

# SETTLEMENT FOR "FRELOC" DEBT

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HEARING  
BEFORE THE  
SUBCOMMITTEE ON  
INTERNATIONAL FINANCE AND RESOURCES  
OF THE  
COMMITTEE ON FINANCE  
UNITED STATES SENATE  
NINETY-FOURTH CONGRESS  
FIRST SESSION

—————  
JANUARY 16, 1975  
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Printed for the use of the Committee on Finance



U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1975

45-928

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S 361.111

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(III)

## SETTLEMENT FOR "FRELOC" DEBT

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THURSDAY, JANUARY 16, 1975

U.S. SENATE,  
COMMITTEE ON FINANCE,  
SUBCOMMITTEE ON INTERNATIONAL FINANCE AND RESOURCES,  
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 9 a.m., in room 2221, Dirksen Senate Office Building, Senator Byrd of Virginia (chairman of the subcommittee) presiding.

Present: Senators Byrd of Virginia, Gravel, Fannin, Hansen, and Dole.

Senator BYRD. The subcommittee will come to order.

Today, we are receiving testimony concerning the agreement between the Governments of France and the United States announced after the recent meeting of President Ford and President Giscard d'Estaing at Martinique. In a joint statement, the President stated that a \$100 million agreement had been reached settling French obligations to the United States to the military property and installations surrendered by the United States when U.S. and other NATO forces were forced to leave France in 1967.

As we all recall, General de Gaulle unilaterally announced France intended withdrawal from NATO military command in February 1966, and later informed his NATO allies that they had 1 year to remove military personnel and property from French soil. The French Government made this decision without consulting its allies, and many felt acted in such a manner as to endanger European security at the time.

The U.S. position, of course, was to comply with France's decision. However, a formal reply reminded France that there must be recognition that withdrawing from, abrogating, or repudiating existing agreements would entail financial problems and responsibilities that must be taken into account in any discussions of these actions.

We had good reason to remind France of the importance of financial obligations. NATO had collectively invested \$773.5 million in France, of which \$362.5 million came from the U.S. military assistance funds. In addition, the U.S. Department of Defense invested \$550.2 million more of its own funds in the U.S. military installations in France.

Thus, the U.S. taxpayers had a \$912.7 million stake in France.

A report on delinquent foreign debts and claims owed to the United States, selected countries, published by the House Committee on Government Operations on December 5, 1973, it singled out this particular debt as one that should be repaid. Notably, the report comments on

the fact that the State Department had not made public the amount of the claim, giving as a reason fear the French would not negotiate if it were made public.

It seems that the French negotiated extremely well. The Government Operations report is by no means the first instance of congressional interest in this claim. Congressman H. R. Gross, of Iowa, initiated an exchange of letters on this subject with the State Department in 1971. Others before him had brought this issue to the attention of the Congress and the public.

The purpose of these hearings, therefore, is to review action conducted so far to provide Congress with information on which to judge the final agreement. U.S. taxpayers have willingly contributed to the defense of France with hundreds of millions of dollars. The two Governments entered into bilateral and multilateral pacts regarding common defense in good faith. It is very proper to find out just how the announced settlement provides compensation for the contractual responsibilities entered into by France.

I realize France paid the 14 NATO countries \$17.5 million for the NATO headquarters in Paris, and that in 1968 France bought \$51.5 million in surplus military materiel from the United States at what some would claim to be surprisingly good terms, \$0.25 on the dollar. These settlements only add strength to my argument.

France recognized its responsibilities in the past, but was a long time in considering compensation for those installations and property provided by our Government. And I need not call attention to the American lives spent on French soil in two world wars or the billions of dollars in economic and military aid the United States has provided.

France in particular benefited from American aid and security guarantees. Despite President de Gaulle's withdrawal of French forces from NATO and denial to NATO of French bases and territory, France has still enjoyed the general security provided by the Atlantic alliance. The United States gladly helped to provide for Europe's security in times of need and bore more than its share of the NATO costs when Europe could not pay.

Now Europe represents a rival economic power, and as one of its leading nations, France can and should repay its debts and obligations. A fair settlement would be a timely opportunity for the new government of President Giscard d'Estaing to demonstrate in a specific way that it wishes to reestablish close and cordial relations with the United States.

I cannot agree with those who claim that France owes nothing of this debt because the French Government renounced an agreement and is, therefore, absolved from claims. The United States entered into a partnership with France and contributed resources to a common effort which materially benefited France.

France quit the partnership, but continues to receive benefits from the resource its former partner developed. There must be some restitution, and the purpose of these hearings is to review the proposed settlement.

[The Committee on Finance press releases announcing this hearing follows:]

PRESS RELEASE

FOR IMMEDIATE RELEASE  
January 9, 1975

COMMITTEE ON FINANCE  
Subcommittee on International  
Finance and Resources  
UNITED STATES SENATE  
2227 Dirksen Senate Office Bldg.

BYRD SUBCOMMITTEE HEARINGS TO EXAMINE PROPOSED  
FRELOC SETTLEMENT

Senator Harry F. Byrd, Jr., Chairman of the Finance Committee's Subcommittee on International Finance and Resources, today announced that the panel will conduct hearings at 9:30 a.m. on Thursday, January 16, 1975. The hearings will examine the proposed settlement of U.S. claims resulting from project Fast RELOCation (FRELOC), the movement of NATO logistics from France in 1967. President Ford announced a preliminary agreement at a recent meeting with President Giscard d'Estaing of France which would settle outstanding U.S. compensation claims for \$100 million.

Chairman Byrd stated that it is the Subcommittee's intention to explore the nature of the U.S. claim for buildings and other property, as well as the final terms of such a settlement. The panel will call on Assistant Secretary of Defense for International Security Affairs, Robert Ellsworth, and Deputy Assistant Secretary of State for European Affairs, James G. Lowenstein, to explain the calculation of the claims and the progress of negotiations.

"The Federal budget remains heavily in the red, and the burden of our growing national debt must be carried by the taxpayers at crippling interest rates," said Chairman Byrd. "It is increasingly important to ensure that foreign indebtedness to the United States is settled on an equitable basis."

The Chairman expressed concern that foreign claims settlements were being conducted with little chance for public scrutiny. "I hope the Department of Defense and the Department of State can shed some light on the FRELOC claim and demonstrate to the American taxpayer that the settlement is fair."

The Chairman stated that the Subcommittee would be pleased to receive written testimony from those persons or organizations who wish to submit statements for the record.

Statements submitted for inclusion in the record should be typewritten, not more than 25 double-spaced pages in length, and mailed with five (5) copies by January 23, 1975, to Michael Stern, Staff Director, Senate Committee on Finance, 2227 Dirksen Senate Office Building, Washington, D.C. 20510.

PR #98.

PRESS RELEASE

FOR IMMEDIATE RELEASE  
January 13, 1975

COMMITTEE ON FINANCE  
Subcommittee on International  
Finance and Resources  
UNITED STATES SENATE  
2227 Dirksen Senate Office Bldg.

BYRD SUBCOMMITTEE HEARINGS TO EXAMINE PROPOSED  
FRELOC CLAIMS SETTLEMENT

Senator Harry F. Byrd, Jr., Chairman of the Finance Committee's Subcommittee on International Finance and Resources today announced that the panel will conduct rescheduled hearings at 9:00 a.m. on Thursday, January 16, 1975, in Room 2221 Dirksen Senate Office Building. As stated in our press release dated January 9, the hearings will examine the proposed settlement of U.S. claims resulting from project Fast RELOCation (FRELOC), the movement of NATO logistics from France in 1967. The panel will call on Robert Ellsworth, Assistant Secretary of Defense for International Security Affairs, and James G. Lowenstein, Deputy Assistant Secretary of State for European Affairs, to explain the calculation of the claims and the progress of negotiations.

