United States General Accounting Office

GAO

Report to the Honorable
Edward M. Kennedy, U.S. Senate

April 1990

ECONOMIC SANCTIONS

Effect of Selected Measures on South Africa and Namibia

GAO/NSIAD-90-106

GAO United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-226687

April 11, 1990

The Honorable Edward M. Kennedy
U.S. Senate

Dear Senator Kennedy:

This report responds to your request that we provide an analysis of South Africa's role in the world diamond market and the feasibility of imposing sanctions on South African diamonds. As you requested, it also addresses the effect of U.S. sanctions on Namibia and the implications of removing them on the enforcement of the remaining sanctions on South Africa.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to interested parties and make copies available to others upon request.

This report was prepared under the direction of Allan I. Mendelowitz, Director of Trade, Energy, and Finance Issues, who may be reached on (202) 275-4812 if you or your staff have any questions concerning the report. Other major contributors to this report are listed in appendix I.

Sincerely yours,

Frank C Conahan

Frank C. Conahan
Assistant Comptroller General

Executive Summary

Purpose

In 1986, in an effort to force South Africa to change its policy of racial segregation, the United States imposed economic sanctions on selected transactions and products traded with South Africa and its former colony Namibia. As requested by Senator Edward M. Kennedy, this report examines

- the feasibility of imposing sanctions on South African diamonds.
- the effect of U.S. sanctions on Namibia, and
- the implications that removing sanctions against Namibia would have for enforcement of the remaining sanctions on South Africa.

Background

South Africa is the world's fifth largest diamond producer and mines about 9 percent of the world's production. DeBeers, a South African corporation until March 1990 when it moved control of its foreign operations to Switzerland, owns, either wholly or partially, at least 36 percent of the world's production and has a near-monopoly in the diamond trade—it markets 75 - 85 percent of the world's rough diamonds.

Namibia, a country in southwestern Africa, was formerly a South African colonial possession and was subject to U.S. economic sanctions on selected products and transactions. U.S. sanctions were removed when Namibia became independent on March 21, 1990.

Results in Brief

A U.S. ban on diamonds of South African origin would have little effect on South Africa's economy because diamond exports only account for about 2 percent of its exports, and sales of diamonds to the United States represent an even smaller percentage. Also, sanctions against South African-origin diamonds are very difficult to enforce because the country of origin for individual diamonds cannot readily be determined by visual, chemical, or physical tests or guaranteed by certificates of origin accompanying shipments. Such enforcement difficulties may be overcome by government-to-government agreements guaranteeing country of origin.

U.S. sanctions against Namibia had very little economic effect because the United States had a very low volume of trade with the country prior to their implementation.

South African ports serve Namibia and other neighboring countries. Because sanctions against Namibia were removed when it became independent, South Africa could relabel its exports and imports to indicate they originated in—or were destined for—Namibia to evade sanctions. However, South Africa could just as easily use the names of several other neighboring countries.

GAO's Analysis

Feasibility of U.S. Sanctions Against South African Diamonds

Diamonds account for a maximum of 2 percent of South Africa's export revenues. Although accurate figures are not available, South African exports of diamonds to the United States are an even smaller portion of such revenues. Diamond production accounts for less than 1 percent of South Africa's gross domestic product. Therefore, even perfectly enforced sanctions on South African-origin diamonds would have a limited economic effect.

Enforcement difficulties could weaken even this potential effect because the country of origin of most diamonds cannot be identified either visually or by physical or chemical tests and because DeBeers has refused to help with the identification and separation of South African diamonds. According to an Indian diamond trader, a similar ban by India was ineffective because of enforcement problems. Such enforcement difficulties, however, could be mitigated by government-to-government agreements between the United States and the three other principal nations that cut diamonds to ensure that no diamond shipments entering the United States from these countries contain South African-origin stones.

U.S. Sanctions Against Namibia

U.S. sanctions had very little effect. Fish was the only major Namibian export to the United States before sanctions were imposed in 1986 and, at that time, had a value of only $177,000. However, some companies in Namibia believe they lost opportunities to develop markets in the United States for uranium and specialty wool. In addition, the U.S. ban on oil exports to South Africa and Namibia may have increased the cost of petroleum products and other products in Namibia.

