THE EXPANSION OF FOREIGN OIL COMPANIES IN SOUTH AFRICA

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This document has been prepared as a background paper for churches related to the Interfaith Center on Corporate Responsibility by Ms. Barbara Rogers. Ms. Rogers has had a long history in analyzing the role of foreign investment in Southern Africa. She has served as consultant to Congressman Charles Diggs and the United Nations in Southern Africa.

INTRODUCTION

The recent announcement by Caltex that it is planning a $134 million expansion of its operations in South Africa makes more urgent a re-examination of the role of the oil industry in South Africa.

This short paper has been prepared to give some background facts on the oil industry and to provide arguments against the expansion plans of Caltex and Shell.

Far from the definitive paper on the subject, it is meant to stimulate debate and lead to more in-depth analyses.
Part I

REASONS FOR OPPOSING THE EXPANSION

1. Foreign-owned companies are urged to finance 75% of all expansion in South Africa by foreign capital, whether directly from the parent company or from a loan on the US or European currency markets. Thus, expansion provides urgently needed foreign currency inputs, a vital necessity for South Africa at a time of heavy involvement in Angola, mounting foreign arms purchases, and a declining international gold price exacerbating the balance of trade deficit.

Expansion represents a direct subsidy for South Africa at a time of impending economic crisis for the apartheid regime.

2. Expansion and foreign capital inputs inevitably increase US financial and therefore political commitments to the present racist structure in South Africa. The greater the American stake, the more pressure there is on the US Government to intervene on behalf of the apartheid regime in the event of serious challenge to it, as the covert US intervention on behalf the South Africans in Angola already indicates.

3. In calculating political risk, the companies have decided that South Africa is a "stable" country offering a high return on investment. Because of the long-term nature of their involvement, they require an assurance that the present apartheid regime will survive. Such a decision is in the nature of a self-fulfilling prophecy, since the companies seem committed to ensuring the survival of the system.

Ironically, experience in Greece, Portugal and elsewhere indicates that the greater the American commitment to ensuring "stability" in a repressive regime, the greater the hostility in that country toward the achievement of greater freedom.

Southern Africa, of which the Republic of South Africa is the center, is experiencing increasing tension and open war; it cannot be assumed to be as stable, in the long term, as investors would have us believe.

4. Expansion of operations by US multinational corporations in South Africa involves a chain reaction of further involvement by US and European sub-contractors, banks and other concerns attracted by the expansion in such a critical sector as petroleum. Investment attracts further investment, with the giant multinationals leading the way. Caltex's proposed expansion alone will increase the US economic stake in South Africa by 11%, and with a handful of other companies' expanding, investments will rise by over 40%.

5. Under pressure from the South African government, foreign-based companies in South Africa are starting to sell shares to local whites to finance expansion, thus increasing their identification with the minority regime. This tendency towards increased South African control of a US company's subsidiary reduces the ability of the parent company to
determine policies other than those dictated by the regime, particularly in the event of a crisis. Those companies which are aggressively campaigning for an increasing share of the South African market, notably Caltex, do so by identifying closely with the policies of the South African government, and implementing these policies more enthusiastically than their competitors.

6. An argument often used against withdrawal of US operations is that South African exchange-control regulations make it difficult if not impossible to repatriate capital invested there. This is also an important argument against expansion of existing operations: there is little or no prospect of recovering the investment in the event of a crisis.

7. Expansion often involves boosting South African exports, especially of raw materials, and reducing its imports -- significant contributions to the balance of payments. In the case of Shell, massive new installations for the mining and export of South African coal are both subsidizing South African coal consumption, and facilitating the bulk export of coal to the US and elsewhere. There has already been a strong campaign by the United Mineworkers and others in the US to stop the importation of South African coal.

8. Investment in a new refinery and other facilities in South Africa is an alternative to such investment in independent countries of Africa and elsewhere in the Third World, where such installations are desperately needed. It may also detract from investment in the US.

Strategic considerations

9. Southern Africa is an increasingly troubled area, the focus of intense racial conflicts in which great-power rivalry had already become heavily involved. Any oil company operating in the region is likely to become a significant US commitment to one side or the other in any conflict, either severely embarrassing the US Government (as in the case of Gulf Oil in Cabinda) or tending to increase US Government intervention "to protect US interests."

10. For strategic as well as economic reasons, South Africa needs expensive and technically sophisticated new refining installations. Only the major multinational oil companies can supply such installations and the capital required to finance them, and they are proposing to do precisely that.

11. It has been argued by Texaco that because of the South African Official Secrets Act, it is impossible to divulge details of supplies to the armed forces; Texaco also states that Caltex in South Africa is obliged to supply the military. (Meeting of National Council of Churches representatives with Texaco management, December 17, 1975.) This is confirmed by Standard
"Further, we have been advised that it would be a crime under South Africa's law were Caltex South Africa to under-
take a commitment to not supply petroleum products to the
Government of South Africa, whether for use by the South
African Military or any other branch of the South African
Government." (Letter to Mr. Robert C.S. Powell, NCC, from
Mr. D.N. Maytum, Standard Oil of California, December 19,
1975.)

According to these statements, involvement in refinery
operations in South Africa inevitably means supplying the
apartheid regime and its armed forces -- wherever they may
be operating -- and it would appear likely that the degree
of involvement in such military supplies would correlate
approximately to the company's share of the refining and
petroleum marketing industry.

