

# FOIA MARKER

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Bosnia - August 1995: Late [2]

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# Withdrawal/Redaction Sheet

## Clinton Library

| DOCUMENT NO.<br>AND TYPE | SUBJECT/TITLE                                                                                                                    | DATE       | RESTRICTION      |
|--------------------------|----------------------------------------------------------------------------------------------------------------------------------|------------|------------------|
| 001. draft               | Paper: The Bosnian Federation. (6 pages)                                                                                         | 09/01/1995 | P1/b(1)          |
| 002. paper               | Ensuring the Viability of Gorazde. (3 pages)                                                                                     | 08/30/1995 | P1/b(1)          |
| 003. report              | Inter-Serb Sanctions: Holes in Enforcement Weaken Embargo's Impact. [CIA Act] [partial] (8 pages)                                | 09/01/1995 | P1/b(1), P3/b(3) |
| 004. paper               | Implementing a Balkan Peace Settlement. (4 pages)                                                                                | 09/01/1995 | P1/b(1)          |
| 005. paper               | Potential Effects of the Peace Process on the Gorazde Enclave. (2 pages)                                                         | 08/29/1995 | P1/b(1)          |
| 006. paper               | Clearing Bosnia's Arrears. (3 pages)                                                                                             | 08/30/1995 | P1/b(1)          |
| 007. draft               | Memorandum for the Principals. (2 pages)                                                                                         | 08/1995    | P1/b(1)          |
| 008a. memo               | For the Deputy Assistant to the President for National Security Affairs. Subject: Achieving a Bosnia Peace Settlement. (3 pages) | 08/31/1995 | P1/b(1)          |
| 008b. memo               | For the Principals. Subject Achieving A Bosnia Peace Settlement. (6 pages)                                                       | 08/31/1995 | P1/b(1)          |
| 009. draft               | Paper: The Bosnian Federation. (7 pages)                                                                                         | 08/30/1995 | P1/b(1)          |
| 010. draft               | Draft of 008b. (5 pages)                                                                                                         | 08/30/1995 | P1/b(1)          |

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### FOLDER TITLE:

Bosnia - August 1995: Late [2]

2013-0687-F

vz2738

### RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]  
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]  
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PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

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~~Top Secret~~

(b)(3)

## Intelligence Report

DCI Interagency Balkan Task Force

1 September 1995



### Inter-Serb Sanctions: Holes in Enforcement Weaken Embargo's Impact (b)(3)



Through late August, total shipments--both commercial and military--from Serbia and Montenegro (FRY) to the Bosnian Serbs probably remain lower than before Serbian President Milosevic imposed the embargo on Pale in August 1994 in an effort to isolate Bosnian Serb leader Karadzic and garner sanctions relief. Illicit trade continues, however, as Serbian enforcement remains weak and summer weather has opened up more smuggling routes. Since July, ICFY's activities have been hampered by a flood of refugees forcing them away from their monitoring posts, by their own staffing shortfalls, and by uncooperative FRY border officials, opening the way for goods to slip across the border. (b)(3)

[003]



The embargo has affected Pale's economy and military. Belgrade's embargo has hit the Bosnian Serb economy the hardest, but--because not all Bosnian Serb Army (BSA) units apparently benefit equally from VJ resupply--the Bosnian Serb military has felt the pinch as well. Nevertheless, the BSA appears capable--at least before the NATO airstrikes that began on 30 August--of defending its territory from Bosnian and Croat attacks. Even in the face of the airstrikes, Milosevic will stick with the embargo in hopes of forcing Karadzic to the negotiating table and may be persuaded to tighten the embargo. (b)(3)

E.O. 13526

1.4 (b) , 1.4 (c) , 1.4 (d)

This memorandum was prepared by (b)(3) RTT, for the DCI Interagency Balkan Task Force. The report was requested by Leon Fuerth, Assistant to the Vice President for National Security Affairs, to provide information on Serbia's sanctions against the Bosnian Serbs. Comments and queries are welcome and may be directed to the Chief, DCI Interagency Balkan Task Force, (b)(3)

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PER E.O. 13526

VZ 10/1/2013

(b)(3)

(b)(3)

~~Top Secret~~

~~Top Secret~~

(b)(3)

### Trade Still Lower Overall, but Slight Uptick Noted Since July

*Through late August, total shipments--both commercial and military--from Serbia and Montenegro (FRY) to the Bosnian Serbs probably remain lower than before Belgrade imposed its embargo on Pale in August 1994. FRY President Slobodan Milosevic appears to have focused the embargo primarily on curtailing commercial shipments into Bosnia in his campaign to pressure Bosnian Serb leader Radovan Karadzic to accept a western-backed peace plan and obtain relief from UN sanctions.* According to the International Conference on the Former Yugoslavia (ICFY) mission, Belgrade has pointed to its confiscations of several tons of embargoed goods each month, imposition of substantial fines against smugglers, and improved inspection procedures as signs of good faith enforcement of the border closure. (b)(3)

*Illicit commercial trade continues*, however, as the monitors have noted that widespread violations of the embargo occur daily, for the most part via the numerous buses, automobiles, tractors, and pedestrians that cross the border. *Because Pale's economy is largely self-sufficient at the subsistence level, the shipments that reach Bosnia probably meet most of its import needs.* Analysis of border activity since July indicates that the Bosnian Serb assaults on the enclaves in July apparently had no effect on the "ant" trade, and the flow of refugees into Serbia resulting from the Croatian attack beginning on 4 August in the Krajina may have opened the way for increased smuggling. (b)(3)