Namibia, like some other countries neighboring South Africa, exports and imports most products through South African controlled ports. Potentially, South Africa could evade sanctions by labeling its exports as originating in these countries and its imports as destined for these countries.

Recommendations

This report contains no recommendations.

Agency Comments

At the request of Senator Kennedy, GAO did not obtain comments from any U.S. agency on this report.

Contents

Abbreviations

CSO	Central Selling Organization
GAO	General Accounting Office
GDP	Gross Domestic Product

Introduction

In response to South Africa's policy of racial segregation, the United States imposed economic sanctions on selected transactions and products traded with the country and its former colony Namibia. In 1985, the President issued Executive Orders 12532 and 12535 which, among other things, administratively banned imports of South African Krugerrands (gold coins); exports of nuclear goods and technology and computers to apartheid-enforcing agencies; and new loans to South African government entities. The Comprehensive Anti-Apartheid Act of 1986 legislatively banned certain U.S. transactions with South Africa and Namibia, including

- imports into the United States of coal, textiles, uranium, agricultural products, iron and steel, and products from South African government-owned or controlled entities, including gold;
- exports of oil, arms, nuclear goods and technology and computers to apartheid-enforcing agencies; and
- new U.S. loans and investment in South Africa.

Since 1986, congressional debate on South Africa has focused on the effectiveness of these existing sanctions and whether more should be imposed.

The United States mediated an agreement among Cuba, Angola, and South Africa that provided for a gradual transition to independence for Namibia and the withdrawal of Cuban forces from Angola. U.S. sanctions against Namibia were removed when Namibia became independent in March 1990.

Objectives, Scope, and Methodology

In a November 23, 1988, letter, Senator Edward M. Kennedy asked us to examine South Africa's role in the world gold and diamond markets, the feasibility of sanctioning South African gold and diamonds, the effect of sanctions on Namibia, and the implications that removing sanctions on Namibia would have for continued enforcement of those on South Africa. We issued a report on July 14, 1989, on U.S. government enforcement of the ban on imports from South African government-owned or -controlled entities contained in the Comprehensive Anti-Apartheid Act, noting that imports of South African gold bullion were covered under the provision,[1] and on September 25, 1989, we reported on the feasibility

[1] South Africa: Enhancing Enforcement of the Comprehensive Anti-Apartheid Act (GAO/NSIAD-89-184).

of imposing additional sanctions on gold[2] As agreed with Senator Kennedy's office, this final report discusses the following topics:

- the feasibility of imposing sanctions on South African diamonds,
- the effect of U.S. economic sanctions against Namibia, and
- the implications that removing sanctions against Namibia would have for enforcement of the remaining sanctions against South Africa.

To obtain information on the role of South Africa in the world's diamond market and to obtain views on the feasibility of imposing sanctions on South African diamonds, we interviewed and obtained documentation from the DeBeers Central Selling Organization (CSO) in London, which markets most of the world's diamonds; DeBeers' mining companies in Namibia and Botswana; diamond cutters and traders in Belgium and New York; experts on the science of classifying and cutting diamonds; independent analysts knowledgeable about the diamond market; anti-apartheid groups in London and the United States; the Commonwealth Secretariat in London; the government of Botswana; and the U.S. State and Interior Departments.

To obtain information on the effect of U.S. sanctions on Namibia and the implications that removing them would have for continued enforcement of sanctions on South Africa, we interviewed and obtained documentation from representatives of Namibia's government and private sector, U.N. representatives, and independent analysts knowledgeable about Namibia.

To obtain information on U.S. imports of diamonds and all imports from Namibia, we used the Department of Commerce's Census database.

We conducted this review from December 1988 to September 1989 in accordance with generally accepted government auditing standards. As requested, we did not obtain formal agency comments.

[2]South Africa: Feasibility of Imposing Additional Sanctions on Gold (GAO/NSIAD-89-232).

Feasibility of Imposing Sanctions on South African Diamonds

Diamonds play a limited role in South Africa's economy, accounting for a maximum of 2 percent of its export earnings. Although no accurate figures exist, South African diamond exports to the United States make up an even smaller portion of such earnings. Diamond production accounts for less than 1 percent of the country's gross domestic product (GDP).

