Testimony before the United Nations Special Committee Against Apartheid

by

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Thank you, Mr. Chairman, for this welcome opportunity to testify before the Special Committee against Apartheid.

Perhaps, first, I should introduce myself. I am a British economist, and I work in London and New York as a freelance researcher on Third World issues. Over the past three years I have devoted a considerable proportion of my time to investigating how South Africa and Rhodesia obtain their oil supplies. Much of this work has been done in conjunction with a colleague, Martin Bailey. In preparing this testimony, I have drawn considerably on his work, and also on that of Jennifer Davis, Research Director of the American Committee On Africa. I extend my thanks to both of them.

My intention today is to discuss the role in South Africa of oil, and of Western oil companies. I will then go on to consider the reasons and possibilities for an oil embargo against South Africa.

South Africa is a country blessed with an abundance of raw materials. However, as is well known, the one key raw material which has not yet been discovered in South Africa is oil. Consequently, almost all of South Africa's

oil is imported; the only exception is a small quantity produced by the SASOL oil-from-coal plant. South Africa is currently thought to be importing oil at the rate of some 16 million metric tons per year. A small proportion of this comes in the form of refined products; the remainder comes as crude oil. It is hard to produce precise statistics, because South Africa has not released data on its oil imports since 1973.

It is generally acknowledged that the great majority of South Africa's oil comes from Iran. According to UN estimates, South Africa in 1975 imported 12.7 million tons of crude oil from Iran, 1.8 million tons from Qatar, 0.4 million tons from Brunei, and 0.1 million tons from the United Arab Emirates.

Iranian crude oil is exported to South Africa in two ways. First, the National Iranian Oil Company (NIOC), which is government-owned, has a long-term contract to supply the South African-controlled refinery NATREF with crude oil. Secondly, the main supplier of crude oil to South Africa is the Iranian Consortium. BP owns 40 per cent of the Consortium, and Shell 14 per cent, with the remainder being shared between a number of other oil companies, mostly American. Iranian crude is purchased by the individual members of the Consortium, presumably in accordance with their shareholdings, and is then exported by these companies to South Africa and other countries. It is worth pointing out that although 80 or 90 percent of South Africa's oil comes from Iran, only about 5 per cent of Iran's oil goes to South Africa. Thus South Africa is much more dependent upon this relationship than is Iran.

One problem in attempting to compile statistics on South Africa's oil supplies is that oil-exporting countries often have to rely on the word of the multinational oil companies as to where the oil they purchase is transported. Sources close to the South African oil industry say that ships belonging to one or more of the multinational companies whose subsidiaries operate in South Africa, sometimes carry crude oil to South Africa having purchased it from certain Middle East countries which are members of OPEC and which have in recent years attempted to enforce an oil embargo against South Africa. Indeed, some of the documents relating to these supplies of oil to South Africa actually have printed on them in large letters the words "Not for delivery to South Africa", or some similar expression. Clearly, one or more of the parent oil companies are deliberately undermining the stated policy of various Middle East OPEC members, by not informing these countries that their oil is being taken to South Africa.

South Africa has an unusual pattern of energy consumption, compared with most industrialised countries, in that only a quarter of its energy needs are met from oil. Most of the remainder is provided by its huge coal reserves, which are particularly economic because of the minimal wages paid to black workers in the mines. However, the economy still remains very dependent on imported oil to fuel its transport system, its industrial sector, its chemical industry, its agricultural machinery, its fishing fleet, and so on. As the managing director of the Industrial Development Corporation has stressed, "dependence on imported fuel is one of South Africa's most vulnerable points."

South Africa is not only dependent on foreign oil; it is equally dependent on foreign oil companies. The country has four oil refineries, three of which are wholly owned by Western oil companies, and one of which is partially so owned.

The refining companies in South Africa are:

(a) Mobil Refining Company Southern Africa (Pty.) Limited, which owns and operates a refinery at Durban with a capacity of 5.0 million tons per year. This company is a wholly-owned subsidiary of Mobil Oil Corporation, an American company.

(b) Shell and BP South African Petroleum Refineries (Pty.) Limited, which owns and operates a 10.0 million tons per year refinery, also at Durban. The company is owned 50 per cent by Royal Dutch/Shell (a Dutch-British Company), and 50 per cent by BP (British Petroleum) (a British company, 51 per cent owned by the British Government).

(c) Caltex Oil (S.A.) (Pty.) Limited, which owns and operates a 3.25 million tons per year refinery at Cape Town. The company is a wholly-owned subsidiary of Caltex Petroleum Corporation, an American company itself jointly owned by Texaco and the Standard Oil Company of California.

(d) NATREF -- National Petroleum Refiners of South Africa (Pty.) Limited, which owns and operates a 3.6 million tons per year refinery at Sasolburg, near Johannesburg. The company's equity is owned: 52.5 per cent by SASOL (itself owned by the South African Government); 30 per cent by Total Refining South Africa (Pty.) Limited (itself owned 66 per cent by the French state-controlled CFP (Compagnie Française des Pétroles), and 34 per cent by South African interests); and 17.5 per cent by NIOC (the National Iranian Oil Company), itself owned by the Iranian Government.

