beleggings	17.5%	Oil company
Duckhams Oil Africa	100%	Lubricant marketing
Chemico	15%	Lubricant refining
Price's South Africa	28%	Candles
Sentrachem	20%	Chemicals
SHELL		
Shell Oil South Africa	100%	Oil marketing
Shell and BP South African Petroleum Refineries	50%	Refining
Shell and BP South African Manufacturing Company	25%	Lubricant refining
Shell Eksplorasie Suid-Afrika	100%	Oil exploration

2. The two joint owners of Caltex - Texaco and Standard Oil of California - also have subsidiaries in South Africa which have been involved in exploration: Chevron Oil Company of South Africa (owned by Standard Oil of California) and Regent Petroleum South Africa (owned by Texaco).

Table V - Continued

Subsidiary	% shares Owned	Activity
Trek Beloggings	17.5%	Oil Company
Chemico	15%	Lubricants
Dragon Gas Service	100%	Liquid petroleum gas
African Bitmmen Emulsions	54%	Bitumen
Price's South Africa	36%	Candles
Shell Chemical South Africa	100%	Chemicals
Unifoam Industries	100%	Chemicals
Styrocnem	25%	Chemicals
Billiton Exploration South Africa	100%	Metal Exploration
TOTAL [3]		
Total-South Africa	100%	Marketing
National Petroleum Refiners of South Africa (Natref)	30%	Refining
South African Oil Refinery	19%	Lubricant refining
Total Exploration South Africa	100%	Oil and coal exploration

---

3. It should be noted that CFP in Paris only has a 65.83 per cent shareholding in its South African-registered companies. The percentage given in Table 16 for Total subsidiaries represents the shareholding of Total's South African holding company.

Table VI Principal subsidiaries of the smaller oil companies in South Africa

Subsidiary	% shares owned	Activity
SASOL		
Sasol Marketing Company	100%	Oil Marketing
National Petroleum Refiners of South Africa (Natref)	32.5%	Refining
Southern Oil Exploration Corporation	50%	Oil exploration
Southern Africa Gas Distribution Corporation	50%	Gas marketing
TREK		
Trek-Petroleum	100%	Oil marketing
Trek-Oliemaatskappy	100%	Oil [illegible] processing
Chemico	70%	Lubricants
South African Lubricants Manufacturing Company	50%	Lubricant refining
Semco Lubricants and Chemicals	100%	Lubricants and chemicals
ESSO		
Esso-South Africa	100%	Marketing
SONAREP		
Sonarep - South Africa	100%	Marketing

It should be added that since 1971 the retail value of the oil business in South Africa has grown enormously from the R700 million quoted above, largely because of the rise in the price of oil in 1973.

The active participation of the "majors" has been of immense importance to the development of the South African oil industry in several ways. First, it has ensured that South Africa has obtained adequate supplies of crude oil and oil products; despite attempts to impose an oil embargo against the Republic.[4] Secondly, it has meant that South Africa has had access to vital technical expertise; oil exploration, refining, petrochemical plants and mining require a high level of technological know-how, which the "majors" have willingly and extensively supplies.[5] Finally, much of the capital used to develop South Africa's oil industry has been provided by the "majors".[6]

Very little information is available on the exact value of the current and planned assets of the oil companies in South Africa, but an attempt to pull together what is known on this is given in table The combined assets of the oil "majors" in South Africa are currently worth over R1,000 million.[7]

---

4. The role played by the oil "majors" in ensuring deliveries of oil to South Africa is examined in section 7.3 below.

5. Sir Eric Drake, Chairman of BP, said during a visit to South Africa in 1974: "We are looking for spheres - such as coal - in which our expertise can help in South Africa." (Star, Johannesburg 9 March 1974).

6. The Chairman of BP-South Africa, in announcing investment plans of R375 million, pointed out that most of the capital would be directly or indirectly funded from outside South Africa, mainly in the form of direct investment from BP's parent company and associates. See Rand Daily Mail (Johannesburg), 14 August 1976.

7. Derived from table

Table VII Investments in South Africa by the five main oil companies
(best available estimates)

	Year estimate made	Estimated value of Investments [8]	Known further investment Plans
Shell	1975	R250 million	A further R500 million by 1985 [9]
BP	1976	R140 million	A further R375 million by 1981
Total	1977	R155 million	
Mobil	1976	R290 million	
Caltex	1978	R291 million	

Sources:

Shell: Rand Daily Mail, 18 June 1975

BP: South African Digest, 30 April 1976; and Rand Daily Mail, 15 September 1976.

Total: Financial Mail, 4 March 1977

Mobil: George Birrell, General Counsel of Mobil Corporation, in testimony before the US Senate Subcommittee on Africa, 17 September 1976. (Our figures is a conversion into Rands of his figure of $333 million).

Caltex: US Business and South Africa: The Withdrawal Issue (Washington DC: Investor Responsibility Research Center, November 1977), p. 38 (Our figure is a conversion into Rands of their figure of $200 million), gives a figure of R174 million for 1976; the Cape Times (Cape Town), 5 May 1977, states that s further R117 million was to be invested in the expansion of the Caltex refinery.

---

8. It should be noted that the investment values are normally given on a historical or depreciated cost basis. The replacement costs would be considerably greater.

9. K.L.G. Goeling, Chief Executive of Shell-South Africa, said in June 1975: "The viability studies we are undertaking on coal mining, solids pipelining and coal conversions(converting coal into hydro-carbon gases and liquids) will, if they come to fruition, involve investments of hundreds of millions of rands" (Rand Daily Mail, 18 June 1975)

This represents about 14 per cent of current total direct foreign investment in South Africa. Known expansion plans will double this investment to over R2,000 million in the 1980's. [11]

Part of the reason for the massive investment plans of the oil "majors" is that they are now rapidly diversifying their interests into related fields. The oil companies in Southern Africa have now expanded into chemicals (Shell and BP), nuclear energy (Shell has attempted to break into this field), metal exploration (Shell), uranium mining (Total), and coal mining (Shell, BP and Total). The oil "majors" are therefore playing an increasingly important role in some of the most strategically important sectors of the South African economy.

Considerable secrecy surrounds the question of the annual turnover of the oil companies in South Africa. However, the veil was lifted a little in March 1977, when Total-South Africa revealed that their turnover in 1976 had reached R294 million. [12] If we assume that their turnovers are proportioned to their market shares, it is possible to obtain an estimation of the turnover of the other main oil companies in South Africa. This gives the following turnover estimates for 1976: Caltex, R500 million; Mobil, R450 million; BP, R440 million; and Shell, R440 million. [13] Taken together with the known turnover of Total (R294 million) this makes a 1976 combined turnover of the five main oil companies in South Africa of over R2,100 million.

---

10. Total direct foreign investment in South Africa in 1975 was R7,428 million. South Africa: An appraisal, Johannesburg: The Medbank Group, 1977), p. 225.

11. Derived from table 7.

12. Financial Mail, 4 March 1977.

13. An alternative source quotes 1976 sales (i.e. turnover) in South Africa by Mobil as "more than $500 million" (R435 million), and by Caltex as $500 million (R435 million). Each of these annual sales figures is larger than that of any other American owned company in South Africa. The nearest rivals are Ford (sales of $288.4 million in 1976) and General Motors (250 million). US Business and South Africa: The Withdrawal Issue (Washington D.C.: Investor Responsibility Research Center, November 1977), pp. 38 and 44.

Refining

About 95 per cent of South Africa's requirements of refined oil products are now provided by local refineries. These produce a wide range of fuel products (petrol, diesel, kerosene, liquid petroleum gas, jet aviation fuel, etc.) and other oil products (lubricants, greases, waxes, solvents, bitumen, etc.). Nevertheless, certain specialized products are not produced in South Africa, and have to be imported in refined form.

Currently there are four major refineries in South Africa.[14] Two are at Durban - one owned by Mobil and the other jointly owned by Shell and BP. A third, owned by Caltex, is at Cape Town. The fourth refinery, only opened in 1971, is at Sasolburg, near Johannesburg, and is owned by Natref (National Petroleum Refiners of South Africa). This last is the only one of the four to be South African-controlled, by virtue of the 52.5 per cent stake held by the Government-owned company, Sasol (the South African Coal, Oil and Gas Corporation). Thirty per cent of the Natref shares are held by Total, and 17.5 per cent by the National Iranian Oil Company. Total actually operates the refinery, so within the South African oil industry it is often referred to as "the Total refinery". Crude oil, which is mainly supplied by the National Iranian Oil Company, is transported to the refinery in a special pipeline from Durban.

At Sasolburg there is also a small plant, owned by Sasol, which converts coal to oil products; this produces one per cent of South Africa's oil requirements.[15] South Africa also has two lubricant plants, and one lubricant re-refining plant (which processes waste oils). Details of these refineries and plants are given in table 8.

---

14. Originally there was a fifth refinery, with a capacity of only 3,900 b/d, owned by Satmar (the South African Torbanite and Refining Co.). This was closed in 1976.

