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FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
#98d memo	open 7-17-84. NLJ 83-140 Bromley Smith for NSC Secret 1 p.	7/23/67	A
#98e paper	Southern Rhodesia - Background Secret 8 p. <i>sanitized 11-22-83 NLJ 83-141</i>	n.d.	A
#98f memo report	Intelligence Memorandum Secret 12 p. <i>sanitized 11-21-83 NLJ 83-142</i>	Jan. 1967	A

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Meeting Notes File, Box 1

DCH 10/81

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MEMORANDUM

THE WHITE HOUSE
WASHINGTON

Tues day, January 24, 1967

Mr. President:

The suggested Order of Business for the 45-minute NSC discussion of Southern Rhodesia:

1. Your opening Remarks
 - a. The purpose of the meeting is to review our current policy toward Southern Rhodesia.
 - b. We need to look at where we now are as well as where we expect to end up.
2. Ask Secretary Rusk to outline the State paper and to make additional comments if he wishes to do so.
3. Ask Ambassador Goldberg for his views as seen from New York.
4. Ask Admiral Taylor, who is sitting in for CIA Director Helms, to comment on the effectiveness of economic sanctions-- unless the subject has already been discussed.
5. Conclude the meeting by asking Secretary Rusk to:
 - a. Review carefully the actions we must take in the next few months, and
 - b. Study the alternatives which face us in the next year or two with recommendations as to the course of action we should adopt.

Walt W. Rostow

Attached are two unanswered questions which I suggest you put to the assembled company. WWR

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MEMORANDUM

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THE WHITE HOUSE
WASHINGTON

Tuesday, January 24, 1967

Mr. President:

The State Department paper contains a useful summary of the history of the Rhodesian problem. It is less helpful about future U.S. policy.

Ambassador Goldberg is expected to make a strong appeal to continue our present policy in the UN. He has been asked to speak no more than seven minutes and to address his remarks to where we go in the future.

The two questions are:

- a. What is Prime Minister Wilson going to do if Rhodesia won't give in, and economic sanctions don't work primarily because South Africa won't comply?
- b. How are we going to work our way out of this black/white African problem
 - without drifting into a situation involving the use of force,
 - upholding the United Nations,
 - maintaining our good relations with Britain,
 - avoiding a showdown with South Africa and,
 - retaining our influence in black Africa?

W. Rostow

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10-15

LIST OF INVITEES, NSC MEETING, JANUARY 25, 1967

Wednesday, 12:00 P.M.

Vice President Humphrey

Secretary of Defense McNamara

Secretary of State Rusk
Under Secretary of State Katzenbach
Ambassador Goldberg

CIA Deputy Deputy Director Taylor

JCS Chairman Wheeler

OEP Director Bryant

Secretary of the Treasury Fowler

USIA Director Marks

Walt Rostow
George Christian
Bromley Smith

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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NATIONAL SECURITY COUNCIL MEETING NO. 567

January 25, 1967, 12:00 Noon

AGENDA

U. S. Policy Toward Southern Rhodesia

For discussion of the State Department paper circulated
with this Agenda.

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Determined to be an
administrative matter
By DCH On 10-18-81

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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January 23, 1967

MEMORANDUM FOR THE NATIONAL SECURITY COUNCIL

The attached State Department paper entitled "Southern Rhodesia" is forwarded for consideration at the National Security Council meeting to be held in the Cabinet Room at noon, Wednesday, January 25, 1967, with the President presiding.

Additional information on the Southern Rhodesian problem is contained in the CIA Intelligence Memorandum RR IM 67-1 dated January 1967 -- "Rhodesia and Zambia: From Voluntary to Mandatory Sanctions."