PR# 100

Senator BYRD. The first witness this morning is the able and distinguished Assistant Secretary of Defense for International Security Affairs, Hon. Robert Ellsworth. Our committee is glad to welcome you, Mr. Secretary, and you may proceed as you wish.

**STATEMENT OF HON. ROBERT ELLSWORTH, ASSISTANT SECRETARY  
OF DEFENSE FOR INTERNATIONAL SECURITY AFFAIRS, DE-  
PARTMENT OF DEFENSE**

Mr. ELLSWORTH. Thank you, Mr. Chairman, and Senator Fannin.

It is a pleasure for me to discuss with you today the claim regarding fast relocation or Freloc, which was occasioned by the forced withdrawal of U.S. forces and materiel from France in 1967.

While negotiations relating to this claim were pending, it was not possible to disclose some of the details relating to that claim. Now that settlement has been agreed upon, it should be helpful to recapitulate the basic facts and circumstances surrounding the claim.

Mr. Chairman, my statement will be brief. The principal elements of this history are quite simple and straight forward.

The details are, of course, voluminous and in some respects extremely complex. Naturally, we will be pleased to supply such further information for the record as the subcommittee may desire in the light of our discussions today.

As the subcommittee knows, the claim in question arose from President de Gaulle's March and April 1966 decisions requiring the United States to remove its forces and materiel from French territory and to cease using facilities in France. The massive relocation required by this decision absorbed the energies of many, many people, both in and outside the Department of Defense during the ensuing period.

The relocation began in April 1966. At the outset, there were in France 32,000 U.S. military personnel and civilian employees and 38,000 dependents—about 70,000 in all.

They were assigned to 186 installations, 73 of which had a value of \$1 million or more. In addition, the U.S. European Command had 254 lease and sublease arrangements for sites in France.

There were about 820,000 tons of materiel valued at \$1.2 billion stored in France. The total original cost of U.S. facilities involved in our claim was \$467.1 million.

The relocation was essentially completed in 1 year. Materiel and personnel were moved primarily to Germany and the United Kingdom, although some equipment and personnel were sent to Italy and the Benelux countries, or returned to the United States.

More than 380,000 tons of materiel were moved to Germany, more than 145,000 tons to the United Kingdom. About 90,000 tons were returned to the United States as excess to requirements in Europe, and another 170,000 tons were disposed of.

As a result of Freloc, the United States was able to save 16,000 of the military personnel billets in France, and 2,000 more in Germany. Including dependents, the total number of U.S. personnel in Europe was reduced by 39,000.

Meanwhile, careful consideration was given to the matter of an appropriate claim against France for the financial losses suffered as a result of the French actions. I believe it fair to say there was no single study leading to a single comprehensive result, but rather a continuing series of examinations, both in Washington and Europe, in consultation with our allies. NATO, of course, was also importantly affected by the withdrawal from France, with respect to the very extensive NATO infrastructure facilities that had been constructed there.

In September 1968, the United States advised France of its intention to claim financial compensation for losses incurred as a result of the French decisions. The United States proposed early discussions regarding compensation with respect to the loss of use of facilities developed or constructed by the United States, and with respect to the costs of relocating our personnel and equipment to facilities in other NATO countries.

In January 1969, the United States presented the French Government a formal claim requesting compensation in a total amount of \$378,072,000. From a legal standpoint, the United States had made clear in 1966 that it could not accept the French Government's unilateral attempt to terminate the four bilateral agreements governing our presence there.



The duration of each of these agreements was coextensive with the period of validity of the North Atlantic Treaty, unless terminated earlier by mutual consent. One of the agreements also permitted termination if a 2-year period passed following a request made by either party to revise the agreement.

Based on the view that the French decisions were not in accord with the applicable agreements, we took the position that the internationally applicable standard of compensation would put the United States in the same position it would have been in if the French decisions had not been taken.

We therefore claimed compensation for, first, the value of the remaining useful life of the facilities and improvements financed solely by the United States and withdrawn by the French from continued use by the United States, and second, the unilateral United States costs of moving out of and closing down those facilities. The United States claimed \$276 million for loss of use of facilities and \$102 million for movement costs.

It is appropriate to note here that political considerations played an important part in the decision to present a claim to the French Government. Moreover, while the claim was formulated with great care and on the basis of accepted legal principles, it should be understood that the alleged obligation was of a nature quite different from, for example, an express contractual indebtedness.

A word about how we calculated the value of the remaining useful life of the facilities. The basic measure was the remainder of the useful life of individual installations after 1966.

For this purpose, the useful life was assumed to be 20 years from the year in which half of the total expenditure for the installation had been reached. The latter was considered the "base year."

The measure of compensation was then calculated as that proportion of the original capital cost which the remainder of the installation's life bore to 20 years, after adjustment in each case to account for the subsequent rise in construction costs. Appropriate deductions were made for the proceeds from sales of related personal property to France, and for the value of other related personal property removed from France by the United States.

In calculating the costs of movement to locations outside of France, we did not include salaries of individuals involved. Nor did we include outlays for new construction, since we could not logically claim the value of facilities left in France plus cost of replacement facilities.

Much of the detail work in making these calculations was performed by a military liquidation section which was attached to the United States Embassy in Paris until 1969. This section also handled the final details and turnover of fixed property to the French, as well as sales to the French of certain equipment and facilities.

Two NATO aspects of this matter bear mention. As a result of intensive discussions among all of France's NATO Allies, or the "Group of Fourteen" as it was called, NATO presented a claim against France. This claim has not yet been settled.

In addition, in January 1969, the NATO Defense Planning Committee—consisting then of all NATO members except France—agreed that NATO would reimburse the United States from NATO common infrastructure funds for certain costs, normally ineligible,

which the United States incurred in the relocation from France up to a maximum of \$96 million. Our Allies have honored that commitment and all of the \$96 million has been expended or programed.

In turn, the United States agreed, as the Department of Defense concurrently informed the Armed Services and Appropriations Committees that in the event France paid part or all of the United States claim, the United States would share the net receipts realized from the claim with our allies in the same proportion—slightly over one-third—that their reimbursement to the United States bore to the total United States out-of-pocket relocation costs. Although the latter provision will serve to reduce the claims proceeds going to the United States, the overall benefit to the United States provided by this agreement with NATO is very substantial.

As the subcommittee is aware, much time elapsed before the French showed any interest in discussing with us the U.S. claim. In July 1972, former Secretary of Defense Laird advised the French Minister of Defense that his former congressional colleagues considered a settlement to be politically important, particularly in terms of public and congressional support for a continued U.S. military presence in Europe. I want the subcommittee to be aware that the Department of Defense has maintained an active interest in achieving a just settlement and in taking what steps it could to further this result.

The settlement finally agreed to at the Martinique summit meeting was in essence a political settlement of an issue that was itself inherently political. Mr. Lowenstein will address these political considerations in some depth.

But I should make clear that the Department of Defense fully supports the settlement that was reached. Under all circumstances of this case, we believe that it represents the best solution that could have been attained.

Mr. Chairman, this completes my summary of the claims matter as it affected the Department of Defense. I will be happy to take any questions, and to the extent that I am unable to answer them at this time, I will see that appropriate inserts for the record are provided to you.

Senator BYRD. Thank you, Mr. Secretary.

Before going into questions, it might be well to call on the other witness, Mr. James G. Lowenstein, Deputy Assistant Secretary of State for European Affairs, and then the committee could address questions to both of the witnesses at the end of the Secretary's presentation.

Is that agreeable to the committee? Senator Hansen?

Senator HANSEN. Yes; that's perfectly agreeable.