12. Through supplying the South African military, the companies
are involved in supporting South Africa's illegal occupation
of Namibia, the illegal regime in Southern Rhodesia, and the
South African invasion of Angola -- whether directly or
indirectly. Texaco states that there is no way of monitor-
ing third-party purchases of petroleum products on behalf of
Rhodesian buyers. (Meeting of NCC representatives with
Texaco management, cited above.) Standard Oil of California
takes a similar line:

"We are advised that there is no legal means whereby
Caltex can insure that petroleum shipped or sold to a third
party will not later be shipped to Rhodesia." (Letter to Mr.
Powell, cited above.) Yet both companies are aware that
petroleum is shipped daily to Rhodesia from South Africa.
Texaco has a subsidiary in Southern Rhodesia, which is
operated directly by the illegal regime there.

Employment in South Africa

13. Expansion and large-scale investment by oil companies has
often been accompanied by a falling proportion of black
workers in the labor force, together with declining total
numbers of those employed. Because of increasing automation
and rationalization, this may also be the case with the current-
ly planned investment. The familiar argument of the companies
that investment automatically produces more jobs for blacks in
South Africa is far from proven.

14. Employment practices at the facilities in question are openly
discriminatory, in line with overall South African law and
practice, enforced in particular by the white unions. Stan-
dard Oil of California has Stated:

"Caltex South Africa's employment practices are governed
by South African laws, and in the event of any conflicts
between those laws and EEO practices, the company must be
guided by the former." (Letter to Mr. Powell, cited above.)
15. Not only are there no black unions at US subsidiaries' refineries and other installations -- which would indicate an important step towards the idea of equalizing employment procedures -- but the attitude of Caltex in particular seems to be actively hostile towards black labor organization. Texaco management has stated that as a matter of policy it opposes unions everywhere as "not necessary." (Meeting of NCC representatives with Texaco management, cited above.)
Without the massive resources of the big international oil companies, applied through their South African subsidiaries, the oil industry in the Republic 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.\(^1\)

The South African government has established a high degree of control over the oil marketing industry in the Republic, because of its hold on permissible octane ratings and retail prices. South Africa and Namibia are carved up into refinery zones served by the various companies concerned. This imposes severe restrictions on the possible expansion of markets by any company acting on its own. To offset this disadvantage, however, is the profit to be gained from distribution of petroleum products. As pointed out by the 1971 Oil Supplement of the South African Financial Mail, service stations are very cheap to run: "In South Africa, all you need is a few Africans under White supervision."\(^2\) The only way to get an edge on competitors in this lucrative but limited market is therefore to collaborate closely with the apartheid government, whether in juggling tanker routes to supply crude oil in defiance of the O.A.U.-sponsored oil embargo, investing heavily in the apparently fruitless search for oil in South Africa, or constructing new facilities to meet the strategic priorities of the government. In addition, of course, the companies sell products directly to the government and its agencies, which require them for their major strategic oil storage program, military exercises and incursions (as in the motorized column which invaded Angola) and a variety of other activities, many of them directly or indirectly involving the enforcement of apartheid.

In 1967, the South African government further exerted its control over the oil companies with the announcement that, as a condition of their remaining in South Africa, it was suggested that all foreign foreign-owned companies would:

- make their refineries available for processing crude products from any source, when excess capacity was available;
- give South African institutions and individuals the opportunity to buy shares in the local operations;
- ensure that the major proportion of their earnings remained in South Africa to finance the future expansion of the industry; and
- be prepared to produce specialized petroleum and oil products required for strategic and other logistical reasons irrespective of the commercial potential.\(^3\)
The stated aim of these measures was announced as forcing a closer identification of the multinational companies with South African interests, which would include resistance to any restriction of crude oil supplies, and neutralization of the controlling influence of parent companies.4

Caltex, Shell and the other multinational oil companies have proved more than willing to comply with the policies of the South African government, involving institutions with close links to National Party circles in their new ventures; retaining earnings inside South Africa that could have been repatriated, and adding to them by utilizing their own international connections to attract new investment to South Africa, both their own capital and that of other US and European concerns; and expanding refinery capacity in line with the government's priorities, regardless of the commercial justification. This is true also of Shell's massive investment in the oil-based chemicals industry, in planning a new coal mine for export complete with a planned pipeline to be turned over to the government on completion.

South Africa's weakest point is in the supply of crude oil, since it is the only product of which it has no supply. It is here that the multinational oil companies particularly proved their value to the regime. The companies could either purchase crude oil from the Persian Gulf through a non-South African subsidiary, and then resell it in South Africa (e.g. Caltex), or execute a complicated series of swaps to allocate more Iranian crude to South Africa than had previously been provided for.5 Since the multinationals control the world tanker fleets, the actual delivery of oil to South Africa was also arranged by them as part of the purchase deals. In addition, the companies are leasing tankers acquired by the South African government's Safmarine, with provision in the contracts for the government to reclaim them at any time.6

As in every industrialized country, the oil industry in South Africa is of crucial importance to the economy. Although oil comprised only 26% of South Africa's energy resources at the end of 1973, which is less than other Western countries,7 its importance has been increasing, concentrated in the vital transportation sector. 80% of all crude oil becomes some kind of fuel, whether for private motorists (36% of total oil consumption), industry (36%), agriculture (11%), commerce (10%), or aviation (5%). In addition, oil is a vital raw material for the chemical industry, providing the basis of plastics, asphalt, fertilizers and other important commodities.8

The situation is far from static; since the 1973 oil embargo on South Africa, there has been a rush for industry to turn to coal-fired plants. In addition, the opening of the Suez Canal has reduced the demand for bunker fuels. This has resulted in a sharply tilted demand for the lighter petroleum products, with diminished demand for the heavy fuel oils for industry and shipping. This new demand is what the major investments by Caltex and Shell in refinery modifications are designed to meet. A given quantity
of crude oil can be made to provide a considerably larger volume of the lighter fuels, which are so essential to the transportation industry. In turn the transportation industry is basic to white South Africa's prosperity, the migrant labor system and the mobility and force of the apartheid regime and its agencies.