Bromley Smith
Bromley Smith
Executive Secretary

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Authority NLS 83-140

By jis, NARS, Date 7-17-84

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EXCISE

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SOUTHERN RHODESIA

Background

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Mandatory Review
Case # NLJ 83-141
Document # 98e

1. Since 1923 Southern Rhodesia has been an internally self-governing colony with a high degree of autonomy. A new constitution granted by Great Britain and approved by a predominately European electorate in 1961 removed most of the few remaining legal controls held by the United Kingdom. This constitution was abrogated on November 11, 1965 when Ian Smith unilaterally broke with the British Crown.
2. The colony's estimated population of 4,350,000 is composed of about 4,105,000 African, 224,000 Europeans (white), and 21,000 of other ethnic groups--or a ratio of almost 20 Africans to 1 European. The whites are largely British or South African in origin.
3. The significant features added by the 1961 constitution were a bill of rights and the introduction of a second electoral roll with lower franchise qualifications, permitting a limited number of Africans to qualify. The African leaders refused to cooperate in implementing the constitution, which they considered a device to perpetuate minority rule, and few Africans registered to vote.
4. The European electorate showed little desire to accept African demands and progressively replaced their more moderate party leaders. In April 1964 Winston Field, a Rhodesian Front Prime Minister, was replaced by his deputy, Ian Smith, when Field failed to move rapidly enough for the more authoritarian elements in his party in independence negotiations with the British. The replacement of Field by Smith was a continuation of the trend evident since the 1950's when each Prime Minister was more right-wing than his predecessor. On November 11, 1965, after nearly 2 years of unsuccessful negotiations with the British Government, Ian Smith illegally and unilaterally declared the territory independent from the United Kingdom and proclaimed a new constitution.

DEPARTMENT OF STATE A/CDC/MR

REVIEWED BY A. C. K. T. T. T. DATE 9/29/83

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5. The British still appear willing to grant the colony its independence under conditions which provide for majority rule coupled with guarantees of minority rights.

6. The six principles set forth by the British in the talks provide for unimpeded progress toward majority rule within a constitutional framework acceptable to the Rhodesian people.

7. The United States and other nations have accepted the British Government's position that Southern Rhodesia is a British colony. We continue to recognize the sovereignty and legal authority of the United Kingdom in Southern Rhodesia. No country in the world has recognized Southern Rhodesia's declaration of independence.

8. Soon after the unilateral declaration of independence on November 11, 1965, the British, by a vote of 10-0-1 (France), won approval in the Security Council for a measured policy of economic sanctions against the regime. The voluntary sanctions program has caused some deterioration in the Rhodesian economy, although there has been serious circumvention through South Africa and Portuguese Mozambique. The Rhodesian economy continued to function reasonably well and the Smith regime remained in firm political control. The British began in April 1966 another series of exploratory talks with the Smith regime at the official level aimed at finding a basis for negotiations.

9. Prior to the Commonwealth Conference in London (September 6-15), rumors of an impending UK "sell-out" to Smith were widespread. Zambia threatened to leave the Commonwealth if British policy toward Rhodesia was approved by a majority of the members. The conference communique reflected the wide divergence of opinion within the Commonwealth over British policy on Rhodesia. The UK received general support from only four countries, i.e., Australia, New Zealand, Malta and Malawi, with Canada playing the role of mediator. The other 16 called in varying degrees for more positive action by the British to bring down the Smith regime. (Tanzania did not attend.) The communique did record, nevertheless, the UK's intention to put proposals to the Rhodesians

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designed to give the illegal regime one last chance to return to constitutional rule before the end of the year. If these proposals were not accepted, the communique noted that the British Government would jointly sponsor mandatory sanctions in the UN prohibiting the import by member states of selected Rhodesian products.

10. A meeting took place between Wilson and Smith aboard HMS TIGER December 2-4. There, the two sides drafted a "working document" to be submitted to the British and Rhodesian cabinets. The British Cabinet announced its approval of the document shortly after Wilson's return to London. The Smith regime, however, stated on December 5 that it was prepared to agree to Wilson's constitutional proposals but that it had to reject the TIGER proposals as a whole because it could not accept a return to legality (i.e., rule by the Governor for an interim period of about four months). Thereafter, Wilson went to Parliament and reaffirmed the British commitment in the Commonwealth communique not to grant independence before majority rule. Under the terms of the "working document", independence would have preceded majority rule.

11. UK Foreign Minister Brown on December 8 submitted a resolution to the UNSC calling for mandatory economic sanctions on selected Rhodesian products. On December 16, 1966 a resolution (No. 232) was adopted by the Security Council imposing selective mandatory economic sanctions against Southern Rhodesia.

