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Intelligence Report

DCI Interagency Balkan Task Force — *31 July 1995*

Impact of Bildt's Position on Serbian Sanctions [redacted]

Carl Bildt is asking Serbian President Slobodan Milosevic to recognize Bosnia's internationally recognized borders, continue to support the Contact Group peace plan, and allow for the reinforcement of the inter-Serbian border monitoring mission. In return:

- Nearly all trade sanctions would be suspended for at least nine months.
- Belgrade would be allowed to import approximately 400,000 metric tons of fuel per month through the port of Bar, Montenegro, and on the Danube River.
- All financial sanctions would be suspended except Milosevic's narrow definition of FRY assets would remain frozen. [redacted]

The Bildt/Milosevic definition for the strategic goods that are to remain sanctioned would virtually eliminate the impact of sanctions on the Serbian economy. Milosevic's demand for 400,000 metric tons of fuel exceeds what Serbia and Montenegro consumed prior to the breakup of the former Yugoslavia--he could ship excess fuel to the Bosnian Serb and Krajina Serb armies. If the Bildt plan implements Milosevic's narrow definition of FRY assets to remain frozen, Belgrade would have access to most of its overseas accounts, except the portion most likely to be blocked by non-sanctions legal disputes. Reimposition of the suspended UN sanctions after nine months would be difficult. Moreover, some countries would probably not keep sanctions customs monitors in frontline states because most trade sanctions would be suspended. [redacted]

This memorandum was prepared by [redacted] of the DCI Interagency Balkan Task Force to address questions raised by Leon Fuerth, Assistant to the Vice President for National Security Affairs. Comments and queries are welcome and may be directed to the Chief, DCI Interagency Balkan Task Force or [redacted]

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Suspension of Sanctions on Non-Strategic Trade

Only the enforcement of the current broad UN definition of strategic goods would maintain an economic sanctions regime with significant leverage over the Serbian economy. The less restrictive definitions proposed by Carl Bildt and Slobodan Milosevic would have only a marginal impact.

The current UN definition of strategic goods entails crude oil, petroleum products, coal, energy related equipment, iron, steel, other metals, chemicals, rubber, tires, vehicles, aircraft, and motors of all types.

- *Continued enforcement of this broad definition would seriously impede the recovery of Serbia's industrial output and employment, and its ability to ship goods.*

- *We estimate that using the UN list of strategic goods to limit imports curtails the jobs of about 20 percent of the pre-embargo labor force, creating a ripple effect on production throughout the economy.*

Adopting Bildt's proposal--which would allow fuel imports and restrict fewer goods--would drop the work force and output targeted by UN sanctions to less than 5 percent of the economy, significantly diminishing the impact of the sanctions regime.

Meanwhile, with the UN sanctions on non-strategic goods suspended, some countries might bring their customs monitors home from the frontline states surrounding Serbia and Montenegro. There are currently about 200 customs monitors.

- *From the enforcement standpoint, the only real advantage of implementing Bildt's proposal on strategic goods over suspending all UN trade sanctions is that it probably would help keep the bulk of customs monitors in frontline states, helping maintain a mechanism, if needed, to reimpose UN sanctions.*

Import of Oil in Amounts Not to Exceed Normal Monthly Consumption

Fuel remains by far the most vital import to the Serbian economy. Slobodan Milosevic has requested 400,000 metric tons per month (mtm) of crude oil imports, which is excessive in terms of Serbia's and Montenegro's pre-war imports. If Milosevic gets abundant fuel, Serbia and Montenegro could ship some to the Bosnian Serb and Krajina Serb armies.

We estimate that existing demand for oil in Serbia and Montenegro would be met with imports of need to import about 90,000 to 120,000 mtm.

- According to 1991 statistics, Serbia and Montenegro consumed about 350,000 mtm, with imports of 260,000 mtm and domestic production of 90,000 mtm.

- Serbian economic output has plummeted by 40 percent since UN sanctions were imposed, ***indicating Serbia would consume less than in 1991.***

- Domestic supplies have actually increased somewhat, in part due to capture of Croatian oilfields in UN Sector East, lowering Serbia's import needs.

Milosevic argues that the fuel being smuggled into Serbia should not be considered when deciding how much crude to permit.

- ***Much of the smuggled fuel--which we estimate at least 70,000 mtm--is gasoline or other fuels not under the government's control.***

Milosevic can defend his request to ship crude oil by barge on the Danube River because a major POL off-loading terminal is at the river port of Constanta Romania. Prior to sanctions, nearly 75 percent of Serbia's crude imports came through Romania by barge.

The port of Bar on Montenegro's coast has neither off-loading facilities for crude oil, nor a pipeline to either of Serbia's two refineries. Bar's storage for refined products is only 110,000 mt, ***seriously restricting the amount of refined oil that can be brought in by this route.***

Releasing Frozen Assets

If the Bildt Plan implements Slobodan Milosevic's narrow definition of FRY assets to remain frozen, Belgrade would have access to the majority of its overseas accounts, except the portion most likely to be blocked by non-sanctions legal disputes.

Milosevic's proposed lifting of financial sanctions would leave frozen only accounts held by the National Bank of Yugoslavia (NBY)--***funds that Belgrade probably expects to be tied up in lengthy court cases.*** The other former Yugoslav republics also claim the NBY money, and have successfully blocked Belgrade's access to these accounts deposited in countries that have allowed use of NBY frozen funds for humanitarian purchases.

Removing sanctions on all the non-NBY accounts would provide Belgrade access to at least $750 million held by the other Serbian state-controlled banks.

Belgrade's Yugobanka and Beogradska Banka own approximately 33 percent of Belgrade's assets frozen in the United States--close to NBY's 40 percent share.

Because Milosevic was once President of Beogradska Banka, it is likely that the Serbian leadership moved a significant portion of the funds it controlled to the bank during the breakup of the former Yugoslavia.

Belgrade would also gain access to funds frozen in accounts held by its many state-controlled multinational companies and government agencies.

Foreign airlines, for example, reportedly have deposited in excess of $100 million in a frozen Swiss account to pay their overflight fees. Significant assets also have been frozen in the overseas currency accounts held by the large multinational state-controlled firms that dominate Serbia's trade economy, such as GENEX and Montenegrin shipping firms.

The Reimposition Mechanism

Carl Bildt is proposing that the UN sanctions suspension last for an indefinite period, but three out of the five permanent Security Council members could vote to reimpose economic sanctions not earlier than nine months after the initial suspension.

- *The nine-month grace period gets Serbia and Montenegro comfortably through the normally difficult winter months.* Power blackouts last year triggered violent protests because consumers blamed the regime for the lack of electricity.

- *Some countries would probably recall sanctions monitors from frontline states during the nine months, given that most trade sanctions would be suspended.*

It is unclear to us what would justify reimposing UN sanctions on Serbia and Montenegro. The UK had earlier proposed three reasons for termination of a UN sanctions suspension:

- The authorities of Serbia and Montenegro are not making good faith efforts regarding the proposed territorial settlement for the Republic of Bosnia and Herzegovina.

- The authorities of Serbia and Montenegro are violating provisions of the resolutions of the Security Council imposing economic restrictions on Serbia and Montenegro that remain applicable after adoption of the new resolution.

- If the ICFY mission reports that the authorities of Serbia and Montenegro are not implementing their decision to close the border between the FRY and Bosnia and Herzegovina.

Achieving an agreement to reimpose suspended UN sanctions would almost certainly be difficult. As the inter-Serbian sanctions experience illustrates, sanctions violations are likely to become political issues--rather than factual ones--so there would be a tendency to turn a blind eye to violations.