Senator BYRD. Mr. Lowenstein, you may proceed as you wish.

**STATEMENT OF JAMES G. LOWENSTEIN, DEPUTY ASSISTANT SECRETARY OF STATE FOR EUROPEAN AFFAIRS, DEPARTMENT OF STATE, ACCOMPANIED BY PAUL BOEKER, DEPUTY ASSISTANT SECRETARY OF STATE FOR ECONOMIC AND BUSINESS AFFAIRS**

Mr. LOWENSTEIN. Thank you, Mr. Chairman.

I am appearing today in place of Arthur Hartmen, the Assistant Secretary of State for European Affairs, who is absent from Washing-

ton. With me is my colleague, Mr. Paul Boeker, Deputy Assistant Secretary of State for Economic and Business Affairs.

My prepared statement has been designed to respond to the questions in your letter to me of January 10 regarding the negotiation of the financial settlement with the French Government arising from the relocation of NATO-committed U.S. military bases and forces from France.

The chain of events began in 1966 when President de Gaulle informed President Johnson that:

France proposes to recover on her territory the full exercise of her sovereignty, presently restricted by the permanent presence of allied military elements or by the continued use made of her skies; to end her participation in the integrated commands, and no longer to put her forces at the disposal of NATO. It goes without saying that for the application of these decisions she is ready to settle with the allied governments and, in particular, with the United States, the practical measures that concern them.

In the voluminous exchanges that followed between the two Governments in 1966, the United States included the following statement, in its aide memoire of April 12, 1966:

The attention of the French Government is called to the fact that its actions in withdrawing from, abrogating or repudiating existing agreements will entail financial problems and responsibilities that must be taken into account in any discussion of these actions.

All U.S. and other foreign forces, military materiel and headquarters were withdrawn from France by the spring of 1968.

The United States had meanwhile begun to consult with the other NATO allies to consider the financial consequences of the imposed withdrawal of the allied military presence from France. After 2 years of study, they jointly formulated the claim which has been described by Assistant Secretary Ellsworth.

The U.S. claim was presented to the French Government in a note of September 17, 1968. I will be glad to provide a copy of that note to the subcommittee.

Following the French request that we end the use of military facilities in France, the United States had proposed in 1966 that the use of all these facilities be terminated in accordance with the 2-year consultation and termination provisions of the system of communications agreement of 1958. The French Government refused to accept this proposal.

Had the proposal been accepted, the United States would have been able to continue to use the facilities in France for at least 2 more years, and there would have been no basis for a claim against the French. These circumstances were outlined in the September 17, 1968, note which stated the claim in the following language:

Consequently, it is the view of the United States Government that it is entitled to financial compensation by the French Government with respect to facilities developed or constructed pursuant to the agreements cited above, and, also with respect to certain improvements made by the United States at its own expense to facilities constructed in France under the NATO Infrastructure program, plus the costs incurred by the United States in moving out of the aforementioned facilities.

The note proposed early discussions in Paris.

The French said they would study the claim. Meanwhile, the military liquidation section in the American Embassy at Paris continued to

compute the claim in accordance with the formula described by Assistant Secretary Ellsworth. This work was completed early in 1969.

On January 14, 1969, the United States presented a memorandum to the French Government which described the legal premises for the claim, the method of calculating the claim, and presented to the French Government, for the first time, the amount of the claim which totaled \$378 million. I will be glad to provide a copy of this memorandum to the subcommittee.

NATO as an organization had already notified France—on February 14, 1968—that the 14 allies had suffered loss of use of certain assets in France in which there had been common financing under the NATO infrastructure fund, and that certain extraordinary expenditures had also been incurred in the relocation of certain facilities, such as NATO military headquarters, outside of France. On June 4, 1969, a followup memorandum from NATO to the French Government provided details of NATO's claim.

The amount of this claim remains a classified NATO figure, but I will be happy to provide the information separately to the subcommittee. A third, relatively small, claim relating to several airfields which had been used by Canada, was submitted by the Canadian Government.

The French Government stated that it would study all of these detailed presentations. To date, however, there has been no response to the NATO claim or, as far as the Department of State is aware, to the Canadian claim.

The French authorities did not enter into any serious discussion of the U.S. claim for more than 4 years—that is, until October 1972—despite repeated inquiries and requests on the part of Ambassadors Shriver and Watson and Secretary of State Rogers. We approached the French Government at least 22 times about the claim after 1969.

From all of the evidence available to the Department of State, it appears that the episode that led the French to take the claim seriously for the first time was a conversation in Washington between Secretary of Defense Laird and French Defense Minister Debre on July 10, 1972. At that time, Mr. Laird indicated that he had sat for many years on the House committee that processed appropriations for NATO installations in France and that he had seen the adverse effect on congressional attitudes regarding the deployment of U.S. forces in Europe caused by France's failure to pay relocation costs when U.S. forces were expelled from France.

He told Mr. Debre that when he became Secretary of Defense he promised his former colleagues that he would press for an early settlement of these costs, and he said that he hoped the Defense Minister could use his influence to help resolve the matter.

This conversation led to the first serious discussion of the U.S. claim with a French official. The participants in the discussion, which took place in Paris on October 24, 1972, were the Secretary General of the French Foreign Ministry, Mr. Alphand, Deputy Secretary of State John Irwin, who later became Ambassador to France, and Assistant Secretary of Defense Nutter.

Mr. Alphand said that it was the view of the French Government that if the claim were to be resolved it would have to be based on the

residual value to France of the facilities in question and not on their remaining useful value to the United States. He said that the claim, in the French view, was of a political nature and not a contractual one.

He also said that although the original agreements contained no formula for determining residual value, there was obvious reasonable ways of doing so, and the French Government had used them in assessing the residual value of each facility.

Rather than have a lengthy argument about the valuation of each facility, the French Government proposed that the two Governments reach a political agreement on a lump-sum settlement. Mr. Alphand then suggested a figure of 200 million francs—then the equivalent of about \$43 million—a figure he described as close to the total residual value to the French Government and economy of the facilities.

These views were then considered by the Departments of State and Defense. They decided to respond to the French offer with a proposal for a settlement of \$200 million—about half-way between the amount of original U.S. claim of \$378 million and the French offer of \$43 million.

This proposal was regarded at the time by both the Departments as a negotiating proposal, for it was the view of Secretary Laird that we should be prepared to settle for \$100 million or an amount close to this.

The next step was that the U.S. Government then submitted a memorandum to the French Government on November 14, 1972. In that memorandum, we stated that we agreed that we should avoid a lengthy negotiation on the legal basis for determining the value of the facilities involved and should work instead toward a rapid, lump-sum settlement of the claims based on political criteria and imperatives.

We indicated our belief that both sides should seek to arrive at a compromise figure which recognized our mutual political needs, rather than challenge the legal position of either side or press sums which were clearly based on differing legal positions. We agreed that the issue of the proper legal basis for settling the matter should not be governing.

We stated, however, that a settlement on the order of 200 million francs would not serve the political purposes which both sides had indicated should govern any agreement and proposed, as a reasonable compromise between the respective initial positions, a settlement in the amount of \$200 million.

The French Government took this proposal under study but gave no response. When the new Defense Minister, Mr. Galley, visited Washington in October 1973, he suggested that France make an immediate downpayment of 50 million francs as a basis for further discussion.

Our view was that a downpayment without an agreement on a final figure would not be a satisfactory solution. We thus rejected the French offer as a step backward from the position we had reached a year earlier.

The French did not come forward with any new proposal, or response to our November 1972 counteroffer, as the year 1974 opened. Further negotiations were interrupted by the death of President Pompidou, the election of President Giscard d'Estaing, and the instal-

lation of his new government. We were informed last summer that the subject was still under active consideration within the French Government.