US Interests and Objectives

12. A number of important US interests are involved. We want to maintain our political influence in Black Africa and help to create conditions conducive to stability and progress. Continued lack of movement toward a Rhodesian solution could be exploited by extreme African elements, as well as by the Communists, to our disadvantage. Our goals are to avoid a racist war in Southern Rhodesia and serious deterioration in race relations elsewhere in Africa (particularly Zambia).

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Sec. 1.3 (a) 5

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E.O. 12356
Sect. 1.3 (a) 5

We share the British view that a phased movement toward majority rule in Rhodesia is the best way to achieve our aims..

Interests and Objectives of the UK

13. The basic issue between the British Government and the Rhodesian regime has been the timing of independence in relation to majority rule. The British have been willing to grant independence before majority rule, but only if unimpeded progress toward majority rule were assured. The Africans and other members of the United Nations have urged the UK to allow independence only after the establishment of majority rule.

14. The UK initially supported a voluntary sanctions program (adopted by the UN Security Council in November, 1965) and subsequently backed the mandatory economic sanctions resolution against Southern Rhodesia in the hope that such pressure on the Smith regime would bring about a settlement of the problem based on the six principles.

E.O. 12356
Sect. 1.3 (a) 3

E.O. 12356
Sect. 1.3 (a) 3

US Strategy and Past Actions

16. On the same day that the Smith regime declared its independence from the United Kingdom, we announced the recall of our Consul General in Salisbury and the closing

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of the US Information Office in Rhodesia. The US Government at present maintains a small house-keeping consular staff in Salisbury by virtue of authority granted by the UK.

17. Following the UNSC resolution in November 1965 calling for voluntary economic sanctions in Southern Rhodesia the US Government urged US companies importing various Rhodesian products into the United States to find alternate sources of supply. We later imposed controls on exports to Rhodesia from the United States.

18. On April 9, 1966 the UN Security Council adopted a resolution noting its concern that substantial oil supplies might reach Rhodesia and result in a "threat to the peace" by encouraging the illegal regime. When it became apparent to the British Government that the voluntary sanctions program was not having the desired effect, we were asked to support a UK request in the UN Security Council for a resolution calling for mandatory economic sanctions against Southern Rhodesia. We agreed and, following the collapse of the HMS TIGER talks, the British introduced their resolution. On December 16 UNSC resolution No. 232 was adopted (11 (US)-0-4 (USSR, France, Mali and Bulgaria)) imposing selective mandatory sanctions against Southern Rhodesia. The list of embargoed items covers some 80 percent of Rhodesian exports. On January 5, 1967 Executive Order No. 11322 was issued prohibiting activities by any person subject to the jurisdiction of the United States that are proscribed by the resolution.

Future Actions

19. The UK continues to have primary responsibility for the situation. The US Government must, nevertheless, maintain close touch with the British as the sanctions program evolves. We must do whatever we can to provide the British with maximum leverage to use with the Rhodesian regime to reach an acceptable settlement.

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22. Since the use of force against the Rhodesian regime appears to be ruled out, no early solution of the problem can be anticipated. The US should nevertheless continue its policy of non-recognition of the Smith regime in order to protect our credibility and position throughout Africa.

23. The foregoing discussion reflects the current assessment of a variety of considerations relevant to US policy. Our policy should be given continuing consideration in the light of the anticipated future problems discussed below.

Anticipated Future Problems

The Enforcement of Mandatory Sanctions

24. The most likely cause of failure of the mandatory economic sanctions program will be non-compliance by key countries. There is, however, some doubt that, even if sanctions were complied with fully, they would in fact bring about an early settlement in Southern Rhodesia based on the six principles.

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25. The countries most likely to violate the sanctions are of course Portugal and South Africa.

26. The question that the Security Council will be faced with in March 1967, when a review by the Security Council of the effectiveness of sanctions is scheduled, is what action to take should there be evidence of non-compliance by UN members. Should there be considerable evidence of non-compliance by Portugal and South Africa, there is the strong possibility that various African countries and others will urge the extension of mandatory sanctions to both South Africa and the Portuguese African territories.

