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UNITED NATIONS PALESTINE COMMISSION

SUMMARY RECORD OF THE FORTY-NINTH MEETING

Lake Success, New York

Tuesday, 9 March 1948, at 3.00 p.m.

Present:

Chairman: Mr. LISICKY (Czechoslovakia)

Mr. Medina (Bolivia)

Mr. Federspiel (Denmark)

Mr. Morgan (Panama)

Mr. Monzon (Philippines)

(Observer for Mr. Francisco)

Secretariat: Mr. Bunche (Secretary)

Mr. Reedman (Senior Economic Advisor)

CONSULTATION WITH MR. HOOFIEN, FINANCIAL EXPERT OF THE JEWISH AGENCY FOR PALESTINE, ON QUESTIONS RELATING TO THE CURRENCY BOARD AND STERLING BALANCES

On the invitation of the Chairman, Mr. S. Hoofien, financial expert of the Jewish Agency for Palestine, took his place at the table.

The CHAIRMAN stated that according to the Commission's previous decision, Mr. Hoofien would state his views to the Commission on questions relating to the Currency Board and Sterling Balances.

Mr. HOOFIEN (Jewish Agency) stated that he intended to divide the subject-matter of his statement into five points which covered the subjects which the Commission had asked to be discussed.

He explained that the first effect of the new regulation regarding Palestinian Sterling Balances, was that the amount of sterling now available for purchases from the sterling area as well as the amounts granted by the Bank of England were very small. Of the 7,000,000 pounds sterling which the Bank of England stated were available for current expenses and for working balances for the banks, the 4,000,000 pounds sterling which were stated to cover the latter purpose were mainly, if not, entirely required to cover credits already granted. The remaining 3,000,000 pounds sterling, however, plus the accruals from exports chiefly /of citrus

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of citrus fruit which amounted to approximately another 4,000,000 pounds sterling, were available. The question arose as to whether this amount was sufficient to cover the needs of Palestine during the interim period. This, he submitted, was a practical interest as His Majesty's Government might be prepared to listen to the Commission's views if the Commission should wish to press for further releases of blocked Palestinian funds. In such an eventuality certain intricate calculations regarding the necessary amounts would have to be made, and Mr. Hoofien indicated that he was willing to submit them to the Commission together with his conclusions on the subject. He stated that in the opinion of the Jewish Agency the existing 3,000,000 pounds sterling plus the accruals from current exports would be insufficient. He expressed the view that it was only possible to adapt the regulations of import trade by means of licenses to the available foreign exchange over long periods, because in this case the orders could be adapted to the requirements of the situation. For shorter periods he considered it an impossibility owing to the time lag involved in shipping and in payments. He stated that it would be desirable for the Commission to be informed of His Majesty's Government's attitude toward the possibility of granting further allocation for a longer period of time.

In the second place, Mr. Hoofien expressed the opinion that the foreign exchange earned by Palestine should accrue to Palestine and not, as would be the present case, to the dollar pool of the sterling areas in spite of its own management of its economic affairs. He stated that this situation should be altered now if possible and could certainly not be preserved after 15 May. He proposed, therefore, that a mechanism should be found for Palestine to administer its own foreign exchange. This, he submitted, should be in the hands of the sovereign authority and not under the control of a London organization, which would be concerned with the interests of the United Kingdom. He pointed out that this immediately raised the questions of both the present and the future fate of the Palestine Currency Board.

Mr. Hoofien affirmed that there was a consensus of opinion on one thing, namely that no revolutionary measures should be taken, as confidence in currency was a delicate matter and might be shaken. He said that the Jewish Agency would agree with the United Kingdom if it were in favour of continuing the services of the Currency Board. He expressed the hope that the Commission would second this view. In such a case, however, the point would arise as to who would control and have authority over the Currency Board after 15 May. He explained in this

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regard that the United Kingdom Government exercises its authority in Palestine through two channels, one being the Palestine Administration under the High Commissioner, which was charged with all matters, except those regarding Palestinian Currency. The satisfactory condition of the currency and the financial interest of Palestine were in the hands of a second channel of authority, namely the Palestinian Currency Board.