15. See footnote 34 for the basis of our estimate that its capacity is 4,500 b/d.

Table VIII Oil refineries in South Africa

	Refinery Company	Owners	Location	Year Opened	Capacity (1977)	Refinery zone
A.	The four main refineries					
1.	Shell and BP South African Petroleum Refineries (Sapref)	Shell (50%)	Durban	1963	212 400 b/d	Natal, southern Orange Free State northern Transvaal
2.	Mobil Refining Company Southern Africa (Moref)	Mobil (100%)	Durban	1953	100 00 b/d	As above
3.	Caltex Oil (South Africa)	Caltex (100%)	Cape Town	1966	58 000 b/d	Cape Province, Namibia
4.	National Petroleum Refiners of South Africa (Natref)	Sasol (52.2%) Total-South Africa (30%) National Iranian Oil Company (17.5%)	Sasolburg (near Johan nesburg)	1971	75 500 b/d	Transvaal, northern Orange Free State
					Total capacity 445 500 b/d	

Table IX Oil refineries in South Africa (cont'd)

Refinery Company	Owners	Location	Year Opened	Capacity (1977)	Refinery zone
B. The oil-from-coal plant:					
Sasol I	Sasol (100%)	Sasolburg	1955	4 500 b/d	Transvaal, northern Orange Free State
C. The lubricant refineries:					
1. Shell and BP South African Manufacturing Company (Samco)	Trek Beleggings (50%) Shell (25%) BP (25%)	Durban	1968	2 600 b/d	
2. South African Oil Refinery (Safor)	Mobil (32.9%) Caltex (23.8%) Total-South Africa (19%) Other South African interests (24.3%)	Durban	1973	3 000 b/d	
D. The lubricant re-refining plant					
Chemico	Trek Beleggings (100%)	Chamdor (Krugersdorp)	1976	900	

Source: Oil and Gas Journal, 26 December 1977, and other sources

Further investment in refineries is currently taking place. Caltex is expanding the capacity of the Cape Town refinery from 58,000 b/d, and this work was due to be completed in April 1978.[16] Sasol II, a second oil-from-coal plant, is scheduled to come on stream in 1981 with an output of around 45,000 b/d.[17] Condor, a subsidiary of Mobil, is currently completing a small re-refining lubricant plant which will produce 500 to 600 b/d.[18] In 1973, Trek received permission from the South African Government to build a major oil refinery at the new port of Richards Bay. But with the rise in oil prices, this project is no longer viable, and has been shelved.

The capacity of South Africa's four main refineries plus the Sasol I oil-from-coal plant was about 438,000 b/d in 1975, although output was only about 296,000 b/d (68 per cent of capacity).[19] Table 10 provides details of total refinery output for 1975.[20] By 1980, capacity of the four refineries plus the two Sasol plants should have risen to about 450,000 b/d.[21] By 1982, when the second Sasol oil-from-coal plant should be operational, the capacity of the four main refineries plus the two Sasol plants should have risen to about 540,000 b/d.[22] If we follow the Department of Plannings estimate by assuming South Africa's oil needs will increase by about five per cent per annum, and also assume that in practice the refineries and plants are not able to operate at about 85 per cent of capacity on average, then South Africa will need yet further refinery capacity (or a new Sasol plant) to be in operation by 1983, only a year or so after Sasol II starts operating.[23] Decisions on refinery expansions will have to be made in the next year or so.

---

16. South African Financial Gazette, 26 November 1976; and Cape Times, 5 May 1977.

17. See Section 5.3.

18. Star (Johannesburg), 13 August 1977.

19. Based on table 10.

20. This table probably excludes production at the Sasol I oil-from-coal plant and probably includes production from the two lubricant plants.

21. Based on table 9.

22. Based on 1977 capacity, plus planned Sasol II capacity, plus known expansion of Caltex refinery to 105,000 b/d.

23. This was derived as follows: 1975 production at the four main refineries plus Sasol I was about 313,000 b/d, including refinery fuel (table 20). Applying a five per cent growth rate this will reach 462,000 b/d by 1983. Known expansion plans plus Sasol II will bring capacity to about 540,000 b/d by 1982. Eighty five per cent of this amounts to 459,000 b/d.

South Africa also has a number of petrochemical plants. Details are given in table 10.

Distribution

The nine oil companies in South Africa between them have 4,661 service stations (see table 9). Sasol is the only oil company without its own service stations. Under a marketing agreement between Sasol and the other oil marketing companies in South Africa, service stations in the Transvaal and the northern Orange Free State are compelled, when requested, to install one Sasol pump.[25]

South Africa and Namibia are divided into a number of refinery zones, and efforts are made to minimize the transportation of fuel between zones.

For instance, Caltex has the only refinery in the Cape Province, yet all five of the main oil companies operate service stations there. To save the other companies having to transport fuel hundreds of miles to these outlets, they obtain supplies from the local Caltex refinery, and in return provide fuel for the Caltex service stations in the Transvaal. Details of the refinery zones are given in table 8. Fuel produced at the Natref refinery is drawn on for marketing by all of the five main oil companies.[26]

Four major methods of transport are used to carry oil products within South Africa. First, a pipeline from Durban (the Shell/BP and Mobil refineries) to the Witwatersrand serves the densely populated industrial region around Johannesburg, an area of high oil consumption. A second pipeline to the Witwatersrand was completed in 1976.[27] Secondly, South African Railways' extensive rail network of 32.370 kilometers is used to transport oil products. Thirdly, coastal tankers carry oil products between the ports of South Africa and Namibia (Cape Town, Port Elizabeth, East London, Durban and Walvis Bay). Finally, road tankers are used to carry oil products to depots and service stations.

---

24. Table on estimates of South Africa production on refined oil products.

25. Financial Times (London), 7 August 1975.

26. Ibid.

27. These two pipelines are for carrying oil products. There is also a pipeline carrying crude oil from Durban to the Natref refinery at Sasolburg.

Table X South Africa's principal petrochemical plants

Company	Location of plant	Inputs to plant	Products	Quantity produced per year
AECI [28] Explosives and Chemicals Industries	Sasolburg	ethylene	vinyl chloride	35 000 tons
		propylene,	polyethylene	75 000 tons
		ethane	polyvinyl chloride	33 000 tons
			solvents	17 500 tons
AECI	Umbogintwini	refinery gas	ammonia	160 000 tons
			urea	150 000 tons
Fedmis	Milnerton	refinery gas	ammonia	109 500 tons
Karbochem	Sasolburg	butadiene,	styrene butadiene	
		styrene	rubber	40 000 tons
Phillips Carbon Black Co.	Port Elizabeth	aromatic concentrate	carbon black	55 000 tons
Safripol	Sasolburg	ethylene,	polyethylene	50 000 tons
		propylene	polypropylene	40 000 tons
Sasol	Sasolburg	synthesis gas	acetone	2 000 tons
		petroleum	alphaolefins	4 000 tons
		naptha,	ammonia	67 000 tons
		benzene	aromatics mix	20 000 tons
			butadiene	27 000 tons
			butanpl	1 000 tons
			ethanol	10 000 tons
			ethylene	150 000 tons
			methanol	800 tons
			propylene	120 000 tons
			styrene	18 000 tons

Source: Worldwide Petrochemical Directory 1978 (Tulsa, USA, Petroleum Publishing Co. November 1977), P. 18

28. AECI is 40 per cent owned, via subsidiaries, by Imperial Chemical Industries (ICI) of the United Kingdom. (ICI Annual Report, 1971)

The role of the South African Government in the oil industry

"Oil is too significant to be left to oilmen", said one South African Government minister in 1970.[29] Three years later another minister pointed out that a highly strategic industry such as the petroleum refinery industry should be firmly rooted in the Republic and not be entirely controlled from abroad". This, he said, was "most important" from the Government's point of view.[30]

Faced with the growing threats of an oil embargo, the Government has attempted to ensure that the oil companies operating in South Africa serve the national interest. Because the great majority of the oil industry is foreign-owned, the South African Government has developed a wide range of different methods of controlling it. One Government official, stating that the relationship between the Government and the oil companies is very close, added that one could assume that arrangements had been made to meet Government needs. Otherwise, we might nationalize, he added.[31]

Some examples of the control exerted by the South African Government are given below:

1. In 1967 the Government announced that all oil companies must be prepared to produce specialized oil products required for strategic reasons, irrespective of commercial potential.[32] Then in November 1977, immediately after the imposition of the UN arms embargo against South Africa, these regulations were extensively strengthened and widened. The measures based on the National Supplies Procurement Act, and which apply to all industries, effectively provide for the economy to be put on a war footing. The Minister for Economic Affairs, in announcing the Measures, made it clear that they are aimed at preventing parent companies from controlling the operation of strategic materials at the instigation of their Governments or pressure groups.[33]

---

29. Cape Times (Cape Town), 1 August 1970.

30. Rand Daily Mail, 29 May 1973, quoting the then Minister of Economic Affairs, Mr. S. L. Muller.

31. Quoted in Corporate Activity in South Africa: Analysis F, Supplement No. 3 (Washington, Investor Respo sibility Research Center, April 1976), p. F-51.