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29. The failure of mandatory economic sanctions to bring about the restoration of constitutional authority in Southern Rhodesia would create hostility toward the US and the UK not only in Africa but in other areas of the world. American domestic criticism from both right and left of the US position on sanctions is likely to continue and support for the UK and UN actions may become more difficult to maintain. The prestige of the UK and US is involved as well as that of the UN.

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30. If present measures are not effective, the African states can be expected to increase pressure for an independent US policy on Southern Rhodesia. Although US policy has been represented to the Africans as independently arrived at, certain key African leaders persist in the view that the US has been merely following the British lead.

The Declaration of a Rhodesian Republic

31. In the event of a declaration of a republic in Rhodesia (which Smith has stated will not take place without a vote of "the people"), we would be faced with the problem of our representation in Salisbury. //

we might find it to our interest
(a) to withdraw the small staff that is presently there,
(b) to maintain some unofficial liaison with the regime,
or (c) to remain in place, on the theory that an illegal regime cannot become any more illegal by action going beyond the unilateral declaration of independence.

20.12.56
Sent 12/12/56

Racial Conflict in Southern Africa

32. In the event that serious racial conflict develops in southern Africa, Communist countries will attempt to win over nationalist elements among the Black Africans. A racial conflict in Southern Rhodesia would be difficult to keep from spreading into other areas both to the north and south. It would be difficult for the United States to remain totally aloof from such a conflict and we would be faced with the possibility of being urged to support either the "white settlers" for the sake of stability or the "black nationalists", who would probably have Communist backing, for the sake of our position in Africa and in other non-white countries in the world.

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Document # 98f



DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

*Rhodesia and Zambia:
From Voluntary to Mandatory Sanctions*

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Authority NLJ 83-142

By ms, NARS, Date 11-21-83

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RHODESIA AND ZAMBIA:
FROM VOLUNTARY TO MANDATORY SANCTIONS*

Summary

Mandatory economic sanctions imposed by the UN against Rhodesia are not likely to have the desired result. Essentially, the Security Council Resolution of 16 December 1966 makes binding on all UN members many of the voluntary sanctions which have been in effect for more than a year. These sanctions have failed to force Rhodesian Prime Minister Ian Smith to reach an accommodation with the United Kingdom, largely because of South African and Portuguese support. Both South Africa and Portugal have indicated that they will ignore the Security Council's demands. Thus the economy of Rhodesia will probably be able to function at close to present levels. Voluntary sanctions also failed because [] the white Rhodesians' commitment to the unilateral declaration of independence (UDI). Their determination is probably even greater now than a year ago.