Late last November the French Government proposed that a settlement be reached in the amount of \$100 million. (This amount was the figure discussed between the Defense and State Departments at the end of 1972 as our realistic objective.)

The \$100 million amount was referred to the Defense and Treasury Departments by the State Department and approved by Secretaries Schlesinger and Simon at the beginning of December. The President accepted the recommendation of all three Departments that he indicate to President Giscard d'Estaing at Martinique that we were agreeable to a financial settlement in this amount.

While this settlement was the result of a process that began with the filing of a U.S. claim against France, it did not represent a formal or funded indebtedness or obligation to the United States. It was not included in the survey of Foreign Indebtedness to the United States published by this subcommittee on October 29, 1973.

As the Department of State indicated in its letter to you, Mr. Chairman, on June 4, 1974, there is no established obligation or undertaking by France to make any financial restitution whatsoever to the United States in connection with the relocation of our bases and forces from France. The United States had, in 1972, set aside the legal argumentation relating to the claim it had filed in 1968 in order to permit a settlement of this question on political grounds, a settlement enabling the United States to realize a significant financial recovery.

We believe that if the United States had not agreed to settle this matter on political grounds, there would not have been any financial recovery at all. The U.S. claim was susceptible only to settlement on a voluntary, political basis with France.

The reservation France entered at the International Court of Justice in May 1966, in which it no longer accepted the jurisdiction of the court in any dispute relating to questions affecting national defense, would have covered any unforeseen developments arising from the actions that France had taken to evict the United States, Canadian and NATO military presence from France.

We are now discussing with the French Government an exchange of notes regarding such technical details of the settlement as the period of repayment and the date of the first payment.

That concludes my statement, Mr. Chairman.

Senator BYRD. Thank you, Mr. Secretary.

Let me ask first, which agency of government negotiated the settlement of this claim?

Mr. LOWENSTEIN. The communications between the two governments were conducted by the State Department. In other words, we were the channel.

Senator BYRD. The State Department, then, did the negotiations?

Mr. LOWENSTEIN. Yes. But all of the memorandums and other communications were, of course, cleared with the Defense Department, and I am not sure some of them were not originally drafted by the Defense Department.

Senator BYRD. Now, to get the figures correct, NATO collectively invested \$773.5 million in France, of which \$362.5 million came from

the U.S. military assistance funds. In addition, the U.S. Department of Defense invested \$550.2 million more of its own funds in U.S. military installations in France.

Is there any exception taken to those figures? I take it that they stand as read.

Mr. LOWENSTEIN. Yes.

Senator BYRD. Now, in regard to the settlement, then, the settlement as I understand it, is for \$100 million?

Mr. LOWENSTEIN. That is correct, Mr. Chairman.

Senator BYRD. In your statement, Mr. Lowenstein, you say that at one time Mr. Alphan suggested to a figure of 200 million francs, in the equivalent of about \$43 million. As a matter of curiosity, what is the equivalent today?

Mr. LOWENSTEIN. It is about the same, Mr. Chairman. We will give you an exact figure in just a minute.

Senator BYRD. Now, on this settlement of \$100 million, will that be paid in cash, or will it be paid over a period of years?

Mr. LOWENSTEIN. It will be paid over a period of years, and that is one of the subjects of the exchange of notes with the French Government.

Senator BYRD. Well, over how many years?

Mr. LOWENSTEIN. We are asking for a repayment over a 5-year period.

Senator BYRD. Will interest be charged on the outstanding balance?

Mr. LOWENSTEIN. I don't believe so. No, sir.

Senator BYRD. Mr. Ellsworth, in your statement, you refer to a figure of \$467.1 million as being the basis of our claim, yet in a letter from the Assistant Secretary of State dated June 4, 1974, the figure of \$550 million is used as the direct U.S. investment.

Mr. ELLSWORTH. I will have to reconcile those figures. I don't know what, I am not tracking on what you are referring to, but my figure is \$467.1 million as the total original cost of those facilities of the United States which were actually involved in the claim. I have to provide for the record a reconciliation between that figure and the figure your referred to of over \$500 million.

[The following was subsequently supplied by Mr. Ellsworth:]

The \$467.1 million figure in the January 14, 1969 note to the Government of France was reached by deducting from \$550 million the \$60 million cost of the petroleum pipeline which the United States continues to use and the \$23 million (approximately) rental guarantee housing investment which was not supplied by the United States.

Mr. LOWENSTEIN. Mr. Chairman, just for the record, 200 million francs today would be equivalent to \$44 million.

Senator BYRD. Thank you. Now on January 14, 1969, the United States you say, Mr. Lowenstein, presented a memorandum to the French Government which set the amount of the claim at \$378 million, and that was the figure from which the State Department began to negotiate, is that correct?

Mr. LOWENSTEIN. That is correct, and Assistant Secretary Ellsworth has described in his statement how that \$378 million figure was reached.

Senator BYRD. On page 3 of your statement, you say the U.S. claim was presented to the French Government in a note of Sep-

tember 17, 1968, which is prior to, of course, to the 1969 date. Was that \$378 million figure the figure used in 1968?

Mr. LOWENSTEIN. There was no figure in that note, Mr. Chairman. It was simply a statement that there was a claim. It was a statement that included no figures, and the first time a figure was presented, because the first time calculations were completed was in the note of January 14, 1969.

Senator BYRD. Well, then, to recap, and then I will call on Senator Dole, the United States had put into France a total of \$912.7 million; that is, \$362.5 million from U.S. military assistance funds to NATO, and in addition, the U.S. Department of Defense invested \$550.2 million of its own funds in U.S. military installations in France.

Then the claim was made for \$378 million, and the settlement that is proposed is for \$100 million.

Mr. LOWENSTEIN. Well, the claim, of course, related only to compensation for the loss of facilities. It did not bear any relation to the military assistance program. I do not believe that was part of the calculation.

Mr. ELLSWORTH. That is right. And, of course, moreover, the claim was not for the original, initial cost of the facilities built, but only for the full remaining useful life, unamortized value of the full remaining useful life.

Senator BYRD. That is right. I am just trying to set the figures down.

Mr. ELLSWORTH. Right.

Senator BYRD. Thank you.

Senator Dole?

Senator DOLE. Let me yield first to Senator Fannin, who arrived prior to me and has a few questions to ask before leaving to attend another meeting.

Senator BYRD. Senator Fannin.

Senator FANNIN. Thank you, Mr. Chairman.

I am wondering, Mr. Secretary, how many of the airfields do the French utilize for military or civilian purposes following the departure of the American forces?

Mr. ELLSWORTH. I will have to provide that for the record, if I may.

[The following material was subsequently supplied by the Department of Defense:]

The following information was furnished to Embassy Paris by the French Air Force:

#### INSTALLATIONS AND PRESENT USE

Etain Air Base (AB): French Army Base, Army uses airfield.

Phalsbourg AB: French Army Base, airfield closed.

Chambley AB: Airfield closed. Base not in use.

Chateauroux AB: Secretariat General a L'Aviation Civile (Similar to FAA) now uses airfield.

Dreux AB: French Army Base, airfield closed.

Laon AB: French Army Base, airfield closed.

Chaumont AB: French Army Base, airfield closed. Army used airfield.

Evreux AB: French Air Force Base, airfield open.

Touls Rosieres AB: French Air Force Base, airfield open.

Senator FANNIN. The values seem to be so low. I happen to have visited a number of the airfields back in 1964, and when you consider the runways and the costs involved, it is so much greater. I don't know



how many airfields are involved, but it appears that the figures being quoted are far below what must have been invested.