Thus it is clear that the South African refining capacity is almost entirely owned by the five Western companies Shell, BP, Total, Mobil and Caltex.

Each of these five companies also owns a marketing subsidiary in South Africa. The market shares of these companies were estimated earlier this year as follows:

Caltex . . .	19.9%
Mobil . . .	18.1%
BP . . .	17.5%
Shell . . .	17.5%
Total . . .	11.8%
four smaller companies	15.2%

The amount of money tied up by the Western oil companies in South Africa is enormous. Mobil's investments there were last year estimated at one third of a billion dollars. And it was also reported last year that over the next five years, BP intends to increase its investment in South Africa by more than that amount. The oil companies are not only putting their money into oil refining and marketing; it also goes in considerable quantities into fields such as coal exploration and mining, and chemical manufacturing.

The oil companies in South Africa like to preserve the fiction that they operate independently and in competition. In fact, they liaise so closely that in some respects they should be regarded as a single entity. For instance, Caltex has the only refinery in the Cape area, yet all five oil companies operate marketing outlets there. Rather than four of these companies transporting fuel hundreds of miles to these outlets in the Cape area, they take fuel from the local Caltex refinery, and provide fuel in return for the Caltex outlets in the Transvaal etc.

Of greater significance, however, is the cooperation between the oil companies and the South African Government. Since 1967, foreign oil companies in South Africa have been required by the Government: (a) to make their refineries available for processing crude oil from any source, when excess capacity is available; (b) to ensure that the major proportion of their earnings remains in South Africa for the financing of industry expansion; and (c) to be prepared to produce specialised petroleum and oil products required for strategic and other logistical reasons, irrespective of the commercial potential. Then, just five days after the imposition of the recent mandatory UN arms embargo against South Africa, the South African Government announced that it has given itself the authority to force foreign companies operating in South Africa to produce strategic materials.

There is little doubt that this latter move was to a significant degree aimed at the oil companies. Even before the move, the Western oil companies in South Africa claimed that under existing South African legislation, it would be illegal for them to refuse to supply the South African military, or any other branch of the South African Government; in fact they had to agree to supply <u>any</u> South African client willing to pay the current price. Furthermore, they claimed that under the South African Official Secrets Act, they may not provide foreign governments with information regarding the sources, refining, storage, reserves and distribution of their oil. And they could not even pass such information on to their own parent companies when there was reason to believe that that information might then be relayed to the government of the country in which the parent company is based.

If we are to accept these arguments -- and they do appear to have some legal basis -- then we have to conclude that the parent oil companies have to a considerable degree lost control of their subsidiaries in South Africa, even though they still receive profits from their operations.

Clearly, any Western-owned company in South Africa serves two masters -- its parent company, and the South African Government. When the policies of the two masters diverge, it would appear, according to the stand taken by the oil companies, that the South African Government has its own way. This is a point which should be given serious consideration by those who still believe that Western companies can be a strong influence for progress within South Africa.

Much of the oil sold by the oil companies in South Africa goes to Government clients. 'Government business' is classified as sales direct to the army, air force, police, railways, ISCOR, ESCOM, and various other parastatals. According to sources close to the oil industry in South Africa, some 60 per cent of all the Government business within South Africa is provided by Total, the French-owned company. Of the remaining 40 per cent, Mobil has the largest share. Total has the exclusive contract to supply the police. Mobil and Total provide the great majority of the fuel needs of the army and air force in Northern Transvaal, which is the main area where these forces are based.

There are, of course, many other ways in which the Western-owned oil companies have carried out the South African Government's wishes. (And I might

add that although the Government certainly has the powers to force the companies to engage in these activities, one certainly does not get the impression that the oil companies display any reluctance in cooperating.) The oil companies are, for instance, heavily involved in the South African efforts to discover oil, both inland and offshore. They also worked hard to reduce the impact of the Arab oil embargo instituted some four years ago. The Chairman of BP, on a visit to South Africa in March 1974, himself confirmed that the parent oil companies have "intentionally set out to thwart Arab attempts at enforcing oil embargoes on countries like South Africa."

Probably the most dramatic example of the way in which the South African subsidiaries of the Western oil companies assist the South African Government is provided by their sanctions-breaking activities. This is a subject which I have researched at length, and on which I have testified before the UN Sanctions Committee and one of the General Assembly Committees. In brief, it has been revealed over the past eighteen months that the South African subsidiaries of the five Western oil companies have, via intermediaries, provided virtually all of Rhodesia's oil requirements since UDI. Their involvement in this conspiracy to evade UN sanctions has been deliberate and conscious; in no sense have they been inwittingly selling to South African companies without realising that these companies were reselling to Rhodesia. Much of the oil is being transported by the oil companies to a storage depot at Messina, ten miles south of the Rhodesia-South Africa border. It is then sent across the Beit Bridge border point into Rhodesia by road and rail by all five of the oil companies.

