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Authority E.O. 12958By 720 NARA Date 8/19/03E PRESIDENT HAS SEEN. *je*

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

ACTION 6638

December 17, 1973

~~CONFIDENTIAL~~ (GDS)

MEMORANDUM FOR: THE PRESIDENT

FROM: HENRY A. KISSINGER *HAK*

SUBJECT: Indian Rupee Settlement

On December 13, Ambassador Moynihan and the appropriate Indian authorities initialled ad referendum in New Delhi the proposed text of an Indo-US agreement which would resolve the matter of our large holdings of Indian rupees.

This memorandum seeks your final approval of the terms of the agreement; your approval of their transmittal to certain Congressional committees, as required by law; and your approval of messages from you to Prime Minister Gandhi and to Ambassador Moynihan marking this important positive step in our relations with India.

The agreement must lie for review before the House and Senate Agriculture and Foreign Affairs/Foreign Relations Committees for at least 30 days before it can be signed and enter into force. We hope to transmit the agreement to these committees before the Congressional recess begins on or about December 20. This would demonstrate to the Indians that we share their strong interest in bringing this matter to a prompt conclusion. Additionally, prompt transmittal would mean that Congress would have the agreement in hand only shortly after the contents are reported in the press. The actual transmittal would be effected by the Departments of State and Agriculture after you have given your approval.

The proposed settlement more than meets our negotiating instructions to Ambassador Moynihan, which you approved last July. It provides that we would retain about \$1.1 billion worth of rupees; the instructions to Moynihan called for at least \$1 billion. We would be turning back

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the rest of our rupee holdings--about \$2.2 billion worth--to the Government of India to help finance mutually agreed-upon economic development projects and programs there.

The advantages to the US in reaching this agreement are as follows:

--Diplomatic benefit: The agreement will remove a long-standing irritant from US-Indian relations and contribute to the continuing improvement in our relations. Our rupee balances already amount to a sizable potential US claim on real Indian resources. Without an agreement we would continue to accumulate rupees, far in excess of what we might ever be able to spend, until India had finally finished repaying its rupee debts to us in the year 2012.

--Economic benefit: The agreement insures that we will have the use of enough rupees to cover our expenses in India for a substantial period of time--about 20 years if recent rates of expenditure are maintained. In the absence of an agreement India would probably place tight restrictions on our ability to use our rupees.

The Department of State has carefully reviewed the legal aspects of this matter and has concluded that the Executive Branch has the legal authority to complete this settlement as proposed. We have also been consulting closely on this issue with the relevant House and Senate Committee members since Ambassador Moynihan began negotiations with the Indians last summer. Most of the Congressmen and Senators consulted did not indicate objections to the proposed settlement. The Agriculture Committee Chairmen, Senator Talmadge and Representative Poage, were somewhat cool to the proposal, and Senator Harry Byrd has made three attempts to gain enactment of amendments that would require prior approval of a rupee settlement by the full Congress. The Byrd amendments, although initially supported on the Senate floor, were deleted by the relevant House-Senate Conferences. On balance, the agreement appears to have a very good chance of obtaining the necessary concurrence of the committees. It has been made clear to the Indians, however, that Congressional reaction might make it necessary for us to seek further modifications in the agreement before signature and entry into force.

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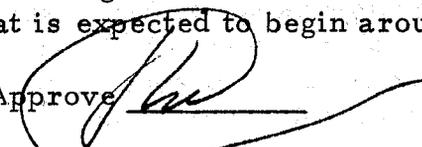
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Because the initialling of this agreement marks an important milestone in our improving relations with India, we believe that letters from you to Prime Minister Gandhi and Ambassador Moynihan would be appropriate. At Tab A are suggested letters for your signature. A State Department memo and a fuller outline of the terms of the proposed agreement are at Tabs B and C for your information.

RECOMMENDATIONS:

1. That you approve transmittal of the proposed agreement to the appropriate Congressional committees, prior to the Congressional recess that is expected to begin around December 20.

Approve 

Disapprove \_\_\_\_\_

2. That you sign the letters at Tab A to Mrs. Gandhi and Ambassador Moynihan. [Text approved by Mr. Gergen's office.]

Bill Timmons concurs. The Treasury and Agriculture Departments, AID, OMB, and CIEP also concur.

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