X1328(D)
REFER TO CIA

MULTILATERAL ACTIONS WITH ALLIES

(but Possible U.S. Unilateral Actions)

F(b)(1)
F(b)(3)
(S)

~~SECRET~~

Proposed Action: Revoke South Africa's Most Favored Nation Status

Impact on South Africa: Most South African goods would not be affected by its loss of Most Favored Nation status which would have effects similar to a selected boycott of South African products. Our analysis of past trade boycotts against South Africa and other countries suggests that such actions are most likely to be effective when the goods involved are easily traceable to country of origin and substitutes are readily available at similar prices from other sources of supply. This would affect South African exports such as coal, steel, agricultural products, and gold coins, but these goods account for less than 20 percent of total South African export earnings. By contrast, boycotting or, if Most Favored Nation status is revoked, imposing a higher price on South African gold bullion, diamonds, and platinum--which account for more than half of export earnings--would be difficult to enforce as they are readily marketable, easily transshipped, and difficult to trace. [redacted] in an effort to circumvent possible trade sanctions, some exporters of mineral commodities already are laundering forwarding documents to disguise South African origin. [redacted]

Impact on Region: Pretoria might respond with minor economic sanctions against neighbors, including expulsion of some foreign workers, rail slowdowns, and the like. South African companies probably would try to use neighboring states to disguise country of origin with some minor benefits for those countries. [redacted]

Impact on US and Allies: Pretoria probably would tighten foreign currency controls on the repatriation of dividends and profits by foreign companies, which would affect the book value of foreign assets in South Africa. Pretoria might threaten to impose limited embargoes on strategic mineral sales to the West, but may be deterred from taking action by fear of prompting tougher sanctions. [redacted]

F(b)(1)
F(b)(3)
(S)

Proposed Action: Terminate South African Airlines Landing Rights

Impact on South Africa: Would reinforce South Africa's already strong sense of diplomatic isolation. Pretoria clearly anticipates further sanctions on its civil aviation. The state-run South African Airlines (SAA) already is experiencing financial difficulties due to the recession, the falling rand, inflation, and increased costs, and sanctions would further cripple its sinking revenues. SAA already is developing elaborate schemes to counter the effects of lost landing rights in the West by developing alternatives in Zambia, Swaziland, and Mauritius. Obtaining agreement to a total ban on SAA landing rights in Europe will be difficult since negotiations reportedly are underway with Olympic Airways (Greece), Alitalia (Italy), Sabena (Belgium), KLM (The Netherlands), and Uta (France) to increase the weekly number of flights to South Africa from 2 to 3, with the provision that they pay a special surcharge to SAA. Termination of landing rights by only a few countries would have only limited impact. [redacted]

Impact on Region: Some countries in the region would stand to gain additional revenues due to increased international traffic through their facilities. However, South Africa is likely to retaliate for lost landing rights by restricting some rail transit in the region. [redacted]

Impact on US and Allies: Pretoria would likely retaliate by denying foreign carrier landing rights in South Africa at a substantial loss of revenues to individual Western air carriers. For example, Prime Minister Thatcher recently stated that stopping direct flights to South Africa could cost British Airways about $100 million in lost revenues. Loss of South African landing rights also would require significant re-routing of Western air traffic to the region. In addition, South Africa could retaliate by restricting access of some Western ships to ports and refueling facilities. More than 12,000 ships of numerous registries call annually in Durban, Cape Town, Port Elizabeth, and other South African ports annually. [redacted]

Proposed Action: Visa restrictions on employees of South African Government and certain private citizens. [redacted]

Impact on South Africa: Would reinforce South Africa's already strong sense of diplomatic isolation by limiting highly valued diplomatic contact. Also restricts reporting capabilities of its diplomatic presence. Could sharpen divisions among white South Africans by cutting access to potential haven for whites, especially professionals and English-speakers, seeking to emigrate. [redacted]

Impact on region: Probably little as Pretoria likely to respond directly.-- Pretoria could tighten border controls or introduce new regulations on visa requirements for individuals transiting through South Africa to neighboring countires. (S NF)

