

MEMORANDUM

## NATIONAL SECURITY COUNCIL

INFORMATION~~CONFIDENTIAL~~

November 22, 1971

MEMORANDUM FOR: DR. KISSINGER

FROM: HAROLD H. SAUNDERS *7-1*

SUBJECT: Cutting Off Aid to India and Pakistan

Attached are the contingency papers that I have had prepared on exactly how one would go about cutting off economic assistance to India or Pakistan.

[The Pak military pipeline has dried up with the exception of a shipment or two which is identified and could be held. Stopping the flow of Indian purchases would be a matter of imposing an embargo.]

The AID paper recommends cutting into the pipeline just short of cancelling irrevocable letters of credit. In technical terms this means that we would suspend or cancel "letters of commitment" to the extent that they have not yet been placed in "irrevocable letters of credit." The total amount of Development Loan Funds placed in Letters of Commitment but not yet tied up in Letters of Credit is

--\$107.6 million for India and  
--\$21.0 million for Pakistan.

To these figures would have to be added the amounts of aid that had been obligated but not yet even put in Letters of Commitment. This would have symbolic effect only since nothing is actually in the pipeline yet. The uncommitted amounts in this category are:

--\$11.24 million for India and  
--\$17.7 million for Pakistan.

These are out of a total in authorized loans of \$437.35 million for India and \$192.2 million for Pakistan. But these totals are just figures on the books to be drawn against.

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The next harsher step would be to stop shipments financed under Letters of Credit. We do not have figures on the status of all shipments. It is at this point that we get into a very complex process which involves deciding on a case-by-case basis whether to take title and pay cancellation charges. Because of the complexity, stoppage would not be 100% effective initially.

As a final step we could take title to all goods on the high seas.

AID proposes that, whatever is done on the above, PL 480 shipments be allowed to continue as humanitarian.

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A.I.D. ACTIONS DURING FIRST 96 HOURS FOLLOWING DECISION TO TERMINATE AID

For reasons set forth under the Development Loan Section, A.I.D. proposes to terminate assistance up to the point where valid irrevocable Letters of Credit have been issued to U.S. suppliers (through Step No. Two). There currently are \$437.35 million in authorized development loans for India and \$192.2 million for Pakistan. Outstanding Letters of Credit held by suppliers are \$94.8 million for India and \$38.0 million for Pakistan. The result of the initiation of the actions set forth below would be to shut off \$107.6 million and \$21.0 million of pipeline funds to India and Pakistan respectively while allowing the above indicated amounts already in irrevocable Letters of Credit to be drawn down.

1. General announcement that economic assistance to either India or Pakistan or both is being suspended.
2. Suspend action on all pending obligations and agreements between the USG and recipient governments.
3. Instruct U.S. L/Comm banks not to issue new L/CR's against outstanding L/Comm balances.
4. Request L/Comm banks on an informal basis not to make disbursements against outstanding L/CR's without first checking with A.I.D. Since ships on the high seas carrying loan financed commodities probably would not enter a "war zone", decisions concerning diversion of A.I.D. cargoes in transit probably will not have to be made during the first 96 hours following the outbreak of hostilities. Since PL 480 shipments support humanitarian programs, they should be allowed to continue to the extent that shippers will enter the waters of either combatant.

NESA/SA:WGBollinger:mar:11/2/71

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DEVELOPMENT LOANS -- (See Tab 1 for current status of DL pipeline for India and Pakistan.)

It would be possible to interrupt the pipeline flow at any one of a number of stages in the loan implementation process:

Step One -- As a first step, A.I.D. could decline to place obligated loan funds in Letters of Commitment (L/Comm's). Aside from the symbolic effect of such an action (or lack of action on A.I.D.'s part), this step would have little effect of reducing the flow of pipeline commodities to India and Pakistan since only a relatively small amount of the funds in loan agreements has not yet been placed in L/Comm's. The uncommitted amounts are \$11.24 million for India and \$17.7 million for Pakistan out of total loan amounts of \$437.35 million and \$192.2 million respectively.