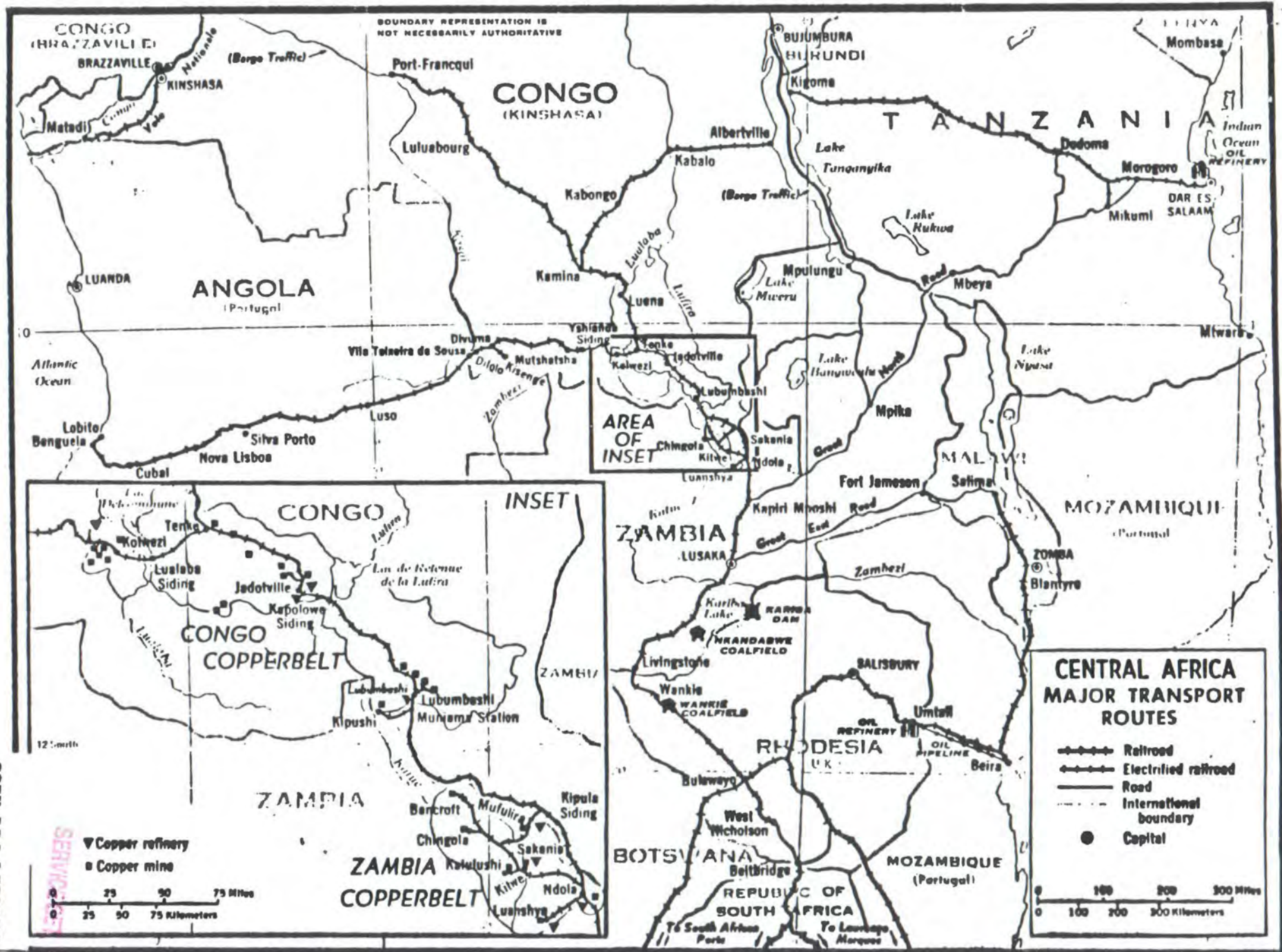
Most of the adverse effects of voluntary sanctions have fallen on Zambia, whose economy is considerably shakier now than when Rhodesia proclaimed its independence on 11 November 1965. Zambia has had little success in its frenetic efforts over the past year to find alternative transport routes and thus reduce its critical dependence on Rhodesia. If present trends continue, Zambia will almost certainly have to make further concessions to Rhodesia to prevent economic deterioration. (For major transport routes in central Africa, see the map.)

Rhodesia, moreover, retains its capacity to retaliate against sanctions by refusing either to supply Zambia with goods or to carry the bulk of that country's imports and exports. []

* This memorandum was produced solely by CIA. It was prepared by the Office of Research and Reports and coordinated with the Office of Current Intelligence; the estimates and conclusions represent the best judgment of the Directorate of Intelligence as of January 1967.

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I. Impact of Voluntary Sanctions on Rhodesia

A. Introduction

[REDACTED] Immediately following Rhodesia's unilateral declaration of independence on 11 November 1965, Britain announced a number of economic sanctions against Rhodesia. Under pressure from African states, additional sanctions were soon added, including an oil embargo.

B. Effects on Foreign Economic Relations

Economic sanctions failed not only because of the strength of the Rhodesian economy but also because they were not universally enforced. Potential profits attracted many traders and companies to trade with Rhodesia, and some countries, although paying lip service to sanctions, did little to force their nationals to comply. South Africa and Portugal were opposed to sanctions and rejected them outright.

The Rhodesian business community, with the help of middlemen throughout the world, developed various measures to evade sanctions affecting exports -- for example, the use of false certificates of origin and the mixing of Rhodesian products, particularly raw materials, with similar products from other countries. Firms in South Africa and Mozambique have been especially helpful in selling Rhodesian goods abroad.