Impact on U.S. and Allies: Almost certain retaliation in kind limiting U.S. and European official travel to South Africa. Pretoria is not a signatory to the Vienna Consular Covention, which provides guidance on diplomatic relations, and it already has bent rules by demanding that new U.S. Embassy positions be approved and the names of newly assigned personnel submitted before a diplomatic identity card is issued. This action could portend, [redacted] limitations on the number of diplomatic personnel recognized by Pretoria, particularly the five new personnel assigned to the new USAID group. Loss of US and Allied diplomatic presence probably exceeds that of South Africa because of West's relatively limited access to events and people inside South Africa, particuarly in the wake of nationwide declaration of emergency. Pretoria probably also would refuse again to grant travel visas for government opposition leaders, such as Bishop Tutu. (S NF)

Alternative action: The U.S. and its Allies could demand descriptions of the duties of South African diplomatic personnel, as we do with Cuba and the Soviet Union, or limit renewals of visas for diplomatic personnel. Could be labelled as retaliation for South African moves and probably would lead to significantly reduced diplomatic presences, both in South Africa and in the West. [redacted]

Proposed Action: No New Investment For Non-Sullivan (non-EC Code) Signatories

Impact on South Africa: Would have little economic impact since we expect little new foreign investment in South Africa until the domestic unrest subsides, which is unlikely in the near term. The recent debt crisis--triggered by a loss of foreign confidence in South Africa--clearly indicates investor concern over domestic political and economic uncertainties. During 1985, foreign investment in South Africa fell by nearly $4 billion as the result of disinvestment, loan repayment, and capital flight. [redacted]

Estimated Foreign Investments in South Africa*
(1985)

Country	Total	Direct
United Kingdom	$15 billion	$4.5+ billion
United States	$13 billion	$2.1 billion
West Germany	$3 billion	$1+ billion
France	$2 billion	$1.6 billion
Other	$8 billion	
Total	$42 billion	$19 billion

* Includes direct investment, foreign-owned shares on the Johannesburg Stock Exchange, other types of equity investment and overseas debt. [redacted]

Impact on Region: Pretoria probably would respond with minor economic sanctions against neighbors, including expulsion of some foreign workers, rail slowdowns, and the like. If part of comprehensive package, more severe punitive actions likely. [redacted]

Impact on US and Allies: Pretoria probably would retaliate by tightening foreign currency controls on the repatriation of dividends and profits by foreign companies, which would affect the book value of foreign assets in South Africa. Pretoria might threaten to impose limited embargoes on strategic mineral sales to the West, but may be deterred from taking stiffer action by fear of prompting tougher sanctions. [redacted]

Alternative Option: Ban All New Foreign Investment and Loans: We believe that many studies overstate South African economic vulnerability to foreign restrictions on new investment and loans, although widespread investmentand loan restrictions would reduce long-run growth potential. South African investment has not depended heavily on foreign funds: net capital inflows accountedfor only 9 percent of domestic fixed investment between 1963 and 1980, according to South African Government data. Since 1980, capital outflows have exceeded capital inflows by an average of $400 million per year, and investment has been funded from internal corporate savings. A portion of these internally-generated funds have come from subsidiaries of foreign companies, but, to date, bans on new investment have not applied to reinvested profits. [redacted]

Proposed Action: No computer sales to South African Government

[redacted]

Impact on region: Pretoria probably would respond with minor economic sanctions against neighboring states, including expulsion of some foreign workers, rail slowdowns, and the like. If part of a comprehensive package, more severe, punitive actions likely. [redacted]

Impact on US and Allies: Since a ban on sales only to government offices is probably unenforcable, acquisition by South African business firms probably would compensate for reduction in government demand, thus negating impact on US and Allies. [redacted]

[redacted]