Step Two - The next and more severe step would be to suspend or cancel Letters of Commitment to the extent that they have not yet been placed in irrevocable Letters of Credit (L/Cr's). A.I.D. has the legal right under its loan agreements to initiate such action when any disbursement would be in violation of the legislation governing A.I.D. or when an event occurs which makes it impossible that the purposes of the loan will be attained.

To cancel outstanding L/Comm's, the A.I.D. Controller would contact (telephone) the chairman (Chase Manhattan Bank) of the A.I.D. Banking Subcommittee in New York, on which all major U.S. banks holding L/Comm's issued by AID are represented. He would also telephone directly all other participating banks located outside of New York. The banks would be requested to hold up on the issuance of new Letters of Credit. This action would be followed by telegrams from the A.I.D. Controller to the individual L/Comm banks confirming the verbal instructions from AID/W.

A potential problem at this point arises from the holding by the National Bank of Pakistan in New York of about \$60 million in Letters of Commitment under the FY 1970 program loan to Pakistan of \$99.5 million (Letters of Commitment for the remainder of the loan are held by U.S.-owned banks). It is conceivable that the National Bank of Pakistan would stall on the implementation of an AID request to refrain from issuing new Letters of Credit against its unutilized L/Comm balances, particularly since an amendment to an L/Comm initiated by AID has to be accepted by the holding bank, thereby providing a lag time during which new L/Cr's could be opened. In dealing with the National Bank of Pakistan, AID would have to indicate that no disbursements would be made by the AID Controller to the National Bank of Pakistan for Letters of Credit opened following a specific date mentioned in the L/Comm amendment. With regard to India, all Letters of Commitment for development loans to the Government of India are held by U.S.-owned banks. The total amount of Development

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Loan Funds which has been placed in Letters of Commitment but not yet tied up in Letters of Credit is \$107.6 million and \$21.0 million for India and Pakistan respectively.

Step Three - A third and harsher step would be to stop shipment from the U.S. of goods financed under L/Cr's which have been issued to U.S. suppliers, or cancel orders for such goods. AID reserves the right in the case of DL financing to divert and take title of goods up to the point where they are actually offloaded in the country of destination. If all shipments except those already on the high seas are stopped AID would be obliged to pay for the goods, including appropriate damages, if any, or pay cancellation charges.

In order to shut-off the flow of commodities to either or both of the belligerents, excepting those commodities already on the high seas, AID would initiate the following actions:

- (a) Undertake measures set forth in Steps 1 and 2 above.
- (b) Obtain conformed copies of all active Letters of Credit from the banks holding AID Letters of Commitment. Although it is impossible to estimate with any precision the number of active Letters of Credit since the financing of loan commodities is accomplished entirely through private commercial channels, the numbers could be in the thousands. It should also be noted that the National Bank of Pakistan could refuse to provide AID with copies of active Letters of Credit issued against its Letters of Commitment. If this occurred, U.S. suppliers could be requested to advise AID directly if they hold irrevocable L/Cr's for Pakistan commodities.
- (c) Contact all suppliers holding Letters of Credit to determine status of manufacture and shipment of commodities. Depending on the status of the transaction and the type of commodity involved, including whether it is a shelf item or made-to-order, AID would have to decide on a case-by-case basis whether to take title to the commodity (with resultant storage and ultimate disposal problems), pay cancellation charges, and/or pay cancellation charges and damage claims. The initial effort of contacting the suppliers could take several weeks or more to complete.
- (d) Concurrent with the preceding action, AID would issue public notices in newspapers, AID's Small Business Memorandum, and other general announcements to American industry requesting all suppliers holding "confirmed" or "advised" Letters of Credit under AID loans for Pakistan or India to contact

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a specified representative in AID/Washington. This procedure would be particularly important in contacting suppliers holding Letters of Credit issued by the National Bank of Pakistan should it decide not to comply with AID's request for copies of its L/Cr's.

