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15 March 1948

UNITED NATIONS PALESTINE COMMISSION

Communication Received from the Jewish Agency  
for Palestine Concerning Currency Matters.

The following communication, dated 10 March 1948, concerning currency matters, has been received by the Chairman from the Jewish Agency for Palestine.

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THE JEWISH AGENCY FOR PALESTINE

New York, 10 March 1948

Dear Dr. Lisicky,

As requested in yesterday's meeting of the Commission, I have the honour to present herewith a summary in writing of the observations on currency matters which I was given an opportunity to make in the meeting.

You may recall that Dr. Federapfel asked for a short written statement on the remarks which I made concerning the Gold Reserve of the sterling area. I believe that paragraph 7 of the summary will, on the whole, answer the purpose. It has, however, occurred to me that one point was raised by Dr. Federapfel which finds no answer in that paragraph.

Dr. Federapfel asked whether there exists in this connection any clearly defined undertaking on the part of the United Kingdom towards the other countries of the sterling area. The answer is that arrangements within the sterling area generally do not follow a pattern into which such a written undertaking would fit. The general agreement on policy between a number of countries, basing their currency on sterling, has gradually developed; the fact that particular importance was to be attached, in the interest of all the countries of the sterling area, to the United Kingdom's gold holdings has likewise impressed itself on the minds of these concerned only gradually. Even if there did exist a written agreement with independent governments, there would hardly be one in existence with a dependency like Palestine. The appeal will, therefore, have to be based on reason and equity, and the emphatic declarations of the highest representatives of the British Government will count for more than any formal agreement.

I remain, dear Dr. Lisicky,

Yours sincerely,

(Signed)

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Dr. Karel Lisicky,  
Chairman,  
United Nations Palestine Commission,

A Note on Various Problems Regarding the Currency of Palestine  
Arising from the Regulations of 22nd February 1948 and the  
Transfer of Authority to the Palestine Commission on 15 May 1948

1. The main effects of the Regulations of 22nd February 1948 are two-fold.

First: In the past all the sterling holdings of Palestine, either through the Palestine Currency Board or through the Banks or direct, were available for purchases in the sterling area and for conversion into foreign currency to the extent to which such foreign currency was allocated. At present only a small proportion of those holdings, fixed by the Regulations of 22nd February 1948 for the period ending 15th May, 1948, (but subject to increase from time to time by negotiation) will be available for such purchases and for conversion into foreign exchange. All other sterling holdings, which for convenience may be called "blocked," though they will not be available for these purposes, may still be freely converted into Palestine currency, and conversely Palestine currency may at any time be converted into "blocked" sterling.

Second: Foreign exchange remitted to Palestine will not be put at the disposal of any Palestinian authority to be allocated to Palestinian Importers and other applicants direct, but will accrue to the foreign exchange reserve (in the first place, of course, the dollar pool) of the sterling area from which Palestine has been excluded, and will be converted into free sterling which will presumably be paid to the addressee of the remittance.

2. The first question which arises is whether the amount of free sterling at present allocated for the import requirements of Palestine until 15th May is sufficient. Free sterling has been allocated under two headings: first, an amount of £4,000,000 which is to be used by the Palestine banks as a working balance and, secondly, an amount of £3,000,000 which will in particular serve the needs of the import trade. It should, however, be stated at once that to this latter amount of £3,000,000 all accruals through proceeds of exports, remittances, or from any other source are to be added, and it may be assumed that these various accruals, mainly from exports of citrus, will not amount to less than £4,000,000. It is, therefore, a fairly safe assumption that until 15th May an amount of £7,000,000 will be available for the purpose. Whether or not any part of the working balance

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of the banks (£4,000,000) may be added to the amount available seems a moot point. Since, however, it is a reasonable assumption that the banks cannot carry on their regular work without a working balance of this magnitude for all sorts of current transactions, it would not be safe to assume that any part of this balance could be used (without being replaced) for the purpose of financing imports during the period until 15th May.

The question then remains whether the amount of £7,000,000 is sufficient. It looks very small in comparison with last year's total imports of approximately £70,000,000. It also looks small in the light of the following calculations:

The requirements for food and fodder for a period of three months ending May 15 may be put at	£7,000,000
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The requirements for other goods (not including citrus packing materials) and taking into account fairly severe cuts in the import of consumer goods must be put at not less than	<u>£9,000,000</u>
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Total	£16,000,000
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However, from this total the following amounts may be deducted:

Letters of credit already opened and currency provided accordingly	£10,500,000
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Government's stocks of food stuffs already paid or to be paid in the country	<u>£1,500,000</u>
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Together	<u>£12,000,000</u>
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Leaving a balance needed of	£4,000,000
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To this balance there should be added for various items, for increased freight and insurance costs, etc.	<u>£1,000,000</u>
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Together	£5,000,000
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If one takes into account that on top of the £7,000,000, mentioned before, which will be available, there may also be certain remittances and certain military expenditures in the country, it might look as if sufficient provision had been made for imports, if it were not that the figures quoted until now entirely fail to take into account the necessity of placing orders for a period of several months after the 15th May. Unless such orders are placed and placed in time, there will be no imports and Palestine will be threatened with a lack of indispensable consumer goods and food, with a consequent dislocation of the whole economic position, and with a rise in the local price level which cannot be estimated. The magnitude of the orders