Mr. ELLSWORTH. Yes, sir, because the claim was not for what was invested. The claim was for the remaining useful life of the facilities.

Senator FANNIN. I understand, but the remaining useful life for a civilian airport would be greater.

Mr. ELLSWORTH. Yes, sir.

Senator FANNIN. I know these were near communities and were no doubt utilized. I think it is very unfair for a settlement to be made whereby these facilities have much greater value and are being utilized. What steps, Mr. Lowenstein, have been taken to insure in the future that claims of this sort can be settled promptly and without political negotiations?

Mr. LOWENSTEIN. Well, we consider this a unique situation that really could not be foreseen. We have attempted to foresee it, by including provisions for termination with any agreement, but it would seem to me, and I would be glad to have a legal memorandum prepared for you on this question, but just off the top of my head it would seem to me very difficult when you are asking a country to place bases on its territory that you then include in the agreement some sort of compensations standard should they ask you to withdraw those bases.

Senator FANNIN. I know that you were not involved in those negotiations, but it seems to me that we did not foresee the eventualities that took place.

Hopefully we will never have this happen again, but it seems to me we should have learned a lesson by what has happened, not only in France, but in many of the other countries that we are dealing with. I believe Spain was another example. I do hope that if we ever get in this again—and I pray we do not—that the political negotiations that are now coming about will not be necessary, because we would have had stipulations and contractual agreements that would have provided for the settlements that would be involved later.

I was just wondering what benefit has accrued to France as a result of these installations and whether or not they were still being utilized.

Mr. LOWENSTEIN. Senator, I am not an expert on base rights, but I will have a survey made, and I will provide you with information on what provisions exist in base agreements to cover such eventualities in other countries.\*

Senator FANNIN. Thank you.

Senator BYRD. Senator Hansen?

Senator HANSEN. Mr. Lowenstein, you mentioned that our NATO agreements contain no formula determining the value of property located in another country. My question is, have the agreements been modified to correct this deficiency?

Mr. LOWENSTEIN. I do not believe so. The answer is "No," sir.

Senator HANSEN. But we hope that there will not be a repetition of this particular type of incident. Would it not be of some value to have a formula, a mechanism designed and agreed upon ahead of time that could determine values? I should think that there might be other occasions to arise, though I cannot name one specifically at this moment, where it would be of some value to have those values arrived at according to some formula.

\*Material relative to this question had been supplied at pages 13 and 15.

Mr. **LOWENSTEIN**. Senator, to give you a thorough and accurate response to that question, I wonder if I could consult with people in the department who do specialize in base negotiations, and provide you with a written response?

Senator **HANSEN**. Yes, indeed. Thank you. Thank you, Senator Dole. Thank you, Mr. Chairman.

[The following material was subsequently supplied by the Department of State:]

#### COMPENSATION PROVISIONS IN MILITARY FACILITIES AGREEMENTS

As a general rule, military facilities agreements address the issue of compensation for United States property left in the host country in one of two ways:

(1) By requiring the host country to pay the residual value of facilities constructed at U.S. expense when those facilities are turned over to the host government; or

(2) By permitting the United States to remove whatever transportable property it wishes when its use of the facility ends.

When a residual value formula is used it is usually accompanied by a corresponding provision requiring that the United States compensate the host country for damage caused to real property by the U.S. presence. The right to remove property is normally accompanied by a clause absolving the United States from the obligation to restore the property to its original condition or to pay compensation for the costs of restoration.

The selection of which of the two above-described approaches best serves the interests of the United States must be determined in the context of each particular case. When the agreement is of long duration and considerable investment in property is contemplated, we have generally sought a residual value clause. In agreements of limited duration involving construction of facilities whose useful life will not extend much beyond the term of the agreement, the simpler waiver of damages formula is usually preferred.

The claim against France arose because the French Government refused to apply the termination provisions in the several agreements. It would not normally be politically feasible to include in such agreements, in addition to a termination clause, a specific liquidated damages formula to be applied in the event of such a breach. A country wishing to terminate a facilities agreement would normally resort to the termination provisions, and the residual value or other arrangements provided in the agreement would then be applied. The inclusion of a liquidated damages provision, to be applied in the event of a breach, could give rise to an erroneous inference by the other party that payment of damages would be as acceptable to the United States as full observance of the basic provisions of the agreement.

Senator **BYRD**. Senator Dole, I have a number of questions, and I do not want to hold you.

Senator **DOLE**. I have only a couple.

Senator **BYRD**. Why don't you proceed then, if you would like?

Senator **DOLE**. We have a Republican conference at this hour, but I will stay as long as I can. There are so few of us, we have to meet frequently.

Mr. **Lowenstein**, you suggested near the end of your remarks that any settlement would be on a voluntary, political basis. I think it may have been established before I arrived, but as I understand it there is no binding, legal basis for a settlement of any amount. Is that correct?

Mr. **LOWENSTEIN**. That was our conclusion, Senator, yes.

Senator **DOLE**. And I think in line with the question by Senator **Fannin**, the base agreements or facilities agreements did not contain any provision which would cover such a contingency. In other words, in the event we were to leave, there was no legal or binding obligations

that compensation should be based on any fixed formula. Is that correct?

Mr. LOWENSTEIN. That is correct, sir.

Senator DOLE. So the \$100 million is a result of a series of repeated contacts and negotiations since when, 1968?

Mr. LOWENSTEIN. 1966.

Senator DOLE. 1966?

Mr. LOWENSTEIN. Yes.

Senator DOLE. Is there—and maybe I should ask Mr. Ellsworth—any possibility that we might regain the use of some of these abandoned facilities in the near future? Is there any possibility, that is, of discussions to that effect with the French leaders?

Mr. ELLSWORTH. Senator, I do not know that there are any actual discussions taking place with regard to that possibility. That always is a possibility, because the leaders of the French Republic have said repeatedly in case of need or in case of crisis or emergency, that France would be with the rest of her NATO allies, and that kind of a general political statement.

But other than that, I do not know of any specific, concrete discussions that are taking place right now, with regard to specific facilities that have been involved in this claim.

Senator DOLE. Would acceptance of the \$100 million foreclose such a possibility? I mean would it represent a complete settlement?

Mr. ELLSWORTH. No. I do not think that would have any effect at all on what the French Republic would do in case of an emergency involving her national security. I do not think she would feel foreclosed by having paid \$100 million, or anything of this kind.

Senator DOLE. How current are the French now in their payments to us of scheduled World War II indebtedness?

Mr. LOWENSTEIN. Senator, I wonder if I could ask Mr. Boeker, who is the State Department expert on that question, to answer?

Mr. BOEKER. Yes. The Government of France is entirely current on indebtedness arising from World War II, which was not otherwise renegotiated in the immediate postwar period.

Senator DOLE. Anything is possible, of course, but I assume there is no likely repudiation of the Martinique Agreement and, from your statement, that both departments consider it to be a practical settlement?

Mr. LOWENSTEIN. In fact three Departments, Treasury as well as State and Defense.

Senator DOLE. That is all I have.

Senator BYRD. Thank you, Senator Dole.

Secretary Ellsworth, in 1967, according to a Foreign Affairs Committee report, France had an inventory of \$1.5 billion of military equipment given by the United States on a grant basis. Under the agreement with France, and I quote: "This materiel was provided so as to promote an integrated defense of the North Atlantic area and to facilitate the development of or to be in accordance with defense plans under the North Atlantic Treaty."

In addition, France is required to return to the United States equipment given to them which is "no longer needed for the purposes for which furnished."

My question is this, was this contractual agreement ever used as a lever to obtain a more satisfactory settlement from the French?

Mr. ELLSWORTH. Not so far as I know, Senator. But let me provide, if I may, for the subcommittee an analysis of the disposition of that \$1.5 billion of grant equipment.