A sanction on South African-origin diamonds might be difficult to enforce because the country of origin of most diamonds cannot be identified visually or by physical or chemical testing and thus certificates of origin accompanying shipments could be falsified easily. Furthermore, DeBeers, a South African corporation until March 1990 when it moved control of its foreign operations to Switzerland, is capable of identifying the origin of most newly purchased diamonds through its position as the dominant buyer and seller of diamonds in the world, but has refused to help with identification. Such enforcement difficulties, however, might be mitigated by government-to-government agreements between the United States and the three other principal nations that cut diamonds to ensure that no diamond shipments entering the United States from these countries contain South African-origin stones.

South Africa's Role in the World Diamond Market

Diamonds are classified for gem or industrial use by their quality. High quality gem diamonds account for a lower percentage of total world production in carat weight and a higher percentage in dollar value. Because of their much higher value, this report focuses on the gem diamond market and South Africa's role in it.

Diamond Production

South Africa produces about 3.7 million carats of gem diamonds a year (9 percent of world production) and is the world's fifth largest producer behind Australia, Botswana, the Soviet Union, and Zaire. (See table 2.1.) Although figures are not readily available, South Africa probably has a greater monetary share of the world market because a substantial amount of Australia's and Zaire's production involves lower quality gem diamonds.

Table 2.1: World's Largest Producers of Gem Diamonds

Country	1988 Estimated production (Thousands of Carats)	Percent of world production
Australia	17,517	40
Botswana	10,801	25
Soviet Union	4,500	10
Zaire	3,800	9
South Africa	3,739	9
Angola	905	2
Namibia	901	2
Others	1,443	3
World total	**43,606**	**100**

Source: U.S. Bureau of Mines.

Debeers Dominates World Diamond Marketing

The leading diamond mining countries sell most of their rough uncut diamonds to the Central Selling Organization of DeBeers, the dominant buyer of rough diamonds in the world.

DeBeers mines almost all diamonds in South Africa. It also mines diamonds in Botswana and Namibia and, together with its South African production, accounts for at least 36 percent of world production, but controls the trade by marketing about 75-85 percent of the world's rough diamonds. After importing diamonds from the countries of origin and buying some of unknown origin on the open market, the cso sorts them into 5,000 categories by color, size, and quality. Once the diamonds enter the sorting process, production from each country is commingled and knowledge of each diamond's country of origin is lost. The diamonds are stored in the company's stockpile, which in 1989 had an estimated value of about $3 billion (approximately 70 percent of the value of 1 year's worldwide diamond sales).

Diamond Cutting Centers

To keep diamond prices high, the cso controls the quantity of each category sold into the market and sells only to a select group of about 150 buyers, called sightholders, many of whom are in Antwerp, Belgium. Every 5 weeks, "sights" are held in which each sightholder receives a box of diamonds from the cso that is a mixture of various colors, sizes, and qualities; the sightholders must accept the diamonds offered them or risk being excluded from the sights. Individual traders and manufacturers then trade and retrade diamonds to obtain the proper mixture of diamonds to meet their needs. Ultimately, rough diamonds are sold to the major cutting centers in Antwerp, Belgium; Bombay, India; Tel Aviv, Israel; and New York in the United States. The United States, because of high labor costs, cuts only the biggest and most valuable diamonds, while Belgium and Israel cut stones of intermediate size and quality; India, with the lowest labor costs, cuts the smallest and most inexpensive stones. The Soviet Union, Thailand, and South Africa have smaller cutting industries.

Consuming Countries

The United States and Japan are by far the two largest consumers of diamonds in the world. In 1988, the United States accounted for 30 percent of the value of world retail sales of diamond jewelry. The market for diamonds in Japan has expanded rapidly; with 31 percent of the world market, it has surpassed the dollar value of the U.S. market. Table 2.2 shows the consumers of diamond jewelry, both in value and number of diamond jewelry pieces sold.