[003]

*Milosevic appears more committed to impeding commercial shipments than putting a stranglehold on the Bosnian Serb Army (BSA).* In August 1994, Milosevic's public announcement of the embargo addressed only a cutoff in political and economic ties with Pale. (b)(1)

(b)(1) Milosevic has authorized selective resupply of the BSA, and that Belgrade has been involved in arranging military shipments. Reporting on smuggling activity along the border suggests, on the other hand, that shipments of embargoed consumer and commercial goods have been arranged largely by individuals, possibly including FRY police and customs officers. (b)(3)

### Opportunities for Smuggling Up Over the Summer

*Inter-Serb trade probably has increased marginally since July as the major enforcement shortfalls that appeared in February have not abated and as summer weather has made alternate routes accessible.* (b)(1)

(b)(1)

(b)(3)

~~Top Secret~~

(b)(3)

~~Top Secret~~

(b)(3)

- Officials did not stop several persons from carrying goods in plain view around a border post after taking the items from their car, avoiding customs inspection. At Badovinci, customs officials have watched large numbers of bicycles carrying bags of cement, fertilizer, and other goods into Bosnia.
- Inspection rates for buses at Sremska Raca--the busiest border crossing--consistently has remained below the mandated 20 percent and have occasionally fallen short at others.
- FRY police, who control bypasses around the ICFY-monitored Nudo Valley crossing in Montenegro, regularly have been absent from their posts.

*Some police and customs officers also may be directly involved in smuggling.* According to diplomatic reporting, Serbian police in Mali Zvornik are involved in large-scale smuggling of fuel and other goods. (b)(3)

In addition to taking advantage of enforcement gaps, *smugglers have used improved conditions on bypass roads and lower river levels to skirt checkpoints.* (b)(1)

(b)(1)

[003]

- A barrier on a bridge near the FAP armored vehicle plant had been tampered and that there were vehicles tracks from the bridge into Bosnia.
- A truck was seen crossing the border at night near Vracenovici and there were signs of increased truck traffic near Velimlje and Crkvice in Montenegro.
- Near Badovinci, smugglers had set up a new boat ramp and there was evidence of fuel transfers. Increased nighttime river smuggling was noted near the Zvornik dam.

Beyond these persistent problems, a bypass--apparently usable by trucks--of the Sremska Raca crossing was discovered in July and reported to the ICFY mission, according to diplomatic reporting. A survey of the circuitous route by US officials indicates that it would not replicate the loophole that the Belgrade-Zagreb Highway provided earlier this year, but it could provide a potentially significant conduit for large-scale shipments. (b)(3)

(b)(3)

### Roadblocks to Effective Monitoring

*A flood of refugees, its own staffing problems, and uncooperative FRY officials have further hampered ICFY's monitoring efforts. As a result, there are substantial areas of the border that are unmonitored by ICFY, opening the way for commercial goods, munitions, and some weapons to slip through undetected. The limitations on ICFY's activities on the border are compounded by its inability to monitor other aspects of Belgrade's support for Pale, including financial ties, high-level meetings, intelligence sharing, communications links, and airborne resupply. ICFY can report on some border activity, but, combined, these shortcomings thwart its ability to attest that the border is closed.*

(b)(3)

### Refugees Force Monitors Away from the Border

*The two-week flow of refugees into the FRY following Croatia's 4 August attack on Krajina Serb-held territory may have aided smugglers as ICFY monitors withdrew from major crossings and curtailed patrols along the border. The movement of as many as 170,000 refugees into the FRY clogged approach roads and border crossings.*

(b)(1)

[003]

### Staffing Problems Limit Coverage

*ICFY's persistent staffing shortfall has been a roadblock in coping with the apparent summer uptick in activity at minor crossings, bypasses, and across the Drina River. According to US officials, mission staffing in late August stands at about 190, just short of its goal of 200. Even at 200, however, ICFY is well short of estimates that as many as 500 personnel would be required to increase the number of checkpoints monitored full-time from the present 19 to 35 and improve coverage of the roughly 100 other minor road and river crossings.*

(b)(3)

*Threats to its monitors since late May prevented ICFY from fully utilizing its staff. Even before the crush of refugees in August, US and French monitors were withdrawn from border crossings--leaving at least three unwatched--from early June until 19 July in response to a kidnapping threat, according to diplomatic reporting.*

(b)(1)

(b)(1)

(b)(1)

(b)(3)

(b)(3)

(b)(3)

(b)(3)

### Uncooperative Border Officials

*Gaps created by short staffing have been exacerbated by some recalcitrant Yugoslav authorities who have been uncooperative or have interfered with ICFY's activities*

(b)(1)

(b)(1)

- VJ soldiers at a minor crossing near Scepan Polje were uncooperative in providing information on local traffic, and monitors noted indications of trucks crossing. A VJ patrol denied an ICFY patrol access to the Drina River south of Badovinci.
- Police officers have told monitors to move away from cars that were being inspected and refused to escort monitors to investigate a suspicious car that was attempting to cross the border.
- VJ officers assigned to escort ICFY patrols have failed to appear on numerous occasions, forcing cancellation of some patrols. (b)(3)

### Reports of Military Ties Undiminished

Indications that the VJ is resupplying the BSA continue to accumulate, and reporting since July has begun to provide limited insights into supply routes and types of goods shipped.