32. See B. Rogers, White Wealth and Black Poverty, (op. cit.), p. 141

33. Financial Times, 10 November 1977.

2. Approval by the South African Secretary for Industries is required to construct any new oil refineries, or to expand existing refineries.[34] This has meant that the Government has been able to regulate the development of refining facilities in South Africa. Natref, for instance was located inland at Sasolburg partly for strategic reasons.

3. The oil companies are obliged themselves to score certain minimum quantities of oil products (13 weeks supply of fuel). In addition they are required to maintain 12 months supply of both lubricants and refinery catalysts and chemicals, although half of this cover is financed by the Government.[35] The Government has itself become involved in the storage of considerable quantities of oil

4. Under South African law, oil refining companies operating in South Africa are required to set aside a certain percentage of their refined oil for Government purchase. For instance, 6.8 per cent of total Caltex sales in South Africa in 1975 were made to the Government.[36]

5. Under the National Supplies Procurement Act No. 89 of 1970 (which superseded earlier legislation) the oil companies in South Africa are forbidden from imposing any conditions on the sale of oil products to customers. This means, for instance, that the oil companies are obliged to meet orders from the South African armed forces and police. the oil companies have also used the existence of this "conditional selling" legislation to argue that they have no choice but to sell oil to customers who may well be involved in supplying Rhodesia.[37]

---

34. George Birrell, of Mobil Corporation, testifying before the US Senate Subcommittee on Africa, 17 September 1976.

35. Ibid.

36. Corporate Activity in South Africa: Analysis F, Supplement No. 3, op. cit., p. F-51.

37. George Birrell, of Mobil Corporation, testifying before the US Senate Subcommittee on Africa, 17 September 1976.

6. The official Secrets Act of South Africa covers information relating to the oil industry in the Republic. The head offices of the oil companies in Europe and the United States have argued that this makes it impossible for them to obtain information on sales within South Africa. They have even claimed that the Act means that the employees of their wholly-owned subsidiaries in South Africa can refuse to answer virtually all questions on such matters put to them in person or correspondence by the directors of the parent companies. There can surely be few precedents for such a situation, where a parent company has virtually lost control over a subsidiary on such matters.

7. The South African Coal, Oil and Gas Corporation (Sasol) was set up in 1950 as a wholly-owned subsidiary of the government industrial Development Corporation. Sasol's role was to develop the manufacture of oil from coal, in order to reduce South Africa's dependence on imported petroleum. In 1955, Sasol opened a small oil-from-coal plant with a capacity of 4,500 b/d (Sasol I). Sasol II, which is due to come on stream in 1981, will produce about 45,000 b/d. Sasol also has a controlling share-holding (52.5 per cent) in the Natref refinery.

8. The Southern Oil Exploration Corporation (Soeker) was established jointly by two government corporations, Sasol and the Industrial Development Corporation, in 1965. Soeker was set up to organize and participate in exploration for oil and gas in South Africa, in order to reduce the country's dependence on important petroleum.

9. The Government has encouraged a reduction of oil consumption in South Africa. For example, in November 1973, steps were taken to reduce the number of hours that service stations could be opened, and new maximum speed limits were introduced in an effort to conserve fuel. The South African Government is able to determine the selling price of oil, and therefore influence consumption. Changes in retail prices by the oil companies have to be approved by the Government. The Government, of course, is also able to help determine the price of oil products through customs levies and taxes.

10. The Government has established a Strategic Oil Fund which is financed from a levy, currently two cents per litre, on the sale of petrol in South Africa. The fund has been used to help pay for the costs of stockpiling oil and for financing Sasol II.

11. South African Railways (SAR) plays an important role in the transportation of oil. SAR owns the crude oil pipeline from Durban to Sasolburg, and the two product pipelines from Durban to the Witwatersrand. The country's extensive rail network is widely used for the transport of oil products. SAR has a protected position because the oil companies are required to use rail or pipeline except for local distribution.

These examples show the extent to which the South African Government is able to direct the oil industry. Clearly, any Western-owned company in South Africa serves two masters: its overseas parent company, and the South African Government. When the policies of the two masters diverge, it would appear that the Government dominates. This is a point which should be given serious consideration by those who believe that Western companies can be a strong influence for progress within South Africa.

New Iranian oil policy

South Africa has been extremely depedent on Iranian oil. From 1973 until 1978 about 90 per cent of the country's oil imports came from Iran. But a wave of strikes against the Shah's rule rapidly brought oil production to a halt in the last months of 1978. The final shipment of Iranian oil left Gulf terminals on 28 December 1978. Sources within the oil industry have claimed that the international oil companies went to considerable lengths during December 1978 to ensure that the last cargoes of crude oil which they were able to obtain from Iran were earmarked for dispatch to South Africa.

During the first few weeks of this year important political changes took place in Iran. On 3 January 1979 Dr. Shapour Bakhtiar took over as Prime Minister, and several days later the Shah fled abroad into exile. Dr. Bakhtiar quickly announced that no further sales of oil would be made to South Africa. This policy was subsequently reaffirmed by the Ayatöllah Khomeini when he assumed power. Since Iran has resumed oil exports, on 5 February, no direct sales have been made to South Africa. This means that there is now no OPEC* country which openly sell to South Africa.

South Africa's oil requirements

Statistical information on the oil industry in South Africa is extremely difficult to obtain. Last year, however, we estimated that South Africa was importing approximately 400,000 barrels a day of crude oil and 15,000 barrels a day of refined oil products. Of these quantities, it should be noted around 27,000 barrels a day were exported to neighbouring countries, 50,000 barrels a day were sold for ship's bunkers, and 70,000 were stockpiled. Internal consumption in South Africa was just under 250,000 barrels a day. In this connection it would be more effective if all oil sales contracts stipulates that the oil should not be resold to South Africa or any intermediary for onward sales to South Africa.

---

* Organization of Petroleum Exporting Countries.

Had it not been for the events in Iran then consumption of all products in South Africa would probably have risen slightly since last year. But the problem of obtaining supplies and greatly increased procurement costs have meant that imports have declined over the past six months. The actual fall in domestic consumption has probably been relatively small, however because considerable efforts has already been made to cut oil imports, and a further substantial reduction would therefore have a serious effect on the South Africa economy. But, no doubt, recent difficulties have meant that the South Africans have not significantly increased their oil stockpiling. Current imports of crude and refined oil are probably running at between 350 and 400,000 barrels a day.

South Africa's oil suppliers

Five international oil companies market about 85 per cent of South Affica's oil. These companies are Shell (joint British/Dutch), BP (British), Mobil (American), Caltex (American), and Total (French). Little information has yet emerged on the extent to which these international oil companies are actively helping to supply their South African marketing firms. But it is constructive to examine the situation that developed after the imposition of the Arab embargo against South Africa back in 1973.

Over the next five years after the Arab embargo, the international oil companies went to considerable lengths to "juggle" sup lies. South Africa was sent oil from Iran (which was the only major oil exporting country to openly sell to South Africa) - and some other consuming nations which has previously imported Iranian oil were then supplied from Arab sources. As the Chairman of BP admitted during a visit to South Africa in 1974: the international oil companies had "intentionally set out to thwart Arab attempts at enforcing embargoes on countries like South Africa".

It is therefore likely that the five international oil companies (Shell, BP, Mobil, Caltex, and Total) are playing a crucial role in enabling South Africa to defy the current embargo on South Africa imposed by all OPEC members. Indeed oil industry sources have suggested that the companies have initiated a new series of "swap" arrangements so that embargoed oil can be exchanged for non-embargoed oil which is then shipped to South Africa.

Where then is South Africa obtaining its oil? The country imports both refined and crude oil. Much of South Africa's refined oil imports come from a number of Western countries - particularly Italy, the United States, the United Kingdom, the Netherlands and the Federal Republic of Germany. Refined oil imports are extremely important, because they largely consist of specialized products which cannot be produced in South Africa refineries. But in 1978, at least, they only represented about four per cent of the country's total oil imports (by volume).

The most important question, however, is which country is exporting crude oil to South Africa. Only one nation is openly selling crude oil to South Africa: Brunei. Brunei is internally self-governing, but the United Kingdom is responsible for its external affairs. Recent estimates have suggested that Brunei is currently exporting about 25,000 barrels a day of crude oil to South Africa, around five per cent of South Africa's total oil imports. This crude oil is supplied by Shell International Petroleum (a company registered in the United Kingdom) and sold to Sasol (the South African State Oil corporation). It should also be noted that Sasol was the source of most of Rhodesia's oil

It is not possible to state where the remainder of South Africa's crude oil originates. The country is now obtaining much of its requirements on what is known as the "spot" market. Individual cargoes of crude oil, or possibly a series of cargoes, are purchased through brokers. The main centre of the "spot" market is the port of Rotterdam in the Netherlands. The crude oil shipments may well pass through a number of intermediaries, and the oil itself may not be dispatched directly from the original oil exporting country to South Africa. Purchases on the "spot" market are therefore difficult to monitor.

