

Office of the Secretary of Defense

Chief, RDD, ESD, WHS

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#39

February 19, 1974

MEMORANDUM FOR: Secretary Kissinger
Secretary Shultz
Secretary Schlesinger

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Authority: EO 12958

SUBJECT: German Offset and Jackson-Nunn

~~4 APR 1985~~
Mr. C. C. C. C.
Chief, Declass Br
Dir. & Rep. Div. WHS

Last week's German offset negotiations wound up with the Germans making an offset offer which, including \$628 million from a 20 percent flowback and \$550 million in concessional loans, falls \$762 million short of the \$3.3 billion which we estimate as our two-year military deficit in Germany. They justify this \$762 million gap (a) by reducing our deficit by larger amounts than we can justify for the strategic non-NATO force elements, which Jackson-Nunn excludes from the deficit, and (b) by taking credit for an excess in estimated non-German NATO procurement over the difference between the German deficit and the NATO-wide deficit.

The resulting offset agreements are so thin as to create a very serious threat of mandatory troop withdrawal. A decision is needed as to whether (a) to present an extremely thin compliance with Jackson-Nunn or (b) recognize a probable shortfall and consult with the Congress, the FRG and other NATO allies on what to do about it.

Disappointing as the present German position is, the Jackson-Nunn target could still be met for FY 74, assuming 20 percent flowback and the face value of loans is acceptable, if the non-German allies increase their annual procurement from our last estimate of \$650 million to \$850 million. We had a visit last week from Laulan, Director, Economics Staff of the NATO Secretariat, who claims that non-German NATO procurement for FY 74 could go as high as \$1 billion. Elsewhere, we encounter considerable skepticism on this.

The Negotiations

Ambassador Hermes, the German negotiator, and I met on February 14th and 15th for the purpose of framing possible alternative agreements within limitations set by Finance Minister Schmidt in a February 12th meeting with Secretary Shultz, attended by Under Secretary Volcker, Ambassador Hermes, and myself. Minister Schmidt set out these limitations.

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