Proposed Action: Extending arms embargo against military and police

Impact on South Africa: Minimal. South Africa has been operating under a voluntary UN arms embargo since 1963, made mandatory in 1977. The result has been a resilient, thriving arms industry, which already meets most domestic defense and security requirements, with such exceptions as advanced aircraft, large naval vessels, and certain high technology electronics. Moreover, South Africa has extensive covert trade operations in weapons and weapons technology with dealers in western Europe and Israel. [redacted]

Impact on Region: Probably none. [redacted]

Impact on US and Allies: [illegible] some US allies already turn a blind eye to covert trade with South Africa. Enforcement would be difficult as country of origin labels on weapons and shipping manifests are easily altered. Moreover, dealing with dual use commodities has always been difficult. For example, in 1984 a British firm modified air traffic control radars sold to South Africa in the 1960s, citing Pretoria's assurances that it was for civilian use only. We have since received special intelligence indicating that those systems are now being used for military purposes at Waterkloof Air Force Base. [redacted]

Alternative Options: Further discourage purchase of South African-produced arms by third countries, such as Iraq, Taiwan, Chile, and Argentina. The UN General Assembly in 1984 passed a nonbinding resolution, requesting UN member nations not to buy military equipment produced in South Africa. Despite South Africa's aggressive efforts to market its arms, actual sales are still fairly limited and the loss of these markets would have only a limited impact in South Africa. [redacted]

Proposed Action: Stockpile strategic minerals

Impact on South Africa: Would reinforce South Africa's diplomatic isolation by signaling West's determination to reduce longstanding dependence on Pretoria. Any significant Western stockpiling effort, however, undoubtedly would boost the price of South African minerals--chromium, manganese, platinum-group metals, and vanadium--and add to foreign currency earnings, about 9 percent of which come from these minerals. Over the long haul, however, higher prices would trigger accelerated recycling and substitution efforts, and encourage competing producers to gear up production. As the main alternative supplier of these strategic minerals, the Soviet Union probably would profit. [redacted]

Strategic Minerals: Estimated World Production, 1985
(Percent)

South Africa			USSR
Mineral	Share of Western Production	Share of World Production	Share of World Production
Chromium	53	31	31
Manganese	29	15	43
Platinum group	86	43	50
Vanadium	58	42	31

Impact on Region: Would benefit Zimbabwe as producer of about 5 percent of world chromium supplies, with negligible impact elsewhere. [redacted]

Impact on US and Allies: Aside from the cost of stockpiling and higher price of minerals for current use, would have little impact except in unlikely case Pretoria imposed preemptive embargo on strategic mineral sales. Pretoria would fear that an embargo would lower export earnings and could trigger reprisals against South Africa's export-dependent economy. The US has substantial stockpiles or reserves of all four minerals, West Europe has limited stockpiles, but Japan is the most dependent, receiving 97 percent or more of each of the four minerals from South Africa. [redacted]

Alternative Option: Promote Substitution: An announcement that the US and its allies will push the development of alternative materials and sources of supply could have an important pyschological effect on Pretoria since it would signal the West's determination to reduce a longstanding dependence on South Africa. The immediate economic impact, however, would be negligible. [redacted]

Proposed Action: Ban all exports to the South African Government except medicine.

Impact on South Africa: A ban on all sales to government offices could have a significant impact but is probably unenforcable. South African firms have developed considerable skill in evading end-use certification and probably could divert needed items to the government and government-owned companies.. Moreover, we estimate that between 1960 and 1979 Pretoria spent over $2 billion building and maintaining nonmilitary strategic stockpiles and can weather even comprehensive import embargoes for several years. In addition, Pretoria has engaged in subtrefuge trade that has enabled it to circumvent all previous economic embargoes. [redacted]

Impact on the region: Pretoria probably would respond with minor economic sanctions against neighboring states, including expulsion of some foreign workers, rail slowdowns, and the like. If part of a comprehensive package, more severe, punitive actions likely. [redacted]

Impact on the US and Allies: Since a ban on sales only to the government is probably unenforcable, acquisition by South African business firms would compensate for a reduction in government demand, thus negating impact on US and Allies [redacted]