(b)(1)

(b)(1) have not confirmed any specific VJ military supplies or weapons entering Bosnia. *The VJ could have been taking advantage, however, of the extensive gaps in ICFY's coverage of the border to covertly move supplies—except for large numbers of its heaviest weapons, which probably would be detected—to the BSA*

(b)(1)

[003]

- Cooperation between the VJ and BSA has increased substantially since Milosevic and Mladic worked out a deal to release UN hostages. Mladic may have consulted with Milosevic and VJ Chief of Staff Momcilo Perisic in Belgrade after receiving word that Karadzic had ordered his removal as BSA commander.
  - VJ personnel have been integrated into the BSA, including officers, VJ special forces, and FRY police special forces. (b)(1)
- (b)(1)
- FRY factories, including the Krusik munitions plant, are producing weapons and ammunition for the BSA.

(b)(3)

- Belgrade has been shipping an increasing volume of goods, responding with the equipment and supplies requested by the BSA. Shipments have included arms, ammunition, and food.

Unsubstantiated press reports from the Bosnian Government claim that the VJ has delivered tanks, armored personnel carriers, artillery, aircraft, and fuel to the BSA.

(b)(3)

(b)(1) four avenues that Belgrade has used to move supplies into Bosnia. (b)(1) Belgrade relies heavily on routes around Sremska Raca, despite the presence of ICFY monitors, who have not observed any of the activity.

- (b)(1) 50-60 trucks carrying arms, ammunition, petroleum products, and other goods are marshaled daily along the Bosnia-Serbia border, including at Sremska Raca, to cross at night into Bosnia. The trucks cross at night to evade ICFY and UNPROFOR on the Sector East border.

- (b)(1) a primary military supply route extends approximately 210 kilometers from Sremska Raca to Banja Luka.

(b)(1)

- (b)(1) FRY Customs chief Mihail Kertes organized smuggling teams that moved supplies across the Drina River between Sremska Raca and Badovinci from fall 1994 to spring 1995.

(b)(3)

[003]

Additionally, VJ military vehicles may routinely be crossing the border in Montenegro. The most active crossing is Vrbanj, where the vehicles pass the ICFY-monitored border crossing daily without being inspected. (b)(1)

(b)(1)

(b)(1) as many as four VJ battalions were deployed along the border near Vrbanj and the vehicles may have been supporting those units. Other VJ trucks have crossed into Bosnia near Vracenovici. (b)(1)

(b)(1)

(b)(3)

### Pale Feeling the Embargo's Pinch

*The Bosnian Serb economy has taken the brunt of the embargo. Since August 1994, Pale's economy has fallen virtually to the subsistence level; partly from the effects of Belgrade's embargo, and the industrial sector has been hardest hit. According to press reporting, many factories are working at only 10-15 percent of capacity, and others have shut down. Moreover, other press reporting indicates that Pale continues to suffer the inflation and cash-flow problems brought on by UN sanctions and Belgrade's embargo. The goods smuggled across the Bosnia-Serb border probably are adequate to meet the population's basic import needs. The presence of at least 10,000 Krajina Serb refugees since early August in Bosnian Serb areas probably has added more stress to the economy, however.*

(b)(1)

Krajina Serb troops who fled with their families are demanding housing and security in return for being willing to fight.

(b)(3)

*Even with these restrictions, Pale has financial resources to continue some foreign procurement efforts, particularly for the military.*

(b)(1)

(b)(1)

*There has been some cost to the BSA, but intelligence reporting has been insufficient to accurately judge the overall impact because the embargo on military shipments apparently has been selectively managed to aid elements supportive of Mladic and Milosevic. As reported throughout 1995, the BSA suffers from spot shortages of fuel, munitions, and manpower, which the embargo probably has exacerbated for some units. Serbian setbacks in the Krajina also have taken a toll.*

[003]

(b)(1)

## Milosevic Holding the Line on Inter-Serb Sanctions For Now

*Even in the face of the NATO airstrikes on the Bosnian Serbs, President Milosevic is unlikely to publicly abandon his year-long embargo on Pale, absent a major Croatian-Bosnian Government offensive against the Bosnian Serbs. Instead, the Serbian government will continue to selectively enforce border restrictions, as leverage for pushing Pale towards a negotiated settlement and as part of Milosevic's long-standing campaign to rehabilitate Serbia with the international community. Diplomatic reporting indicates that Milosevic is focused now on getting UN sanctions against his regime lifted. Sanctions relief is integral to his maintaining power, especially in view of the nearly 170,000 Krajina Serb refugees that are burdening Serbia's already depressed economy.*

(b)(3)

*Milosevic may be persuaded to tighten his embargo on the Bosnian Serbs by the carrot of broad sanctions relief. Various reports indicate Milosevic is demanding an immediate end to sanctions as part of a negotiated settlement. However, the Croatian military build-up near Sector East and around Dubrovnik is likely to erode any UN efforts to push Milosevic toward a stricter embargo because of Belgrade's concern over a possible Croatian incursion into those areas.*

(b)(1)

*(b)(1) VJ forces have mobilized along the Serbian-Croatian border near Sector East, in what is probably a defensive maneuver aimed at deterring a Croatian offensive in the sector. Some of the sanctions violations that have been reported near Sremska Raca and at Vrbanj may reflect Belgrade's efforts to bolster its troop deployments near those areas.*