The new investments by Caltex and Shell are therefore serving the interests of white South Africa in two ways: First, they provide a major source of capital inflow, which is of crucial importance at a time of a declining real gold price and resultant balance of payments squeeze (to which the rising cost of imported oil has contributed). Second, they provide for savings in the importation of crude oil, since more of the required lighter fuels can be produced from a given amount of crude. As the commitments of the transnational corporations to the South African regime are intensified, the US and other Western countries become more closely identified with the status quo in South Africa.

At the same time as they are pouring in hundreds of millions of dollars, the multinational oil companies are destroying large numbers of jobs hitherto held by blacks in South Africa. They are themselves employing fewer people now than before their massive investment programs of the 1960's; most of those on their payrolls are whites, both South African and foreign. In addition, increasing use of fuels to automate industry and agriculture is driving much larger numbers of blacks out of their jobs, and often leads to their forced deportation from their homes to the reserves, or Bantustans, where they may have no basis for subsistence whatever.

South Africa's balance of payments position, and its whole domestic economy, have been greatly jeopardized by a combination of circumstances which are inherent in this unbalanced economy of a rich minority and desperately poor black majority. These problems are now coming to a critical stage. The decline in the price of gold, which has until now subsidized the whole South African economy, is the cause of great concern in South Africa. Because of the difficulty of selling industrial products in the rest of Africa, the Republic's most obvious market, the increasing import burden is proving hard to pay for in the long term. The South African invasion of Angola also tends towards an over-extension of its limited armed forces and government funds. In these circumstances, the long-term commitment by Caltex and Shell, in particular, in more than doubling their existing investments in South Africa, result in supporting the apartheid regime's own strategic and economic demands.

Given the major questions as to the economic justification for such huge new commitments of capital to the South African apartheid system, investors may consider challenging the oil companies involved with the following unacceptable aspects of their investments:
-the supply of petroleum products to the South African government without restrictions on their use, at a time when the armed forces are launching major attacks on Angola;

-the failure to operate a policy of equal employment opportunity in their South African operations;

-the implications for black American employees of the company, effectively denied equal opportunity for advancement by being barred from access to jobs in South Africa;

-the supply of petroleum products to Namibia and/or Southern Rhodesia, in defiance of international law in both cases.

References

2. Ibid.
4. Ibid.
Part III

CALTEX

In its South African advertising, Caltex makes it quite clear that it identifies strongly with the policies of the government:

Caltex fuels and lubricants speed the pace, smooth the way for South Africa on the move....Caltex brings to bear a world of knowledge and experience to plan and prepare for the South Africa of the future, where power must play an even greater part.¹

It will be back-breaking work out there, off the southernmost tip of Africa....There is less than one chance in 50 that they will make it. A chance that Caltex considers worth taking at the cost of R25,000 a day. For each exploratory well drilled, the bill could come to a million rand. The risks are big. But well worth taking. In the interests of all of us.

Caltex -- the advanced oil company.²

CALTEX: BASIC DATA

SOUTH AFRICAN OPERATIONS:

Caltex Oil (S.A.) (PTY.) Ltd. Petroleum refining and marketing operations.
Regent Petroleum South Africa Ltd. Holds a half-interest in petroleum exploration in an offshore sublease covering about 7 million acres, together with:
Chevron Oil Company of South Africa.

U.S.-PRINCIPALS:
Texaco, Inc. and Standard Oil Company of California. They each hold 50% of Caltex Oil; Texaco owns Regent Petroleum, and Standard Oil of California (Chevron) owns Chevron Oil Co. of South Africa.

TOTAL CALTEX OIL INVESTMENT IN SOUTH AFRICA: Approximately $100 million.

PROPOSED NEW INVESTMENT: $134 million.

CURRENT REFINERY CAPACITY:
Safor, Durban: largest refinery in South Africa, owned jointly with Mobil and Total: capacity 90,000 barrels of crude per day.
Killarny, Cape Province: 30,000 barrels of crude per day.
Milnerton, Cape Town: 50,000 barrels of crude per day.

SHARE OF MARKET: 20-21%
Caltex policy: expansion and closer identification with local interests

Caltex has been expanding its interests in South Africa since 1970, when it started a major expansion program at its Milnerton refinery to double its capacity, involving an investment of some $21 million. 1970 was also the year that Safor, the newly formed R19m ($26.6m at 1970 exchange rates) refinery company, involving Mobil and Total as well as Caltex, was formed. At the same time Caltex diversified its interests into the property boom then underway, and started to build a series of shopping and office centers (for whites) across southern Africa, in collaboration with a Cape Town property company, Leon Pascall. Little has been heard of this venture subsequently, since the property market is now depressed, it is likely that Caltex has lost heavily on the venture.

In 1975 Caltex announced a further $134 million expansion of its Milnerton refinery. Scheduled for completion in July 1978, the new facilities would increase the refinery’s capacity to 100,000 barrels of crude oil per day, double the present capacity, and also increase the production of motor and other light fuels from a given volume of crude. The major units involved will be a new crude distillation plant, catalytic cracking facilities for making gasoline, and sulphur removal and recovery facilities.