Press reports over the past few months have contained considerable speculation on the original sources of South Africa's oil imports. Indeed it is fair to say that virtually every major oil exporting country has at one time or another been named as accused of supplying South Africa. But these reports appear to be mainly based on speculation, and no firm evidence has yet emerged to show which countries are actually selling oil to South Africa.

SPECULATIVE REPORT ON HOW
SOUTH AFRICA OBTAINS OIL

Firstly, one or more members of OPEC, for whatever reason, might have changed their policy regarding South Africa, without having made a public announcement to this effect.

Second, oil might be delivered to South Africa from some oil-producing country which is not a member of OPEC and which has not announced a policy of embargoeing South Africa. Some oil-producing countries not in OPEC do not produce enough oil even for their own needs, and are net importers, However, there are a number of other countries which, although not members of OPEC, are still net exporters of oil. The policies of some of these countries concerning supplies to South Africa have not as yet been clearly enunciated, except in their vote in the UN resolution.

There is already one confirmed case of oil from a non-OPEC country still going to South Africa. Shell International Petroleum, a London-based subsidiary of Royal Dutch Shell, has a contract with Sasol, the South African state oil corporation, to supply it with crude oil. The quantity involved in this particular contract is believed to be about 25,000 barrels per day, some 7% of South Africa's needs. The oil comes from the Seria oilfield in the Sultanate of Brunei, and the contract is still in force. Brunei, a small country in the Far East with a population of about 200,000, is internally self-governing; however, its external affairs are the responsibility of the United Kingdom. The UN regards the country as a British colony.

The third way in which oil might be reaching South Africa is that oil sold by OPEC or non-OPEC members to large or small oil companies, purportedly for delivery to some country other than South Africa, might instead be delivered to South Africa without the knowledge of the supplying country. This could happen directly (i.e. the tanker, as it were, turns right instead of left, and sails from the supplying country to South Africa, possibly stopping at other offloading points on the way), or indirdctly (i.e. the oil is taken from the supplying country to, say, Rotterdam, where it is transferred to another tanker, and possibly another owner, before being taken on to South Africa).

This method for South Africa to obtain its oil takes advantage of the fact that oil-exporting countries do not always have full control over the international trade in crude oil. They do, in varying degrees, control the production of crude oil within their territories. However, much of the oil they export is then fed into what can be thought of as a global "pool". This pool is largely controlled by international oil companies. These companies normally determine who eventually receives how much oil.

This division of power between oil-exporters and international oil companies involves a fair degree of conflict and flux. There have been increasing efforts by oil-exporting countries to control the flow of their exported oil right through to the point where it is refined in importing countries. In particular, oil exporters have, at various times and with varying degrees of unanimity, attempted to determine which oil-importing countries should <u>not</u> receive their oil.

The spot market in crude oil and oil products represents an aspect of this "pool" in which the lack of control by oil-exporting countries is particularly strong. And it is on the spot market that South Africa obtains some of its oil imports.

Where the Spot Market Operates

The spot market operates principally out of Rotterdam and nearby ports (mainly Antwerp and Amsterdam), but also further afield - Hamburg, London, Paris, Milan, New York, and Singapore. (Strictly speaking, there are two spot markets. One deals in refined oil products, and is primarily based in Rotterdam. The other deals in crude oil, and operates out of all the cities mentioned above, including Rotterdam). The spot market is conducted by traders working in small offices, who communicate by phone or telex with other dealers, traders or oil firms in various parts of the world. These traders deal in relatively small consignments of crude oil or oil products, ranging from 1,000 tons to 100,000 tons. Sometimes a consignment will change ownership several times before it reaches its eventual user. An intermediary owner may never take physical possession - the consignment may be crossing the high seas at the time. Some of the trading companies operating in the spot market are subsidiaries of, or represent, major oil companies; but most of them are independent.

The great majority of crude oil sales which take place around the world are components of long-term sales contracts. The oil sold in the spot market, however, is not subject to the restrictive terms of these contracts. Spot sales help to fill the small gaps between

supply and demand with which the major oil companies are continually faced. As a result, spot market prices tend to reflect the degree of slackness or tightness currently prevailing in world oil markets. The fact that South Africa, unlike any other country, is forced to turn to the spot market to satisfy an appreciable proportion of its import needs, certainly has an upward influence on spot market prices.

It is certainly possible that oil from countries which have officially embargoed South Africa is still reaching South Africa. This could in theory be happening with the knowledge of the Governments concerned. It is also possible, however, that oil from these countries is being sent to South Africa by the international oil companies or brokers in defiance of sales conditions. Finally, oil maybe, is being exported to South Africa by some of the smaller oil exporting countries which have not yet imposed an embargo on South Africa.

"Political" premium South Africa is paying

The major problem faced by South Africa, at least at present, is not actually obtaining oil - but purchasing it at a reasonable cost. The OPEC price for crude oil is now about ($16 in 1978) $24 a barrel. Bur purchases of the "spot" market cost considerably more, both because of the current world shortage (due largely to the temporary cut-off of Iranian oil and the subsequent lower level of Iranian exports) and also because South Africa is having to pay an extra "political" premium since brokers are somewhat reluctant to assume the additional risks of selling to South Africa. Recent reports have suggested that South Africa is now paying an extra cost of arounf $12 a barrel over the OPEC price - making a total cost of $36 a barrel. In addition, South Africa is having to pay higher transport costs because the oil has to come from further afield than it did when it mainly originated from Iran.

If South Africa is importing 400,000 barrels a day of oil than this would mean that the annual import bill (at $36 a barrel) would amount to $14,000 million. This is approximately double the cost of South Africa's oil imports in 1978. The rise in the gold price, it is true, has helped cushion this econo ic blow. But the doubling of oil import costs will nevertheless have a very serious impact on the South African economy for many years to come. Every day the South Africans are paying around $5 million more than they did in 1978 for their oil.

South Africa and the oil crisis

The South African authorities have taken four major steps to deal with the oil crisis created by events in Iran. First, further measures have been taken to reduce consumption of oil products. Speed restrictions and the closure of service stations at weekends were already in force. But during the past few months there have been two rises in retail prices - 10 per cent on 1 January 1979, and further

20 per cent on 23 February. Additional restrictions on oil consumption and even rationing are under serious consideration. As the Minister of Economic Affairs said on 23 May: "It is now no longer a question of whether there are going to be stricter measures but just how severe they are going to be."

Secondly, the Government has set up an oil equalization fund to subsidies the greater costs of purchasing oil on the "spot" market. At present the fund collects $14 from every barrel of crude oil imported. But with the escalating costs of purchasing oil on the "spot" market this figure will probably have to be increased - leading to yet another rise in retail prices.

Thirdly, a decision has been made to increase domestic production of oil from coal. Sasol I, the existing oil-from-coal plant, currently produces only about 45,000 barrels a day - about one per cent of the country's requirements. A considerably larger plant, known as Sasol II, is already under construction and due to come onto stream in mid-1980. Its output is likely to be 35 to 40,000 barrels a day. In February 1979, in the wake of the Iranian situation, the South African Government announced that a further oil-from-coal plant - Sasol III (sometimes referred to as the extension of Sasol II) - will be built at a cost of $3,900 million. The main contract for building the strategic new project has been awarded to the Fluor Corporation of the United States. It has been reported that some of the international oil companies operating in South Africa may become shareholders in Sasol III. Sasol III is scheduled for completion in 1982.

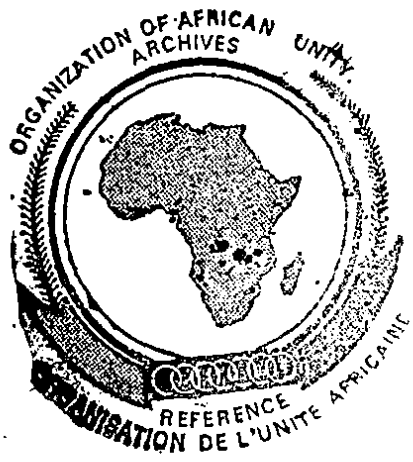
Finally, the South African Go ernment has taken further measures to restrict the publication of information relating to the oil industry in South Africa. The Official Secrets Act already covers the flow of information relating to the oil trade. But a new law is currently being introduced which will make it an offence to publish material on "the source, manufacture, transportation, destination, storage, quality, or stock level of any petroleum products acquired or manufactured for or in the Republic". This shows that the South Africans themselves are well aware of the strategic importance of oil imports.

The cut-off of Iranian oil has created an important new situation. There is now no OPEC country which is willing to openly supply oil to South Africa - and the South Africans are now having to spend around $ million more on purchasing oil every day. This situation offers a unique opportunity for the international community to put pressures on the South African Government.

CM/1042 (XXXV)

Annex I

IMPLEMENTATION OF AN EFFECTIVE OIL EMBARGO



If the international community is united in its determination to apply economic pressure against South Africa, then oil appears to be the most effective instrument to use. The 1973 Arab oil embargo against South Africa did not achieve the desired result, for two reasons. First, Iran refused to participate in the embargo. Secondly, the oil 'majors' did all they could to frustrate the embargo.