(b)(3)

*The Serbian president faces little political pressure on the home front to drop the embargo and resume full-scale military assistance to the Bosnian Serbs. US diplomats in Belgrade report that Milosevic's domestic power base remains strong, despite initial public anger over the Krajina defeat.*

[003]

- Nationalist opposition parties in the FRY are weaker than they have been in years and are unlikely to pose a significant challenge to Milosevic's policies for the time being, according to diplomatic reporting.
- Milosevic has moved to bank nationalist fires by significantly reducing government-controlled media coverage of fighting in Bosnia and the Krajina. He has also manipulated the state-run press in an apparently successful attempt to shift blame for the Krajina debacle from his government to Krajina Serb and Bosnian Serb leaders, according to diplomatic and other reporting.

(b)(3)

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8/25/95

(TREASURY)

BOSNIA -- SUPPORTING RECONSTRUCTIONIntroduction

The prospects for peace in Former Yugoslavia, especially Bosnia-Hertzegovina (B-H), could be enhanced by western efforts to put forth a vision of reconstruction and external financing for this process.

But at the same time, the international financial community faces a shortage of resources. Financing Bosnia's reconstruction will necessarily need to be pieced together through a concerted effort of the international community -- by bilateral donors, by the international financial institutions, and hopefully by the private sector. In this regard, the Europeans have told us, in the context of assembling other country financing packages, that they would have adequate resources to help Bosnia at the appropriate time. It will thus be critical to engage them to step forward, while we do enough for our part so that we can exercise leadership. Also, under existing guidelines, the IMF and World Bank together could be expected to provide \$500 million in loans for this purpose in the first year or two, some possibly on concessional terms.

Financing Plan -- Terms and Conditions

Reconstruction finance for Bosnia should entail several stages.

1. **Needs Assessment:** The IMF, World Bank and EBRD should quickly assemble a task force for a quick needs assessment study. The task force could be joined by experts, designated by capitals. It would prepare a paper for the international financial community, outlining: the macroeconomic stabilization, structural reform, and infrastructure requirements in B-H; a timetable for their implementation; their costs; and potential associated external financing.

The Netherlands has already started backing a Trust Fund at the World Bank to which the United States is now in the process of making a contribution. This Fund was created to allow the World Bank to defray the costs of conceptualizing a plan for reconstruction and its financing before B-H joined the IFIs. Financing from other donors would be welcomed and helpful for timely completion of the assessment.

2. **Coordinating Mechanism:** A coordinating mechanism should be quickly established to bring together IFIs and donors. The coordinating body will need to develop a financing package on the basis of the needs assessment task force report. The World Bank would be a logical choice to head the coordinating body. It has played such a role elsewhere in the world and also has established such expertise through its longstanding leadership of the consultative group process. If we are not resolute in supporting the Bank, the EU may volunteer itself for a coordinating role.

3. **Financing:** Reconstruction will require an extraordinary effort by bilateral donors, complementing the efforts of the IFIs. Additionally, B-H must still become of a member of the Fund and Bank. It has arrears, however, of \$409 million to the World Bank and \$36 million to the IMF -- inherited from Yugoslavia -- that must be cleared prior to commencement of IFI activities.

**Bilateral Donors' Role:**

Bilateral donors will need to play a financing role in three respects.

First, they will need to support arrears clearance to allow B-H to normalize relations with the IFIs. Arrears-clearance exercises have typically been conducted by "support groups." Under a support group, a country takes the lead in assembling donor financing that can be lent to the arrears country once it has agreed to an IFI-supported reform package and covered by IFI disbursements. Germany (or the EU) might be a logical candidate to head the support group.

Second, they will need to provide new money for reconstruction. While it is not feasible to approximate these costs absent a needs assessment, the fact is that reconstruction costs for B-H will be large due to the ravages of war. Thus, substantial bilateral resources will be required. The donor community may wish to consider co-financing such lending with the IFIs, to leverage bilateral resources and to leverage sound reform.

Apart from small amounts of World Bank net income, the IFIs cannot provide grants. They do have the possibility of providing concessional support, though these amounts are limited. This reality underscores the imperative of active bilateral donor support.

For the United States, this means that we need to consider whether we can meet our responsibilities from the SEED budget or whether new appropriations will be required. We may be hard pressed to make an extraordinary bilateral commitment in the current budget environment as a supplemental appropriation is unlikely. In these circumstances, recourse to SEED funding may be inevitable.

Third, Treasury has agreed with B-H on and established a Fiscal Technical Assistance project. This project could be quickly activated to support reconstruction.

Additionally, there remains the thorny question of allocating the assets of the Former Yugoslav states. Bilateral donors may need to play a role in helping address this issue, perhaps either through the ICFY (International Conference on Former Yugoslavia) or some other mechanism.

### IMF

The IMF would take the lead in providing general balance of payments support for macroeconomic stabilization.

- o Under normal IMF loan terms, Bosnia could have access up to \$200-300 million over two years at market terms, with repayments completed in five years. This financing would be strictly conditioned.
- o It might be possible subsequently to roll such a loan into an IMF loan on concessional terms, assuming B-H fell under the per capital income threshold for such lending. With very generous treatment, B-H might receive \$350 to 475 million from the IMF's concessional arm over a three year period. Such financing would also require strenuous adjustment measures.
- o Sale of IMF gold to support B-H would be exceedingly difficult. It would require Congressional authorization and an 85% IMF super-majority vote. Such sales could probably only be used to finance interest rate subsidies on loans.