Although Caltex justified the investment by saying that expansion was needed to meet the growing market for refined products in South Africa, this is challenged by financial press commentaries on the petroleum products market. It has been repeatedly pointed out that domestic conservation measures in South Africa, following the 1973 Arab oil embargo, have drastically cut oil consumption increase in South Africa, reducing the growth in demand from a previously anticipated 10% to a currently projected 7%; the business is now growing at no more than 5% a year. In addition, the South African government's decision to build Sasol Two, a large oil-from-coal plant that will produce motor oil and related products in about 1980 and has priority access to retail outlets, has greatly depressed the prospects for expansion of refinery capacity by any of the foreign oil companies. The decision by Caltex to invest the large sums involved (more than doubling its present stake in South Africa) was therefore a surprise in South Africa, and it is difficult to see how it could be justified in terms of other investment opportunities around the world, where refineries are non-existent in vast areas of the developing world. Perhaps the best explanation for Caltex's commitment is the importance attached by the South African government to the expansion of refinery capacity, regardless of profitability to the company concerned, as a matter of strategic interest for the white minority regime.

Caltex is clearly an important supplier of oil products to the South African government, and the strategic importance of these supplies -- to the military, presumably -- are such that the company invokes South Africa's Official Secrets Act (which refers to privileged "national security" information) as
prohibiting the disclosure of information relating to products or services sold to the government.⁶ As Caltex explicitly states:

...we have done everything possible to make a maximum contribution to the welfare and progress of the countries in which we have worked. We have prospered under this policy, and we intend to continue living by it.⁷

One such contribution, in which Caltex shows closer identification with government policy than any other comparable company, is in the area of local equity participation. Together with Mobil (and Total of France) it has taken the lead in selling equity participation to local white South African institutions and investors, a primary aim of government policy in the oil and petroleum field and also related to its overriding interest in reducing dependence on foreign concerns for its oil supplies, for strategic reasons. Safor, the new refinery built by Mobil, Caltex and Total at Durban, has offered local equity participation in 1970; as a result, three South African institutions, all closely identified with leading factions in the National Party, have been given a major stake in Safor; these are the Old Mutual, Southern Life, and Nefic. The Rand Daily Mail commented at the news, "The stake given to the South African institutions represents a big step forward in allowing South Africans to participate in the local, fast-growing petroleum market." There were persistent rumors that both Caltex and Mobil were considering giving South Africans a future share in their entire local operations.⁶ It is possible that some of the capital for the Milnerton expansion will be raised in this way, a counterpart to a massive inflow of funds from international sources. Such investments will likely come from white South African interests, many of them identified with the government party.

Caltex's proposed investment is a major addition to total U.S. commitments in South Africa, which will rise by over 40% as a result of a few corporations' current expansion plans. Caltex's new input represents more than a 60% increase in U.S. investment in petroleum in South Africa, giving Caltex over two-thirds of the U.S. petroleum at stake there.⁹ The commitment of Caltex alone would increase total U.S. investment in South Africa by over 11%.

The increased financial stake in the South African oil industry and its whole economy indicate an increased commitment to supplying South Africa with crude oil in the event of military confrontation and/or a strengthened embargo on crude oil supplies. Caltex has already played a major role, together with other multinational oil companies, in supplying oil to South Africa in defiance of the Middle East suppliers. The mechanism by which this is done by Caltex emerged publicly during the course of a tax case involving the company in South Africa. It appears that Caltex Oil S.A., Caltex U.K. and the U.K.-based Caltex Services are all wholly-owned subsidiaries of the U.S. Caltex Petroleum Corporation. Caltex S.A. obtains supplies of crude oil primarily from Caltex Services. In turn, Caltex S.A. sells a certain amount of petroleum products, and supplies certain services to Caltex U.K. and Caltex Services. Caltex S.A. informs the British company about a year in advance of
its requirements, and Caltex U.K. then purchases the supplies directly from the producing country and arranges for them to be loaded, usually at ports in the Persian Gulf. Caltex S.A. then pays Caltex U.K. in sterling. By this means, the producing country has no means of knowing that the real destination is South Africa.

Caltex makes little pretense of any unease about South Africa's racist policies and the legislative context in which it operates. Senior Caltex officials in South Africa told an interviewer in 1970:

We couldn't live here if we weren't good citizens, therefore we are very law-abiding. A company statement adds:

Caltex Oil is a substantial taxpayer in South Africa, and to the extent that such taxes were used by the Government of South Africa to finance its national health, educational, and other social programs, Caltex Oil indirectly contributes to the support of such programs.

Like most U.S. companies, Caltex Oil S.A. is managed by both U.S. and South African officials whose personal attitudes can only be described as racist. Caltex officials in the interview already cited accepted the policy of apartheid:

In my opinion, forced integration is worse than enforced segregation. Twenty-five or thirty years is nothing in social history. In 200 years people will forget that South Africa even had a problem.

That this is more than mere personal prejudice, but extends to the whole company's approach, is made clear when applying two of the Principles of Caltex on international investment to the situation in South Africa:

To comply in letter and spirit with laws and regulations...
To be a good citizen and neighbor observing all local customs and practices...

Finally, Caltex makes an annual contribution of $7,000 to the South Africa Foundation, a body which aims to justify South Africa's racist laws and customs to international public opinion, and to introduce the idea that they are a viable solution to all problems in race relations.

