



INTERNATIONAL
SECURITY AFFAIRS

CONFIDENTIAL
CONFIDENTIAL
ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

#37

Refer to: 1-3010/74

MEMORANDUM OF CONVERSATION

SUBJECT: Jackson-Nunn Amendment - Meeting with Members of Senator Jackson's Staff

Participants:

Executive Branch

Deputy Assistant Secretary of Defense (ISA)EC - Dr. Roger E. Shields
Deputy, Office of Legislative Liaison, OSD - Captain James Kneale, USN
Deputy Director, Country Affairs, OASD(ISA)ED - Col. Frederic Ackerson, USA
State Department - Mr. John A. Graham
Department of Commerce, Mr. David Farrell

Senator Jackson's Staff

Ms. Dorothy Fosdick
Mr. Richard Perle
Mr. Charles E. Horner

DECLASSIFIED IN FULL
Authority: EO 13526
Chief, Records & Declass Div, WHS
Date: SEP 14 2018

TIME & DATE: 1000-1200 Hours, Tuesday, 19 March 1974

LOCATION: Senate Office Building

1. (U) Purpose of Meeting.

Ms. Fosdick opened by stating that the purpose of the meeting was to exchange ideas regarding interpretation of the Jackson-Nunn Amendment in order credibly to comply with its provisions. She noted neither she nor other members of the staff present could make any commitment to accept suggestions by the Executive Branch.

2. (U) Total DoD Expenditures in Europe Entering into the International Balance of Payments (IBOP).

In response to a query, Dr. Shields stated that the DoD estimated figure for FY 74, upon which we were basing our calculations, was \$2,451 million. Preliminary reports, based on first and second quarter statistics, generally confirmed this figure, but an accurate figure would not be

~~EXCLUDED FROM AUTOMATIC DECLASSIFICATION SCHEDULE OF~~
~~EXCLUDED FROM AUTOMATIC DECLASSIFICATION SCHEDULE OF~~
~~EXCLUDED FROM AUTOMATIC DECLASSIFICATION SCHEDULE OF~~
~~EXCLUDED FROM AUTOMATIC DECLASSIFICATION SCHEDULE OF~~

SEC DEF CONTR No. X-0971

CONFIDENTIAL

18-M-2051

1 Apr 74

~~CONFIDENTIAL~~

2.

available until the end of the fiscal year. Mr. Farrell commented that the Secretary of Commerce would be developing specific figures from actual transactions; and in the meantime representatives of Commerce, Defense and the GAO were seeking agreement to determine what categories of items could be used to offset the DoD expenditures in fulfilling the requirements of the Jackson-Nunn Amendment. Mr. Perle stated that his major concern was that the figure of \$2,451 million was much larger than figures (\$1.8, \$1.9 or \$2.1) he had been told earlier. He then asked for a breakdown of this figure in order to see if it was credibly possible to reduce it.

3. DoD Expenditures by US Military, Civilian and Dependents.

After Mr. Farrell stated that the highest expenditure was that by US military, civilians and dependents, totalling just over \$900 million, Mr. Perle asked how accurate the figure was and how it was determined. Col. Ackerson replied that the basis for the figure was salaries of all US personnel. Extensive adjustments were then made to insure that those funds returned to the US and not entering into the IBOP (e.g. money orders, investments, post exchange and commissary purchases of US origin items, etc.), were subtracted. Mr. Perle asked for a detailed breakdown of this computation, and Dr. Shields stated that we would provide it.

Mr. Perle then asked if a figure was available for the normal purchases made by citizens in the US of foreign goods. He said that if it was available, this figure - estimated by him to be between \$100 and \$150 million - could be applied to the \$900 million because these expenditures would be made even if those individuals now in Europe were in the US. Furthermore those purchases were not connected to the US fulfillment of its NATO commitment. Dr. Shields stated that such a figure was available. Such a deduction had been discussed with members of the Randall Subcommittee who, while feeling that this might be a valid deduction, were concerned about its accuracy.

4. DoD Expenditures for Petroleum, Oil and Lubricants (POL).

Mr. Farrell noted that DoD's POL expenditures of \$104 million would be made whether or not troops were stationed in Europe. Dr. Shields stated that while DoD could purchase this petroleum in the US, by so doing, it would not only deprive US citizens of a large quantity of petroleum products in a time of fuel shortages, but would in effect cost more because of transportation costs from the US to Europe. Mr. Perle asked if it was possible for DoD to pay US currency from POL products to US major oil firms in the US rather than to subsidiaries of the firms overseas. He felt that by doing this DoD POL expenditures entering into the IBOP could be eliminated, and the resultant currency transfers between majors and their subsidiaries would then appear in commercial accounts. Dr. Shields stated that he would look into this possibility.