What I have attempted to show in my testimony so far is: that South

Africa is totally dependent for its survival on the importation of oil; that the South African oil industry is almost entirely controlled by foreign interests; and that the industry works hand-in-glove with the South African Government.

Many calls have been made in recent years, including several by this Committee and the General Assembly, for the United Nations to institute an oil embargo against South Africa. It is interesting to note that in recent months, two quite distinct developments have taken place which increase the chances that such a resolution might [redacted] be passed by the Security Council.

The first development is that an increasingly clear case has been made for the need to extend Rhodesian oil sanctions to cover South Africa as well. This is because South Africa, and oil companies based there, have shown no interest in respecting existing UN resolutions concerning sanctions against Rhodesia. An interim report released on 18 November 1977 by the UN Sanctions Committee [Document S/12450] refers to two proposals to this effect. The first proposal, put forward by India, is aimed at ensuring that oil sold by the South African subsidiaries of Western oil companies does not find its way to Rhodesia. It proposes that the Security Council, acting under Chapter VII of the UN Charter, should decide that all member states shall extend their national sanctions legislation so that it applies not just to the parent oil companies, but also to the South African subsidiaries of these companies, and renders the parent companies legally liable for any sanctions-breaking activities by these subsidiaries.

The second proposal, put forward by Benin, is that the Security Council

should impose an oil embargo against South Africa until the South African Government provides reliable and verifiable guarantees that oil is no longer being passed on to Rhodesia.

These two proposals are virtually identical to those recommended on 19 October 1977 by the Commonwealth Committee on Southern Africa, of which all Commonwealth countries are members. Certain reservations were made by the United Kingdom over the first proposal -- the one suggesting a change in the law regarding the legal liability of the parent oil companies. But the second proposal, calling for a Security Council oil embargo against South Africa if the South African Government refuses to halt the flow of oil to Rhodesia, was supported by every Commonwealth country. The fact that the United Kingdom supported this proposal has hardly been noticed here at the United Nations, despite its very considerable significance.

It is expected that the interim report of the UN Sanctions Committee will be debated in some form or other by the Security Council during the month of December.

The second recent development of interest is, of course, the introduction of a mandatory arms ambargo against South Africa. Nobody needs to be told how South Africa's jets, helicopters and armoured cars would be unable to move it if were not for the importation of oil. There is thus a strong argument for saying that oil should be regarded as part of, or at least a logical extension of, the existing arms embargo.

Furthermore, Section 1 of the Official Secrets Act of South Africa defines 'munitions of war' to include:

> "any article ... intended ... for use in war or the defence of the [Republic], or capable of being adapted for such use."

An analysis of this Act is made in a legal opinion dated 14 July 1976, which was written for Mobil-South Africa by the prominent South African attorneys J.J. Fagan and J.P. Van Niekerk. The opinion states, in part:

> "As oil is absolutely vital to enable the army to move, the navy to sail, and the air force to fly, it is likely that a South African court would hold that it falls within the above definition of munitions of war."

Such a definition, if rigorously applied, would totally justify the inclusion of oil within the arms embargo.

It is sometimes argued that there would be little point in introducing an oil embargo, because South Africa has been reported to have two or three years' worth of oil stocks. I must admit I find this figure hard to believe. No other oil-importing country is thought to have such stocks. If placed end to end in conventional oil barrels, such a quantity of oil would reach as far as the moon! An analysis of known supplies of oil to South Africa, and of known consumption of that oil within South Africa, suggests that South Africa is unlikely to have stored more than 6 or 9 months' worth of crude oil.

If the Security Council were to introduce an oil embargo against

South Africa under Chapter VII of the UN Charter, it would be necessary to ensure that the resolution dealt not only with the supply of oil to South Africa, but also with the activities of foreign oil companies within South Africa. Such a resolution should also prohibit the supply of technology for the South African oil industry, including technology for the second SASOL oil-from-coal plant currently under construction.

Of course, in the absence of a Chapter VII resolution aimed at an oil embargo against South Africa, it would still be possible for oil-producing countries to take a range of actions if they wished to do so. These countries could, naturally, refuse to supply oil to South Africa. But they could also threaten to confiscate or fine any oil tanker which was proved to have taken oil to South Africa against the wishes of the country from which the oil was obtained. Also, oil-producing countries could if they wished take a rather novel form of action against those oil companies which have a presence both in their own territory and in South Africa. They could inform these companies that there would be an increased tax on their profits (to be devoted, say, to a liberation fund for South Africa), until such time as the companies in question withdraw from South Africa.

Mr. Chairman, my testimony was prepared in a limited period of time, and only deals at a very preliminary level with most of the points raised. If I could conclude with a personal comment and a suggestion, it is that despite all the welcome talk one has heard recently of the need for sanctions against South Africa, there is to my knowledge no solid study available on the possibilities and problems involved with such sanctions. This Committee

might, indeed, wish to commission a study to investigate matters such as:

-- what kinds of sanctions would be most effective against South Africa;

-- what enforcement procedures would be most effective and least expensive;

-- how, in the event of such sanctions, the interests of countries such as Botswana, Lesotho and Swaziland could be best protected.

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