The employment impact

Caltex did not build a refinery until 1966, and it has grown enormously in terms of its financial investment and its share of the petroleum products market in South Africa between then and 1972. Yet between 1962 and 1972, the latest year for which figures are available, its total number of employees fell considerably, from
2,400 to 1,830. The number of Africans employed fell by well over half, from 776 in 1962 to 394 in 1972. They also fell as a proportion of the total labor force, from 32% to 22%, while white employees increased their predominance from 56.5% to 66%. The total number of jobs for blacks in 1972 was only 607, negligible in relation to the $100 million investment, and decreasing at a time of massive new inputs. Caltex frankly admits:

This reduction was caused by increased productivity and by automation...

There is clearly no protection for black workers faced with dismissal because of the automation plans; Caltex admits:

There are no trade unions or work committees among the employees of Caltex Oil in South Africa. Texaco, as a matter of policy, opposes unions everywhere as "not necessary."

References

5. Financial Mail, June 27 and July 18, 1975.
7. Ibid.
10. Total U.S. investment in S.A. is estimated at $1.2 billion; Ibid.
12. Interview by Mr. Tim Smith with Mr. W. Marshall Smith, Managing Director of Caltex Oil (S.A.), and Mr. R.D. Wrigley, August 1970.

14. Interview by Mr. Tim Smith.

15. "The Principles of Caltex."

16. "Report on Operations," Table C.

17. Ibid., Table B.

18. Ibid.

19. Ibid.

Part IV

SHELL OIL

The Shell Group

As of June 26, 1975, Shell in Southern Africa is an independent oil, chemicals, coal, metals and nuclear group within the multinational Royal Dutch Shell Group. It consists of twelve companies in South Africa, Namibia, Botswana, Lesotho and Swaziland.

Shell's restructured interests in Southern Africa now integrate the whole oil and gas operation from manufacturing to the consumer, quite apart from its diverse interests in coal, nuclear power, chemicals and mining generally. The reorganization follows four years of complex rearrangements to separate Shell's holdings in Southern Africa from those of B.P., with which it had been intimately associated.\(^1\)

Shell's Southern African employees were told in July 1975, following the massive reorganization:

We are on our own: Shell men and women together in oil, chemicals, coal, metals, nuclear energy. We have an integrated organization equally integrated with the economics and corporate lives of the countries of Southern Africa in which we have one or more companies of the Shell Group.\(^2\)

On the reorganization date, June 26, 1975, the Shell Group's assets in Southern Africa stood at some R250 million. Chairman K. Geeling has outlined ambitious expansion plans which went into effect

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SHELL COMPANIES IN SOUTHERN AFRICA, 1975

The major company is Shell (Petroleum Supply) Ltd., and Shell Southern Africa (Pty) Ltd. has been formed to provide financial, corporate planning, personnel and trade relations services to the whole group. The oil company is Shell Oil South Africa (Pty) Ltd. Other companies in the Republic of South Africa are: Shell chemical South Africa (Pty) Ltd.; Shell Coal South Africa (Pty) Ltd.; and Billiton Exploration South Africa (Pty) Ltd., for metals. In addition there is Shell Oil South West Africa Ltd., although the other companies, especially Shell Chemical, may operate in Namibia also. Shell Coal will be responsible for the group's nuclear activities -- although it is uncertain exactly what these are.

In addition, the Shell Group has a 50% interest in Sapref, the Durban refinery, together with BP; 50% of African Bitumen Emulsions (Pty) Ltd.; a 25% interest in South African Lubricants Manufacturing Company (Pty) Ltd., manufacturers of base oils for lubricants; 17.5% of Trek Beleggings Ltd.; and 36% of Prices (South Africa) Ltd.
immediately after the reorganization:

We aspire to play a continuing and developing role in the economics of these Southern African countries and we are at present evaluating new major projects which may well involve capital expenditure of up to R500 million over the next ten years.

By the end of that period, therefore, the cost of our asset investment in Southern Africa could be some three-quarter billion Rand (i.e. three times what it is now, approaching one billion dollars).

Oil will continue to dominate the energy business for some years. In the years immediately ahead, our oil business will see an emphasis on equipping and improving manufacturing facilities to meet a changed pattern of product demand which followed the steep rise in oil prices.

Normal capital expenditure of several million Rand a year on tankage, modernization, the protection of the environment and to improve services to customers in all categories, will be augmented by a two-stage expansion of the group's refining facilities, the biggest in Africa in both capacity and capital investment, at Durban.

To enable more petrol and gas-oil to be produced from available crude oil, the catalytic cracking plant will be improved and a new complex is being designed to make gas-oil available in place of fuel oil. This will enable the country's needs to be met with less imported crude oil and improve flexibility. In addition, a new feedstock preparation unit is on the drawing board.

These facilities will cost the group R25 million.

The group is also involved in the development of an ethylene cracker for the production of feedstock for South Africa's plastics industry. Preliminary estimates indicate a total capital investment of R100 million of which the group's share again will be R25 million. The plan will make South Africa independent of plastics feedstock importation for some years.

Investments to produce aviation gasoline and special products for industrial purposes in the Republic are also being studied. In the more distant future heavy investment is envisaged to improve both the quality and yield of marketable products from crude oil. 3 (Emphasis added.)

It is obvious, then, that Shell is on the verge of massive expansion to three times the size of its present, already extensive operations; and that investment is to be poured not only into oil, but also coal, chemicals and other areas.
The preliminary investments plan of R30m ($35m) already announced at the end of 1974 is dependent on overseas investment, most of it presumed to be coming from the Royal Dutch/Shell parent group, an Anglo-Dutch multinational. As its Managing Director said in December 1974, this investment illustrated the multinational group's faith in South Africa's future. In fact overseas financing is obligatory in terms of South African regulations, under which a foreign company can borrow locally only 25% of its effective capital in the country, while all other investment has to come from outside. In terms of the hundreds of millions of rands which are to be invested from outside over the next ten years, Shell is clearly making a vital contribution to the South African balance of payments.