DECLASSIFIED IN FULL
Authority: EO 13526
Chief, Records & Declass Div, WHS
Date: SEP 14 2018

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

3.

5. (C) DoD Expenditures for Major Equipment.

Mr. Farrell stated that DoD expenditures of \$110 million for major equipment were not made specifically for NATO purposes, and thus this category could and would be deducted from the basic expenditure figure. Mr. Perle felt that this was appropriate.

6. (C) Other DoD Expenditures.

Mr. Farrell stated that approximately \$488 million was expended for payments to foreign nationals, \$83 million on major construction, and \$57 million in cash for the US share in NATO infrastructure costs. None of these could be readily reduced. Mr. Farrell stated that DoD expenditures of \$146 million for materials and supplies could also probably not be reduced. These items were procured locally, either because of a significant cost savings or because of essential time constraints.

Mr. Farrell then noted the expenditure of approximately \$431 million for services. Mr. Perle asked for a breakdown of these services and expressed the hope that some might be deducted from the overall total. Dr. Shields stated that we would look into that possibility. After Mr. Farrell concluded by citing expenditures \$116 million for all other purposes, Mr. Perle asked that this be broken down, if practicable, again in order to examine them with the purpose of possibly deducting some of these items as non-NATO related expenditures.

7. (C) Reduction of Offset Goal.

Dr. Shields noted that the Commerce-DoD-GAO committee had agreed to subtract all non-NATO costs from the \$2,451 million to obtain a net offset goal. This included DoD IBOP expenditures in Greenland, Iceland, Azores, and Canada, as well as expenditures for strategic intelligence, major equipment purchases, MAAGs, weather stations, 6th Fleet, and strategic forces in Spain and England. In response to a question by Mr. Perle, Dr. Shields stated that by applying the above criteria, the goal had been reduced by approximately \$330 million to a new target of \$2,120 million.

In addition to these, we felt that we could reduce further by subtracting annual payments to retired personnel in Europe of \$16 million and the \$104 million POL cost. This would give us a new target of about \$2,000 million. He noted that these last two deductions had not been agreed to by Commerce and GAO, but felt that they were valid deductions. Mr. Perle noted that, in addition, about another \$144 million could be reduced because of the normal US citizens purchases of foreign goods. If this were valid, the amount to be offset would be reduced even further to a figure of \$1,856 million.

DECLASSIFIED IN FULL
Authority: EO 13526
Chief, Records & Declass Div, WHS
Date: SEP 14 2018

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~
~~CONFIDENTIAL~~

4.

8. Categories of Offsets.

Mr. Farrell stated that in order to offset the net goal of \$2.1 billion, representatives of Commerce, DoD and the GAO had met and had generally agreed on the following categories of reductions: monetary transactions which appeared in actual accounting documents available to the Department of Commerce; categories of items such as the barracks rehabilitation program for which no DoD payments would then be made; and thirdly, items for which DoD planned to expend funds at some future date but had not yet appeared in Defense budget. He then asked if loans and feedback would be acceptable to the Congress as offsets to the DoD expenditures. Mr. Perle replied that the Jackson-Nunn Amendment was designed with a view to requiring very precise figures on our NATO costs. However, the Amendment was also designed to be very imprecise on the offset to these expenditures. Furthermore, it had been agreed during the formulation of the Amendment to extend the period for offsetting FY 74 expenditures an additional six months to eighteen to allow the Administration a flexibility if it was determined that a disaster would result from implementation of the Amendment. This extended period would also provide the Congress with sufficient time to rescind the Amendment if necessary. As a basic principle, there was no intention on the part of the Conference Committee to allow recapt over the 22 1/2 months expenditures.

Regarding loans, Mr. Perle felt that only a zero interest loan would be satisfactory. He felt that feedback was a valid concept, but cautioned about the extent of its use. Mr. Horner felt that 10% would be acceptable. Ms. Fosdick stated that we should not provide too many alternatives or papers to the Committee in fulfilling the Amendment, and that if a strict interpretation of the Amendment was made, while loans could not be counted at full value, the interest savings could be. She felt that it would be useful for Secretary Schlesinger and Senator Jackson to sit down and discuss the various categories which would be utilized to offset the DoD expenditures.

9. Current US Negotiations with the FRG.

In response to a question from Mr. Perle, Dr. Shields noted that in FY 74 we expected to receive \$680 million from the FRG in hard offset (purchases of US military equipment, troop facilities rehabilitation, energy R&D projects, land taxes, landing fees and uranium enrichment services). We expected a minimum of \$650 million of purchases by other European nations of military equipment through FMS and commercial channels, however, this figure could even rise as high as \$1 billion. In addition to these figures we expected a German loan and a certain amount of flowback would complete the offset. Mr. Perle remarked that a 2 1/2% interest bearing loan would not do the job. He contended that since the French spend more on defense than the Germans, we should be adamant in holding out for a greater German contribution. Ms. Fosdick commented that the Germans should be fully apprised of the danger of failing to satisfy the Jackson-Nunn Amendment.

