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STATUS OF THE QUESTION OF UNFREEZING  
OF ASSETS

(Report of Dr. Servoise)

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STATUS OF THE QUESTION OF UNFREEZING OF ACCOUNTS\*

I. INTRODUCTION

A. Measures taken by Israel to freeze Palestinian Arab assets, and by Great Britain to freeze Palestinian assets

After the flight of the Palestinian Arabs into the neighbouring countries, the Government of Israel blocked the personal assets left by Palestinian Arabs in the banks (current accounts, transferable securities, deposits in safety-deposit boxes, in cash or other forms).

Moreover, it must be noted that as of 22 February 1948\*\* the Treasury of the United Kingdom blocked the sterling credits belonging to Palestinians, and considers Palestine, since that date, as no longer belonging to the sterling area. It will be remembered, also, that the Palestine pound, issued by the Palestine Currency Board, which was legal tender in Israel until 16 August 1948, and continues even now to be the currency of the Jordan Kingdom and of the Arab part of Palestine, is covered to 100% of its value by the Board's sterling assets. Since February 1948, the free convertibility of Palestine pounds into pounds sterling has been suspended.

As a result of these measures, the bank accounts of Palestinian Arabs are, in a certain sense, twice blocked; the Palestine Arab refugees are unable to make use of their bank accounts blocked in Israel, and if they could do so, they would be unable to convert their Palestine pounds freely into pounds sterling. This last point, apparently a theoretical one as far as individuals are concerned, is of capital importance as regards operations in which Governments would be involved.

B. The Palestine Conciliation Commission and the unfreezing of Arab assets

The Palestine Conciliation Commission proposed, on 11 April 1949, that the Government of Israel consider the unfreezing of assets belonging to Palestine Arabs, such a step being considered as a preliminary measure likely to create a favourable atmosphere for the exchange of views (document IS/9, paragraph 4).

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\* See documents Com.Gen./W.4, W/21, W/25.

\*\* See document W/21.

On 18 May 1949, the Arab delegations submitted a request that Israel unfreeze immediately

"Arab accounts in all banks and companies or otherwise in possession of the Jewish authorities and permit the owners to make use of them." (document AR/8, paragraph 2)

The Government of Israel appears to have replied to this request by the following declaration made to the Conciliation Commission (document IS/13, paragraph 4):

"The Government of Israel declares that it has no intention of confiscating blocked Arab accounts in Israeli banks and that these funds will be available to the proper owners on the conclusion of peace, subject to such general currency regulations as may be operative at the time."

After numerous exchanges of views between the Commission and the Arab and Israeli delegations respectively, and the receipt of memoranda from the Palestine refugees on the subject (document Com.Gen./W.4), the Commission, in agreement with the parties, established a "Mixed Committee of Experts on Blocked Accounts".

C. The Mixed Committee of Experts on Blocked Accounts

The terms of reference\* of the Mixed Committee of Experts (MCA/1, 16 August 1949) is as follows:

"In response to the humanitarian appeal of the United Nations Conciliation Commission for Palestine, the two parties have accepted the principle of unfreezing, on a basis of equal and reciprocal compensation, Arab assets blocked both by Israel and by the Arab States.

"Therefore, there has been established a Mixed Committee of Experts, composed of one Arab member, one Israeli member, and a representative of the Commission.

"This purely technical committee is charged with the task of submitting to the General Committee the basis of a procedure which will permit the above-mentioned unfreezing of assets."

The Government of Syria, the Jordan Kingdom and Lebanon entrusted to the Government of Egypt the task of representing the general interests of the Arab States on this Committee, and invested it with the necessary powers for that purpose. Representation of the interests of those most directly concerned - the Arab refugees - constituted a delicate question which was solved by a request to the Arab delegations to take into account

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\* The Committee's terms of reference embody the procedure proposed by the Israeli delegation on 27 June 1949 (IS/31), and which was accepted by the Arab delegations on 16 August 1949 (Com.Gen./SR.29).

the desires of the refugees in making their choice of an Arab expert. Later, the Arab expert was accompanied by Mr. Beidas, who attended the meetings of the Mixed Committee. The chairmanship of the Committee was assumed by the Principal Secretary of the Conciliation Commission, Dr. P. de Azcarate.

