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Office of the White House Press Secretary

THE WHITE HOUSE

TO THE CONGRESS OF THE UNITED STATES:

In accordance with Section 812(d) of the Department of Defense Appropriation Authorization Act, 1974 (Public Law 93-155), I am pleased to submit to the Congress the sixth and final report on our progress toward offsetting the fiscal year 1974 balance of payments deficit resulting from the deployment of U.S. forces in NATO Europe. Section 812 (the Jackson-Nunn Amendment) states that if our European NATO Allies fail to offset this deficit, then U.S. troops in Europe must be reduced by the percentage of offset not provided. I am pleased to report that our Allies have fully offset the U.S. fiscal year 1974 deficit and that the troop reduction provision will not have to be implemented.

The U.S. NATO-related balance of payments expenditures during fiscal year 1974 totaled $1.997 billion. We sought to cover these expenditures in two ways. First, we negotiated with the Federal Republic of Germany (FRG) an Offset Agreement which had a total value of $2.218 billion over the 1974-75 time period. The fiscal year 1974 portion of the agreement has come to $1.150 billion. Secondly, our other NATO Allies have placed substantial military procurement in the U.S. They have been able to identify $1.016 billion in such procurement, of which $917 million can at this time be applied against FY 1974 expenditures. The NATO Allies and the NATO Economic Directorate deserve our special recognition for their cooperation in establishing a liaison mechanism for identifying these purchases. Appendix A provides an accounting of our compliance with the provisions of the Amendment.

The Jackson-Nunn Amendment also called upon our Allies to assist the U.S. in meeting some of the added budgetary costs that result from maintaining our forces in Europe rather than in the continental United States. The major form of this budgetary support is contained in the two-year U.S.-FRG Offset Agreement. The agreement includes approximately $224 million to rehabilitate badly deteriorated barracks and other troop facilities used by American military personnel in the FRG. The FRG also agrees to absorb about $8 million of real estate taxes and landing fees directly related to U.S. forces in Germany. Finally, very considerable budgetary relief is implicit in the FRG agreement to purchase DM 2,250 million in special U.S. Treasury securities at a concessional interest rate of 2.5 percent. The interest rate which Germany could have obtained through investment of these funds in marketable U.S. Treasury securities would, of course, have been much higher. The purchase of securities made by the FRG pursuant to the agreement were made at times when the market was paying just under eight percent interest. As a consequence, the FRG will have foregone approximately $343 million in interest over the life of these securities. Essentially this represents a budgetary gain to the U.S.

A final provision of the Amendment requires that we seek to reduce the amount paid by the U.S. to support NATO's Infrastructure Program. NATO recently agreed to a new five-year program (CY 1975-79) totaling $1.35 billion. The Allies have agreed to reduce the U.S. percentage from the current official level of 29.67 percent to 27.23 percent. The new program also includes a special category of projects totaling $98 million which benefit only American forces and which would normally have been funded in the U.S. budget. When this special category is considered, the effective U.S. share is approximately 21 percent. Likewise, the U.S. share of funding for the Common European Pipeline deficit has been reduced from 36 percent to 25 percent.

The Amendment specifies that 22 1/2 months (July 1, 1973 - May 16, 1975) of Allied balance of payments transactions can be applied against the FY 1974 deficit. The balance of payments data we have used have been based on only the first 12 months of this period. We do not yet have complete data on Allied procurement expenditures during the last 10 1/2 months of the statutory period. However, assuming that Allied expenditures in Foreign Military Sales (FMS) and commercial accounts remain at about the same levels as in FY 1974, there would be available an additional $1.3 billion to offset our FY 1974 expenditures.

It should be noted that the Allied financial transactions reported here do not represent the total financial burden incurred by the Allies in support of U.S. forces in Europe. Our Allies absorb many of our troop-related operation and maintenance costs for facilities, building and repairing roads, and other payments which have a total value of several hundred million dollars a year.

A good economic argument can be made that some of our balance of payments expenditures would have occurred whether or not our troops were in Europe, and hence should not have been charged against the NATO balance of payments account. For example, the Department of Defense purchased approximately $137 million of petroleum, oil, and lubricants (POL) in Europe during FY 1974, mostly for our Sixth Fleet operations. The great majority of these products were purchased from the Middle East. However, if the fleet had been brought home, its shift to U.S. POL resources would have forced other U.S. consumers to purchase their POL requirements from abroad. Thus, the impact on our balance of payments expenditures would have remained unchanged.

We should also recognize that, even if our troops were returned to the continental U.S., there would still be personnel-related expenditures for European goods and services. These personnel would continue to purchase some European goods. Also, we should not overlook the fact that some of our military-related balance of payments expenditures in Europe generate Allied or third nation purchases in the U.S. -- both military and commercial.

Finally, we must consider that more than $300 million of the U.S. defense expenditures in Europe merely reflect the effect of dollar depreciation. This depreciation was a contributing factor to the substantial improvement in the U.S. trade balance, but it has made relatively more expensive the goods and services purchased by our military forces in Europe.

GERALD R. FORD

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