[REDACTED] Even some Communist and Afro-Asian countries have continued to import Rhodesian goods. Moreover, exports have been helped by the worldwide demand for Rhodesia's mineral and agricultural products.

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Similarly, Rhodesia has experienced almost no problem in meeting its import needs. South Africa and Mozambique have reexported goods ordered specifically for the Rhodesian market, and European and Japanese goods have replaced British exports to Rhodesia.

1. Exports

Trade restrictions were expected to reduce Rhodesian exports by over two-thirds in 1966, but exports actually declined by no more than one-third. Exports decreased mainly as a consequence of reduced British tobacco purchases and smaller sales of manufactured goods to Zambia. The estimated total -- about \$325 million (including reexports and net gold sales) -- reflects a 55-percent drop in tobacco sales compared with 1965, and a 20-percent decline in other exports and reexports. The estimate of tobacco exports, however, is conservative and could be substantially higher.

Rhodesia exports a wide range of products other than tobacco. Many nontobacco exports (about two-thirds of total exports) have about matched the records set in 1965. High-grade asbestos, chrome, copper, and gold -- the country's major mined products -- sold readily, as did pig iron and finished steel shapes, meat products, and the large corn crop. Sugar, however, has been a problem, in part because of the world surplus.

Zambia and the United Kingdom have traditionally been the major importers of Rhodesian goods. Other major customers have been the Republic of South Africa, West Germany, and Japan. These five countries in 1965 took 70 percent of Rhodesia's exports.

Total Rhodesian sales of many commodities to South Africa have risen. Part of South Africa's purchases are reexported and part allows South Africa to export an equivalent amount of its own goods. Rhodesia's exports to continental Europe, the United States, and Japan in 1966 were about the same as in 1965.

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2. Imports

Rhodesia had no great difficulty in obtaining imports in 1966.

There was a very large increase in imports from South Africa. Although a major portion of this increase was made up of goods produced in the Republic, a large share consisted of products sold to South Africa by third countries and delivered to Rhodesia. Mozambique also served as a channel for such third-country trade.

Rhodesian imports in 1966 were about \$240 million -- some 30 percent lower than in 1965. Much of the reduction was the result of Salisbury's licensing and exchange controls designed to bring imports in line with a lower level of exports. Initially the cutback in imports was not seriously felt, because of the cushioning effect of relatively large stocks acquired before UDI. While these stocks are now exhausted, local manufacturers have filled part of the gap by producing import substitutes.

The oil embargo,

did not prevent Rhodesia from receiving enough petroleum in 1966 to take care of consumption under rationing and to increase stocks as well. Most of the oil coming into the country is shipped over the rail line from Mozambique, but it is not clear how much originates at the refinery in Lourenco Marques, how much comes directly from tankers at the port, and how much is shipped from South Africa. About 20 percent of Rhodesia's oil imports come directly from South Africa by road through Beitbridge. A portion of this traffic, however, consists of jet fuel,

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primarily for use by aircraft of the South African Airways which land in Rhodesia. Shipments of POL over the Botswana Railway from South Africa have been negligible.

As Rhodesia's oil supply was assured, the Smith regime became more relaxed about gasoline allowances. Since August, motorists have been able to buy above their ration as much gasoline as they wished for about \$1.00 a gallon. At this price, however, buyers are few. To add a measure of safety, the foreign-owned oil companies operating in Rhodesia were requested to double their storage capacity, and are doing so. In addition, the Rhodesian government-owned oil corporation is building facilities to hold 5 million to 6 million gallons. When completed, the new tanks, together with existing facilities, will provide about 30 million gallons of storage capacity, or four months' supply under rationing.

3. Foreign Exchange

Rhodesia probably added to its foreign exchange holdings during the first year of independence. Imports and exports dropped at about the same rate during 1966 and the trade surplus will probably be about \$85 million, compared with \$117 million the previous year. Rhodesia's net foreign payments for services, investment income, and migrant labor, however, should be only about \$35 million, compared with \$78 million in 1965. This drop stems from the halt in investment income payments to London and from the decrease in expenditure on freight and insurance as a consequence of lower imports. Net capital movements were minimal. While all of these estimates are subject to wide margins of error, they indicate that Rhodesia should have a current account surplus of about \$50 million during 1966. This surplus, combined with the approximately \$25 million held at the end of 1965, would give Salisbury about \$75 million in foreign exchange to start the new year.