### World Bank

The World Bank would take the lead on structural reform and reconstruction.

- o Rehabilitation (critical import) lending, requiring an appropriate macroeconomic framework, might quickly infuse B-H with \$100-200 million of disbursements in the first year following membership.
- o Structural adjustment lending could quickly follow on, continuing the infusion of fast-disbursing balance of payments support.
- o Project loans would be disbursed much more slowly and over a longer period, in support of infrastructural needs.

### EBRD

The EBRD also can provide invaluable support for infrastructure projects, especially in the area of transport and telecommunications. The Bank has established expertise in helping privatize firms and developing financial sectors. It has a demonstrated track record in catalyzing private sector resources for its operations.

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| 005. paper | Potential Effects of the Peace Process on the Gorazde Enclave. (2 pages) | 08/29/1995 | P1/b(1) |
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2013-0687-F  
vz2738

### RESTRICTION CODES

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| 006. paper               | Clearing Bosnia's Arrears. (3 pages) | 08/30/1995 | P1/b(1)     |

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## **FINANCING A PEACE IMPLEMENTATION FORCE**

August 28, 1995

The United States will consider participating in peace implementation activities in the Former Yugoslavia in the event a peace settlement is reached. Such activities could include monitoring the peace with a multinational military force that would be NATO, not U.N., led. As a part of such a force, the Administration should consider options that minimize the U.S. costs of participation. Towards that end, this concept paper discusses options for financing a peace implementation force (PIF).

### **Financing Options**

The Contingency Financing Working Group considered four options for financing the NATO-led PIF. The options range from nations paying their own way to full NATO financing with member nations paying only their assessed share of the total operational costs. The Working Group determined that financing U.N.-related operations (e.g. UNPREDEP, humanitarian relief, etc.) in the Former Yugoslavia are an issue separate from financing a PIF. Thus, financing options for U.N. related operations are not considered here. Nevertheless, the Working Group believes the Deputies should account for all U.S. military, economic reconstruction, and U.N. commitments -- such as Deny Flight and UNPREDEP costs -- before determining the level of U.S. contribution to each.

The Working Group considered several options; four were selected as being the most viable for the Deputies to consider.

### **Option #1: Pay-Your-Own-Way**

**Financing:** Under this option, each nation would pay its own costs for participating in the PIF. There would be no institutional (i.e., U.N. or NATO) budgetary participation. Therefore there would be no assessed costs to the participating nations.

**Reimbursements:** There would be no reimbursements.

### **Option #2: Standard NATO Share**

**Financing:** NATO would fund the traditional common costs of headquarters, communications and engineering requirements for the PIF. Based upon estimated 40104 costs, this would amount to approximately 5% of the entire cost of the PIF. To pay its common costs, NATO would assess each of its member nations for their share based on standard NATO assessed rates. For the U.S., this would equal approximately 24% of the common costs. Nations participating in the PIF would pay their remaining costs (e.g.

deployment / redeployment, and sustainment, et al.) of the operation from their own treasuries. This would amount to approximately 95% of the entire cost of the PIF.

Reimbursements: Assuming that NATO does not have time to assess its member nations *before* the operation begins, then it would have to collect assessments and reimburse member nations *afterwards* for common costs that they covered out of their own treasuries. NATO would reimburse out of the assessments that it collects. However, NATO does not currently have any reimbursement mechanism, and some argue the level of NATO reimbursements would be uncertain.

### **Option #3: Expanded NATO Share**

Financing: NATO would fund an expanded set of common costs that cover more than just the traditional headquarters, communications and engineering requirements. Such costs might include, for example, in-theater logistics costs. An expanded set of common costs could be based on those consistently presented by NATO budgeters in the 40104 budget. Based upon the 40104 budget, the expanded common costs would amount to approximately 25% of the entire cost of the PIF. To pay its common costs, NATO would assess each of its members for their share based on standard NATO assessed rates. For the U.S., this would equal approximately 24% of the expanded common costs. Nations participating in the PIF would pay their remaining costs (e.g. deployment / redeployment, and unique sustainment, et al.) of the operation from their own treasuries. This would amount to approximately 75% of the entire cost of the PIF.

Reimbursements: Assuming that NATO does not have time to assess its member nations *before* the operation begins, then it would have to collect assessments and reimburse member nations *afterwards* for common costs that they covered out of their own treasuries. NATO would reimburse out of the assessments that it collects. However, NATO does not currently have any reimbursement mechanism, and some argue the level of NATO reimbursements would be uncertain.

### **Option #4: NATO Pays**

Financing: NATO would fund the entire cost of the PIF. To pay for all of the costs, NATO would assess each of its members for their share based on standard NATO assessed rates. Thus the U.S. would pay for approximately 24% of the entire peace implementation operation.

Reimbursements: Assuming that NATO does not have time to assess its member nations *before* the operation begins, then it would have to collect assessments and reimburse member nations *afterwards* for common costs that they covered out of their own treasuries. NATO would reimburse out of the assessments that it collects. However, NATO does not currently have any reimbursement mechanism, and some argue the level of NATO reimbursements would be uncertain.