At the beginning of its work, the Committee limited itself to the study of a procedure to permit the unfreezing of bank accounts of Palestine Arabs, blocked in Israel. After several meetings it unfortunately became apparent that the procedure contemplated at first, of "unfreezing on a basis of equal and reciprocal compensation", would not permit achievement of the aim of the Mixed Committee of Experts, namely, the unfreezing of Arab assets. In fact, the Arab expert established the fact that only one Arab State, Egypt, had taken steps to freeze the assets of Palestine residents, and that on the one hand, the assets blocked by that Government amounted to a relatively small total, covering both real and personal property, while on the other hand, the greater part of the Palestine assets belonged to persons who were citizens neither of Palestine nor of Egypt.

Before returning to New York, the Commission instructed the Principal Secretary to continue the study of the question in the Middle East, in order to determine whether another procedure could be found which would make it possible to effect the unfreezing of assets on behalf of the Palestine Arab refugees.

The Mixed Committee of Experts did not meet again, and the Commission's economic adviser was instructed to contact the experts of the Egyptian and Israeli Governments, in order to study the possibilities of an agreement on a technical level.

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## II. THE PROBLEM AND THE SUGGESTED PARTIAL SOLUTION

### A. Negotiations

Negotiations with the experts of the Government of Israel took place at Tel Aviv, from 1 to 31 October and from 18 to 23 November 1949.

The Ministry for Foreign Affairs, through the offices of

Mr. Yohanan Beham, in charge of relations between the Government of Israel and the Commission, arranged interviews with Mr. David Horowitz, Director-General of the Treasury, at which Mr. Zalman Liff, of the Office of the Prime Minister, and Mr. Tuviah Arazi, of the Eastern Affairs branch of the Ministry of Foreign Affairs, were present.

Negotiations with experts of the Egyptian Government, to which the Arab States had entrusted the representation of Arab interests in this question, took place in Cairo, from 1 to 17 November 1949.

The Director of Economic Affairs of the Ministry for Foreign Affairs, Ahmed Gala Eddine Bey, arranged interviews with the experts of the Ministry for Foreign Affairs and of the Ministry of Finance. Conversations were held with the Under-Secretary of State for Finance, El Emary Bey, specially charged with foreign economic and financial questions, who was assisted by El Kony Bey; and with the Under-Secretary of State for Finance, Dr. Rifai, in charge of the question of sequestrated property, who was assisted by Youssef Sélim Sekla, Deputy Comptroller General of the Ministry of Finance and Assistant Custodian of Enemy Property. Finally, certain technical aspects of the problem were discussed with H.E. the Prime Minister and Minister for Foreign Affairs, Husseyn Sirry Pasha.

Simultaneously with these official interviews, private conversations, necessary for the establishment of a procedure on a technical banking level, were held with representatives of credit establishments operating in the Middle East, and with certain advisers of Embassies in Cairo. In Israel, with Mr. S.M. Noah, Director of the branch of the Ottoman Bank; with Mr. Clark, Director at Barclay's Bank; with Mr. Heyman, Director of the branch of Barclay's Bank in Jerusalem. On the Arab side, with Mr. A. Barguti, Secretary-General of the Arab Bank at Amman, with Hayber Bey Sukri, Director of the Ottoman Bank at Amman, with Mr. Harfouche, Comptroller-General of Exchange of Lebanon, and with the President of the Bank of Syria and of Lebanon. In Egypt, with the Director of the Research Department of the National Bank of Egypt, Professor N. Koestner, and with Mr. Fitchie of the Exchange Control of the Egyptian Government.

Finally, some very useful details were furnished, in private conversations, by Mr. Howard, commercial adviser, and Mr. Polk, Financial Attache, of the United States Embassy, by Mr. Cumberbatch, commercial adviser, and Mr. Waight, Financial Attache, of the British Embassy, and by Mr. Gregoire Sainte-Marie, Financial Attache of the French Embassy, whose technical assistance should be mentioned here.