C. Some Internal Effects

A well-diversified economy has enabled Rhodesia to minimize the effect of sanctions. Besides being able to feed and clothe itself, the country turns out a wide assortment of manufactured goods. The buoyancy of the Rhodesian economy in 1965 further cushioned the impact. During 1966, unemployment remained very low, prices rose only moderately, and the government financed its operations easily despite increased emergency spending. Rhodesia, however, has not escaped unscathed. Economic development has been curtailed, and national income has declined -- probably less than 10 percent -- mainly because of lower farm and business profits.

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1. Employment

The level of employment has changed little since independence. Although a shorter work week has been established in some industries, the number of whites who have lost their jobs as a result of the UDI is probably no more than 5 percent of total non-African employment. Most of these have found other work, mainly in public service; some have taken temporary jobs in South Africa. Most firms retained workers either because of government manpower controls or in order to hold their work force together until the situation improved. The costs of this holding operation have been borne by consumers through higher prices and by business through reduced profits. Despite the uncertainties which followed UK sanctions, white emigration, mainly to South Africa, was considerably lower in 1966 than in 1965. The number of whites entering Rhodesia dropped sharply, however, and there probably was a net loss of about 1,200 whites in 1966.

African unemployment has not increased appreciably either, partly because of labor-intensive schemes initiated by Salisbury. In addition, the government is returning Africans to the reserves, and last February it reserved nearly all new agricultural jobs for domestic labor. The restriction had to be relaxed somewhat because not enough local workers applied for these low-paying jobs which normally are filled by migrant workers from Malawi.

2. Agriculture

Rhodesia had a relatively successful crop year in 1966 and the food supply is adequate. Agricultural income, however, may have been 10 percent lower than the record set in 1965, because of lower tobacco prices. Farm income from this year's estimated crop of 250 million pounds of Virginia flue-cured tobacco is expected to be about \$70 million, or about 25 percent less than average receipts over the last few years, but tobacco growers as a whole appear to have covered costs and only a few have applied for special financial assistance. The 1967 crop now planted has been reduced to about 200 million pounds, but the guaranteed price is being raised to 30¢ a pound -- compared with about 26¢ a pound on the 1966 leaf.

As much as 80 percent of the 1966 tobacco crop may have been sold for export. A large part of the crop probably was bought at low prices and is being held in Rhodesian warehouses in the hope of a settlement. Since the leaf must be aged for at least 18 months before it can be used, the delay is causing no immediate problems.

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In early 1967 many countries [] will feel the absence of Rhodesian tobacco from the world market. The only alternate sources of good flue-cured Virginia leaf are the United States, Canada, and India. India cannot increase its exports, because of drought conditions, and while additional leaf may be obtained from Canada, much depends on the weather and other variables. The US leaf is plentiful but expensive.

3. Industry

Industrial output has been close to the pre-UDI level except for motor vehicles, which in 1965 accounted for only 5 percent of total manufacturing output. Although sales of manufactured goods to Zambia declined in the last several months of 1966, the internal market expanded. Rhodesian manufacturers began to produce goods that had been previously imported. Rhodesia's ability to expand quickly into the production of various types of new goods is the result of flexibility in the industrial sector which, even before UDI, was highly diversified for the size of the economy.

4. Mining

In 1966 the value of mineral output probably topped the record \$90 million set in 1965. There has been a strong foreign demand for Rhodesian minerals, and copper prices have been exceptionally high. Toward the end of the year, coal sales to Zambia dropped considerably, largely because of disputes between Zambia and Rhodesia over the operation of the jointly owned Rhodesia Railways. Rhodesian coal is vital to Zambia -- without it copper production would cease. These coal sales to Zambia are of only minor importance to Rhodesia, however, and in the past accounted for less than 5 percent of the value of total mineral production.