Table 2.2: Consumers of Diamond Jewelry, 1988

	Percent of the world market	
Country	**Value**	**Diamond jewelry pieces sold**
Japan	31	15
United States	30	35
Europe	18	22
Southeast Asia	6	4
Other	15	24

Source: American Diamond Industry Association.

The Difficulty of Enforcing Sanctions

Sanctions on diamonds could include banning imports of rough stones produced in South Africa and/or cut stones of South African-origin.

Difficulty in Identifying the Origin of Individual Diamonds

Most diamonds cannot be distinguished by country of origin through visual inspection or physical or chemical tests, so enforcing a ban on South African-origin diamonds would be harder than enforcing import prohibitions on other products for which the country of origin can be identified. Expert diamond sorters cannot determine with certainty by visual inspection where most individual rough diamonds originate. It is not possible to test rough diamonds for their country of origin by physical or chemical means, which are based on the identification of trace elements. Gem diamonds have few flaws where testable deposits of trace elements are found. Determining where diamonds originated once they are cut is even more difficult.

Although the CSO could separate newly mined South African diamonds, because it buys most of the world's diamond production directly from producers, it has no incentive to do so and has already refused U.S. sightholder requests to do so. According to a CSO official, the company would incur costs setting up a dual sorting and storage process for South African and non-South African stones. Most South African diamonds come from mines owned by DeBeers. In addition, about 17 percent of the value of the diamonds that DeBeers markets are mined in South Africa. Consequently, the CSO has not cooperated. Even if the CSO cooperated, it could only identify the country of origin of newly mined diamonds because its stockpile is sorted according to size, color, and quality of stones rather than by country of origin.

Limited Ability to Enforce the Sanction

To enforce a ban on South African diamonds, the United States would have to rely on the import documentation accompanying diamond shipments and tips by informants. Because diamonds change hands so frequently during the trading and manufacturing process, it would be very difficult to ensure the accuracy of certificates of origin. The lack of positive identification would make it difficult to prove a violation of sanctions in a court of law.

It is likely that a ban on South African diamonds would encounter widespread evasion through false country of origin certificates for imported diamonds. Diamonds are traded and retraded so often in the supply chain that many opportunities would arise to create false certificates of origin for diamonds of South African or unknown origin. Rather than cooperate with U.S. sanctions, the CSO could sell any diamonds normally sold directly to cutting centers to dealers in trading centers, such as Antwerp, who could create false country of origin documentation for export shipments to the United States. The Belgian government does not require certificates of origin for import shipments of diamonds.

According to a major Indian diamond merchant, an Indian ban on diamonds from South Africa has been circumvented by traders who use false country of origin certificates and CSO shipments of diamonds to India that are accompanied by documentation citing their country of origin as "unknown."

Furthermore, diamonds have a high value-to-weight ratio and can be easily smuggled to evade sanctions. Millions of dollars worth of diamonds can be smuggled in a traveler's briefcase.

A Sanction on South African Diamonds Probably Would Be Ineffective

Because of the likelihood of widespread evasion, a ban on rough and/or cut stones of South African origin would probably be ineffective.

Even if diamond traders did not try to circumvent the ban by falsely certifying origin, they could not honestly certify to the U.S. Customs Service that their diamond imports were of non-South African origin. Therefore, a ban on South African diamonds could result in a de facto cutoff of all legal diamond imports.

If a U.S. sanction resulted in a cutoff of all rough diamond imports, the U.S. cutting industry would be deprived of its flow of raw materials. This cutoff would be felt within a period as short as 5 weeks, the period between CSO sales to sightholders. Faced with a long-term cutoff of raw materials, the U.S. cutting industry could cease to function and might eventually be forced to move to countries where sanctions did not affect rough diamond supplies. Diamond cutting is not a capital intensive industry and is therefore mobile, so relocation could occur quickly, as it did before World War II when the Dutch diamond industry moved to Belgium because of high Dutch taxes. In anticipation of potential sanctions, U.S. sightholders have already asked the CSO to exclude South African rough diamonds from their sights, but the CSO has declined to do so, according to its president.