[The following was subsequently submitted by the Department of Defense:]

Embassy Paris reports that as of 30 June 1974, of the \$1.5 billion grant equipment, the inventory by Service by dollar amount was:

	<i>Millions</i>
Army -----	\$261.6
Navy -----	307.6
Air Force -----	95.7
<b>Total -----</b>	<b>664.9</b>

Since then the French have declared additional MAP property as excess to their needs:

	<i>Millions</i>
Army -----	\$9.7
Navy -----	6.1
Air Force -----	3.1
<b>Total -----</b>	<b>18.9</b>

This property is in various stages of processing by the MAAG and Defense Supply Agency for disposition. When completed France would then have an inventory of \$646.0 million.

Senator BYRD. Yes. Thank you. I suppose the State Department might be the one which would want to answer this. In negotiating the claim, was the question of interest ever taken into consideration?

Mr. LOWENSTEIN. It was taken into consideration, I am informed, Senator, but it was not used. It was taken into consideration, but it was not a part of the U.S. negotiating.

Senator BYRD. It was not a part of the \$378 million claim?

Mr. LOWENSTEIN. That is correct.

Senator BYRD. In other words, in presenting the claim, the interest charges were ignored?

Mr. LOWENSTEIN. That is correct.

Senator BYRD. Secretary Ellsworth, could you tell the committee what would be the cost of replacing all of the American facilities, not the NATO facilities, but the American facilities at the time the United States left France?

Mr. ELLSWORTH. Senator, we actually did replace the facilities when we moved out of France and established replacement facilities in other parts of Western Europe for about \$162 million.

Senator BYRD. Were they the same number and size of facilities?

Mr. ELLSWORTH. Not exactly the same. Let me see if I can find in the files if there was developed at the time an assessment of replacement costs for actual facilities in France.

Senator BYRD. Thank you.

Mr. ELLSWORTH. And provide it for the record.

[The following was subsequently submitted by the Department of Defense:]

It appears from our files that because of changes in the disposition of forces from France to various European countries and the reduction of U.S. forces in

Europe by some 18,000, no estimate for replacement of the total facilities formerly utilized in France was made.

Senator BYRD. Thank you. Could one of the witnesses tell how the \$100 million figure was determined as being adequate for the settlement of the \$379 million claim?

Mr. ELLSWORTH. Well, Senator, as Mr. Lowenstein has testified, both the original submission of the initial claim and the final settlement at Martinique were political acts. And I think Mr. Lowenstein has sketched out in fairly intimate detail what the various negotiating steps were, the various figures that were mentioned by the two parties.

The \$100 million figure, if I recall the record correctly, was initially considered by former Defense Secretary Laird as being an appropriate figure that would represent some approach to justice in the claim on the part of the United States.

Senator BYRD. Relocation expenses, the figure that I have seen used most frequently, relocation expenses total to the United States totaled \$255 million. Is that the appropriate figure?

Mr. ELLSWORTH. Well, Senator, that may be correct. I do not know what the basis of it is. The full out-of-pocket cost of moving out personnel and equipment out of France was \$102 million.

Senator BYRD. Of course, that did not include the building of new bases?

Mr. ELLSWORTH. No, that cost \$163 million.

Senator BYRD. So your out-of-pocket costs were—

Mr. ELLSWORTH. \$265 million.

Senator BYRD. Were \$265 million? Your out-of-pocket costs for actually moving?

Mr. ELLSWORTH. Yes, sir.

Senator BYRD. Which, of course, is quite a difference from the \$100 million settlement, which was made, and that does not include the heavy prior costs that the Government had. When an international debt such as this is settled, the Department of Defense receives no part of the payment, is that correct?

Mr. BOEKER. I believe that is correct, Senator.

Senator BYRD. It goes, the money goes to the Federal Treasury, general Treasury?

Mr. BOEKER. Correct.

Senator BYRD. Well, that being the case, would it not have been in the Department's interest to remove everything it could from the vacated facilities, and was that done?

Mr. ELLSWORTH. It was, Senator.

Senator BYRD. Mr. Lowenstein, can you give us the outlook on settlement of the French indebtedness to the NATO organization as a result of the 1967 ouster? What is the claim, and what would be the U.S. percentage of any settlement?

Mr. LOWENSTEIN. Senator, as I mentioned in my statement, the amount of the NATO claim is a classified NATO figure, which we will be glad to provide you separately. The United States would receive 29 percent.

Senator BYRD. Of the total claim?

Mr. LOWENSTEIN. That is correct.

Senator BYRD. In regard to debts owed the United States, is there willingness on the part of any European nations to accelerate pay-

ments of debt. I am thinking particularly of nations with favorable balances of trade with the United States.

Mr. BOEKER. Senator, some European nations have accelerated payments of debts to the United States, particularly World War II debts, and I believe the Government of France is included among them.

Senator BYRD. The Government of France is included?

Mr. BOEKER. Yes. France has prepaid \$886 million on its World War II related debts.

Senator BYRD. I am glad you mentioned that. What about the World War I debts of France?

Mr. BOEKER. The World War I debts of the Government of France to the United States have not been paid, although there were payments made in the initial period immediately after World War I.

In fact, no payments have been made since 1932 when the question of World War I debt was tangled up in the German reparation problem and the Great Depression. That balance is still outstanding.

Senator BYRD. What is the balance outstanding?

Mr. BOEKER. On principal including \$1.4 billion which is not yet matured, the balance owed by the Government of France is approximately \$3.8 billion.

Senator BYRD. What about interest?

Mr. BOEKER. Unpaid interest to date is also about \$3.8 billion. That brings the total due and unpaid to over \$6 billion.

Senator BYRD. So the Government of France owes the United States more than \$6 billion from the World War I debt, including interest?

Mr. BOEKER. That is correct.

Senator BYRD. Now, you calculate interest on that. Why did we not calculate interest on the settlement of the NATO debt?

Mr. BOEKER. Well, there is a difference between the two obligations. The one you have been discussing in these hearings was a claim, not a contractual debt. In the case of the World War I debts, there were debt agreements and specified rates of interest in the contract, and those are the rates of interest that we have been using in calculating what interest is due and unpaid at this point.

Senator BYRD. What rate of interest have you been using?

Mr. BOEKER. I believe in each case we have been using a rate of interest that was specified in the original contracts.

Senator BYRD. Do you recall what that was?

Mr. BOEKER. It varied. I can supply that for the record.

Senator BYRD. Just as more a matter of record as to what the interest rates were at that particular time.

[The following interest rates were submitted by Mr. Boeker:]

Interest rates on the French World War I debt varied from zero (over the first 4 years of the repayment schedule) to 3½ percent from 1965 to 1987.

Mr. BOEKER. Much lower than they are today.

Senator BYRD. And as a result of the state of the Union message yesterday, they are probably lower today than they are going to be next year, unless we begin to print more money, which is not an unlikely possibility.

I am rather struck by the similarity percentage of payments made on the settlement of debts owed to the United States. As I calculate

this settlement for NATO expenditures, we settled for 26 cents on the dollar, or propose to settle for 26 cents on the dollar—\$378 million claimed and \$100 million settlement. That very closely approximates the proposed settlement or agreement to settle the Russian debt of \$2.6 billion, which we settled, or the State Department did, in 1972, for 3 cents on the dollar, plus another 24 cents, provided the United States loans Russia the money to pay us.

So you settled the Russian debt, assuming you get that extra 24 cents, for 27 cents on the dollar, and you settled this debt for 26 cents on the dollar. I see the Russians have now repudiated the agreement to pay the 24 cents on the dollar, the additional 24 cents, because the Congress wrote a ceiling of \$300 million on long-term loans to Russia. I think that is an atrocious settlement. And I would just as soon not get the 24 cents if we are going to have to loan her the money to pay us.