- (e) Also concurrent with the actions C and D above, AID would contact all major shipping companies and request them not to load AID-financed commodities currently on the docks and destined for either combatant. AID-funded commodities are identified by the bill of lading as well as by the clasped-hands insignia located on all packing crates. There are at present large amounts of AID-financed commodities stacked up in U.S. ports as a result of the U.S. dock strikes, and, conversely, only a relatively small amount of goods on the high seas. AID would have to take responsibility for any damage claims asserted against the shipping companies.

In view of the exceedingly large number of private commercial transactions currently being financed under the DL programs for India and Pakistan, step no. three would be a massive undertaking, which would be far from 100 percent effective. Not only would it be immensely costly to the U.S. Government, it would also set off a series of events which could take several years to complete (e.g., litigation re damages and ultimate disposal of commodities for which the U.S. took title). AID only this past month settled the last outstanding issue which resulted from our decision to take title to commodities destined for the combatants in the 1967 Middle East war.

It should be noted that any contact by AID with suppliers or shipping firms regarding the location of U.S.-financed cargoes would have a shock wave effect in the private sector and would quickly be communicated to both India and Pakistan. Any contact with the "trade", then, should be made with the full understanding of the consequences of such an action.

Step Four - The last and most severe measure would be to undertake the three steps above and, in addition, assume title to all commodities on the high seas destined for India and Pakistan. In order to identify the whereabouts of AID-financed cargoes on the high seas, AID would have to find out from each supplier whether his commodity (ies) has been shipped, and if so, by which shipping line and vessel. AID would then have to assume title to the commodity and request the carrier to either discharge the commodity in a third-country port, or have it returned

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to the United States. In either case, AID would be responsible for paying any damages. Again, one must consider the potential problems of subsequent disposition of any commodities on the high seas for which AID assumes title. If AID should order commodities on the high seas diverted, we could only expect U.S. flag ships to comply with our request, even though these carriers have no legal obligation to AID. We also could not legally force Indian, Pakistani, and third-country ships to divert AID cargoes.

Seized Cargoes

There is little that AID can do to prevent impounding if we are unsuccessful in having India and Pakistan destined cargoes offloaded in third-country ports prior to a ship's arrival in the ports of either combatant. In view of the current dock strikes at all major U.S. ports, there are at this time only relatively small amounts of AID-financed commodities on the ocean destined for India and Pakistan. However, because of the much larger pipeline for India the problem of seized cargoes, to the extent that it would occur, would likely lie in the impounding in Pakistani ports of commodities destined for India. Outside of the normal commercial claim procedures, AID could possibly debit the value of the India commodities seized by Pakistan against the outstanding balance of the current Pakistan loan program.

NESA/SA:WGBollinger:mar:11/2/71

Clearances: NESA/CDE, VHancock draft  
NESA/GC, SStein draft

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MEMORANDUM

NATIONAL SECURITY COUNCIL

ACTION

SECRET

November 22, 1971

MEMORANDUM FOR DR. KISSINGER

FROM: HAROLD H. SAUNDERS

SUBJECT: WSAG on South Asia--2:30 p.m. November 22

Attached at Tab A is a brief memo on what we know of the situation at this moment.

At Tab B is an intelligence study of what a war might look like.

Perhaps the best way to conduct this meeting is to lay out the three possibilities that this morning's news may represent. Discussion of steps that might be taken could indicate what modifications might be required in each case. Those three possibilities are:

1. This could be a major Indian attack in support of a Mukti Bahini offensive to seize a portion of western East Pakistan.
2. The Pakistanis might have become desperate over the rising pressure of Indian and guerrilla activity and decided to accuse India publicly of having started the war so that Pakistan would feel free to act in any way it considers necessary.
3. This may have been an unplanned escalation growing out of the increased fighting of recent days.

Talking Points

The following talking points are designed to address the steps that might be taken so that you will have established a WSAG base for decisions on each:

1. If this is a general outbreak of hostilities, what steps might be taken to limit hostilities to the East Pakistan border? [This would be most possible if this were an unplanned escalation.]