Investment in mining has continued, including a large expansion of the Anglo-American-owned Trojan Nickel Mine [] and the installation of two new electric furnaces of the Rhodesian Alloys, Ltd., ferro-chrome plant.

5. Domestic Trade

Retail sales have been 5 to 10 percent below pre-UDI levels mainly because of a 25-percent drop in automobile sales. The disruption of normal supply lines by sanctions has caused only a few difficulties. Although stocks of imported items have been considerably reduced since UDI, Rhodesian manufacturers have begun producing similar goods or

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substitutes, and the public has readily adapted to the new items.

6. Finance

The Rhodesian government's finances have not been especially strained by sanctions.


In fact, there was a small budget surplus in fiscal year 1966. The budget for fiscal year 1967, which assumes that sanctions will continue, envisions a very small deficit. The cost of security operations -- both police and armed forces -- and of social services will increase, but these will be largely offset by decreases for 1967 in foreign debt repayments.


II. Impact of Voluntary Sanctions on Zambia

Zambia's economy has been adversely affected by the UK-sponsored program of voluntary sanctions against Rhodesia. Copper production has declined, there has been a general rise in prices throughout the economy, many skilled white personnel have left the country, and government spending has increased sharply -- partly because of the cost of transporting petroleum products to Zambia over highly inefficient routes which do not transit Rhodesia. Lusaka, however, has been able to pay for these additional expenses from record government revenues accruing from recent increases in world copper prices.

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 White-owned farms produce the bulk of Zambia's cash crops. In recent months, many white farmers have left, and the output of cash crops has declined. Since Zambia obtained its independence in October 1964, the number of white farmers has been halved and some 200 large farms, including 40 tobacco farms, have been abandoned.

Zambia's copper industry, which forms the backbone of the economy, is operating under serious handicaps. Continuous labor unrest, strikes,  transport crises, and shortages of coal and fuel oil have plagued the industry over the past year. As a result, production declined to 589,000 short tons in the first 11 months of 1966, compared with 690,000 short tons during the same period in 1965. In November 1966, output was nearly 30 percent below the November 1965 level.

In spite of a decline in copper exports, government and company revenues from mining were much larger in 1966 than in 1965 because of high world prices for copper. A large portion of the increased revenue of the mining companies is, however, subject to a new tax. Furthermore, the companies are facing a profit squeeze brought about by rising costs. A 22-percent wage increase effective 1 October 1966 will raise the companies' wage bill by about \$11 million annually. Also, fuel costs are rising, and it now costs more to ship copper to ocean ports via non-Rhodesian routes. All of these added costs could cause serious problems for the copper industry should world prices decline markedly.

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Daily operational expenditures by the Zambian government for the fiscal year ending 30 June 1966 were almost 40 percent higher than originally estimated, largely because of emergency spending associated with sanctions. Capital spending also increased. Some \$46.8 million of the \$191.2 million in capital spending planned for the year ending 30 June 1967 is to reduce economic dependence on Rhodesia. These rapidly rising government expenditures have been easily financed from increased copper revenues, but like the industry, the government budget could be under great strain if world copper prices should decline appreciably.

Obtaining goods from elsewhere has resulted in higher costs and long delays for Zambian traders, and shortages of some items have developed.

III. Prospects


Mandatory economic sanctions* are not likely to have much more effect than the previous voluntary ones.


The white Rhodesians as a whole are more firmly behind Smith's Rhodesian Front Party than they were a year ago. They are confident that they can continue to survive any measure that the outside world is likely to take against them. Continued South African and Portuguese support in circumventing sanctions seems assured, and Rhodesia for its part is more experienced in evading sanctions.



* UN mandatory sanctions prohibit member countries from buying Rhodesian asbestos, iron ore, chrome, pig iron, copper, tobacco, sugar, and livestock products. Also, it will be illegal to supply Rhodesia with crude oil or petroleum products, aircraft and motor vehicles, as well as equipment used in their manufacture, assembly, and maintenance.

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Rhodesia's exports will remain at about present levels largely because the country's agricultural and mineral products will continue to be in demand. 

Moreover, the UN oil embargo will continue to be frustrated by both South Africa and Mozambique. 



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