Oil

The separation of Shell's interests from those of B.P. was in the complicated oil sector. Shell is already the biggest oil company in South Africa, its major interests being:

- a half-share in the Sapref refinery at Reunion, Durban, which was expanded in the early 1970's to a capacity of 8 million tons of crude oil per year -- on completion in 1972, this represented half of South Africa's total refinery capacity;

- a quarter-share in a base-lubricants plant adjoining the Sapref refinery;

- a plant in Durban producing 150,000 tons of Shell lubricants from the products of the base lubricant plant;

- participation in a consortium controlling a single buoy mooring terminal off Reunion, which can handle 14m tons of crude oil imports per year;

- about 1,000 service stations;

- a 17.5% share in Trek Petroleum, which is mainly a retailing company particularly active in supplying Southern Rhodesia.

The major current expansion of Shell's oil operations is the investment, together with B.P., of R50m ($58m) to modify the existing catalytic cracking plant and so reduce the current high rate of heavy fuel production by more than 50%, with a corresponding rise in gas oil and petrol production. This should come on stream in 1977. There could, however, be a problem in marketing the increased production of light fuels, because of the slower-growing market since the 1973 oil embargo crisis and the impact of the government's Sasol-2 plant.

Shell Oil is prospecting for oil not only in South Africa but also in Namibia.
Chemicals

Shell Chemical has been operating in South Africa for 26 years, and now has four main divisions: agricultural chemicals, industrial chemicals, polymers and consumer products. It has large investments in plants at various sites in South Africa, accounting for a significant proportion of the Shell Group's net capital employed there; and is planning major expansion with massive new investment in plant and equipment. A R30m polypropylene plant is to be built in Durban, next to the Sapref refinery. Shell Chemical is to use its own alkylate process. Clearly, a major input in addition to the capital is the technological expertise and licenses owned by Shell.

Mr. Stuart Squires, the Managing Director of Shell Chemical, sees polypropylene as one of the fastest growth areas in plastics. There is room for doubt about his judgment, however, since there is evidence of a severe glut in this material. The predicted entry of black consumers into the market lies well behind the expectations of "runaway" local demand -- the prediction being based more on government propaganda, perhaps, than a realistic study of black incomes compared to the rising cost of living for blacks and difficulty in obtaining bare subsistence.

Surpluses of polypropylene can, however, be exported via Shell's international connections -- another example of the value to South Africa of the commitment of this multinational conglomerate. The plant is planned to be on stream by 1978, with a design capacity of 50,000 tons per annum which, added to the current output by Sasol, boosts local capacity by more than double to 90,000 tons a year. A portion of the finance required for the project is to be culled from overseas, also through Shell's multitudinous corporate links. The investment closely follows a R2m involvement by Shell in an epoxy resin plant: "The project is a further step in the company's programme of increased investment in basic chemical manufacture," according to Squires. Other plans for Shell Chemical include the production of hydrocarbon solvents and studies on manufacturing products for the nutrition, detergent and agrochemical industries. It may be noted that widespread use of agricultural chemicals in South Africa has been a contributing factor in the determination of white farmers, acting in collaboration with the government, to evict Africans living on their farms, sometimes for generations, since large-scale labor is no longer necessary. This is also the case with agricultural machinery, another important market for Shell's oil products operations.

Coal

A Shell advertisement outlines the company's contribution to the South African Government's priority coal expansion programme:

Experience gained over several decades in the search for oil -- including expenditure of R2m in the Republic -- has enabled Shell to develop significant resources in manpower and exploratory techniques which are being used to search for coal in Southern Africa.
Collectively our skills in exploration, transportation, and as a world-wide energy marketer, together with our ability to design, co-ordinate and find the money for major projects on an international scale, place us in a unique position to locate, develop and market coal.

Shell Coal has been active for several years in "grass roots" coal exploration in various parts of the Republic and has located significant reserves.

Wherever feasible, coal deposits will be developed by the most modern strip mining methods....An order worth more than R30m for drag-lines has already been placed...

The viability studies we are undertaking on coal mining, solids pipelining and coal conversion will, if they come to fruition, involve investment of hundreds of millions of rand.9

Thus, Shell's experience in the oil field is being applied to the extraction of South Africa's coal resources -- present mines are likely to be used up at present price levels in a relatively short time -- with the prospect of massive export orders laying the basis for part of the solution to South Africa's chronic balance of payments problem. Japan and the U.S., in particular, are involved in long-term purchase contracts for South African coal, in the latter case used to break the power of the mine Workers' Union and close down further underground coal mines in the U.S.

A major new coal mine is being opened by Shell Coal and Transvaal Consolidated Lands (a company in the local Barlow Group) in the Witbank district, and this mine has been earmarked to service the export market almost entirely. Shell, which calls itself "acknowledged experts in the technology of transporting solids through slurry pipelines", is studying the feasibility of piping the coal in slurry to Richards Bay. This is of crucial importance to the venture, since the rail network in South Africa is already overloaded and inefficient, and could not handle adequately the transport needs of the new coal mine.