In answer to a question by the Chairman, concerning the relation between these two channels of authority, Mr. Hoofien stated emphatically that there were none. He explained that the Palestinian Currency Board was a creation of His Majesty's Government which was parallel, but not subordinate, to the Palestine Government, but received its instructions directly from the Mandatory Power. He pointed out that this was true in most similar financial arrangements with countries considered backward in that respect, that is, where local administration was inexperienced in currency matters and the people were considered to have greater confidence in London.

Mr. Hoofien submitted that it followed from the doctrine of the United Kingdom Government that authority could not be shared, that if the Palestine Administration renounced its authority over Palestine after 15 May the Palestine Currency Board should be handed over to the successor authority. He made it clear that, while this doctrine appeared radical, he was not authorized to propose revolutionary changes in the functioning of the Palestine Currency Board but maintained that it was necessary to clarify the situation on this point which had immediate bearing on the proposition that a pro tem observer of the Commission would be welcomed on the Currency Board. He suggested that by the same reasoning, a British observer might be appointed to the Palestine Currency Board after 15 May.

In answer to a question by the Chairman, concerning his opinion about the period prior to the surrender of the Mandate, Mr. Hoofien stated that the appointment of an observer to the Palestine Currency Board on behalf of the Commission was not a very important matter but would have considerable practical advantages by putting the Commission in touch with the functions of the Board. He cautioned against this step being construed as subtracting from the Commission's eventual authority over the Palestine Currency Board. He explained that if the Commission decided to assume authority over the Currency Board after 15 May, one solution became possible, namely that the Commission could control matters of foreign exchange by permitting the present agents, Barclay's Bank, to hold and administer foreign exchange as they were at present doing. He further pointed out that the Commission would find, on taking over,

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certain sums available in the coffers of the Palestine Currency Board which were not required as a reserve but which were earned and therefore could be included in the country's revenue. He expressed the opinion that it was incompatible with the dignity of a government that an extraneous body should determine when and how much of its funds should go into the revenue. This, he submitted, was a matter for the Commission to decide. He stated that a tradition concerning the amount to be handed over for revenue purposes by the Palestine Currency Board had grown up. He hoped that the Commission would not deviate much from this sum in the future.

The CHAIRMAN asked whether the change should be chiefly in the legal structure of the Board.

Mr. HOOFIEN (Jewish Agency) answered in the affirmative. He explained that there would be two main changes after 15 May. Firstly, whereas until now the Palestine Currency Board had issued notes against sterling holdings, after the above-mentioned date it would be able to issue notes against foreign exchange. Secondly, after 15 May, Palestinian securities might be accepted in the portfolio. Regarding this latter point it had already been raised and discussed by the Jewish Agency and the Currency Board but had remained unsolved owing to the troubled situation which had arisen.

Mr. HOOFIEN expressed the opinion that since, after the order of 22 February, Palestine was not any more a part of the sterling area system, but was to be independent, the question of an equitable share of the sterling area's gold reserves for Palestine arose. Although the United Kingdom authorities had repeatedly emphasized that the gold reserve which they held did not belong to them exclusively, but to all the nations constituting the sterling area, no mention had been made in the pronouncement of the United Kingdom authorities of the share due to Palestine. In support of Palestine's right in this matter, Mr. Hoofien mentioned the fact that non-members of the British Commonwealth of Nations were included in the gold holdings of the sterling area, as well as the precedent created by former countries of the sterling area which in departing had raised the point of their share in the gold holdings and their right to do so had not been denied. Mr. Hoofien refused to name a definite figure as the equitable share of Palestine and stated that it was a matter of future discussions. He suggested that the Commission reserve the right of the future Economic Board to raise the point of Palestine's share of the total of 500,000,000 pounds sterling in gold holdings.

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The CHAIRMAN inquired whether this question arose only if the Economic Union of Palestine were to be separated from the sterling area.

Mr. HOOFIEN (Jewish Agency) stated that the question would not arise if the Union were to return to the sterling area.

Mr. HOOFIEN then raised the point of the appointment of a currency officer in Palestine. He observed that at present this official was appointed from the Palestine Currency Board in London and proceeded to explain his duties. He stressed that this was proof that the Commission should take over the Palestine Currency Board because otherwise it would be dependent on an appointee from London.

