

CONFIDENTIAL

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UNITED NATIONS PALESTINE COMMISSION

Communication Received from the United Kingdom

Delegation Relating to Sterling Balances

The following communication, concerning the release of blocked sterling balances after 15 May, has been received from Mr. Fletcher-Cooke of the United Kingdom Delegation.

UNITED KINGDOM DELEGATION TO THE UNITED NATIONS
Empire State Building, New York 1, N.Y.

2nd May, 1948.

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My dear Bunche,

May I refer to paragraph 5 of my confidential letter of the 17th April in which I undertook to send you a communication regarding "the release after 15th May, 1948 of sterling balances blocked by the Treasury Order of 22nd February, 1948" referred to as point 3 under the heading C. Economic and Financial of your letter of the 9th April.

2. As the Commission will be aware releases amounting to seven million pounds have been made for the period 22nd February to 15th May, 1948 on the assumption that four million pounds would be required as working balances for the banks and three million pounds for current expenditure to supplement current accruals of sterling. In addition releases of approximately two million four hundred thousand pounds have been approved to cover confirmed credits outstanding on the 22nd February, 1948.

3. His Majesty's Government have stressed their willingness to make further releases if necessary to the extent that private imports of food supplies for the period after the 15th May, 1948 involve sterling expenditure. As the Commission will appreciate imports of food supplies were normally made on government account and paid for out of the Palestine Government's sterling funds held by the Crown Agents for the Colonies which have not been blocked. The cost of these imports was not taken into account in calculating the original release of seven million pounds.

Dr. Ralph J. Bunche,
Principal Secretary,
United Nations Palestine Commission.

4. The question of releases for the period after the 15th May 1948 raises great difficulties in view of the peculiar and uncertain present position of Palestine.

5. Normally arrangements for releases from blocked balances of a given sum to cover a given period are facilitated by:

1. The existence in the country concerned of a recognized central authority which can

- (a) advise how the sterling releases should be distributed between the banks, and

- (b) determine by the operation of exchange and import control how the sterling available shall be spent.

2. Conditions of sufficient stability to enable the country's trade and payment position and its reasonable requirements of sterling over the period to be calculated in advance.

6. None of these conditions is realised in the case of Palestine at present. First, no effective central authority as yet exists which can make arrangements on the lines indicated above for the period after the 15th May, 1948. Secondly, it is impossible to foresee exactly how conditions in Palestine will develop after the 15th May, 1948, but it seems most likely that there will be considerable confusion, that trade will be obstructed and greatly reduced, and that many of the banks may be unable to operate

7. In these circumstances it is clearly impossible at this stage to make any realistic estimate of the amount of sterling which should be released for any defined period after 15th May, 1948, and the technical difficulties of administering any such release would be well nigh insuperable. Moreover, there would be grave risk of abuse since in the absence of an effective exchange control in Palestine any sterling released might be expended for the purposes which would not be in the true interests of Palestine.

8. His Majesty's Government therefore propose that no attempt should be made at present to arrive at a figure for releases for any period after the 15th May, 1948 and that this question should be left in abeyance until it is possible to see how conditions in Palestine develop.

9. Meanwhile the banks in Palestine will have at their disposal all current accruals of sterling together with any balance remaining from the releases made before the 15th May, 1948, to which reference is made in paragraphs 2 and 3 above. His Majesty's Government will in addition be prepared to consider applications from individual banks, submitted through their correspondents in the United Kingdom to the Bank of England, for releases from their No.2 (i.e. blocked) accounts of reasonable sums required to make essential payments in sterling. Before approving any such applications His Majesty's Government will require to be satisfied that the payment is for a purpose for which it is proper that sterling should be released and that it cannot be met out of sterling funds already available.

10. Sterling at the disposal of Palestine banks after the 15th May, 1948, whether arising from current accruals or from releases from balances, will be available for expenditure in the sterling area, and in such other countries as His Majesty's Government is at any time in a position to allow it to be used. His Majesty's Government accept no obligation to provide Palestine with hard currencies.

11. The Commission may be assured that His Majesty's Government have reached the conclusions in paragraphs 7 and 9 above with regret and that they recognize that the interim arrangements now proposed will be unsatisfactory in many ways for all parties concerned. His Majesty's Government look forward, however, to discussing more permanent arrangements as soon as circumstances render this practical.

Yours sincerely,

J. Fletcher-Cooke (signed)