If a sanction disrupted the supply of cut stones to the United States, it would harm foreign diamond cutting centers, and jewelry manufacturers, retailers and consumers. According to the U.S. retail jewelry industry, imported diamonds account for 45 percent of all retail jewelry sales, so a cutoff of cut diamonds would severely hurt jewelry store sales. A disruption of the U.S. market would also harm the overseas cutting centers, which are important components of their countries' economies. For example, diamond exports account for about 27 percent of Israel's foreign exchange earnings, 16 percent of India's, and 6 percent of Belgium's. The industry employs about 12,000 workers in Israel, 450,000 in India, and 8,000 in Belgium.

Any ban on diamonds of South African origin cut and polished in a third country might place the United States in violation of its obligations under the General Agreement on Tariffs and Trade, according to the

Treasury Department. This might occur because the sanction would be directed at imports from nations that cut diamonds rather than directly at South African rough diamonds.

If cut diamonds of South African origin were banned but rough South African stones were exempt[1] to safeguard the supply of raw materials for the U.S. cutting industry, South African stones that would normally enter the United States as cut diamonds could enter as rough and be cut here.

Enhancing Enforcement With Government-to-Government Guarantees

The enforcement difficulties noted previously might be mitigated if the U.S. government obtained agreements with governments in the cutting center nations that they would certify that diamonds exported to the United States did not contain South African-origin stones. The U.S. government has entered into similar agreements with foreign governments to certify that steel entering the United States from their steel producers contained no prohibited Cuban nickel. The cutting centers in India, Israel, and Belgium, which export 37 percent, 45 percent, and 37 percent, respectively, of their diamonds to the United States, might have an incentive to reach such agreements with the U.S. government. To make such assurances, the cutting center governments would have to convince DeBeers to identify and separate South African-origin stones. If DeBeers refused to cooperate, the cutting centers would have to choose between giving up the large U.S. market or terminating their relationship with DeBeers and buying from the producing countries directly. If the cutting centers bought diamonds directly from the producing countries, it would increase the likelihood that the diamonds they were cutting and sending to the United States were not of South African origin. If producing countries began to sell directly to the cutting centers, the CSO's control of the market through its dominance in buying and selling diamonds would likely disintegrate. If the CSO's control of the market disintegrated, the U.S. cutting center in New York could also comply with the ban on South African-origin diamonds by buying directly from the producers.

Even if such agreements were made and the cutting centers agreed not to ship South African-origin stones to the United States, the market might "reorder," with the cutting centers selling these South African stones to nations without sanctions and selling diamonds from other

[1] This could be done explicitly or effectively achieved by permitting imports of rough diamonds from other countries of origin despite any unknowing imports of uncut South African diamonds, as proposed in S. 507.

producers to the United States. But only a few countries purchase most of the world's diamond jewelry (see table 2.2). If enough of these countries refused to import stones produced in South Africa, it could reduce South Africa's sales. However, it should also be recognized that because diamonds have a high value-to-weight ratio and identifying their country of origin is difficult, smuggling stones into prohibited markets would always be a problem.

If direct agreements between cutting centers and producers caused by the government-to-government enforcement mechanism led to DeBeers' loss of dominance in the diamond market, the company could be severely hurt. However, it is not certain that diamond producing countries would choose direct agreements with the cutting centers to ensure access to the U.S. market over remaining in the CSO's marketing arrangement. Diamond producers depend on the CSO's expertise in advertising and marketing diamonds and its policy of buying diamonds even when the market is weak, as it was in the early 1980s. Industry sources indicate that several major producers are considering marketing more of their production outside the CSO.

The replacement of DeBeers' marketing dominance with direct agreements between producers and cutting centers would temporarily disrupt existing supply patterns in the diamond market and cause new ones to be formed. The diamond market might be destabilized until the new supply patterns took effect, thus causing short-term economic harm to diamond producing and cutting nations.

In the long term, disintegration of the CSO's dominance as both a buyer and seller could make diamond producers better off and cutting centers and consumers no worse off. The CSO profits from its position both as the dominant buyer and seller of diamonds. If producers abandoned the CSO, they could either form a producer's cartel or sell independently. In either case, they would retain at least some of the profits that the CSO normally absorbed but would assume the market risk of changes in supply and demand.