The recent change of government in Iran, and the announcement by that government that Iran is no longer prepared to supply oil to South Africa, transforms the whole situation, and enormously improves the chances that an effective oil embargo can be introduced against South Africa. The situation now is that every member of OPEC has declared at some time or another that it does not want its oil to go to South Africa. Despite this fact, leakages are currently occurring, primarily through the activities of profit-seeking middle-men in the oil business. Thus South Africa is still obtaining the oil it needs, though it is having to pay considerable premiums for it.

Oil-exporting countries could seriously curtail this flow to South Africa if they, together with other non-aligned nations, were to pass and implement certain resolutions at some forthcoming inter-governmental conferences. These resolutions would involve agreeing to set up and support a system of monitoring tanker movements to South Africa, and introducing a range of penalties against companies found to have been involved in supplying South Africa with oil.

Such action would involve relatively little cost and effort, yet it would strike an extremely serious blow against South Africa.

South Africa's increased vulnerability to an oil embargo

The uses of oil in South Africa

Little information has been published on the oil industry in South Africa. This is mainly because the government is so aware of the strategic importance of oil to the Republic, that it has extended the Official Secrets Act to cover almost anything to do with the oil industry. The most comprehensive source of information on South Africa's sources and uses of oil is a report entitled Oil Sanctions Against South Africa, published in June 1978 by the UN Centre Against Apartheid, and written by Dr. Martin Bailey and Bernard Rivers (two of the authors of this paper). Most of the information in this section of our paper is condensed from that available in the UN report.

.../

Oil is extremely important to South Africa, even though it provides only about 20% of the country's domestic energy needs. There are two main reasons for this low proportion. First, South Africa has considerable coal reserves, which are extracted relatively cheaply owing to the low wages paid to black miners. Secondly, South Africa has no oil of its own, so the government, through its fear of the consequences of an oil embargo, has done all it can to reduce to the minimum the country's use of oil. However, this has the important effect that if South Africa's importation were to be reduced any further below its current level, the economic impact on the country would be felt immediately. Coal and other non-oil forms of energy could hardly anywhere be used where oil is currently used in South Africa.

Oil is required (mostly as fuel, but also in certain other forms, such as lubricants) principally for the following purposes in South Africa: transportation, the military, mechanised agriculture, industrial heating and power, petrochemical feedstock, and household heating and light. Of these uses, transportation (air, road and rail) consumes 66% of South Africa's domestically-used oil. Mechanised agriculture uses relatively little oil, but without it food supplies would be seriously affected. The strategic significance of the dependence of the armed forces on oil is obvious.

The sources of South Africa's oil

Prior to the 1973 Arab oil embargo, South Africa received about half its oil from Iran, with the remainder mostly coming from Iraq, Saudi Arabia, and Qatar.

When the 1973 Arab oil embargo was introduced against South Africa, the then government of Iran made it clear that it would not participate in the embargo. As a result, from 1973 to 1978 Iran provided about 90% of South Africa's oil. The remainder apparently came, at different times and in small quantities, from Bahrain, Brunei, Indonesia, Iraq, Kuwait, Oman, Qatar, and United Arab Emirates (Abu Dhabi and Dubai). Of these countries, Indonesia, Iraq, Kuwait, Qatar and United Arab Emirates are members of OPEC, and have instituted embargoes on oil sales to South Africa. The leakage probably occurred through these countries making sales to oil companies which ignored instructions from the selling country, and delivered it (directly or indirectly) to South Africa. The other three countries listed above as having supplied some oil which has ended up in South Africa -- Bahrain, Brunei, and Oman -- are not

.../

members of OPEC. However, Bahrain is a member of OAPEC -- the Organization of Arab Petroleum Exporting Countries -- which if anything has a stronger policy than OPEC regarding supplies to South Africa. The role of Brunei is discussed further in this report.

In recent months the new government in Iran has made it clear that it will refuse to allow its oil to be delivered to South Africa. Little is known as yet about how South Africa is now obtaining its oil.

The quantities of oil required by South Africa

It is estimated that in 1978, South Africa imported about 400,000 barrels per day (about 50,000 tons per day, or 20 million tons per annum) of crude oil, and about 15,000 barrels per day of refined oil products. It is thought that a little under a fifth of the imports were added to the country's stockpile of crude oil. About the same amount was re-exported (after refining) to neighbouring countries (including Rhodesia then) and to passing shipping.

The total cost of South Africa's imported oil in 1978 was about $2,300 million (around 25% of the country's total import bill). This cost of imported oil increased ten-fold since 1973.

It is probable that the volume of South Africa's crude oil imports in 1979 will be a little lower than the 400,000 barrels per day estimate for 1978, because of price rises and new supply problems. However, the cost of the imported oil will be considerably higher than the 1978 level.

The assets owned in South Africa by Western oil companies are without question the largest foreign investments in that country, and strategically the most important. It is clear from evidence that has emerged in the last few years that without the overt support of these companies, the Smith regime in Rhodesia would have collapsed years ago. Similarly, there is no doubt that these companies, through fuelling the Apartheid economy and the armed forces, are playing a key role in maintaining the South African status quo.

South African defences against an oil embargo

South Africa currently imports 99% of its oil requirements. The country would, therefore, be very vulnerable to an effective international embargo. The exact period for which the country could survive

.../

a total cut-off would be determined by four factors. First, whether current exploration efforts in South Africa lead to discoveries of significant oil deposits. Secondly, the quantity of oil internally manufactured by oil-from-coal plants. Thirdly, the size of oil stock-piles. Fourthly, the extent to which oil consumption could be reduced with rationing.

For many years, efforts have been made to discover oil deposits in South Africa. However, these have, in commercial terms, been totally unsuccessful, both on and off-shore. Experts consider it extremely unlikely that South Africa will ever discover commercially-exploitable oil deposits.

Largely as a result, South Africa has devoted enormous effort and funding to bulding the Sasol I and Sasol II oil-from-coal plants. Sasol I only provides about 1% of South Africa's oil needs. The South Africans have for some years been constructing a much larger oil-from-coal plant, named Sasol II, for which the principal contractor is the US-based Fluor Corporation. In February 1979, shortly after the cut-off of Iranian supplies, the South African authorities announced a doubling of the planned size of Sasol II. (The extension to Sasol II was initially referred to as "Sasol III", though that name is no longer used). The expanded Sasol II will cost at least "7 billion.

Many exaggerated claims have been made concerning the proportion of South Africa's needs that Sasol II will provide. In fact, its total production of transport fuels in 1983, the first full year of production, will still be only about 80,000 barrels per day. This means that Sasol I and the expanded Sasol II together will only provide one third of South Africa's transport fuel needs in 1983 -- and a decreasing proportion as the needs go up thereafter.

(This figure of one third is derived as follows: The output of transport fuels (petrol, diesel, and light fuel oil) of the expanded Sasol II will be about 80,000 barrels per day. Sasol I's output of the same products is about 3,000 b/d. In 1975 -- the latest year for which such figures are available -- South Africa's total requirements of these same oil products was 188,000 b/d. The annual growth rate for this figure was then about 5%, which means that by 1978 the consumption of petrol, diesel and light fuel oil was about 218,000 b/d. (This is, of course, less than the country's total crude oil imports, because some of the crude goes to making products other than these transport fuels). Thus the total production (83,000 b/d) of transport fuels by Sasol I plus Sasol II in 1983, the first full year of Sasol II production, will be only 38% of estimated 1978 demand for these fuels. Even if the South African demand for these products grows only at a very modest

.../

2½% per annum between 1978 and 1983, the Republic's 1983 needs for these products will be about 247,000 b/d, of which the 83,000 b/d production by the two Sasol plants will represent 34%, i.e. one third).

South Africa has been building up a strategic stockpile of oil for over a decade. Much of this is stored in disused coal mines. The size of the stockpile is a closely-guarded secret. The local press used to quote a figure of two to three years' consumption at present levels. However, more realistic calculations suggest that the stockpile in fact represents about one and a half years' consumption at current consumption rates, or two years' with rationing. These latter figures are being increasingly accepted in Western diplomatic circles.

South Africa has already made strenuous efforts to reduce its consumption of oil. It is unlikely that a programme of enforced rationing would enable the country to further reduce consumption by more than about a fifth without severe disruption to the economy.

These factors make it clear that despite all South Africa's efforts, its economy would steadily grind to a halt in the event of an effective oil embargo.

The effect on South Africa of the recent changes in Iran

The recent change of government in Iran, and the announcement by the new government that Iran is no longer prepared to supply oil to South Africa, clearly transforms the whole situation, and enormously improves the chances that an effective oil embargo can be introduced against South Africa. As a result of the Iranian change of policy, the situation now is that every member of OPEC has declared at some time or another that it does not want its oil to go to South Africa.