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which will have to be placed for this period cannot, on a very conservative basis, be put at less than £12,000,000. If the import licensing authorities make any attempt at keeping the volume of their allocations within the £7,000,000 limit a very serious situation is liable to arise. It seems unavoidably necessary that the British authorities should be urgently requested: first to give instructions to the import licensing authorities to go very far beyond the limit of £7,000,000 and secondly to undertake an obligation that free sterling will be made available correspondingly either immediately or at some time before 15th May.

3. The second point, made in the first paragraph, to the effect that foreign exchange directed to the Palestinian economy will, as things stand at present, accrue to the foreign exchange reserve of the sterling area and not to any authority governing the economy of Palestine, leads to a consideration of the present and future position of the Palestine Currency Board.

It is submitted for the Commission's consideration that some attention might usefully be paid to the position of the Palestine Currency Board. H.M. Government in the United Kingdom has until now exercised its authority in Palestine, not as was commonly assumed, through one channel only, namely the Palestine Administration, but through two channels. The first of them was the Palestine Administration which served for all purposes, except the purpose reserved for the second channel which was the Palestine Currency Board. This Board was charged with the task of providing for and controlling the supply of currency to Palestine, ensuring that the currency was maintained in satisfactory condition and generally watching over the interests of Palestine, so far as currency was concerned. (See Clause I of the Regulations defining the Constitution, Duties and Powers of the Palestine Currency Board of 2nd August 1926, issued by the Secretary of State for the Colonies).

H.M. Government have unmistakably indicated that they intend to renounce the exercise of all their authority in Palestine through the Government of Palestine on or before 15th May 1948, and that after such date they consider the Commission to be the Government of Palestine. They have, however, failed to indicate in the same unmistakable way that the authority in and on behalf of Palestine which they exercise through the Palestine Currency Board will similarly be renounced on or before 15th May 1948 and will similarly pass to the Commission as the Government

of Palestine.

This is an omission which, it is submitted, H.M. Government should be asked to correct at once.

4. If authority over the Palestine Currency Board passes to the Commission, as it should, from the date the Commission will take over authority over Palestine as its Government, a number of practical consequences will follow:

(a) The members of the Palestine Currency Board will derive their authority from the Commission which will, no doubt, examine the present Regulations under which the Board functions and amend them to such an extent as it may deem advisable. The Commission will also have to give its attention to the composition of the Board under the new regime.

(b) Under the circumstances there will naturally be no room for an observer to be appointed by the Commission to sit with the members of the Palestine Currency Board, after 15th May 1948. The Commission may well find it advisable to accept H.M. Government's suggestion to appoint such an observer for the period ending 15 May 1948, so as to afford the Commission an opportunity of acquainting itself with the mechanism of the Palestine Currency Board; and it is presumed that in accepting such an offer the Commission will make it unmistakably clear that in so doing it fully reserves its rights in respect of its authority over the Palestine Currency Board after it will have taken over the Government of Palestine.

(c) When the Commission will have assumed authority over the Palestine Currency Board, it will be open to the Commission to verify the present instructions of the Board. Under these instructions the Board holds only sterling assets against the notes and coins which it issues. The Commission may well find it necessary to authorize the Board to hold foreign exchange. Indeed, the holding of foreign exchange by the Palestine Currency Board seems at present the only mechanism available for keeping foreign exchange, directed to or produced by the economy of Palestine, within its own orbit. It seems hardly necessary to dwell on the importance of preserving the country's foreign exchange resources for its own purposes and under its own control and administration. It seems wellnigh impossible under prevailing circumstances to attain this object, unless foreign exchange can be organically coupled with the country's currency i.e. that local currency be issued to those who hand over their foreign exchange to the central administration. There is no

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reason to be afraid of technical difficulties as the Board's "Agents" i.e. their bankers, can handle the entire financial and administrative technique for them.

(d) The Commission may deem it advisable to vary the composition of the portfolio of the Palestine Currency Board in other respects, but it may safely be assumed that, if ever it were to do so, it would use the utmost prudence so as not to impair the public's confidence in the currency of Palestine. That such confidence would be impaired by replacing part of the sterling holdings by dollar holdings will hardly be contended.

(e) The Palestine Currency Board allocates annually such proportion of its profits to the general revenue of the Government of Palestine as it considers safe to do, taking into account its duty to build up and maintain a fair reserve of assets over and above the amount of its obligations. After the Commission will have assumed authority over the Board it will be for the Board to consult the Commission on the amount so to be allocated and the time when such allocation is to be made.

