

MEMORANDUM

NATIONAL SECURITY COUNCIL

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September 14, 1972

MEMORANDUM FOR: DR. KISSINGER
FROM: SAMUEL M. HOSKINSON
SUBJECT: India Debt Rescheduling

We now have a formal proposal from State that we participate in the debt rescheduling exercise for India this year to the tune of \$29.12 million (Tab A). This would be less than the current World Bank proposal that we agree to two years at this amount, but is more than twice as much as we were willing to agree to at the abortive consortium meeting last spring and would involve some technical concessions on burden sharing. In short, it is a forthcoming U.S. position which, if played right, could be an important step in the normalization of relations with India.

We would be all set to move as soon as you are ready but for the fact that in your absence an Indian shipment of wheat to North Vietnam (see Tab B). The picture that emerges is that late last month the Indians -- in full knowledge of the consequences (they had been warned by embassy officials twice) -- shipped about half a million dollars worth of wheat ^{seeds} to North Vietnam on a North Vietnamese-chartered ship (USSR flag). This raises some very serious legal and political questions about our aid relationship with India.

On the legal side, the Foreign Assistance Act includes the following prohibition (Section 620, N):

"No loans, credits, guarantees or grants or other assistance shall be furnished under this or any Act, and no sales shall be made under the Agricultural Trade Development and Assistance Act of 1954,

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to any country which sells or furnishes to North Vietnam or which permits ships or aircraft under its registry to transport to or from North Vietnam, any equipment, materials, or commodities, so long as the regime in North Vietnam gives support to hostilities in South Vietnam."

We would have to get an authoritative legal judgment from the AID lawyers before reaching any final conclusions, but at a minimum this would seem to mean:

--No new development aid to India is possible.

--No new PL-480 assistance is possible.

It is also very possible, depending on past precedents and legal interpretations, that:

--The "suspension" of the \$87 million in irrevocable letters of credit cannot be lifted;

--Debt rescheduling may now not be possible under our law. This is because by some interpretations debt relief is a form of "new" aid since an equivalent amount of Indian resources are at least temporarily released for spending which otherwise would have gone to us for debt service. Rescheduling would also seem to fall under the "other assistance" clause in the prohibition.

In short, what this boils down to is that the Indians may well have tied our hands for us on future aid, including debt relief through the consortium. There is no escape clause in the present legislation, even if we wanted to exercise it. What we need to do now is to check out the full legal consequences and then determine how we wish to play the results through diplomacy.

Recommendation: That no action be taken on any aid issues concerning India--including debt relief--pending the results of a full clarification by State/AID of the legal consequence of the Indian shipment of wheat to North Vietnam.

Approve HK

Disapprove _____

Concurrence: Robert Hormats

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WASHINGTON

September 14, 1972

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MEMORANDUM FOR THE PRESIDENT

Subject: India Debt Rescheduling

Background

Since July, when the World Bank postponed the planned August 4 meeting on Indian debt, the Bank has made progress in working out substantive issues with other donors and now believes that no further postponement can be made in reaching a conclusion. During this time there has been a moderation in the public stance of the Government of India toward the US. Pressure to reach a conclusion on debt relief will culminate September 25 with the opening of the annual Bank Fund meeting, attended by world Finance Ministers. I believe that we should announce our position by then.

Bank Proposal

The Bank now proposes two years of debt relief of \$183 million a year and offers Consortium lenders a choice between two formulas, one dividing relief largely proportional to debt service due as favored by harder lenders, and a second with a greater degree of discrimination in favor of the US and other lenders who have provided more favorable loan terms in the past. United States' share of relief under the latter formula -- which we would select -- would be \$29.12 million a year out of a total of over \$260 million of official debt repayments due the United States from India this and next year. The Bank proposes that relief be provided on uniformly soft terms.

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Status of US-India Relations

Secretary Connally told Mrs. Gandhi if there was to be an improvement in US-India relations, there had to be a reduction in the public criticism of one country's policies by the other. He made specific reference to Vietnam. Since this conversation there has been a muting of Indian public comments about the US, including those on Vietnam. India has largely shifted to a standard language which, while expressing sympathy for the people of Vietnam, calls for the withdrawal of "all foreign troops" and omits any specific mention of the US. Despite the forum provided by a session of the Indian Parliament, Mrs. Gandhi and members of her government in recent weeks have dealt with questions regarding US-India relations in a more restrained and factual manner.

India has currently taken some moderately positive steps. Mrs. Gandhi made a statement strongly condemning the Munich terrorist attacks. Indian President Giri sent an unusually warm response to your message on the 25th Anniversary of Indian Independence. We know [] that this was intended as a signal to reciprocate the spirit of your message. Finally, India has continued to show moderation in dealing with Pakistan in the quest of a peaceful settlement.

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This has come since the jarring farewell conversation of Ambassador Keating with Mrs. Gandhi. I believe that while our private disagreements with India are unresolved, the Indians may have begun to moderate somewhat the public tone of our relations.

Status of Economic Issues

Sharing. Other Consortium countries are now prepared to agree to \$147 million relief in debt to India this year under the formulas for burden-sharing. Among these France and Italy, however, fall short by about \$7 million below the minimum targets recommended by the Bank.

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Quality of Relief. France, Italy and Japan offer relief on somewhat harder terms than the Bank proposed, but the Bank and other Consortium countries do not consider this a significant obstacle and are prepared to proceed with the exercise as proposed by the Bank. Japan has offered a marked improvement over its past terms and has said it would endeavor to further improve in the future.

Non-Consortium Relief. Following World Bank representations, India appears prepared to seek equivalent relief from non-Consortium creditor countries (i.e. the Soviet Union and the Eastern European countries).

Discussion of Options

I. Non-Participation. We could refuse to participate so long as two members failed to meet their share and three failed to meet the recommended quality standard. We could buttress this position by indicating that debt relief is not essential, since India does not face an imminent balance of payments crisis.

Despite this economic posture, the Government of India would undoubtedly interpret the US position as politically determined and consider the US responsible for breaking up a multilateral debt relief effort.

Such an approach would also create strains within the Consortium and weaken it as an instrument, valuable to us, for securing some degree of concerted action on assistance. As the world's largest creditor, we have an interest in retaining a meaningful voice in the growing problem of international debt management which we would hazard by non-participation.

II. Participation on a One-Year Basis. We could agree to provide the US share of \$29.12 million for one year only as opposed to the two years recommended by the Bank.

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Limitation to one year would take into account the economic shortcomings of the Bank proposal. Our agreement to participate would constitute a moderately positive indication to the Government of India of our desire to avoid new problems in our relations and look for an improvement.

Recommendation

In view of the recent turn - I am willing at this time to take a chance and adopt the more responsive posture contained in Option II. US participation in debt relief would be only a small step on our part - our economic aid would remain suspended. As a minimum it would help keep our options open to work for an improvement later. It is possible it might start some progress now toward the kind of a relationship based on mutuality, which we desire, but this obviously will be slow in coming.

I recommend therefore that you approve US participation in debt relief for India for one year only with a United States share of \$29.12 million.

The Treasury Department concurs with this recommendation on the understanding, which we share, that it is not a precedent for participation in future debt relief. This caveat will be conveyed to the World Bank.


William P. Rogers

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