The fact remains, however, that South Africa is still obtaining oil, though it is having to pay sizeable premiums to obtain it. There are, in theory, three main ways in which oil might be reaching South Africa:

a) One or more members of OPEC, for whatever reason, might have changed their policy regarding South Africa, without having made a public announcement to this effect. This is unlikely to be the case, however, bearing in mind both the strong feelings OPEC members have on the subject of South Africa, and the strong probability of leakages taking place as in (b) below;

.../

b) Oil sold by OPEC members to large or small oil companies, purportedly for delivery to some country other than South Africa, might instead be delivered to South Africa without the knowledge of the supplying country. This could happen directly (i.e. the tanker, as it were, turns right instead of left, and sails from the supplying country to South Africa, possibly stopping at other off-loading points on the way), or indirectly (i.e. the oil is taken from the supplying country to, say, Rotterdam, where it is transferred to another tanker, and possibly another owner, before being taken on to South Africa).

c) Oil might be being delivered to South Africa from some oil-producing country which is not a member of OPEC and which has not announced a policy of embargoing South Africa. Some oil-producing countries not in OPEC do not produce enough even for their own needs, and are net importers. However, there are a number of other countries which, although not members of OPEC, are still net exporters of oil. The policies of some of these countries concerning supplies to South Africa have not as yet been clearly enunciated. There is already one confirmed case of oil from a non-OPEC country still going to South Africa. Shell International Petroleum, a London-based subsidiary of Royal Dutch Shell, has a contract with Sasol, the South African state oil corporation, to supply it with crude oil. The quantity involved in this particular contract is believed to be about 25,000 barrels per day, some 7% of South Africa's needs. The oil comes from the Seria oilfield in the Sultanate of Brunei, and the contract is still in force. Brunei, a small country in the Far East with a population of about 200,000, is internally self-governing; however, its external affairs are the responsibility of the United Kingdom. The UN regards the country as a British colony.

Numerous unconfirmed rumours have been circulating in recent months concerning supplies of oil from various countries to South Africa. Needless to say, the trade is surrounded in considerable secrecy, not least because of the risk that exposure will cause intermediary companies to loose the very considerable profits that they must be making. One of the most detailed publicly available reports on current supplies to

.../

South Africa (apart from that concerning Brunei) was provided in the Journal of Commerce (a New York newspaper specialising in shipping news) on March 21 and May 7, 1979.

'Journal of Commerce' articles - March 21, 1979

Mideast Oil Still Going to South Africa - By Craig Howard

Journal of Commerce Staff

South Africa is still able to secure oil supplies from the Arabian Gulf, despite official embargoes by the Arab States and Iran, tanker charter market sources say.

At least three ships have reportedly been chartered to carry this oil in the past few days, although one senior London tanker broker said Tuesday that one, and possibly two such charters have once been canceled when word of them leaked into the international tanker markets.

The reports have caused no little surprise in the market place where it had largely been expected that South Africa had been cut off from Arabian Gulf oil supplies since the Ayatollah Khomeleni came to power in Iran. The Arab League, of course, has had a long-standing embargo against trade with South Africa, while, more recently, the Organization of Petroleum Exporting Countries with the exception of Iran, agreed to a similar embargo at the urging of the Organization for African Unity.

Until the Ayatollah came to power, South Africa received some 91 percent of its oil supplies from Iran.

Purchasing Missions

According to South Africa watchers here, that government has dispatched a number of purchasing missions abroad in efforts to procure other supplies to offset its loss of Iranian crude. Until now, the sources said, the South Africans had been forced buy on the world's spot markets, such as Rotterdam, paying as much as a 60 percent premium over the already higher crude prices. The South Africans are also known to be willing to exchange gold in a straight barter for oil.

It is not known at this time whether these latest supplies are coming from Iran or another Arabian Gulf country. The reports so far have lifted only a general loading area without specifying the actual port.

Apart from Iran South Africa has, in the past, been able to buy crude from Dubai, according to a UN report published last year.

Last week, Maritime Trade News, a London-based news service specializing in the international charter markets reported that among the charters was one involving a voyage from the Arabian Gulf to Durban by the very large crude carrier Neptune World. The ship is owned by Sir Yue kong Pao and is listed as on long-term charter to the Japanese C. Itoh Company.

.../

For the Durban voyage, she was reportedly subchartered to a company identified as Transworld Petroleum Corp, a company little known in the charter markets but said to be a subsidiary of a US oil trander.

Other reports said that a Norwegian VLCO owned by Mosvold Torrey and named the Mosclif had also agreed a similar voyage with US oil trader Marc Rich. However, London brokers said Tuesday that the vessel was back on the market looking for employment because her charter had been canceled when it became known on the market.

In the third instance, another, so far unidentified tanker had been booked by Standard Oil of Ohio for a voyage to Durban. Brokers were quick to point out that the US oil company was largely owned by British Petroleum which had substantial Iranian oil interests.

None of the three charters reportedly involved could be reached for comment Tuesday.

May 7, 1979

Ship Charter Market

South Africa watchers noted with some interest a 12-month timecharter of a VLCO in the international oil charter markets at the end of last week. According to reports, the 260,000 ton Stalerd was booked by Transworld at $1.25 per ton per month.

At the end of March, the charter was among those linked with reports of shipments of Arabian Gulf crude to South Africa, despite embargoes by Arab countries and Iran. Taking a ship on long-term charter instead of single voyages, brokers said, would automatically cut the risks of news leaks in the market-place, thereby cutting down on press reports that the South African government might find embarassing.

The effects on the South African economy of having to engage in complex and secret strategems to obtain its oil are serious. The South Africans themselves have announced that they are having to pay premiums of some 60% in order to obtain their oil. One South African government official has said privately that the premium is sometimes considerably higher. Without these premiums, South Africa would currently be paying on the order of $2,500 million for its 1979 oil imports. Premiums of 60% to (say) 100% would increase this annual import bill by a further $1,500 to $2,500 million. In other words, these premiums alone could currently be costing South Africa as much as $4 to $7 million per day -- a significant percentage of the Republic's total foreign expenditure.

.../

Possible forms of action by the international community

The previous section has made clear three main things:

a) South Africa, through having no oil of its own, has always been particularly vulnerable to an oil embargo;

b) This vulnerability has been enormously increased in recent months by Iran's decision to terminate supplies to South Africa;

c) Although South Africa is currently managing to obtain the oil it needs, it is doing so at a cost which cannot fail to be a serious drain on the economy.

Clearly, therefore, it is extremely important that the international community now seize the chance to do all it can to make the existing OPEC embargo against South Africa more effective. It is particularly important to appreciate that even if such an effort was only implemented with marginal effectiveness, this could still significantly increase the premium which South Africa has to pay for its oil. Just to expose a couple of shipments to South Africa by small or large oil companies, thereby making these and other companies even more reluctant to handle oil for South Africa, could succeed in forcing South Africa to pay a further premium of another 10% or 20% (half a million dollars to $1 million per day) for its oil. The most minor of efforts by the international community could have the most serious of effects for South Africa.

However, the overall objective should, of course, be to expose and terminate all shipments of oil to South Africa. The rest of this section is devoted to a preliminary discussion of some of the methods that could be used.

A mandatory embargo imposed by the Security Council

The best form of embargo would be a mandatory embargo imposed by the UN Security Council, acting under Chapter VII of the UN Charter. This would have two main advantages over the present OPEC embargo. First, it would mean that all countries would be willing (or pressured) to participate in the embargo. Secondly, oil companies based in all countries, including non-OPEC countries, would become compelled by law to observe the embargo.

.../

A detailed discussion on the form such an embargo could take is provided in pp. 81-85 of the report Oil Sanctions Against South Africa, available from the Centre Against Apartheid. (See Appendix 1)

It should be appreciated, of course, that in the event that a proposal for a mandatory oil embargo against South Africa is presented before the UN Security Council, such a resolution can be vetoed by any one of the five permanent members of the Security Council (the USA, the United Kingdom, France, China, and the USSR).

An embargo imposed by oil-exporting (and other) countries

In the absence of a mandatory Security Council embargo, one or more of the following strategies could be introduced by oil-exporting and non-oil-exporting countries, individually or in conjunction, in order to reduce or terminate the supply of oil to South Africa. Where the strategy involves penalising companies by means of a fine or a surcharge on sales, a part of the funds so raised could be paid into a Liberation Fund (or a fund to help South Africa's "hostage states") which would be administered by the OAU or some other appropriate international body.

Strategy 1 - whereby oil-exporting countries seek to prevent their OWN oil being taken to South Africa

An oil-exporting country could impose certain severe penalties upon any company shown to have been involved at any stage in the purchase or transportation of any oil which ended up in South Africa having originated in the country in question. The penalty could take one or more of the following forms:

a) The country could impose a fine on the company in question, of an amount equal to some specified multiple of the value of the oil known to have been delivered to South Africa;

b) The country could, for a specified period of time, impose a surcharge on sales of oil to the company in question;

c) The country could impound the tanker which was involved in carrying the oil to South Africa, next time (if ever) that it called to collect oil.