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2. Should we urge the Soviets to associate themselves with a call for an early end to hostilities?

--Should this be done bilaterally or in the UNSC context?

3. What are the pros and cons of involving the UNSC at this stage?

4. Is now the time for a direct approach to Mrs. Gandhi urging time for the political process? In the President's name or not?

5. Should the Chinese be approached or allowed to do what they might naturally be inclined to do?

6. What public line should we take?

--What are the pros and cons of a statement by the President or the Secretary when the facts become clearer?

What Is Desired from the Meeting

All of the above will be prefaced by the fact that we do not have the full story or what is actually happening. The purpose of the meeting is to discuss what steps should be taken if the next few hours indicate that there has been a significant escalation of any kind. Perhaps you should ask State to begin drafting the following on a contingency basis:

1. Instructions for an approach to Mrs. Gandhi (a) urging a halt in military activity with a special word about preventing spread to the west and (b) allowing time for the political process.

2. Instructions on a US posture toward UNSC involvement.

3. Draft public statement.

4. Instructions for Farland to review situation with Yahya.

The subject of aid is being dealt with in a separate memo.

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MEMORANDUM

THE WHITE HOUSE

WASHINGTON

INFORMATION

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MEMORANDUM FOR: THE PRESIDENT  
FROM: HENRY A. KISSINGER  
SUBJECT: Indo-Pak Fighting

The Paks are claiming in radio broadcasts that India "without a formal declaration of war, has launched an all-out offensive against East Pakistan." They claim that the attack is concentrated in the Jessore sector not too far from Calcutta and includes infantry, armor, and aircraft. The Paks also claim that fighting has flared up in several other locations along the East Pakistan border. The Indians claim that these reports are "absolutely false" although they say that several Pak planes have intruded into their airspace and that the Paks are trying to increase tension and create a "war-like situation."

At this point, we cannot tell exactly what these reports indicate about what is happening. We have no independent evidence yet of significantly increased fighting, although there has, of course, been a continuing series of serious incidents along the India-East Pakistan border. There are three possible explanations for today's developments:

- The Indians may have stepped up support for a major guerrilla offensive, including more direct participation of their forces.
- The Pakistanis might have decided that war was inevitable and could have decided to charge the Indians now with having begun it in order to free them for whatever reaction they may feel necessary.
- There may have been an unplanned escalation of the fighting.

I am holding a special WSAG meeting this afternoon to consider what we can do to perhaps head off a war. Much will depend, of course, on what has actually happened and it may be a while before we get a reasonably good fix on that.

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MAY 1962 EDITION  
GSA FPMR (41 CFR) 101-11.6

UNITED STATES GOVERNMENT SECRET/NO FOREIGN

NSC

Tab B

# Memorandum

TO : NEA - Mr. Christopher Van Hollen

DATE: November 17, 1971

FROM : INR/RNA - Herbert J. Liebesny *HJL*

SUBJECT: Indo-Pak Contingencies: Three Faces Of War

In response to your request, we have reviewed the most likely patterns which major hostilities between India and Pakistan might take during the next few weeks. We have reviewed these patterns in terms of each country's likely actions, objectives and prospects in order to assess the possibilities for mediation and compromise short of capitulation by either side. We have not considered international reaction to these contingencies; although there would be some important assessments to be made in this area, international reactions would not be likely to alter the situation appreciably in any of these contingencies. Nor have we considered the possible role of Bangla Desh representatives in any negotiations which might be attempted during the course of hostilities since they appear unlikely to be able to play a role substantially separate from India's in such circumstances.

Summary: There appear to be three patterns of hostilities which could occur in sequence, concurrently or independently. The most immediate and likely possibility is that India may initiate major but undeclared hostilities in the East which would quickly force Pakistan to choose between an accomodation and retaliation in the West. Limited hostilities in the West are possible, but would constitute, in effect, merely a prelude to total hostilities. In the event of total hostilities, Pakistan would ultimately be forced to capitulate, and it is likely that neither side would be in a position to accept a ceasefire or negotiations, international efforts notwithstanding, until the Government of Pakistan had accepted defeat. Under such circumstances, there would be a very real question as to the ability of the Pakistan's Army to retain control over West Pakistan.

