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SUBJECT: Sanctions Relief

This paper presents three broad proposals¹ for using sanctions relief as part of an "end game:"

1. Stick to the current plan of suspending sanctions only when a peace treaty is signed.
2. Accept Ambassador Holbrooke's proposal of suspending all sanctions at the start of the proximity talks.
3. Pursue a middle course by giving limited sanctions relief at the start of the proximity talks.

In addition, the paper addresses two issues not answered in previous Principals' meetings: when to lift sanctions against the FRY and when to suspend sanctions against the Pale Serbs. Note that the Russians have circulated a draft resolution in New York that would suspend all sanctions against Belgrade and Pale at the start of the proximity talks and lift all sanctions against both when an agreement is signed.

The Three Proposals**Alternative 1: Stick with the current sanctions relief plan**

When Principals last discussed sanctions relief in August, they decided that all UN sanctions against the FRY, except for frozen assets, will be suspended upon signature of a peace agreement and that sanctions will be reimposed on the FRY during the suspension period if the FRY or the Bosnian Serbs impede implementation. They further determined that sanctions will be lifted and frozen assets will be released (subject to resolution of claims) upon full implementation of the peace agreement.

PRO:

- The current sanctions relief plan concentrates virtually all sanctions leverage against the critical goal of getting the parties to sign a peace settlement.
- Milosevic has a strong incentive to bring the proximity talks to a successful conclusion, since he would get no sanctions relief if he or the Bosnian Serbs cause the talks to collapse.

¹ All three proposals would lift sanctions and release frozen assets at full implementation of the peace plan.

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- This approach to sanctions relief supports the strategy established in July and August of focusing on relatively rapid movement to an overall settlement in Bosnia by trading major sanctions relief only for a true breakthrough in Bosnia.
- The plan is consistent with the President's assertion to Senator Dole that there will be no easing of existing sanctions until there is a peace settlement.

CON:

- The current plan gives Milosevic nothing in return for intermediate steps on the way to a settlement.
- It offers no relief to Milosevic if he and the Bosnian Serbs negotiate in good faith but agreement is blocked by the other parties (this shortcoming could be rectified by returning in such circumstances to concepts outlined in earlier sanctions relief plans that would give Milosevic limited sanctions relief in the absence of a settlement, provided he continues to support the peace process).
- It does nothing to meet continuing Russian pressure for sanctions relief.

A variation: The UNSC could pass a resolution at the start of the proximity talks which would suspend sanctions against the FRY upon signature of a peace agreement. This would give Milosevic no concrete sanctions relief now -- but would provide him relative certainty on how and when he will get sanctions relief, which has symbolic and political value.

Alternative 2: Suspend all sanctions, except frozen assets, at the start of the proximity talks

Ambassador Holbrooke proposes that all sanctions against the FRY be suspended at the start of the proximity talks and that the suspension last for the duration of the talks. Full sanctions would be reimposed if the FRY or the Bosnian Serbs were responsible for the collapse of the talks. The Security Council would have the option of continuing some or all of the sanctions relief if the Serbs were not the cause of the talks' failure.

PRO:

According to analysis from the negotiating team, granting sanctions relief to the FRY at the start of talks would

- Strengthen Milosevic against Serbian domestic critics and the Bosnian Serbs who oppose any deal.
- Induce Milosevic not to leave Dayton without a deal or sanctions will resume.

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- Signal other parties that sanctions relief could continue if they obstruct a deal.
- Give Milosevic substantial reward for steps he has already taken to support peace.
- Satisfy Russian demands for sanctions relief.
- Place the parties on more equal footing at the start of the negotiations.

CON:

- Sanctions relief at this point may be useful, but not necessary.
 - The Intelligence Community believes Milosevic faces remarkably little internal political pressure to achieve immediate sanctions relief. Serbs blame others for sanctions, not Milosevic, thus relieving him from immediate personal pressure to get sanctions relief.
 - Milosevic's leverage over the Bosnian Serbs stems from his ability to manipulate their access to fuel and military supplies and from the Bosnian Serb leadership's realization that their long-term survival depends on Milosevic. Milosevic probably modulates his leverage over Pale more in response to his perception of what is in his own best interest than to gain compensatory sanctions relief.
- Sanctions relief may be irrevocable, even if talks collapse.
 - A Security Council resolution is necessary to suspend sanctions and establish reimposition mechanisms. It will be extremely difficult to craft definitive reimposition mechanisms and to rally Security Council support for reimposition should it become necessary.
 - Even if the sanctions are reimposed, enforcement will lag substantially. The front-line states would undoubtedly be slow to re-activate their enforcement mechanisms, possibly greatly extending the time in which the sanctions ring was effectively down.
 - Serbia could blunt the effect of reimposed sanctions by stockpiling fuel and other key materials during the suspension period. In as little as 2-3 weeks, Serbia could import enough fuel to meet most, if not all, of its winter energy requirements. Serbia could also export grain, stockpiled industrial materials, and arms to earn much-needed hard currency.

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- Granting sanctions relief before an agreement is signed may have serious side effects.
 - This sanctions relief proposal contradicts the President's assurances to Senator Dole in his August 28 letter that there would be no further sanctions relief until there is a peace settlement. Thus, it risks complicating efforts to get Congressional support for IFOR and may lead to passage of amendments to prevent further sanctions relief.
 - President Tudjman stated that Croatia would be impelled to attack Sector East if a decision were made to ease sanctions on Belgrade before reaching an agreement on Eastern Slavonia. (USUN New York, 004140, 232156z OCT 95, NODIS)

Alternative 3: Offer more limited sanctions relief by allowing trade in certain commodities for a set time period (or until the talks collapse).