But, of course, that does not apply to this French settlement, I assume.

Mr. BOEKER. Senator, let me just note that in the settlement that was initialed regarding the Soviet lend-lease debt, the conditional payments that you cite, the 24 cents on the dollar as you put it, were not conditional on our lending the Soviet Union the money to pay it.

Senator BYRD. No; it was conditional on the most-favored-nation treatment, right?

Mr. BOEKER. Correct.

Senator BYRD. On most-favored-nation treatment, which I think everyone agrees now, and the Soviet Union has said, has indicated so. Secretary Kissinger has indicated so, that it is not most-favored-nation treatment the Russians wanted. That was incidental. What they wanted was access to long-term credits.

Is that not correct?

Mr. BOEKER. The Soviets have put some stress on that, Senator, yes. But the agreement specified the trade provision of most-favored-nation treatment.

Senator BYRD. That is correct. That was what the agreement specified.

Mr. BOEKER. Correct.

Senator BYRD. But, as a practical matter, do you not agree that what the Russians wanted was access to long-term U.S. subsidized low-interest rate credit?

Mr. BOEKER. Well, Senator, they would have no assurance of getting that because—

Senator BYRD. Well, I know that. Mr. Boeker, the terms and conditions of that credit are set by us. Even if the Soviet Union were eligible without restriction for Export-Import Bank credit, the terms of that credit would be set in each case by decisions of the Board. It might be an interest rate that looked somewhat lower than the market rate, and it might be the same or it could be higher.

But, whatever that may be, the obligation in the agreement was related to most-favored-nation treatment. And I should think that if that condition pertained, our position would certainly be that the debt should be paid under the agreement.

Well, in any case, the unconditional settlement of the Russian debt was 3 cents on the dollar, and a conditional settlement of an additional

24 cents was predicated on Russia obtaining concession from the United States. That is correct, is it not?

Mr. BOEKER. The Soviet Union insisted on that condition in the negotiations; correct.

Senator BYRD. So, I state that my assessment of it is accurate, that the State Department agreed to settle the Russian debt at 3 cents on the dollar, unconditionally, and at 24 cents additional amount to be paid provided, provided the United States makes concessions to Russia.

I must say I am not enthusiastic about the way these debts are negotiated, or rather the way they are being settled at about one-fourth—26 or 27 cents on the dollar. And it seems to go back where every time a debt comes up, they say, well, we settled other debts at 26 cents on the dollar, so we have got to settle this debt for 26 cents on the dollar.

Mr. BOEKER. Senator, may I comment on that point? That that is certainly not our position, that we have any standard that we sort of accept as a floor or as a norm, that we would apply to all negotiations. We are in any negotiation for all that we can get, and certainly our position with regard to contractual debts is that the principal is not subject to negotiation. That is specified in the legislation.

Senator BYRD. That is fine.

I think it would be well, Mr. Lowenstein, where on page 3, you say that the U.S. claim was presented to the French Government in a note on September 17, 1968, and you would be glad to provide a copy of that for the subcommittee. I think that would be well to do for the record, if you would.

Mr. LOWENSTEIN. Yes, sir. I have a dozen copies of each of the two notes mentioned.

Senator BYRD. That will be fine, and they will be inserted. That is the one that you refer to in your statement also.

Mr. LOWENSTEIN. That is correct, sir.

Senator BYRD. We will make both of those a part of the record.

I thank you gentlemen for appearing today. I think this has been helpful and a useful session, and I just want to encourage our negotiators to not forget that foreign debts are funds that are owed the United States; they are funds that are owed to the American taxpayers.

And judging by the red ink that was presented to the Congress yesterday, the American taxpayers is going to need all of the help they can get.

Thank you gentlemen, very much.

[The following material was submitted by Mr. Lowenstein:]

EMBASSY OF THE UNITED STATES OF AMERICA, PARIS, JANUARY 14, 1969

MEMORANDUM

In its Note Verbale of September 17, 1968, the United States Embassy advised the Ministry of Foreign Affairs that the United States Government considered itself entitled to financial compensation by the French Government for losses incurred as a result of the decisions of the French Government in terminating, contrary to the terms of four bilateral agreements, United States use of facilities it had developed, constructed or improved pursuant to those agreements. The Note Verbale proposed early discussions with the French Authorities regarding appropriate compensation with respect to facilities developed or constructed



pursuant to those agreements, improvements made at the sole expense of the United States to facilities constructed in France under the NATO infrastructure program, and the costs incurred by the United States in moving out of the aforementioned facilities.

Upon careful analysis, the United States Government believes that the discussions should be based on the following considerations.

(a) Under the applicable agreements and by virtue of its investments in France, the United States acquired the right to use certain facilities. The French decisions deprived the United States of the use of these facilities, and also put the United States to extraordinary expense in moving men and material out of France and in closing out its military activities at those facilities.

(b) The internationally applicable standard of compensation would put the United States in the same position it would have been in if the French decisions had not been taken. Accordingly, the United States considers itself entitled to compensation from France for (1) the value of the remaining useful life of the facilities and of the improvements financed solely by the United States and withdrawn by France from continued use by the United States, and (2) the unilateral United States costs of moving out of and closing down those facilities.

The attached consolidated summary table, at Table A, shows the capital cost and the value of the remaining useful life of installations in France financed solely by the United States and from which the United States was requested to withdraw. The measure of compensation has been calculated to cover the remainder of the useful life of individual installations after 1966. For this purpose, the useful life has been conservatively assumed to be twenty years from the year in which half the total expenditure on the installation was reached (the "base year"). The measure of compensation has been calculated as the proportion of the original capital cost that the remainder of the installation's useful life bears to twenty years, after adjustment for each of the "base years" in question to account for the subsequent rise in construction costs. The adjustment has been made by application, in accordance with commonly accepted accounting principles, of the official French index of construction costs (India's General du Cont de la Con) for the proceeds from sales of certain property in France and for the value of certain other property removed from France by the United States.

In addition, Table B shows the costs incurred by the United States in moving men and material out of the foregoing facilities in France and in closing out military activities at those facilities.

In summary the total compensation to which the United States considers itself entitled by virtue of the French Government's decision of March 1966 is \$378,072,000, representing the net value of remaining useful life after deducting sales and removals, plus the costs of moving out of and closing down the facilities in question.

TABLE A.—CONSOLIDATED SUMMARY TABLE CAPITAL COST AND VALUE OF REMAINING USEFUL LIFE OF US FORCES INSTALLATIONS IN FRANCE

[In thousands of dollars]

Categories of works	Capital costs	Value of remaining useful life
1. Airfields.....	177, 150	105, 991
2. Communications.....	4, 771	3, 339
3. Administration facilities.....	31, 382	21, 515
4. Depots/transportation.....	131, 531	86, 765
5. Ammunition depots.....	58, 613	40, 594
6. Troop housing.....	1, 774	1, 069
7. Training installations.....	420	410
8. Hospitals.....	51, 764	36, 471
9. Schools.....	3, 710	2, 247
10. Other.....	5, 983	3, 752
Total <sup>1</sup> .....	467, 098	302, 143
Less deductions <sup>2</sup> .....		26, 400
Net compensation for remaining useful life <sup>1</sup> .....		275, 743

<sup>1</sup> Subject to final verification of figures by computer processing.

<sup>2</sup> Sales of property to the French Government or at auction, plus value of other property removed from France.

