



Prime Minister
 Although it
 tries hard not to
 do so, this admits
 that you are right!

Foreign and Commonwealth Office

London SW1A 2AH

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In practice we are not
 exporting oil to South Africa.
 But there is no legal
 basis to prevent such export.

EC/South Africa: Cessation of Oil Exports

CDP 11/9

You asked for a note on the implications of including a proposal for "cessation of oil exports to the Republic of South Africa" in the list of measures put forward in Luxembourg yesterday.

The position on UK oil exports to South Africa is as follows:

- since January 1979, successive governments have maintained the same position on the export of oil from the UK Continental Shelf (UKCS) through guidelines which are addressed to oil company licensees exporting "North Sea crude oil".
- These require that oil from the UKCS should be exported only to countries which are members of the European Community or the International Energy Authority or with which an existing pattern of trade already exists (effectively Finland and one or two Caribbean destinations). The Guidelines exclude South Africa. They relate, however, only to direct exports of crude extracted from the UKCS, and have no impact on oil products, onshore oil or oil imported into the UK and then re-exported. (These exceptions do not, however, represent a significant trade in respect of South Africa. Formal observance of a wider ban on petroleum products and related materials would bring an estimated loss of some £7 million in UK exports to South Africa, but in any case we would interpret the ban as covering only the export of crude oil.)
- The Guidelines have no legal status. They are an expression of government wishes and cannot be legally enforced. But companies are constrained by their interest in keeping on good terms with HMG not least in relation to future licensing arrangements. HMG expects the oil companies to follow the Guidelines and only occasionally does UKCS crude appear to have been supplied to countries excluded by them (e.g. two instances where oil went to Senegal and Columbia because of oversights in the oil companies concerned). The Guidelines have thus been generally effective so far with regard to direct exports. They prevented an Israeli connected company from buying oil for Israel in 1982, which has led to a case now before the European Court of Justice.

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- To date, the Guidelines have enabled us to fend off politically difficult requests for UKCS oil from countries such as South Africa and Israel when supply would be likely to provoke hostile reactions from other countries. They have also given political cover to oil companies operating on the UKCS who wish a pretext for refusing to supply oil to South Africa or Israel.
- In the present situation of over-supply of crude, South Africa has no difficulty in obtaining the oil it needs from non-UK sources. The recent dominance of the spot market, where traders deal in small lots, rather than through the traditional fixed-term contracts, makes it relatively easy for purchasers on behalf of South Africa to operate. However, given the strong incentive of the companies to observe the guidelines in order to qualify for UKCS licences, it is unlikely that they would knowingly enter into any deal which breached them. Most of the oil now reaching South Africa originates in Iran.

Given the existence of the administrative Guidelines described above and the oil companies' compliance with them in regard to UKCS oil exports, we consider that HMG could take the line publicly that there is no more which it need do to harmonise its attitudes with those of the rest of the Ten on the "cessation of oil exports to the RSA".

Yen ever,

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