

of orders by 6 months. Accordingly, the last transfer of funds to the U.S. Treasury under the third agreement was effected by June 30, 1967.

A new type of offset agreement was announced by the U.S. Department of State on May 2, 1967, covering the fiscal year July 1, 1967, to June 30, 1968. This fourth agreement provides that the German Government will have: (a) the freedom to decide what levels of military procurement it wishes to undertake; (b) the intent to continue military procurement in the United States on a significant scale relative to the total German defense efforts; and (c) the willingness, through its Bundesbank, to purchase \$500 million of U.S. Treasury notes (denominated in DM) maturing in 4½ years and redeemable before maturity only in the event that German official reserves drop by an extraordinarily large amount. The purchase of these nonmarketable, nonconvertible, interest-bearing U.S. notes is to occur at the rate of \$125 million per quarter. Also reaffirmed is the agreement in the Bundesbank's "intention to continue its practice of not converting dollars into gold as part of a policy of international monetary cooperation."⁵

B. Differences between agreements.—The foregoing record of German-U.S. "offsetting" agreements to date raises a variety of questions. What is the significance of the quantitative difference between the two types of agreement? Is that also a qualitative difference between the two types of agreement and, if so, what is it? Which type of agreement is preferable from the U.S. standpoint, and which from the German standpoint? Are the two standpoints conflicting or coinciding? What are the implications of answers to the above questions for the content of future agreements?

Quantitatively, the second type of agreement is a distinctly narrower one than the first type. In the case of the military-procurement type of "offset" agreement there was an attempt by the parties to approximate a full offset of the foreign-exchange cost of the U.S. defense presence in Germany. Thus, in referring to this agreement, the Report of the Deutsche Bundesbank for the year 1966 states, "In the period covered by the Foreign Exchange Offset Agreement, the stationing of American troops in the Federal Republic was expected to give rise to expenditures on German goods and services in the amount of approximately DM 2.7 billion annually."⁶ This amount is precisely equal to the annual offset-target figure of the 1965-66 agreement.

By contrast in the case of the "offsetting-by-lending" agreement of 1967, there is clear concession by the U.S. Government that the "offset" will be only partial. Thus in its January 1968 Report, the U.S. Treasury Department makes the following comparison between the two types of offset agreement.

For six years until last June, we had a series of "military offset agreements" with Germany under which the German Government undertook to buy from the U.S. military equipment and services costing an amount which offset the bulk of our defense expenditures in Germany. The German Government did not renew the agreements for the period after June 1967 but expects to continue major purchases in the United States, although advance payments under the offset agreements (of which substantial amounts remain on deposit as of year-end 1967) will reduce our

⁵ New York Times, May 3, 1967, p. 67.

⁶ Report of the Deutsche Bundesbank for the year 1966, p. 28.