If producers formed a cartel, they would retain most of the monopoly profits previously earned by the CSO. A cartel might also assume the marketing or advertising functions now performed by the CSO. Diamond cutting nations, such as India, Israel, Belgium, and the United States, and consuming nations, principally Japan, the United States, and European countries, would not benefit from lower rough diamond prices.

If producers sold their diamonds independently, they would retain some of the profits previously earned by DeBeers but cutters and consumers might benefit from lower diamond prices. If a reduction in the CSO's dominance lowered diamond prices for American consumers and lowered prices for rough stones imported directly from producing nations to the New York cutting center, the United States could experience a net benefit from the disintegration of DeBeers' dominance in the diamond market.

Conclusion

Enforcement difficulties and DeBeers' dominance of the diamond market could render ineffective a ban on imports of rough or cut South African-origin diamonds or a combination of both. The lack of a visual, chemical, or physical method of identifying the country of origin of most diamonds makes it virtually impossible to identify a diamond's origin. As a result, the reliance on a system of certificates of origin would not be effective because it would be very easy to falsify such certificates. The CSO might be able to identify the country of origin of many newly mined diamonds but has not had any incentive to do so. Therefore, the effect of a ban on the importation of South African diamonds enforced by a system of certificates of origin would be primarily symbolic.

If the ban were enforced by government-to-government agreements between the United States and cutting center nations, it might be more effective. This method of enforcement might ultimately weaken DeBeers' dominance in diamond marketing and prompt the producing countries to sell directly to the cutting centers. This, coupled with a certificate of origin guaranteed by cutting center governments, could isolate South Africa's diamond production and reduce South African diamond sales. But a sanction enforced this way could cause a short-term disruption of the world marketing arrangements for diamonds, thus adversely affecting nations with economies that depend heavily on producing or cutting diamonds. In the longer term, these countries might benefit from the disintegration of DeBeers' marketing dominance by absorbing some of the profits currently accruing to DeBeers.

Implications of U.S. Sanctions on Namibia for South Africa and Namibia

After more than 2 decades of inconclusive fighting between South African colonial forces and Soviet-backed guerrillas of the South West Africa Peoples' Organization (SWAPO), Namibia, which was Africa's last colony achieved independence. The move toward independence was initiated by U.N. Security Council Resolution 435 in 1978, but was made possible by the signing of an agreement in December 1988 between Cuba, Angola, and South Africa that also provides for the withdrawal of Cuban troops from Angola. Namibia became independent on March 21, 1990, and U.S. sanctions were lifted.

Before and during the transition to independence, Namibia was administered by a South African administrator general. As a result, the United States had imposed sanctions on Namibia.

Namibia's Main Industries and Exports

Like most developing countries, Namibia predominantly produces and exports primary products and imports manufactured goods and technology. Its main industries are mining, farming, and fishing.

Mining, the largest sector of Namibia's economy, accounts for approximately 25 percent of the GDP. Most of its mines, including all major producers, are operated by the subsidiaries of foreign-based multinational mining corporations, many of which have significant South African interests.

Agriculture is the second most important sector of Namibia's economy, accounting for approximately 10 percent of GDP. Seventy percent of the population depends directly or indirectly on agriculture for a living.

The fishing grounds off the Namibian coast were considered to be among the richest in the world. During the 1960s, the fishing industry was a greater source of export revenue than agriculture, but heavy exploitation by foreign fishing boats has caused revenues to decline.

The main exports from the aforementioned industries are (1) diamonds, (2) uranium oxide, (3) base metals (copper, lead, zinc, and tin), (4) beef, (5) karakul wool, (6) and fish. Only diamonds and base metals were not under U.S. sanctions.

Effect of Sanctions on Main Industries

U.S. sanctions against Namibia had little effect because Namibia shipped only a small amount of its major export products to the United States before sanctions. Trade data indicate that fish was the only major

Namibian export to the United States before sanctions were imposed at the end of 1986 but, even in that year, totaled only $177,000. In total, we estimate that U.S. sanctions affected only an estimated $1.1 million in trade.