Mr. HOOFIEN described to the Commission the procedure followed by the order of 22 February, which he called "unilateral and unprecedented". He noted that in the similar case of Iraq and Egypt, these countries had at least been consulted. Though he admitted that no government existed in Palestine to be consulted, the order had been issued while the Commission of the United Nations was in existence and should have been party to the decision. He reminded the Commission of the delicacy of the situation in which Palestine was placed in regard to the United Kingdom Government. He expressed surprise at the moral and legal standing of their position in which the trustee was in debt to his ward and yet did not even consult him about changing the nature of the property held in loan. He said that he mentioned the above not simply as recrimination against the action taken but as a warning to the Commission that if nothing were done, the Commission itself might be faced with a similar action. Furthermore, he expressed the belief that if the Commission were to react strongly, its position regarding the details would be considerably strengthened. He cautioned against any method that might strain the relations of the Commission with the United Kingdom Government, but suggested that a method which would avoid this pitfall could be found.

In answer to a question regarding his previous statement that the Mandatory Power had changed the nature of the assets in its hands by its order of 22 February, he reaffirmed that both the assets of the Palestine Currency Board as well as the sterling reserves of the whole of Palestine had been changed in nature by being blocked.

In explanation of the mechanism of foreign exchange control, within the sterling area, Mr. Hoofien pointed out that this control had to be exercised on more or less identical lines throughout the area. He explained that since the earnings of foreign exchange of the sterling area were insufficient for all purposes, they had to be used to cover the

most urgently needed requirements. He noted that since sterling was freely interchangeable within the sterling area, it was logical that there should be one central board but, this had been found to be impracticable owing to the great number of transactions involved. Owing to this fact, as well as to the voluntary nature of the agreement, which involved sovereign decisions on the part of the Dominions, there was a considerable amount of delegation of authority. In Palestine the system, owing to the particular nature of the case, was a mixture of independence and direction. He explained that the Palestine Administration received directive rules but was free to decide on matters of detail. He then explained the mechanism of control in Palestine in which the Office of the Comptroller in Jerusalem approved the import licenses for which the foreign exchange was then granted by three banks that dealt in foreign exchange and which were informed of all receipts of foreign exchange by residents of Palestine, namely, Barclay's Bank, the Anglo-Palestine Bank, and the Ottoman Bank. All foreign exchange receipts by individuals in Palestine must be declared. Thus, the Comptroller was enabled to distribute the foreign exchange at his disposal by means of import licenses. This system, which was in general effect in all the sterling area, was complicated in Palestine by an agreement between the Jewish Agency and the Palestine Administration concerning gift dollars brought into the country by the former. This agreement, which had been in force for the last two or three years, provided for the keeping of gift dollars brought into the Jewish economy by the Jewish Agency under a separate account which was still under the control of the Palestine Government and was distributed by means of import licenses. Mr. Hoofien explained that these dollars still had to be converted into sterling and had to be handed over to the dollar pool of the sterling area. They were handed over by the Jewish Agency to the Anglo-Palestine Bank which kept an account open in the United States and exercised a further control by allocating them mainly for capital purposes.

The CHAIRMAN asked whether gift dollars could not be held outside Palestine for the Jewish Agency and, in that way, not have to be changed into pounds in Palestine.

Mr. HOOFIEN (Jewish Agency) replied that all such gift dollars were bound to be converted inasmuch as they came into the ownership of the Jewish Agency in Jerusalem, which, since it was subject to the normal foreign exchange controls, had to declare them. However, a Jewish body outside of Palestine, in New York for instance, might do what it liked:

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it could buy goods in New York, always providing the required import licenses were obtainable.

He explained that three months previously the Palestinian Government had made an arrangement, to the detriment of the Jewish Agency, whereby, in view of the difficult position regarding dollars, no allocations of dollars to Jewish importers would be made in the future, the dollar supply being conserved for Arab importers. He said that the Jewish Agency had protested against the arrangement as being entirely unjustified, but in vain.

The CHAIRMAN asked whether he understood correctly that during the past three months dollars earned by exports by Jews came into the dollar pool of the Palestinian Government and that this pool was available only to the Arab traders.