.../

c) The country could impound the tanker which was involved in carrying the oil to South Africa, next time (if ever) that it called to collect oil;

d) The country could, for a specified period of time, refuse to supply any oil to the company in question and refuse to allow any tanker owned by the company in question to carry oil from that country;

e) The country could, for a specified period of time, place the company in question on a blacklist. This would mean, firstly, that the company would incur penalty (d) above. Additionally, the country would order other companies to whom it supplies oil or from which it buys tanker services not to deal with the blacklisted company, in pain of similar penalties. (This penalty is designed to deal with the case where the country supplies oil to Company A, which resells it to Company B, which resells it to Company C, (etc.), whish resells it to South Africa, if Company B or C never buys oil directly from the country in question).

f) The country could, for a specified period of time, state that any oil it sells to the company in question must be transported in a tanker owned by a company of the country's choosing (e.g. a tanker owned by an oil exporting country's shipping line).

Strategy 2 - - whereby oil exporting countries seek to prevent ANY oil being taken to South Africa

An oil exporting country could impose the same penalties as in Strategy 1 on any company shown to have been involved in the supply to South Africa of any oil, not just the country's own oil. (Thus, under Strategy 1, a particular country would only penalise the companies involved if they had a role in taking that country's oil to South Africa; whereas under Strategy 2, the country would penalise the companies involved if they had a role in taking any oil to South Africa).

Strategy 3 - - whereby countries seek to force Western oil companies to dispose of their assets in South Africa

Oil-exporting countries could refuse to do any business with oil companies which have subsidiaries in South Africa, or they could impose a surcharge on all sales to such companies, until such time

.../

as the South African subsidiaries have been disposed of. (The major such companies are Mobil, Caltex (owned by Texaco and Standard Oil of California), Total, Shell, and BP. Exxon has a smaller investment).

Furthermore, as a form of supporting action, oil-importing countries could impose a similar form of penalty (or an increased tax on profits) on local subsidiaries of oil companies which also operate in South Africa. In those cases where an oil company has a larger operation in such a country or group of countries than it has in South Africa, such an action could act as a powerful incentive to withdraw from South Africa.

Clearly, the companies penalised in this strategy would also be affected by strategies 1 and 2 if, as at present, they have investments in South Africa and supply oil to South Africa.

Strategy 4 - - whereby certain further pressures are exerted on individuals and companies involved in the South African oil business.

Countries (oil-exporting and otherwise) could refuse to enter into contracts with any company or person that is found to have been employed after some specified date in any way in the following activities related to the oil industry in South Africa: exploration and development, transportation, refining, stockpiling, marketing, or extracting oil from coal. Furthermore, countries could prohibit their own citizens and companies from engaging in such activities related to South Africa. (This strategy overlaps with the previous three insofar as it affects oil and shipping companies involved in the South African oil business. But it also affects certain other companies and personnel, such as those which provide technical equipment and expertise to oil companies in South Africa).

Comments on these Strategies

The task of enforcement becomes most difficult in the case where an oil-exporting country supplies oil to some major Company A, which delivers it to (say) Rotterdam and sells it there to some small middleman Company B for eventual delivery to South Africa. The necessary detection and enforcement system would need to identify and penalize both of these companies. But directly penalizing Company B might be virtually impossible because, by its very nature, it would normally have no dealings with the country in question. This could be dealth with in two ways. First, Company B could be placed on a blacklist

.../

(see Strategy 1, penalty (e)). Secondly, the penalty imposed on Company A would make that company very reluctant in future to resell oil to any Company B without strict guarantees that Company B would not deliver the oil to South Africa. Thus, to use oil-trade terminology, such a strategy would encourage the sale of oil directly from oil-exporting countries to end-users, which is one of the general goals of oil-exporting countries.

Clearly, the four strategies above, if they are to work, require the setting up of a system for detecting which tankers have delivered oil to South Africa; and to set up such a detection system would require resources of various kinds. Oil-exporting and other countries will be most likely to participate in such strategies, and to assist in providing the required resources, if appropriate and carefully-worded resolutions have been passed by the OAU, OPEC, OAPEC, the Non-Aligned Movement, and the Commonwealth. By fortunate chance, most of these organizations will be holding summits during the summar of 1979. The appropriate detection systems and resolutions are discussed further in Sections 3.3 and 3.4 below.

It is, we think, worth emphasizing a point already made in this paper. These strategies have the potential for striking an extremely serious blow against South Africa in return for the expenditure of relatively little money and effort. Currently, large tankers deliver oil to South Africa every two to three days. If only a few such tankers are identified, and certain punitive actions are taken against the companies involved, it would have the effect of making it even harder for South Africa to find companies willing to defy OPEC's current embargo, and would increase yet further (perhaps by several million dollars per day) the cost South Africa has to pay for its oil.

A mechanism for detection

In order to implement effectively the penalty-based strategies referred to earlier, it is clearly essential for all countries participating in the embargo to have access to reliable data on tanker movements to South Africa. A certain amount of data could be gathered without the involvement of participating governments in the detection system; but the system would be markebly improved if a number of governments -- particularly those of oil-exporting countries -- were to provide assistance. In whatever way the relevant information was gathered, it would be necessary for there to exist a central information clearing house, which would collate the information and transmit it, as appropriate, to participating countries.

.../

Information from publicly-available and non-governmental sources

The types of information on tanker movements to South Africa which could be obtained without necessarily requiring the cooperation of governments include the following:

- Information received, by various means and in confidence, from witnesses in South Africa.

- Information supplies:

  a) by tanker personnel (particularly the crews of tankers which have just been to South Africa);

  b) by waterfront workers around the world; and

  c) by their respective trade unions.

- Information obtained from certain commercial computerised systems which monitor global shipping movements.

- Information obtained from port and coastguard authorities and their publications.

- Information obtained from sources working in the tanker brokerage market.

- Possibly, data based on analysis of satellite photographs.

- Possibly, information based on observations from a special monitoring vessel off South African ports.

Clearly, the most precise information could be provided by people who work in South Africa, or who work elsewhere for the various companies which participate in oil supplies to South Africa. Potential sympathetic sources in South Africa would usually feel unable to provide information, because of the legal risks involved. However, many potential sources outside South Africa would, without question, be considerably encouraged to provide information of this sort if a system were established of presenting them with fairly generous rewards for their information. The necessary funds for such a system could be obtained from governments participating in the embargo, or from the proceeds of the penalty system imposed against offending companies.

.../

Information from governmental sources

Governments cooperating in the embargo could clearly play a very useful role in helping to provide or relay some of the forms of information mentioned in the preceding section. Additionally, governments of oil-exporting countries could agree to pass to the central clearing house the following:

- Relevant information on all oil sales contracts, including the identity of the purchasing company, the quantity (but not the price) involved, the purported port of destination, the purported end-user, and so on.

- Information on the exact form taken in sales contracts of the restrictions imposed in order to prevent the oil from reaching South Africa.

- Information on all arrivals and departures of tankers, with the purported port of origin/destination.

- Information summarising evidence received from client companies that oil has actually been delivered to the originally specified destination and end-user.

- Information on all penalties imposed against offending companies.

This information could be supplemented by information from oil-importing countries concerning tanker movements of which they are aware.

Some thoughts on the necessary clearing house

If a detection scheme is to be effective, all the relevant data should be sent into a central information clearing house, if necessary on a confidential basis. At the clearing house, the information would be collated and analysed. This task could be done most effectively if the clearing house had access to a relatively simple computerised data storage and retrieval system, of the kind which is now available fairly widely and cheaply.

The clearing house would then inform participating governments of which ships and companies had apparently been involved at some stage or other in supplying oil to South Africa, so that the appropriate actions could be taken.

.../

The clearing house could perhaps most appropriately be based in some oil-exporting country which has good communications links with the rest of the world. It might well be useful to have additional branch offices in one or more Western cities such as New York, London, or Rotterdam, where considerable amounts of data would be obtained and computer and other services are available.

It should be emphasised that if this proposed form for the clearing house were felt to be too ambitious for immediate implementation, the same concept on a reduced scale would still be of enormous value.

Some thoughts on resolutions which could usefully be passed at certain forthcoming OAU/UN Conference in August

This paper has already emphasised with some force the remarkable impact that could result from a tightening of the existing oil embargo against South Africa. There is no doubt that such a tightening is a perfectly feasible task. However, it must be acknowledged that the embargo will remain relatively ineffective unless firm support is provided, by a large number of governments, for both the overall principle and the necessary organisational details.

If the new situation regarding oil supplies to South Africa is to be taken maximum advantage of, it would be extremely useful - - and possibly essential - - for appropriate resolutions to be presented to and passed by the OAU/UN Conference in August.

A UN Security Council mandatory oil embargo against South Africa

(Note: The following is an extract (pp. 81-85) from M. Bailey and B. Rivers, Oil Sanctions Against South Africa, published by the UN Centre Against Apartheid in June 1978. At the time at which it was written, Iran was still the principal supplier of oil to South Africa).