5. It should be clear beyond the possibility of error that whatever authority the Commission will acquire over the Palestine Currency Board will not affect the right of H. M. Government to propose such changes in the status of the Board's sterling holdings as H. M. Government will find proper. There will then, however, exist an independent government with its own monetary organs with whom H. M. Government could then in a proper way negotiate about any change which they might wish to propose, exactly in the same way in which this has been and is being done with the Governments of Egypt, Iraq, India etc.

6. The last point made in the preceding paragraph leads to a consideration of the procedure followed on 22 February 1948. The new Regulations constitute an entirely unilateral act on the part of H. M. Government. It may be doubted whether H. M. Government gave full consideration to the delicacy of the position in which they were placed before issuing their Regulations, and in which they placed themselves in issuing them in the particular way in which they have done so. It can hardly be contested that as a Mandatory Power Great Britain stood towards Palestine in a relationship comparable to that between a guardian or trustee and his ward. If, in the exercise of his office, the

guardian had to incur a considerable debt towards his ward, this fact by itself already created a somewhat delicate position. Naturally the position becomes considerably more delicate if the guardian or trustee, on the very eve of giving up his office, modifies the conditions of repayment of his debt. It is perhaps not unreasonable to add that the situation becomes no less delicate if, in order to justify his unilateral action, the guardian adduces as an argument that the debt owed to his ward (which constitutes the latter's main resources) has lately been drawn on rapidly and is in danger of being unduly depleted. Assuming the correctness of the assertion, it may well be asked who was responsible for the alleged extravagance, and if the question is asked there is no other answer than that the guardian himself was responsible. To leave the metaphor: Without the consent of the Palestine Government's Import licensing authorities and Foreign exchange controller no undue depletion of Palestine's resources would have taken place.

It is difficult to see why H. M. Government did not, in the absence of a proper representative of the people of Palestine, consult at least the Palestine Commission with which at the time of issuing the new Regulations they were in daily intimate contact and which is the proper authority to watch over the interests of Palestine which after 15 May will continue to be considerably affected by the present measure.

The point is not made in order to suggest that the Commission should spend time and energy on recriminations, but the Commission may well wish to consider whether it can let this action pass without any observation. If there is no reaction to the disregard of the Commission's position and authority in the present case, will such omission not be an encouragement for similar action on other occasions? And if there is a proper reaction on the part of the Commission, will this not strengthen the Commission's hands in such negotiations on further matters of detail as will, in any case, be required?



7. One particular point has been entirely left open in the action taken by H. M. Government, and it is desired to direct the Commission's particular attention to it. H. M. Government in the United Kingdom holds a gold reserve which in various public statements, made in the recent past, was estimated at an amount of about £500,000,000. In statements made in the House of Commons and elsewhere by H. M. Government, it was on several occasions emphasized that this reserve is not one held on behalf of the United Kingdom only, but that it constitutes the gold reserve of the entire sterling area. If now a country which, until the present time, formed a part of the sterling area is placed outside that area, such a country has a claim for an equitable part of the common gold reserve of the sterling area to be turned over to it, to be held by it under its own administration and for its own purposes. There is, perhaps, no necessity to make, at the present moment, an attempt to fix the exact amount of the claim, but it seems highly advisable that the fact that there exists such a claim and that it will be brought forward in due course, should be made clear.

8. The Commission may be told that the problem of the Palestine Currency Board is to some extent complicated by the fact that the Board has in the past also made provision for the currency needs of Trans-Jordan. It is submitted that there would be very little, if anything at all, in this argument. The fundamental Order in Council of February 7, 1927 which established the currency of Palestine, explicitly stated that it shall not apply to Trans-Jordan. And if Trans-Jordan chose to use the services of the Palestine Currency Board, and if the Palestine Currency Board consented to render such services, the fact cannot now be adduced to the detriment of the interests of Palestine. Moreover, it has been announced that Trans-Jordan is already negotiating with H. M. Government for its re-admittance to the sterling area. Finally, the amount concerned is negligible in comparison with the note circulation in Palestine. Such small problems of detail as may arise can easily be settled, and the general attitude of the Commission should be, it

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is submitted, that, to the extent to which Trans-Jordan will wish to continue to use the services of the Palestine Currency Board, it may well continue to receive those services from a Palestine Currency Board function ng under the authority of the Commission. If Trans-Jordan should at any time wish not to do so, or if the Commission takes the view that it cannot allow an organ under its authority to render services to Trans-Jordan, it will be a matter for the Trans-Jordan Government to take its own measures, but this should surely not stand in the way of the transfer of authority over the Palestine Currency Board to the Commission.

9. It may possibly also be said that a change in the position of the Palestine Currency Board would call for legislation in the United Kingdom, and that such legislation could not come into effect before 15 May 1948. It is submitted, first, that it is highly doubtful whether legislation of any kind is required, and secondly, that if this were so, it would be entirely an internal matter of the United Kingdom and could not possibly affect the obligations of His Majesty's Government towards Palestine and towards the Commission.