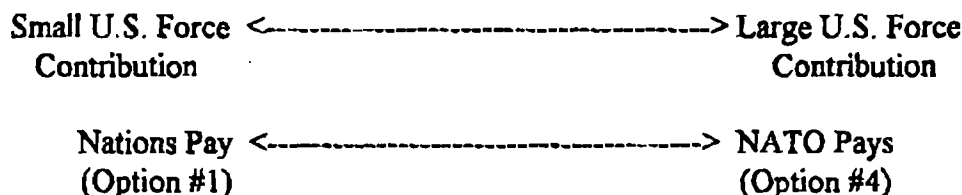
## Assumptions

In developing the financing options, the Working Group made only the following assumptions:

- Nations participate in a multinational peace operation that is NATO-led.
- NATO member troops currently in UNPROFOR would revert back to their respective nations' militaries and come under NATO command and control.
- Non-NATO nations currently in UNPROFOR that choose to participate in the PIF would also revert to their respective nations' militaries. They would no longer be under U.N. auspices, and they would pay their own way.
- Financing and reimbursements would be for *incremental* not total costs.
- Planning assumptions made by other organizations hold true.

## The Force / Financing Trade-Off

In general, every \$1 of U.S. costs that is assumed by NATO saves the U.S. approximately 75 cents. This is because NATO costs are spread among its member nations, and the U.S. pays roughly one quarter of NATO assessments. Therefore, in every instance where the U.S. would pay more than 24% (the U.S. assessment rate) of PIF costs that NATO would otherwise cover, then the U.S. saves money. This would presumably occur if the U.S. contributes more than 24% of the force structure of the PIF. In such cases, the Working Group determined that the U.S. should seek to have NATO cover as much of the costs as negotiable (Options #3 and #4 above). Conversely, where NATO covers costs that the U.S. would otherwise pay less than 24% of, then the U.S. pays disproportionately more. This would presumably occur if the U.S. contributes less than 24% of the force structure of the PIF. In those cases, the U.S. is better off having NATO pay none or only some of the costs (Options #1 and #2 above). This force / financing trade-off is best illustrated in the following spectrum diagram:



Moving from left to right across the spectrum, as the U.S. commits to a greater share of PIF force levels and costs, then it is in the U.S. interest to seek greater NATO coverage of PIF costs. By the same token, the U.S. can expect its NATO allies to resist expanding NATO budgetary coverage if they determine that they would pay a higher portion of the PIF than under a more limited NATO budgetary involvement.

In the absence of adequate force structure and cost data, the Working Group can not at this time recommend to the Deputies a financing option. Funding estimates can be made once force levels are determined. Thus, as such data become available this week, the Working Group will be able to make such a recommendation.

### Voluntary Fund

Finally, the working Group considered the idea of establishing a voluntary fund -- into which nations not participating in the PIF would contribute to help pay for the PIF -- and determined that such a fund would be a useful cost offset for each one of the financing options discussed above. Thus the Group encourages the Administration to lead the way in establishing such a fund into which others may contribute.

However, the Working Group also determined that a voluntary fund for the PIF could not be established in isolation from (and indeed, would compete with) a similar fund to offset economic reconstruction costs. Thus only one umbrella voluntary fund may be warranted. In that context, the Deputies would have to discern on what basis voluntary contributions would be used to offset economic vice military operations. Indeed, contributing nations might consistently earmark funding only for economic reconstruction, rendering voluntary contributions for the PIF a moot issue.

# Withdrawal/Redaction Marker

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|--------------------------|------------------------------------------|---------|-------------|
| 007. draft               | Memorandum for the Principals. (2 pages) | 08/1995 | P1/b(1)     |

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Bosnia - August 1995: Late [2]

2013-0687-F

vz2738

### RESTRICTION CODES

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| 008a. memo | For the Deputy Assistant to the President for National Security Affairs.<br>Subject: Achieving a Bosnia Peace Settlement. (3 pages) | 08/31/1995 | P1/b(1) |
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| 008b. memo               | For the Principals. Subject Achieving A Bosnia Peace Settlement. (6 pages) | 08/31/1995 | P1/b(1)     |

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| 009. draft               | Paper: The Bosnian Federation. (7 pages) | 08/30/1995 | P1/b(1)     |

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| 010. draft               | Draft of 008b. (5 pages) | 08/30/1995 | P1/b(1)     |

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PCSzasz, 3 February 1995

ACCOUNT OF THE DEVELOPMENT OF PROPOSALS CONCERNING THE  
CONSTITUTION OF BOSNIA AND HERZEGOVINA

I. INTRODUCTION

A. Existing Constitution

1. The existing Constitution of the Republic of Bosnia and Herzegovina derives by several amendments from the "Constitution of the Socialist Republic of Bosnia and Herzegovina" promulgated on 25 February 1974. By 31 July 1990, 80 amendments to that instrument had entered into force; in spite of many requests, ICFY has not received the texts of any later amendments (including those providing for the establishment of the existing independent republic), except for a Constitutional Law adopted on 30 June 1994 that has the effect of amending the BH Constitution to take into account the establishment (on 30 March 1994) of the Federation of Bosnia and Herzegovina.<sup>1</sup>

2. During the exercise of preparing a new Constitution for BH it appears never to have been suggested that the new Constitution should take the form of a series of amendments to the existing Constitution. However, the BH Government has from time to time insisted that any new Constitution must formally be adopted by the procedures set out in the existing Constitution -- which procedures have also been changed since 1974 -- in order to preserve the continued legitimacy of the state. This requirement, which is not acceptable at all to the Bosnian Serbs, has not been mentioned lately but has probably not been formally abandoned.