Mr. HOOFIEN (Jewish Agency) replied that that was correct.

Mr. FEDERSPIEL (Denmark) requested that Mr. Hoofien prepare a written memorandum on the subject of the gold reserves in the sterling area.

He had gathered that the United Kingdom had undertaken to hold gold reserves available to members of the sterling area. He wondered whether Mr. Hoofien meant that part of the assets of the Currency Board should be re-invested in gold, and was rather at a loss to see how that would work.

Mr. HOOFIEN (Jewish Agency) replied that it was not so much an undertaking as a clear understanding and a repeated declaration on the part of the United Kingdom that it was aware of its duty and wanted the British public to be aware of its duty to hold whatever gold it had for the whole sterling area.

Mr. FEDERSPIEL (Denmark) understood Mr. Hoofien to mean that since sterling was to some extent based on gold, the Palestinian share of such gold should be forthcoming when the Currency Board was separated with the creation of the independent States.

Mr. HOOFIEN (Jewish Agency) replied that as the assets of the Currency Board were of importance to the convertibility of sterling into other currencies, some machinery should be devised by which the functions of the Currency Board and of the exchange central authority should be unified.

The CHAIRMAN asked whether foreign exchange controls were conducted independently of the Currency Board.

Mr. HOOFIEN (Jewish Agency) replied in the affirmative. Foreign exchange controls were exercised centrally for the whole of the sterling area. Under the existing mechanism, dollars sent to Palestine had first to be converted into sterling and were transmitted to the recipient in this form. The dollars in question remained in the dollar pool and were the property of the /sterling area.

sterling area. He noted that if the Commission were to establish its authority over the Currency Board independent of the sterling area, dollars accruing to Palestine would remain in the Palestine dollar pool.

Mr. FEDERSPIEL (Denmark) asked what, in Mr. Hoofien's opinion, would be the effect on international confidence in the Currency Board if the Board re-invested its assets by, for instance, selling sterling securities and buying public utilities.

Mr. HOOFIEN (Jewish Agency) replied that if the re-investment transaction had been an imprudent one, it would have an adverse effect on the international confidence in the Currency Board. He pointed out, however, that Palestinian currency could not remain eternally in the infant stage and that one should not go on the assumption that it would so remain.

Mr. FEDERSPIEL (Denmark) thought that any change in the present arrangement of the Currency Board would be likely to create some kind of inflation.

Mr. HOOFIEN (Jewish Agency) did not agree. He said that if the control of foreign exchange were placed with the Currency Board, the general confidence in the character of Palestinian currency would not be reduced if against a certain amount of Palestinian currency there was a certain amount of dollars available.

Mr. FEDERSPIEL (Denmark) asked whether the presence in Palestine of troops had a marked effect on the note circulation of Palestine. If so, an estimate of the requirements in note circulation would have to be made.

Mr. HOOFIEN (Jewish Agency) replied that the presence of troops did have some effect on the note circulation, but that the requirements of note circulation really had two meanings - the technical meaning of the number of pieces of paper, and the question as to the availability of sterling. Only the first question would arise.

The CHAIRMAN asked whether it was possible for foreign exchange control to come under the Commission whilst the Currency Board was maintained under its present status.

Mr. HOOFIEN (Jewish Agency) replied that such an eventuality was conceivable if the Commission did not accept the thesis he had put forward or if the United Kingdom Government refused to give over the assets of the Currency Board. If that happened, a mechanism would have to be set up for the control of foreign exchange by the Commission. But he would repeat that, in the nature of things, if it was desirable that foreign exchange control should lie in the hands of the Government of the people of Palestine, the control over the Currency Board should pass into the hands of the Commission.

The CHAIRMAN requested Mr. Hoofien to explain the connection between the
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role that should be played by the Currency Board and the control of foreign exchange in a written memorandum.

Mr. HOOFIEN (Jewish Agency) confirmed, upon the Chairman's request, that he agreed with the Commission's view that the appointment of an observer to the Currency Board to serve pro tem up to 15 May, with the Commission reserving its position after that date, would do no harm and might be useful.