8.2 A United Nations embargo

As has already been explained, an embargo on South Africa by all members of OPEC would have a drmatic effect, but could also contain a number of loopholes. Furthermore, it is clear that at present Iran is not willing to participate in such an embargo. The disadvantages of an embargo in which only some members of OPEC participate are numerous, as has been clearly illustrated in recent years. In effect, oil from the embargoing countries and oil from the non-embargoing countries is all fed into a global pool - a pool which is controlled by the oil "majors" - and out of this pool, the "majors" are able to supply South Africa.

.../

The situation would be very different, however, if a mandatory oil embargo were imposed against South Africa by the United Nations Security Council, acting under Chapter VII of the UN Charter. This would have two main advantages over the present embargo. First, it would mean that all countries (including Iran) would presumably be willing to participate in the embargo. Secondly, oil companies based in all countries, including non-OPEC countries, would become compelled by law to observe the embargo.

An effective embargo would require legislation by all states to render illegal:

a) The sale or supply of petroleum or petroleum products to any person or body in South Africa, or to any other person or body for the purpose of eventual supply to South Africa;

b) Any activities by their nationals or in their territories which promote or are calculated to promote the sale or supply of petroleum or petroleum products to South Africa;

c) The shipment in vessels or aircraft of their registration, or under charter to their nationals, of any petroleum or petroleum products to South Africa;

d) The supply of any services (technical advice, spare parts, capital, etc.) to the oil companies in South Africa.

It has sometimes been argued that since oil sanctions against Rhodesia have failed, an embargo against South Africa would be equally ineffective. The two cases, however, are very different: Rhodesia was only able to survive sanctions because of support provided by a friendly neighbour (South Africa); South Africa has no similar local ally with access to oil.

It has also been argued that such an embargo, even if universally accepted by the international community, would not prove effective because there is currently a glut of oil on the world market. The South Africans, it is said, would be able to purchase a tanker full of oil on the high seas from "pirate" companies.

It has therefore been suggested by some observers that an oil embargo could only be effective if a naval blockade was established off the South African coast. A precedent already exists when oil sanctions were imposed against Rhodesia: the "Beira Patrol", which was mounted off the Mozambican coast between 1966 and 1976, prevented supplies of crude oil reaching Beira (from where a pipeline runs to Rhodesia). This patrol, operated by the Royal Navy of the United Kingdom, was authorized by the Security Council acting under Chapter VII of the UN Charter. 173/

173/ Security Council Resolution 221 (1966).

.../

There are important differences, however, between the Beira Patrol and a naval blocakade to prevent oil reaching South Africa. The Beira Patrol did not interfere with Mozambique's own supplies of crude oil - which were shipped to the refinery at Maputo - so that the blockade hardly posed a direct threat to the nation which was being "patrolled". Consequently, the Portuguese authorities in Mozambique did not engage in a military confrontation with the Royal Navy. A naval blockade of South Africa would, however, be a very different matter: the survival of the South African regime would be threatened, and an attempt to impose a blockade could in the limit lead to a military confrontation.

A naval blockade, however, is probably not necessary to cut off South Africa's oil supply. Much simpler, but effective, steps could probably still be taken: the UN Security Council could require measures to be introduced so that any tanker which had delivered oil to South Africa would be liable to seizure after such a delivery had been made.

There are no insurmountable problems in determining which tankers have delivered oil supplies to South Africa. A number of methods could be used. First, Lloyd's of London publish up-to-date information on tanker movements to all ports, including those of South Africa. This data does not distinguish between tankers which have unloaded oil, and those which are merely bunkering or taking on supplies, but those tankers which stop at South Africa between two ports in oil-exporting countries can probably be assumed to have delivered oil. 174/ Secondly, the mooring points for crude oil tankers at Durban and Cape Town are visible from the two cities. Thirdly, aerial reconnaissance (by aircraft or satellite) could show which tankers had delivered at South African ports. Finally, a rather less sophisticated naval patrol could be used simply to observe which tankers had entered South African ports. If the patrol had no mandate to intercept these tankers, a confrontation with the South African navy would be much less likely to develop. Furthermore, the patrol could be operated by relatively small ships, possibly provided by non-aligned nations. An obvious advantage of an oil embargo, compared with other forms of selective trade embargoes, is that ships carrying oil in bulk - i.e. tankers - are easy to distinguish visually from ships carrying other goods. 175/

174/ Lloyd's of London obtain their information from ship owners and from agents in the various ports. In the event of an oil embargo, Lloyd's of London might find it difficult to obtain information on tanker deliveries to South Africa.

175/ If, following the imposition of a mandatory oil embargo, South Africa were to refuse to provide bunkering facilities to tankers sailing round the Cape, then the problem of distinguishing between tankers calling in to deliver oil and tankers calling in for bunkers would of course disappear.

The data obtained by all these methods of observation could be fed into a clearing house operated by the United Nations, which would then pass on the information to all Member States. The tanker could then be seized next time they entered a non-South African port. In the case of tankers which had actually delivered oil, this would normally be the port of an oil-exporting nation. Seized tankers could either become the property of the United Nations, or else heavy fines could be imposed for their release. The tankers themselves - or their owners, operators, and charterers - could also be black-listed from entering the ports of UN Member States for fixed periods of time.

A variation to this proposal would involve the withdrawal of national registration facilities to any tanker which had delivered oil to South Africa. Without a flag to fly, tanker would find that normal commercial operations were impossible. Similarly, insurance facilities could be cancelled for any tanker which had been involved in supplying South Africa.

The scheme we have outlined, if implemented, could not guarantee that no tanker ever delivered oil to South Africa. But it would mean that it would become extremely difficult - and very expensive - for South Africa to obtain transport facilities for importing oil. Tanker owners would certainly be reluctant to lease a tanker to a client who might be using it for carrying oil to South Africa.

8.3 Costs of the embargo

An oil embargo would be one of the most cost-effective forms of pressure that could be applied on South Africa by the international Community: the costs to South Africa would be enormous, but the costs to the international community would be relatively small. 176/ The costs to the international community would be two-fold. 177/ First, the costs of actually enforcing the embargo: this would obviously depend on whether a naval blockade was instituted, or whether one of the much simpler schemes outlined above was used. Secondly, the costs of assisting those neighbouring countries in Southern Africa which currently import oil products from South Africa; these costs would depend on whether precautionary measures had been taken, and on the level of oil stocks in these countries.

176/ It has been argued by some that one should also consider the cost of relaliatory measures that South Africa might take. However, if the oil embargo was imposed after a multilateral decision, through the UN Security Council, it is difficult to see how South Africa could retaliate against the international community without suffering even greater economic damage itself.

177/ There is also a further non-financial question. Some countries have felt uneasy about the use of oil as a "political weapon" since they fear that an oil embargo might one day be introduced against themselves. It should be remembered, however that a Security Council embargo cannot be imposed if any one of the five permanent members vetoes it.

.../

An oil embargo would have an enormously disruptive effect on South Africa. If all oil supplies were cut off, the Republic would probably not be able to survive for more than two years. The economy would grind to a halt: transport would become extremely difficult; industry would be severely hit; production in the modern agricultural sector would rapidly fall; and the armed forces and the police would lose their mobility.

Clearly, the primary economic impact would be in those sectors most dependent on oil products - transport, agriculture, petrochemicals, local commerce and so on. But the secondary effects could be even greater. The cost of living would escalate rapidly. The motor industry would enter a slump. People would find it difficult to travel to work. An oil embargo would also accelerate the withdrawal of foreign capital. A senior executive of General Motors (USA) made it clear in late 1973 that if oil sanctions against South Africa reached a certain level of effectiveness, their South African subsidiary would start making a loss, in which case they would close down the operation. 178/

The dangers of an oil embargo to South Africa were summarized by the Financial Mail in September 1977:

> Even the threat of (oil) sanctions against South Africa has far-reaching consequences.
>
> The blow to confidence could prove a severe setback to the nascent economic recovery. Investment, lending and home-buying plans are among those that would be reconsidered. A new wave of skilled South Africans could decide to vote with their feet.
>
> It's also widely accepted that our ability to withstand prolonged sanctions is not nearly as great as the Rhodesians' has been. Not only does the smooth running of the South African economy depend on a wide variety of sophisticated, imported products, but can we be sure we can match Ian Smith's success in finding a friend in need? 179/

The political question of what type of sanctions would be imposed against South Africa - and the timing of such moves - lies beyond the scope of this study. This report merely attempts to present a preliminary analysis of the technical feasibility of an oil embargo. The conclusions suggest that it certainly would be feasible to impose a virtually complete cut-off of oil supplies to South Africa. This would not be without problems for the international community. But, providing the political will exists, it appears that these difficulties could be overcome. Oil sanctions probably represent the most effective form of external pressure that could be exerted on South Africa.

178/ Quoted in Barbara Rogers, White Wealth and Black Poverty, (op. cit.) p. 262.

179/ Financial Mail, 16 September 1977.

1980-06-28

Report of the Secretary-General on the Oil Industry in South Africa and the Effective Implementation of Oil Embargo

African Union

African Union