B. The Positions of the parties

1. The situation concerning accounts blocked in Israel

(a) General

As a result of events following the termination of the British Mandate over Palestine, certain bank branches were forced to suspend their activities provisionally, as of dates which varied according to their location. Owing to this circumstance, certain Arabs were unable to withdraw their bank deposits in time, and the latter were subsequently frozen in accordance with measures taken by the Government of Israel.

With certain exceptions, the bank branches did not transfer their account books in Arab territory, or in Arab countries, before the end of the British Mandate over Palestine. It follows that the banks (Barclay's, the Ottoman Bank, the Arab Bank, etc.) are at present advising their account-holders who are refugees in Arab countries, or in Arab Palestine, and who had their accounts in a city at present under Israeli control, that they cannot refund their deposits, since the latter are blocked by Israel.

(b) Juridical situation

The Government of Israel has blocked Arab bank accounts, by the application of regulations ("Defence /Finance/Regulations 1941") issued by the Mandatory Power during the 1939-1945 war.\*

(c) De facto situation

At the present moment, the position of the Arab account-holders varies according to the location of their residence.

(i) A Palestinian Arab residing in Israel may request his bank to unfreeze his account. According to the Israeli authorities, no such demand has been refused; 600 requests have

\* "Defence (Finance) Regulations, 1941. Made under Article 3 of the Emergency Powers (Colonial Defence) Order in Council, 1939, and the Emergency Powers (Defence) Act, 1939.

been approved and have resulted in the unfreezing of 150,000 L.I.

(ii) As for an Arab who had fled as a refugee outside of Israel, his account is blocked, and there is no possible way for him to obtain funds against his account, even if the bank which holds his account has moved into Arab-controlled territory. Thus, the Arab Bank, which has transferred its main office from Jerusalem to Amman, cannot refund deposits to refugees, since a part of its funds are deposited with branches of Barclay's Bank (Jerusalem, Jaffa), the Ottoman Bank (Jaffa), or the Anglo-Palestine Bank (Haifa), where they are frozen by Israeli legislation,\*

(iii) On the other hand, a refugee now residing in an Arab country may have funds advanced against his bank account in Israel to a third party residing in Israel.\*\* This procedure has apparently not yet been utilized to a very great extent; however, the Israeli authorities have declared themselves prepared to examine in a favourable light any request made in such a case.

(iv) Finally, the Israeli financial authorities have replied favourably to requests lodged by foreign religious or lay institutions which carry on their activities in Arab territory but which have funds deposited in banks at present under Israeli control.

(d) Data on the total amount of accounts blocked

According to the Israeli Government, the total amount of bank accounts\*\*\* is approximately 4 million L.P., chiefly distributed among the branches of the Ottoman Bank, Barclay's Bank, and the Anglo-Palestine Bank, which frequently hold in deposit assets belonging to Arab banks. The total number of Arabs holding bank accounts appears to be less than 10,000.

It should be noted that considerable discrepancies exist regarding the amounts of these bank accounts. For example, of the bank deposits

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\* Thus, the Jerusalem branch of Barclay's Bank holds about 40% of the blocked accounts of the Arab Bank.

\*\* COM-GEN./7, paragraph 2.

\*\*\* Exclusive of stocks and shares, and deposits in bank safe-deposit boxes. As regards the latter, some have been opened and an inventory taken; some remain sealed.

belonging to Arabs and blocked by Israel in Jerusalem, 60% would seem to belong to only twelve families.

This total of 4 million L.P. corresponds approximately to the estimates given by the Arab delegations in Lausanne, those delegations having evaluated the Arab current accounts blocked by Israel at 4 to 5 million L.P.

## 2. Positions of the parties and conditions laid down

In the course of the first weeks of negotiations, it was proposed that the Israeli experts should study the possibility of effecting a partial unfreezing of Arab bank accounts in two steps:

(a) by unfreezing unconditionally, as a humanitarian measure, all accounts below 100 L.P., and

(b) by agreeing, as a second measure, to unfreeze funds on a different basis,

(1) either through advances made to the refugees by the Arab States in their own currencies, or

(2) on a basis of compensatory exchange (with the assets or merchandise frozen in Arab countries).