B. The Carrington Draft concerning Yugoslavia

1. On 4/5 November 1991 the EC Peace ("Carrington") Conference for Yugoslavia prepared a text titled "Treaty provisions for the Convention"<sup>2</sup>, which would have reconstituted the SFRY as a looser federal state. This proposal was in principle accepted by five of the Yugoslav Republics, but not by Serbia. Though the subsequent recognition of the independence of several of these Republics put an end to that exercise, Chapter II of that text: "Human Rights and Rights of Ethnic and National Groups" continues to inspire the various efforts to establish new constitutional

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<sup>1</sup> ICFY has had prepared an English translation of the basic SRBH Constitution (in 145 pages) and of the first 80 amendments (over 80 pages). Each amendment changes one or more provisions of the Constitution; as far as we know, no consolidated text incorporating all these amendments exists, either in English or in Serbo-Croatian.

<sup>2</sup> S/23169, Annex VII.

structures designed to resolve the conflicts in former Yugoslavia, and in particular the extensive human rights provisions that appear in the several texts referred to in Section II below.

### C. Constitutional Options Paper

1. Soon after the establishment of ICFY, the Co-Chairmen of the Steering Committee (hereinafter the "ICFY Co-Chairs") considered the range of constitutional options available for BH:

1. A fully centralized state with minor local functions assigned to a number (10-20) communes whose boundaries would be determined on other than ethnic lines. [BH Government = Muslim draft.]
2. A federal state with significant functions carried by 4-10 "constituent units" whose boundaries would take into account ethnic and other considerations (likelihood that most would have a significant majority of one of the ethnic groups, and all would have significant minorities of the others). [Present apparent position of ICFY.]
3. A loose federal state of three ethnically determined "constituent units". [18 March 1992 "agreed" draft.]
4. A loose federation of three ethnically determined states with significant or possibly even total independence in the foreign relations and defence fields and basically merely co-operative arrangements in most economic ones. [BH Serb draft.]
5. A "rump" Muslim state (possibly with boundaries drawn somewhat more generously than under the federation model), with the Serbs either becoming an integral part of Serbia/Yugoslavia or part of a federal unit of that state, and the Croats becoming a part of Croatia. [Probable real aim of the Serbs and Croats.]

2. As will be shown, all the earlier and later proposals for constitutional solutions can be fitted into one of the these slots or into areas between these.

## II. CHRONOLOGICAL LIST OF PROPOSALS

### A. Cutileiro Draft: 18 March 1992 Statement of Principles

1. On 18 March 1992 in the 5th "round of talks on future constitutional arrangements for Bosnia and Herzegovina" carried out under the auspices of the Carrington Conference, between the leaders of the SDA, SDS and HDZ parties under the chairmanship of Ambassador J. Cutileiro of Portugal, a 3-page "Statement of Principles for new constitutional arrangements for Bosnia and Herzegovina" were agreed to at Sarajevo.<sup>3</sup> At the 6th round, in Brussels on 30-31 March, a 4-paragraph addition on "Human Rights" was also agreed to.<sup>4</sup> Though informally accepted (apparently nothing was signed), the Statement of Principles was reputedly denounced by Izetbegovic on his return to Sarajevo from the Brussels meetings at the end of March.

2. Under these Principles (generally referred to as the Cutileiro draft), BH would have become a loose federal state of three constituent units (Option 3 above), with limited but still important competencies for the central government; many decisions would have required an 80% majority in a Chamber of Constituent Units in which each constituent unit would have been equally represented, thus giving a veto to each of them.

3. A sketch map of the proposed boundaries of the constituent units was attached to the Principles, showing something of a patchwork of Muslim, Serb and Croat territories. On 31 March 1992 it was agreed that a working group headed by an EC representative would meet promptly and present its recommendations by 15 May 1992 as to the territories of the constituent units; the group was apparently to take as the basis of its work the above-mentioned sketch with amendments thereto having to be justified by specified criteria. I don't know if the working group ever met; it certainly never presented its report, the war having broken out meanwhile.

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<sup>3</sup> Although the Statement of Principles was never referred to by the Security Council, it several times endorsed the talks -- e.g., in the Presidential Statement of 24 April 1992 (S/23842) and in paragraph 2 of resolutions 752 of 15 May 1992 and para. 20 of resolution 757 of 30 May 1992.

<sup>4</sup> Apparently none of these texts were reproduced in UN documents or other citeable publications.

B. July 1992 Elements for a new Constitution  
for Bosnia and Herzegovina

1. ICFY files contain a 13-page paper with the above title, probably from the files of the late Henry Darwin, with a manuscript annotation: "Given to Serbs, Croats. The Muslims took it but returned it to us the next day." This appears to be an attempt to expand the March 1992 Principles somewhat. It has apparently never since been referred to by any of the parties.

C. Precursor to Vance/Owen Plan

1. After considering the above-mentioned option paper (see para. I.C.1), the ICFY Co-Chairs decided that Option 5 fell outside of their mandate as it would not preserve the "territorial integrity" of BH (as required by the London Conference), and that neither Option 3 or 4 was likely to result in a stable arrangement; consequently, Option 2 was explored further. Accordingly an 11-page (plus Appendix) "Proposed Constitutional Structure for Bosnia and Herzegovina" was prepared, which was presented to the Security Council at the end of October 1992\*, the next day to the ICFY Steering Committee and then to the parties.