Nevertheless, the sanctions may have prevented Namibia from opening new markets. The market for uranium oxide has been poor because of over-production and the lack of growth in nuclear power has reduced demand for it as a fuel source. Rossing, Namibia's sole producer of uranium, had to decrease its production levels and reduced its work force through attrition, according to company officials. If Rossing is unable to obtain new sales to replace its long-term contracts that expired, it will have to reduce its work force further. Even though Rossing did not sell to the United States before sanctions, officials of the company feel that this market could be profitable. More importantly, Rossing officials believe the existence of U.S. sanctions discouraged potential customers in other nations, such as Japan, from doing business with the company. Japan and some other nations follow the U.S. lead on sanctions.

Some Namibian sheep industry[1] representatives felt that the sanctions prevented potential development of the U.S. market. They said that the addition of the U.S. market would lead to an increased price for karakul, which would, in turn, give farmers an incentive to expand the karakul industry by increasing production.

Namibia did not export beef to the United States before sanctions, so the measures had no direct effect on the industry. Namibia exports the majority of its beef to South Africa.

Before sanctions, Namibia exported a small amount of seafood (hake and rock lobster) to the United States. Since that time the hake, which was only a small portion of Namibia's total fish production, has almost disappeared because of over-fishing by foreign countries' fishermen. Namibia replaced exports of rock lobster to the United States with sales to Japan.

Indirect Effects of Sanctions

One indirect effect of sanctions is the higher prices that Namibia paid for all imported goods, which it obtained primarily from South Africa. Most of Namibia's petroleum imports, for example, come from South

[1] Karakul pelts are used to create fashionable garments that are popular in many parts of Europe.

Africa. The U.S. oil embargo, part of an international oil ban, significantly raised the cost of petroleum imports to South Africa and Namibia because fees must be paid to middlemen to facilitate illegal shipments that circumvented sanctions. In addition, because petroleum is used as an energy source for the manufacture and transport of many South African products, higher prices for petroleum increased the prices for these goods.

Namibia was not affected by the ban on air flights between the United States and Namibia because Namib Air never flew to the United States and U.S. airlines never flew directly to Namibia.

During the ban on new U.S. investment, Namibia received inquiries from American companies about the prospect for new investment. According to Namibian officials, some companies are waiting to see what will happen politically after independence before investing. Some U.S. companies were reluctant to trade with Namibia because they were unfamiliar with which Namibian products were under sanction or were apprehensive that further sanctions would be imposed.

Potential for South Africa Evading Sanctions Because Sanctions Against Namibia Were Lifted

Namibia, like some other neighboring countries,[2] uses South African-controlled ports to export and import most products. South Africa could relabel its products as originating in Namibia, or any other neighboring country, and export them from these ports without the cooperation of these governments. Similarly, sanctioned goods from sanctioning nations could be listed on shipping documents as bound for Namibia, or any other neighboring country, but could be diverted to South Africa when imported through its ports.

To avoid the potential for such evasion, Namibia would have to ship all its goods through a Namibian-controlled port to the United States. However, Walvis Bay, the only adequately developed port in Namibia, remains under South African control even after independence.

Namibia has been studying various options for developing an alternative port to Walvis Bay, but none seem promising. Development of a new port would require significant expenditures for infrastructure (such as berths for ships) and deepening of a harbor; the newly independent Namibia may not have the funds for such development. Such a port

[2]The countries neighboring South Africa are Botswana, Swaziland, Zambia, Lesotho, Zimbabwe, Mozambique, Angola, Tanzania, and Malawi.

would not be economical to develop or operate and would be established for political reasons—that is, to lessen Namibia's dependence on South African-controlled Walvis Bay. A new port would probably not be able to compete with the facilities provided at Walvis Bay, and the three locations frequently discussed for a new port have drawbacks.

Conclusion

U.S. sanctions against Namibia had very little economic effect because the United States had a very low volume of trade with the country prior to their implementation.

South African ports serve Namibia and other neighboring countries. Because sanctions against Namibia were removed when it became independent, South Africa could relabel its exports and imports to indicate they originated in—or were destined for—Namibia to evade sanctions. However, South Africa could just as easily use the names of several other neighboring countries.

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