Previous Contact Group and USG sanctions relief models envisioned "peeling off" sanctions in several incremental steps. For example, the plan offered by Bildt in July envisioned easing sanctions in four discrete steps:

1. Suspend non-strategic trade and financial sanctions (except frozen assets), establish an oil import quota system
2. Lift "Phase I" sanctions²
3. Lift non-strategic trade and financial sanctions, suspend strategic trade sanctions
4. Lift strategic trade sanctions, release frozen assets, end the oil import quota system

As the sanctions community examined this and other incremental sanctions relief plans, it became clear that there are problems in trying to finely sub-divide sanctions:

- Trade and financial sanctions are very difficult to separate.
 - Legitimate trade cannot start unless restrictions on financial transactions are also loosened.
 - While it may be theoretically possible to allow only those financial transactions necessary to finance specific trade deals, practical

² Phase I sanctions included air service to Belgrade, ferry service to Bar, and sports and cultural contacts -- all of which were suspended in August 1994 in return for the border closure.

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enforcement problems -- especially in non-U.S. banks -- make it all but impossible to separate illegal from legal transactions.

- Discriminating between strategic and non-strategic trade has little impact in the short run -- except for oil.
 - Fuel is the only strategic commodity that really matters to the FRY in the short run. Serbia cannot meet winter heating requirements without imported heating oil -- too little now gets through the embargo at too high a price.
 - Allowing non-strategic trade would help ease consumer dissatisfaction marginally, but would do nothing to re-start the industrial base or to keep the population warm this winter.
 - Allowing trade in other strategic goods, such as ores and metals, will only help industrial recovery in the long term, because of the seriously run-down state of Serbia's heavy industry.
 - The more different types of goods and commodities allowed in trade, the more difficult the enforcement problem becomes.

A variation: The conclusion the sanctions community has reached is that sanctions cannot be peeled as thinly as earlier proposals assumed. However, the importance of fuel oil in and of itself offers a possible peel-off option: We could offer to allow the FRY to import 50,000 MT of heating oil³ (worth \$7.5 million) a month for the next two months to be financed by export of \$7.5 million worth of wheat or corn (about 50,000 MT). The UNSC would retain the option of renewing the grain for oil arrangement at the end of two months if there is substantial progress towards a peace settlement. The arrangement would be canceled immediately if the proximity talks collapse due to Serb intransigence.

PRO:

- Allowing Serbia to swap surplus grain for fuel oil would be of economic and political benefit for Milosevic since it will help him to meet a critical popular demand at home.
- The overall sanctions enforcement system would stay in place to maintain the effectiveness of remaining sanctions, and to monitor oil shipments and cut them off if necessary.

³According to CIA estimates, 50K MT of heating oil is about the FRY's monthly winter demand for heating oil over and above domestic production.

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- This approach gives Milosevic something now, while retaining relatively more sanctions leverage for later in the peace process.

CON:

- This plan may not be attractive to Milosevic, who has indicated to negotiators that he wants near-total sanctions relief.
- The plan contradicts the President's letter to Senator Dole.
- It requires a UN resolution.

Other Issues

The following two issues need decision, whether or not interim sanctions relief is offered.

When will UN sanctions against the FRY be lifted?

At issue is how long to preserve the threat of reimposing sanctions as a hedge against Serb backsliding on the peace settlement. Each of the three alternatives proposes lifting UN sanctions against the FRY at full implementation of the peace agreement, but full implementation has never been defined in this context. Possible points after which sanctions could be lifted include

- Successful implementation of the military aspects of the peace agreement and withdrawal of IFOR,
- Achievement of a rough balance of power between the entities to ensure a stable military situation after IFOR withdraws, and/or
- National elections.

Lifting sanctions before IFOR's departure surrenders sanctions leverage while NATO troops are still on the ground, thus reducing options for deterring Serb threats against IFOR's safety or interference with its ability to accomplish its mission. Similarly, sanctions leverage could be used to induce Serb parties to abide by arms control measures in the peace agreement. It may also be desirable to retain the threat of reimposing sanctions in response to Serb misbehavior until after elections, a major political goal. On the other hand, Belgrade and Russia press for early lift of sanctions, arguing that the FRY has met its obligations once the settlement is signed.

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~~SECRET~~**When will sanctions against the Bosnian Serbs be suspended?**

Suspension of sanctions against the Bosnian Serbs and opening of the Serbian-Bosnian border could take place at one of three possible times:

1. At signature of the agreement

PRO: Gives the Bosnian Serbs immediate reward for signing the agreement

CON: Uses up sanctions leverage that may be needed in later stages of the implementation process; Belgrade can freely resupply Bosnian Serb military.

2. After Bosnian Serb forces have withdrawn to agreed territories

PRO: Rewards Bosnian Serbs for implementing a critical element of the agreement.

CON: Uses up sanctions leverage that may be needed in later stages of the implementation process.

3. After full implementation

PRO: Retains sanctions leverage for entire implementation period.

CON: The post-settlement economic recovery package and the re-emergence of commerce in the region will make economic sanctions against Pale and the border closure increasingly hard to enforce as the implementation process goes forward.

A sub-issue: What about ICFY? It may be desirable to retain ICFY's monitoring presence on the border between the FRY and Bosnia after economic sanctions and the border closure have been suspended in order to have an international presence on the border and to monitor compliance with any limitations on arms shipments included in the peace agreement.

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