The South African Government is aiming to exploit Shell's technology by stipulating that the pipeline should be open to all companies mining coal in the Witbank area; and also that South African Railways would have to take over the pipeline as soon as it was built. Shell is reported to be unhappy about this stipulation, although no decision has yet been taken. Mr. Geeling has estimated the possible cost of the pipeline at between R300m and R400m at current prices, if it became a multi-user facility. Shell's share would be only about a third of the total capacity, 7.5 million tons out of a total of 20 million tons capacity.10 The pipeline would clearly be of vital importance to the South African Government's policy of maximizing coal exports, but it is quite another matter whether it is in Shell's interest to finance the enormous cost of the pipeline, and providing the important technological background necessary, when the whole installation would immediately be taken over and controlled by the Government.
Shell has also invested large sums in the conversion of coal into hydrocarbon gases and liquids. The research is expected to lead to processes which will be an improvement over the current technology used by the Government's Sasol.

**Nuclear power**

Shell owns 50% of General Atomic of the U.S., the developer and manufacturer of the high-temperature gas-cooled reactor (HTGR). Shell notes:

This association makes know-how on the most advanced international nuclear technology available to the group. The HTGR is considered to be particularly suitable for South African conditions and preliminary studies now in progress could lead to the introduction of this more advanced reactor in the late 1980's.

However, General Atomic has subsequently withdrawn its HTGR from the market, because of soaring costs and uncertainties in the electric utility industry.

**Mineral exploration**

Through Shell's wholly-owned subsidiary, Billiton Exploration South Africa, it is actively prospecting for base metals such as zinc, copper, nickel and lead. It is also hoping at a later stage to expand its activities into other sectors of the metals industry.

**The employment impact**

In January 1975, Shell and B.P. together employed 6,050 people in their Southern African operations, of whom 2,744, or about 45%, are black (i.e. African, Indian or Colored). Blacks held only 16.5% of staff jobs, however, and their average earnings in 1972 were R134 per month, less than a third of average white earnings which were R453 per month. About 50% of the labor force (all of them presumably black) were receiving the lowest rate, which was R90 per month. Since much of the operation is in Durban, it is likely that the employees are Indian rather than African. Thus, Shell (with B.P.) is hiring predominantly whites, and paying their white employees several times the wage that their black employees are getting. Although no specific information is available, it is obvious that the whites have exclusive access to the skilled, supervisory and upwardly-mobile jobs. In terms of the already very large investment in installations in South Africa, the impact on African employment and that of other blacks is extremely small, this being a highly capital-intensive operation relying on foreign technology rather than local employment.

**Conclusions**

The Shell Group in South Africa is on the verge of massive new commitments in the field of oil, chemicals, coal-mining and transportation, and possibly oil-from-coal production, nuclear
power and mineral exploitation.

In our 75th year in Southern Africa the independent Shell group stands on the threshold of transforming from a petroleum supplier into a great energy producer with expanding interests in chemicals and metals.¹⁶

The multinational contacts, financial backing and technological power of the Royal Dutch/Shell group are all being poured into the expansion of the South African commitments of Shell. Far from seeing this as a long-standing foreign commitment dating back to the beginning of the century and growing steadily on the basis of its local activities, the trebling in size of Shell's investment over the next ten years makes this a massive new commitment that has to be critically evaluated as a statement of support for the South African Government over the long term.

Shell's new commitments provide vital new investment capital inflows into South Africa, which is in dire need of external finance because of its threatening balance of payments situation. The nature of the operations further support the balance of payments by being either export-oriented or concentrated on minimizing the need for imports -- for example, by maximizing the production of light fuel production from a given volume of crude oil. Any surplus production that cannot be taken up by the extremely limited domestic market can be exported via Shell's numerous international interests. Similarly, supplies of essential crude oil can be assured because of Shell's connections in the major oil-producing countries, especially in the Persian Gulf; giant tankers can routinely supply South Africa with crude against the wishes of the suppliers, by stopping at the mooring terminal off Durban to offload some of their crude on the way to Europe. At the same time, Shell's formidable technological and research resources are being applied within South Africa to solve some of the domestic infrastructure and economic problems, including possibly the development of a coal slurry pipeline for the benefit of the government.

Whether such massive and disproportionate investments in South Africa are really in the interest of the Shell Group as a whole is open to serious question, however. Shell is entering on a major oil exploration program with the Government of Egypt,¹⁷ and fighting to keep its competitive position in other oil-producing countries, especially including Nigeria, where open bias towards the minority regime in South Africa, including collusion in violating the oil embargo on Southern Africa and the supply of oil to Southern Rhodesia, could prove a serious liability in Shell's relations with some governments strongly opposed to apartheid. In addition, Shell's expectation that the minority regime will survive unscathed, either politically or economically, for long enough to recover its ten-year, hundreds or millions of dollars' investment there appears to be a commitment that few serious observers would wish to gamble on so heavily. In assuming a stable and prosperous future for South Africa, Shell is also doing its best to subsidize the regime's prosperity. It is still doubtful whether this will be enough
to withstand the vagaries of South Africa's international isolation and domestic opposition.

References
11. Shell advertisement in Cape Times.
12. Ibid.
16. Shell advertisement in Cape Times.
Part V.