Mr. Hoofien offered to submit a written summary of the statement he had just made, and Mr. REEDMAN (Senior Economic Adviser) was asked to prepare, on receipt of Mr. Hoofien's written statement, his comments on the latter. When Mr. Reedman's comments were ready another discussion with Mr. Hoofien would be held.

Mr. HOOFIEN (Jewish Agency) expressed a desire to come before the Commission again to discuss with it the matter of the food supply, and particularly the financing of the food supply.

The CHAIRMAN invited Mr. Hoofien to speak to the Commission on that subject immediately.

Mr. HOOFIEN (Jewish Agency) said by way of introduction that it had been the practice of the Jewish Agency to make its own estimates of the food requirements for the whole country, and had found that these estimates compared very closely with the official figures. He would be glad to compare the Agency's estimates with such estimates as Mr. Reedman and the Secretariat might make.

He strongly favoured the Commission's proposed procedure of extending, if the United Kingdom Government agreed, purchases through the present machinery and through the Government trading account. He urged the Commission not to rely too much on such food supplies as could be bought by private importers, which would lead to price control difficulties and inordinate profiteering, and would thereby reflect adversely upon the Commission. However, the financing problem remained. If the Mandatory Power agreed to put its trading account at the Commission's disposal but could not finance the purchases and if sufficient funds could not be obtained through private means, the Commission should, he submitted, seek a loan.

As a source of lending he had in mind the Export-Import Bank, a loan from which would solve the exchange problem. The extent to which other funds were required could be fairly easily determined and a revolving fund could be worked out. As the Export-Import Bank machinery was rather complicated, however, a procedure, which had been used in other urgent cases, could be followed whereby the Commission would be referred by the Export-Import Bank

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to a commercial bank which would receive the Export-Import Bank's backing in making a loan to the Commission. As regards figures, he thought it more convenient to convey his ideas at a later stage.

He would be glad to have further discussion on the whole question with the Secretariat and had already received Mr. Reedman's consent to do so.

The CHAIRMAN thanked Mr. Hoofien for his very useful co-operation.

Mr. Hoofien, financial expert of the Jewish Agency, withdrew from the meeting.

QUESTION OF THE APPOINTMENT OF AN OBSERVER TO THE CURRENCY BOARD

It was agreed that Mr. Reedman would take up the matter of the appointment of an observer to the Currency Board with Mr. Owen, Assistant Secretary-General, Department of Economic Affairs. Enquiries would be made regarding the availability in London of an individual with an adequate background for the job. He would report back to the Commission on the matter at the subsequent meeting.

QUESTION OF THE APPOINTMENT OF THE PREPARATORY ECONOMIC COMMISSION

Mr. REEDMAN (Senior Economic Adviser) reported that he had again discussed the matter of appointments to the Preparatory Economic Commission with Mr. Owen, and that enquiries were in progress in search of qualified individuals who would be willing to serve.

QUESTION OF THE FOOD SITUATION

Mr. REEDMAN (Senior Economic Adviser) informed the Commission that he had received a cable from Mr. Henson (Food Expert) from London, giving advice concerning the commodity situation. An explanatory note on the cable would be circulated and a draft letter to the United Kingdom delegation would be prepared on the basis of the information received from Mr. Henson.

COMMUNICATION FROM JEWISH DETAINEES, GILGIL, KENYA, AND COMMUNICATION FROM THE CHAPLAIN, JEWISH DETAINEES, GILGIL, KENYA (Informal Papers M/11 and M/12)

It was noted that the information contained in the above two telegrams was completely at variance with the information received by the Commission from the United Kingdom Delegation.

It was decided that the two communications would be referred to Mr. Fletcher-Cooke and a clarification requested.

QUESTION OF THE CONTENTS OF THE SECOND MONTHLY REPORT TO THE SECURITY COUNCIL

The CHAIRMAN, in reply to a question by the Secretary, stated that the Report to the Security Council should include only those of the outstanding questions submitted to the United Kingdom Government and answers thereto which concerned policy.

He also stated that the Report should state the impossibility of setting up the Provisional Councils of Government and the militias by the dates called for in the General Assembly Resolution.

The meeting rose at 5.55 p.m.