I. Border War in the East: The most immediate and likely contingency would be a substantial expansion of the present undeclared hostilities along the Eastern borders in which both sides would seek to engage and destroy units of the other but neither would attempt to seize and hold territory except for short-term tactical purposes. India could, at any time, expand its present limited incursions heretofore concentrated in the Tripura-Sylhet areas, to deeper probes by brigade size units across any or all sectors of the border. Pakistan would probably not initiate an escalation of border hostilities. However, Pakistan would respond to Indian initiatives with cross-border attacks on Indian positions, probably limited to multi-battalion attacks at most, and might attempt to lure

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Indian forces across the borders into ambushes. Both governments would deny responsibility for initiating the incidents; in most instances, it would probably be impossible to confirm which side started the action, ascertain the results of the action, or, on the Indian side, the extent to which guerrilla rather than Army forces were involved.

In this contingency, India's strategic objective would continue to be to force Islamabad into an accommodation with the Bengali resistance movement, particularly the Awami League and Mujib, which would at least provide for the return of the refugees; its tactical objectives would be: a) to increase pressures on Pakistan; b) to sap the strength and morale of the Pakistani Army in the East wing; and c) to pin down regular Pakistani forces in order to permit greater freedom of action by the Mukhti Bahini. India would continue these actions at least until a) serious discussions began between the GOP and Bangla Desh representatives acceptable to Mujib, or b) the guerrillas controlled substantial amounts of territory and had established a decisive edge over Pakistani forces. Should serious GOP-Bangla Desh discussions start, Indian Army actions might be reduced, but full support for the guerrillas would continue and Indian military operations would probably be stepped up should snags in the negotiations develop. With its ability to outnumber Pakistani forces at any point along the Eastern borders, India could, and probably would hope, to maintain this strategy until it had achieved its objectives without undertaking an outright invasion in the East or initiating hostilities in the West.

Pakistan's initial objectives in this contingency would probably be to maintain a holding action until the "bye-elections" had been completed and ostensibly representative civilian government established at both the national and provincial levels. In such a situation, the Bangla Desh representatives would be faced with a fait accompli, and the Army would insist that they deal with the "elected" government, rather than directly with the MLA. Pakistan would probably also hope that the establishment of a civilian government of some kind would restore sufficient semblance of legitimacy to force effective international restraints on continued Indian intervention.

Both countries would have much to gain by restricting hostilities to the East and keeping them at a relatively low level, thus avoiding the commitment to combat of their expensive hardware and the risks of a full scale war. It is possible, therefore, that a limited expansion of border hostilities could continue for several months without leading to general hostilities. However, India is in a position to raise rapidly the level of border warfare in the East well beyond that with which the Pakistani Army could cope. It could probably do so well before the new Pakistan National Assembly would convene. Thus the chances are that Pakistan would soon be forced either to accept negotiations with the Bangla Desh representatives or to respond militarily somewhere in the West where it enjoys a relatively more favorable position. A limited Pakistani retaliation in the West might not lead immediately to total war (see II below), but the risks would be sufficient to cause Islamabad to

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Bengali resistance. The choice would probably depend largely on the reaction of the Army and public in West Pakistan to the war in the East, and on the degree to which India and the Bengalis (including Mujib) indicated they would accept something less than immediate independence for Bangla Desh.

II. Limited Hostilities in the West: Be it as an extension of escalating border hostilities in the East, or as a result of the already prevailing tensions, either side (but more likely Pakistan) might initiate a series of sabotage efforts, deeper and more blatant airspace violations and/or cross-border hit-and-run strikes in the West involving battalion-sized infantry and armored units. Pakistan might conduct such activities in Kashmir, southern Rajasthan or the Rann of Kutch; India might retaliate across the Punjab border in the Lahore-Sialkot sector. The purpose of each side would be to probe the defenses of the other and to signal to each other and to the world the imminence of full-scale hostilities. Neither side would attempt to hold territory, strike vital military installations or engage major enemy forces; even limited air strikes would be ruled out.