MOBIL OIL EXPANSION

In July 1971 it was announced by W.F. Beck, chairman of the Mobil company in Southern Africa, that Mobil would start engineering-design work on a R20 million expansion program at its Wentworth refinery in Durban. It was estimated that this would save South Africa about R12 million annually in foreign exchange. The expansion plan was to increase the refinery's capacity by about 60 per cent, from 9.2 million litres a day to about 14.6 million a day. The new plant, to be built next to the existing installations, was to be highly automated and computerized.1

In January 1973 a R26 million engineering contract was signed for this expansion project between Mobil Refining Company Southern Africa and the Japanese giant, Chiyoda Chemical Engineering and Construction Company of Yokohama. Mr. Beck said that the contract provided for the addition to the existing refinery of crude distillation, platinum reforming and middle distillate desulphurization units.2 In June 1975 it was reported that the expansion had been completed, and that refinery capacity had been increased from 60,000 barrels per day to 100,000 barrels per day.3

In addition to this major commitment, Mobil, through a company specially formed for the purpose, South African Oil Refining, is involved in partnership with Total Oil of France and Caltex of the U.S. in the establishment of a R20 million lubrication-oil refinery which is now operational on a site at Wentworth, also in the Durban area.4

Mobil has made a contribution to the elimination of Africans, Asians and Coloreds from the work-force through heavy investment in automated and computerized plant. During a time of heavy investment, between 1962 and 1973, the total number of such employees fell from 1,264 to 1,046, the vast majority of these being unskilled laborers. In 1972 Africans, Asians and Coloreds together constituted only 36.7% of Mobil's work-force in South Africa, almost two-thirds being whites who monopolized the most skilled and supervisory jobs.5

References

An Exxon affiliate, Esso Minerals Africa, has begun searching for uranium and base metals in South Africa, as of October 1974. So far the operations are in the northwestern Cape Province. Any future exploitation of uranium in South Africa would be done in concert with government attitudes toward foreign investment -- i.e., with local equity participation or partnership with a South African mining interest.

--Nucleonics Week, July 3, 1975.

Appendix

Resolution filed by the World Division Board of Global Ministries, United Methodist Church with Texaco and Standard Oil of California. Standard Oil of California responds in its 1976 proxy statement.

Standard Oil Company of California
225 Bush Street
San Francisco, Calif. 94104 • March 19, 1976

Notice of Annual Meeting of Stockholders

Stockholder Proposal 7:

Expansion of operations in South Africa.

RESOLVED that the shareholders request the Board of Directors to establish the following as corporate policy: Neither the Corporation nor any of its affiliates shall expand its operations in the Republic of South Africa.

The supporting statement submitted to the Company by the proponents of this proposal is as follows:

CALTEX, jointly owned by Texaco and Standard Oil of California is planning a massive $134 million expansion of its South African operations. We believe such a significant and sizeable expansion merits careful consideration of social as well as financial consequences.

In South Africa a white minority controls and oppresses the black majority. The white minority is expanding and modernizing its military forces and access to refined petroleum products is a strategic necessity. The South African military suppresses the black majority, maintains an illegal occupying force in Namibia and recently has invaded Angola.

The United States Government has placed an arms embargo against South Africa. We believe that CALTEX's expanded petroleum facilities which sell to the military compromises the spirit of this embargo. Under South Africa's apartheid system, rampant discrimination is legally authorized. Better jobs are in white hands, blacks cannot supervise whites. We believe that CALTEX should adopt policy and practices of non-discriminatory employment before expansion occurs.

Finally, we believe that increased petroleum reserves in South Africa will allow Rhodesia to receive continued oil supplies in defiance of international economic sanctions.
We therefore believe that this expansion should end until conditions in South Africa change.

Your Directors do not agree with the foregoing proposal and recommend a vote AGAINST it for the following reasons:

In each investment decision in which it is involved, the Company makes every effort to be certain that all relevant factors receive full consideration. This is true not only of social, political, and economic implications, but of such other matters as environmental effects and full compliance with U.S. policy and law, and—where applicable—foreign legal requirements as well. All of these factors were considered in connection with Caltex's Cape Town Refinery expansion.

The Company is aware, of course, that a number of people in this country and elsewhere hold the view that the continued presence of American companies or their affiliates in South Africa is somehow inconsistent with the best interests of the United States or of the nonwhite community in South Africa. The Company does not doubt the sincerity with which these views are held, but it does not agree with their validity. Caltex activities in South Africa certainly are consistent with U.S. law and policy, and they make a positive contribution toward the achievement of meaningful social objectives so far as the South African nonwhite community is concerned. One can, of course, argue over the extent of this contribution, but the Company is satisfied that the nonwhite community would suffer more than any other element of South African society if Caltex were to withdraw from its commercial activities in that country. At the same time, it is important to remember that the continued presence of Caltex in South Africa should not be viewed as an endorsement by either Standard Oil Company of California or Caltex of all of the South African government's policies.

Caltex South Africa's employment practices are governed by South African laws, and in the event of any conflicts between those laws and equal employment opportunity practices, the Company must be guided by the former. However, Caltex South Africa consistently follows the practices of:

Firstly, always hiring on the basis of ability, and not race;

Secondly, always paying the rate for the job and promoting on merit;

Thirdly, ensuring that all its Benefit Plans and Programs are the same for all employees regardless of race; and

Fourthly, making a conscientious, continuing and successful effort to advance its less skilled workers to positions of responsibility by such means as job training and financially assisting in non-company conducted education programs. In this connection, some 40% of Caltex South Africa's total black staff today occupy positions previously held by whites. It can be expected that the refinery expansion will afford even greater opportunity for this effort.

The Arms Embargo against South Africa adopted by the United Nations in 1963 does not include petroleum products. Further, the Company has been advised that it would be a crime under South Africa's law were Caltex South Africa to undertake a commitment not to supply petroleum products to the South African Government.

Thus, in management's opinion, adoption of this resolution would not be in the best interests of those South Africans whom the proponents seek to assist, nor of the Company, nor of its stockholders.

It is recommended that stockholders vote AGAINST this proposal.