DECLASSIFIED IN FULL
Authority: EO 13526
Chief, Records & Declass Div, WHS
Date: SEP 14 2018

~~CONFIDENTIAL~~
~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

5.

If the Germans fall short; and thereby risk a troop cut, Congressional sentiment would say "So that's how much NATO is worth to the Germans -- its not worth a couple hundred million dollars to them to keep our troops in Europe." She also warned that if the Germans allowed even a small cut to be made under Jackson-Nunn it would have a profound psychological affect on Congress and would be followed by a full scale Mansfield cut.

10. (S) Replacement for F-104.

Mr. Perle noted during a recent trip to Europe, he had spoken with military officials in Belgium and the Netherlands regarding selection of a F-104 replacement. He felt that all favored the Northrop P-530 over the French F-1. He asked if it was possible to utilize any of the receipts, either present or future, in fulfilling the Jackson-Nunn Amendment. Dr. Shields replied that European purchase of the P-530 was not assured. While our indications were that all three US contenders could outperform the French F-1 and that European military officials generally appeared to favor a US replacement, European national political considerations were not only powerful but probably overriding. French political pressures, particularly on the Belgians, were intense and even included threats. Therefore, an ultimate purchase of US aircraft was in doubt. Dr. Shields noted that Secretaries Kissinger and Schlesinger, US Ambassadors and US military personnel were all deeply involved in pushing a US replacement to the extent of offering USG backing on spare parts replacement and engine development money. Mr. Perle stated that it would be a disaster if the French were to make this sale. He also was concerned about the recent conclusion of licensing arrangements to permit the French to construct ZUNI Rockets. He felt that we must make a very positive approach to the Europeans emphasizing the relationship between this purchase and Jackson-Nunn. Ms. Fosdick added her emphasis and stated that we should use the positive approach on Jackson-Nunn, to wit that by fulfilling Jackson-Nunn, Europe will receive a US commitment, agreed upon by the Congress, to keep up US troop levels in Europe. She felt that it was very important that Senator Jackson and Secretary Schlesinger meet to discuss the fulfillment of Jackson-Nunn. She also felt that Secretary Schlesinger should speak to Senator Percy regarding economic provisions.

11. (S) "Stalking Horse" for Mansfield Resolution.

Mr. Perle and Ms. Fosdick emphasized that in 1973 the Jackson-Nunn Amendment was passed only as a stalking horse for the Mansfield Amendment. Ms. Fosdick asked Defense representatives what they expected to use this year to block adoption of any future Mansfield amendments. She felt that it would be ideal not to tie US strength in Europe to any US economic considerations but rather tie it to European force improvements, EDIP or infrastructure. Congress would not buy the security rationale for maintaining the current levels of US forces in Europe. She considered that this was demonstrated in 1973 when the Democratic Caucus, with only two negative votes, favored troop reductions.

DECLASSIFIED IN FULL
Authority: EO 13526
Chief, Records & Declass Div, WHS
Date: SEP 14 2018

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

6.

Thus, we can probably expect some type of proposal in the current Congress, and we should be prepared to counter it with something. Mr. Perle agreed and noted that the situation in the House against troop cuts in Europe was not as rosy as some think and that there was definitely more support for Mansfield this year than last in the Senate. The President's Chicago speech had undermined the opponents of Mansfield. Furthermore the substitution of Metzenbaum for Saxbe would detract from the anti-Mansfield forces. Finally the elections would favor the Democrats and this would also help support the Mansfield Amendment. Dr. Shields replied that we would certainly look into this.

Memorandum of Conversation
Prepared by:
Col Frederic Ackerson, USA
OASD(ISA)EurReg

Approved by:

Roy E. Shields

Date:

4/1

DISTRIBUTION

SecDef
DepSecDef
ASD(LA)
ASD(ISA)
PDASD(ISA)
DASD(Int'l Economic Affairs)
DASD(PP&NSC)
DASD(EurReg)
DSAA
EurReg(3)
R&C(2)

Office of the Secretary of Defense 5052

Chief, RDD, ESD, WHS

Date: 14 Sep 2018 Authority: EO 13526+

Declassify: X Deny in Full: _____

Declassify in Part: _____

Reason: _____

MDR: 18 -M- 2051

DECLASSIFIED IN FULL

Authority: EO 13526

Chief, Records & Declass Div, WHS

Date:

SEP 14 2018

~~CONFIDENTIAL~~