In such a contingency, Pakistan's objectives would be to force international intervention in the dispute; should Pakistan undertake such actions before entering into serious discussions with Bengali leaders, it would probably also indicate that Islamabad had decided to risk full-scale war before accepting any meaningful compromise on Bangla Desh. India would probably hope, at least initially, to maintain the emphasis on the internal situation in Pakistan and prevent a shift of focus to an Indo-Pak dispute. It would also wish to establish a clear case of Pakistani provocation. India might therefore attempt to contain Pakistani thrusts and limit retaliation to tit-for-tat counteractions.

Given the stakes involved, it is possible that such a phase of limited hostilities could precede full-scale hostilities in the West. Yet neither side could be expected to refrain for long from launching a major offensive once actions at any significant level had begun on the Western borders, so that any such phase would at best offer no more than a brief interlude before full hostilities began. Moreover, should international pressures, during a period of limited hostilities in the West, appear to make mediation between India and Pakistan inevitable, India, fearing that she might be forced into some unilateral concession, might well decide to initiate full-scale hostilities.

III. Full-Scale Hostilities: In the event of full-scale war Pakistan would probably launch attacks into Kashmir, southern Rajasthan and/or the Rann of Kutch and attempt to remain on the defensive in central Punjab, launching strong counterattacks into Indian Punjab, if necessary. Possible, but less likely, would be a Pakistani effort to penetrate deeply into Indian Punjab, cut off lines of communication to Kashmir and engage the main body of Indian forces in an effort to cripple Indian military capabilities and thus to improve Pakistan's position in a subsequent war of attrition. India would probably launch a full-scale attack on the

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Lahore-Sialkot sector, attempt to take both cities, cut Pakistan's lines of communication between Rawalpindi and Lahore, and to destroy as many Pakistani forces as possible in the process. India might also attempt a smaller offensive against targets and lines of communication further south, e.g., Hyderabad. In the East, India would try to destroy all Pakistani forces, but, to the extent possible, would probably seek to withdraw, leaving Mukhti Bahini forces in control.

The prospects are that Pakistan might be able to hold temporarily portions of Indian territory in Kashmir (although not the Vale), Rajasthan or the Rann of Kutch. India's prospects in the West could range from the destruction of Pakistan's main forces and the capture of Lahore and Sialkot in a week or ten days, to a slow, costly advance resulting in a stalemate and the onset of a war of attrition outside the cities; in the East, Indian forces could probably suppress Pakistani forces in 3-5 weeks, but might be forced to remain in East Pakistan for a considerably longer period of time in order to help establish Mukhti Bahini control.

Pakistan's objectives would probably be to seize quickly as much Indian territory in the West as possible, and hope for a cease-fire during which to negotiate the best compromise possible. Should Pakistan's attacks be initially successful and her defense of Punjab appear strong, Pakistan would probably accept a ceasefire and mediation within days of the outbreak of full hostilities; should Pakistan's offensive falter and India's counter-offensive appear likely to succeed, Pakistan might well continue fighting until forced to capitulate.

Once engaged in general hostilities, India's minimum objectives would probably expand to include the immediate release of Mujib and full independence for East Pakistan. In order to achieve her objectives, India would probably continue full-scale hostilities until she was in a position to dictate such a solution to East Pakistan. Under such circumstances there would be a very real question as to the ability of the Pakistani Army to retain control in West Pakistan. India would probably not agree to any cease-fire as long as any Pakistani forces remained on Indian territory, and it is unlikely that any useful negotiations between India and Pakistan could take place while hostilities remained in progress.

Clearances: CIA/OCI -   
DIA -

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INR:RNA:SOA:WDHowells:mhm

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