TABLE B.—Costs of moving United States men and materiel and of closing out military activities, from facilities required to depart from France

[Cumulative through June 30, 1968 in thousands of dollars]

Defense component :		Amount <sup>1</sup>
Army -----		68,422
Navy -----		185
Air Force -----		33,001
Department of Defense -----		721
<b>Total -----</b>		<b>102,329</b>

<sup>1</sup> The following costs are included in the amounts shown: Personnel, dependents, household effects; new location allowances; termination allowances; moving U.S. property; maintaining rear party; contract termination.

NOTE VERBALE

The Embassy of the United States of America presents its compliments to the Ministry of Foreign Affairs and has the honor to refer to the Embassy's Aide-Memoire of April 12, 1966, the exchange of views between the French Ambassador and the Acting Secretary of State on June 6, 1966, and the remarks by the American Ambassador to the French Foreign Minister on August 2, 1966, in connection with the question of financial responsibility for the consequences of the decisions taken by the French Government pursuant to its Aide-Memoires of March 10 and 29, 1966.

As the Ministry of Foreign Affairs is aware, the Chairman of the Group of Fourteen Allies of France reported to the North Atlantic Council on February 14, 1968, that the Group of Fourteen have requested the French Government to commence discussions on the financial consequences of the decisions taken by the French Government to terminate use by her NATO Allies of jointly financed NATO Infrastructure and International Military Headquarters facilities constructed in France.

These decisions also terminated United States use of facilities developed or constructed in France by the United States at its own expense pursuant to the Chateauroux Depot Agreement of February 27, 1951, the Air Bases Agreement of October 4, 1952, the United States Military Headquarters Agreement of June 17, 1953, and the System of Communications Agreement of December 8, 1958.

The United States Government took note in the Embassy's Aide-Memoire of April 12, 1966, of the desire of the French Government to terminate these Agreements and that the United States Government could only consent to their termination if the French Government agreed to apply the two-year consultation and termination provision contained in the System of Communications Agreement of December 8, 1958, to all of the Agreements. The French Government thereafter did not accept this proposal on the occasion of the French Ambassador's interview with the Acting Secretary of State on June 6, 1966. The United States Government proceeded to withdraw its forces from the facilities in France at the same time making clear that it could not accept France's unilateral attempt to terminate the Agreements. It remains the view of the United States Government that the French decisions were not in accord with the terms of the aforementioned Agreement, the duration of each of which is co-extensive with the period of validity of the North Atlantic Treaty, unless earlier terminated by mutual consent, in the case of the 1953 Agreement, termination also results if a two-year period has passed following a request made by either party to revise the Agreement.

Consequently, it is the view of the United States Government that it is entitled to financial compensation by the French Government with respect to facilities developed or constructed pursuant to the Agreements cited above, and, also with respect to certain improvements made by the United States at its own expense to facilities constructed in France under the NATO Infrastructure program, plus the costs incurred by the United States in moving out of the aforementioned facilities.

Recalling that the French Government in its Aide-Memoire of March 29, 1966, expressed a willingness to discuss the problems which would remain to be settled

as a result of the French decisions, the United States Government proposes that representatives of our two Governments commence discussions of the financial matters described above.

The United States Government proposes that discussions take place at an early date in Paris, and looks forward to learning the views of the French Government in this regard.

The Embassy of the United States of America takes this opportunity to renew to the Ministry of Foreign Affairs the assurances of its high consideration.

[Whereupon, at 10:07 a.m., the Subcommittee was adjourned.]

[By direction of the chairman, the following communication was made a part of the record:]

#### STATEMENT OF JEFF A. SCHNEPPER

On February 21, 1966, President De Gaulle demanded the withdrawal of NATO forces from France. On March 7, he followed up with a letter to President Johnson declaring France's intention to withdraw from participation in NATO military commands. The French Government, on March 10, forwarded an Aide-Memoire to the fourteen other NATO nations formally proposing to end assignment of French forces and the simultaneous withdrawal from French territory of all Allied Military Forces including the Headquarters of SHAPE and AFCENT. On March 29, it was announced that French military force assignment would end by July 1, 1966 and that Allied facilities should be removed by April 1, 1967.

On December 10, 1974, President Ford announced a preliminary agreement with President Giscard d'Estaing of France which would settle outstanding U.S. compensation claims resulting from project Fast RELOcation (FRELOC), the removal of NATO logistics from France, for \$100 million. It is the purpose of this Subcommittee to explore the nature of the U.S. claims for buildings and other property and the final terms of such a settlement.

That De Gaulle was against the principle of integrating the military forces of the various NATO member nations was known even before he came to power in 1958. By 1959, he had forbidden American nuclear weapons on French soil and had withdrawn France's Mediterranean fleet from NATO. It was his aim to make Western Europe, with France as its leader, a co-equal power with the U.S. and the U.S.S.R., a European unity which would hold the balance of power between the other super-forces. This he could not do as a member of the North American dominated NATO. His fear of France as a nuclear target was more a rational, than the true reason for his withdrawal demands.

American withdrawal was originally estimated at a cost of over \$752 million dollars (March 10, 1966). Fifteen bases and four pipelines at an original cost of \$815 million, were to be dismantled. On March 30, 1966, Under Secretary of State George Ball demanded that France be held accountable for the total cost of relocating installations, which had risen to an estimated \$1 billion. The Symington Report on the move to the Netherlands alone involved the shifting of 71,000 personnel and over 700,000 tons of materials. In actuality, by March 15, 1967, 96,000 personnel and 820,000 tons of material had been moved.

As a result of President De Gaulle's demands, 2 squadrons of C-130 transport aircraft (32 planes) and six squadrons of RB-101, RF-4C and RB-66 reconnaissance aircraft (approximately 90 planes), were withdrawn from French territory. The 322d Air Division Headquarters was shifted, 575,000 tons of combat essential stocks (munitions) were moved, and a \$700 million American military supply line was dislocated.

By April 1, 1967, when the withdrawal had been completed, the original estimated cost of \$1 billion had been reduced to an actual moving cost of \$150 million.

I would like to know how this was done. I want to know how an original error of \$850 million was made. I demand to know, in an era of cost overrides, who was the cost analyst who estimated over 600% too high and, who were the accountants and logistics officers who were able to make the withdrawal so cheaply. What were the measuring techniques that costed us out at only \$150 million when all previous relocation estimates were \$1 billion?

Even granting a \$150 million figure, how has *that* been reduced to \$100 million by President Ford?

It is clear that the benefits to France of hosting NATO were substantial. The influx of foreign exchange cost the U.S. alone \$208 million annually. The employment of local manpower was so significant that French workers rioted in Chateauroux (July 22, 1966) over the American withdrawal and mayors of 96 towns threatened to resign in protest of De Gaulle's demands. Almost 25,000 workers lost their jobs as a result of NATO relocation and Secretary of Defense McNamara estimated that the U.S. would pay over \$2.7 million in severance pay. The improvement of local transportation and communication systems, the arrangements for pipelines and local facilities, all added to the strengthening of the French economy.

Clearly, when France has so well benefited from American expenditures, she should pay us our *full due* as a result of the De Gaulle expulsion.

I would ask therefore, that the following areas be fully investigated.

(1) How was the American relocation valued? Was it accurate? Should it be revalued?

(2) Is interest due to us on the French debt? If not it should be. I recommend a rate equal to 1% over the weighted average of the cost of Treasury Bills from February 1966 to the present.

(3) How is the debt to be valued? I would oppose being paid in devalued dollars which the French could presently buy at a reduced rate. Would it not be more appropriate to value the debt as of April 1967 in terms of ounces of gold (of course at 1967 price) and then have the French Government send us that amount of ounces? After all, was not De Gaulle himself the true champion of the "god of gold"?

I strongly approve of Chairman Byrd's efforts in protecting the interests of the American taxpayer.