2. The latter in general declined to comment in detail on that text, each asserting that without seeing a map of the proposed 7-10 "autonomous provinces" they could not give serious consideration to any constitutional arrangements. At some meetings of the BH Working Group (always conducted separately with each of the parties) the Muslims posed detailed questions, mostly concerning the distribution of competencies; the Serbs considered the entire proposal basically unacceptable as creating far too tight a state; and the Croats proposed some amendments to the decision-making procedures so as to assure themselves of extensive veto rights.

D. Vance/Owen Plan:  
Constitutional Principles for Bosnia and Herzegovina

1. On 2 January 1993 the ICFY Co-Chairs presented in Geneva to the first joint meeting of the Bosnian parties (plus the Presidents of FRY, Serbia, Montenegro and Croatia) the first two elements of the Vance/Owen Plan (VOP), then consisting of a map showing 10 Provinces, and a set of 10 "Constitutional Principles

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\* S/24795, Annex VII; it was soon endorsed by para. 1 of SC resolution 787 of 16 November 1992.

for Bosnia and Herzegovina"; a few days later the Bosnian Serbs responded with an 8-Principle list<sup>7</sup>. By the time the VOP was fully developed by end-March, it consisted of:

- (a) 9 Constitutional Principles;<sup>8</sup>
- (b) A slightly revised version of the 2 January map;
- (c) A military agreement;
- (d) An agreement on interim arrangements.

2. The Bosnian Croats (for whom the proposed map was very favourable) immediately accepted each of these proposed instruments and later variants. The Muslims reluctantly accepted all the instruments by end-March in New York.<sup>9</sup> Finally Karadzic signed on 2 May in Athens, subject to ratification by the Pale Assembly<sup>10</sup> -- but immediately announced he would oppose approval. Some days later the Assembly did turn down the VOP, and this refusal was two weeks later confirmed by a referendum.

3. The Constitutional Principles were derived directly from the Constitutional Structures Proposal (para. II.C.1 above), but were far less detailed. The 9 Principles in the final version, resulted from the combination into Principle (1) of the final set of original Principles (1) and (4), without any substantive change.

#### E. The Owen/Stoltenberg, "Invincible Package"

1. Some weeks after the collapse of the VOP, the Serbs and Croats informally presented to the ICFY Co-Chairs a revised set of "Constitutional Principles" that were along the lines of

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<sup>6</sup> S/25050, Annex V, Article II.

<sup>7</sup> S/25100, Appendix II.

<sup>8</sup> S/25479, Annex II, Article I; the same list already appeared in S/25100, Appendix III.

<sup>9</sup> The Security Council welcomed these signatures and in effect endorsed the VOP in its Presidential Statement of 25 March 1993 (S/25471); later it did so explicitly in para. 1 of resolution 820 of 17 April 1993 and again in para. 2 of resolution 836 of 4 June 1993.

<sup>10</sup> Welcomed by SC Presidential Statements to the press on 3 and 7 May 1993.

Option 4. The Co-Chairs, however, decided to depart from the idea of developing a set of principles which necessarily could not be detailed enough to elicit sufficiently definitive reactions, and instead presented to the parties, at renewed trilateral talks commencing on 27 July 1993 in Geneva, a draft "Constitution of the Union of Bosnia and Herzegovina", which by 30 July had been tentatively agreed to as the "Constitutional Agreement of the Union of Bosnia and Herzegovina"<sup>11</sup>. This draft represented an Option 3 approach, and thus constituted a compromise between the VOP and the Serb/Croat proposals mentioned above.

2. The Constitutional Agreement, with relatively minor changes, eventually became Appendix I to the proposed "Agreement on Bosnia and Herzegovina" that was the central instrument of the "Invincible Package".<sup>12</sup> Though most of the provisions directly relevant to constitutional arrangements were set out in that Appendix I, the principal Agreement and parts of six other Appendices (many of which had their own annexes) also set out provisions relevant to constitutional matters; for example, a mechanism for dissolving the Union appears in Article V(b) of the over-all Agreement as supplemented by Appendix V (which set out the 16 September Muslim/Serb Agreement).

3. Although in principle the verbal portions of the Invincible Package were all agreed to on 20 September on the carrier, in practice acceptance of the Package as a whole depended on agreement on the full package -- including the proposed territorial division. This the Muslims (i.e., the BH Government) refused, as they were only offered 30% and insisted on at least 33 1/3%; this refusal was later confirmed by the BH Assembly.

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<sup>11</sup> S/26260, Appendix I; S/26395/Add.1, Appendix I. The Security Council never specifically endorsed this draft, though it noted this report and urged the parties to continue negotiations under the ICFY Co-Chairs with a view to reaching an early agreement (para. 1 of resolution 859 of 24 August 1993).

<sup>12</sup> The "Invincible Package" itself never appeared in any Security Council documents. Largely it followed the texts that had been set out at the end of August in S/26395/Add.1, and in particular the Constitutional Agreement was only lightly changed subsequently. The constitutional changes that were negotiated after the joint meetings ended early in August appear mostly in the over-all Agreement Relating to Bosnia and Herzegovina, to which the Constitutional Agreement was Appendix I. For some additional texts included in the Invincible Package, see S/26486.