Israel was unable to accept this proposal. On the other hand, Mr. Horowitz stated that his Government was prepared, in a spirit of conciliation, and in case the procedure regarding advances outlined later in this report should prove unacceptable to the Arab experts, to consider another possibility, namely, the unconditional unfreezing of 25,000 to 30,000 L.P., on behalf of holders of small bank accounts. In view of the amount mentioned, which represents about 0.6% of the total amount frozen, and of the acceptance in principle by the Arab experts of the procedure concerning advances, this proposal remains for the moment in abeyance.

In these circumstances, efforts have been concentrated upon the task of evolving an acceptable procedure for advances which, although complicated, would produce fairly rapid results and would relieve the plight of a certain number of refugees.

In order to obtain even a partial unfreezing of bank accounts belonging to Palestine Arab refugees, the problem was to find a procedure which,



first, would take account of certain conditions laid down by the Government of Israel, which, although legally limited only by the terms of reference of the Mixed Committee of Experts (which provided for a basis of "compensation" between assets blocked on one side and on the other), nevertheless agreed to consider another procedure with a view to assisting the Arab holders of blocked accounts; and which,

secondly, would furnish to the Arab States sufficient guarantees of reimbursement of the advances which they would agree to make.

The principle of the procedure (which will itself be analysed in detail at a later moment in this report, in the light of conditions laid down both by the Government of Israel and by the Arab Governments) can be summarized briefly as follows:

The Government of Israel, subject to certain conditions and up to a certain total amount, would guarantee to the Arab Governments (either directly or indirectly through a trustee) reimbursement of the advances which the latter (or the banking institutions designated by them) would agree to make in local currency to the Palestine refugees. The Government of Israel would guarantee these advances to the Arab States (or the Trustee) by unfreezing at the expiration of the transaction the bank accounts of the refugees benefiting by the transaction, in order to reimburse the States making the advances.

(a) Israeli experts

(1) The Government of Israel considers itself bound only by the terms of reference of the Mixed Committee of Experts; but although it would be within its legal rights in holding itself strictly to those terms, it has agreed to consider the possibility of unfreezing eventually, within certain limits, certain Arab refugee accounts without compensation. However, as Mr. David Horowitz declared,\* its good will is limited by certain imperative considerations. Israel, being still in a state of war with the Arab States, cannot at present agree to allow them to benefit by a transfer of capital which would actively affect their balance of payments (in a particularly important manner since it would be equivalent to pounds sterling) and which might aid in arming them. Moreover, an unconditional unfreezing would meet with opposition both from public opinion and in the Knesset.

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\* Only the final positions of the parties are given here, not the successive proposals.

(2) Consequently, the Government of Israel insists that the payment of unfrozen funds to Arab refugees must be made in the currency of the country in which they are resident, this in order to avoid exportation of Palestine pounds at the present time.

(3) Israel is prepared, at the end of hostilities, to reimburse to the Arab Governments, within a period of time to be determined, the total amount of the advances made by them to the refugees.

(4) In order to provide a supplementary guarantee to the Arab States which would agree to make advances to the refugees, Israel would agree to guarantee the reimbursement of a sum equal to the advances made, to a Trustee, to whom it would be responsible.

(5) Since no compensation is at present contemplated by the Arab States, the Government of Israel would, for the time being, limit the transaction to account-holders who possessed a maximum of 100 Palestine pounds on 1 January 1948.\* This date was chosen in order to differentiate between holders of small accounts and persons who, having owned large accounts, withdrew the major part of their funds during the spring of 1948, leaving only the minimum sum necessary to keep a current account open.

(6) The Government of Israel agrees to guarantee reimbursement to the Arab Governments, or to the Trustee, in pounds sterling; that is, it considers accounts in Palestine pounds belonging to Palestine refugees benefiting by this transaction as equivalent to accounts in pounds sterling.

(b) Arab experts

(1) The Arab experts, while accepting the principle of a procedure to permit an eventual partial unfreezing, maintain that this acceptance in no way implies renunciation of the right to demand unfreezing of the remainder of the blocked assets (real and personal).

(2) While recognizing that Israel has without doubt unfrozen the funds of Arabs residing in Israel, they declare that the majority

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\* No final total ceiling has been fixed officially, but according to the Israeli experts, an eventual unfreezing of accounts amounting to a maximum of 100 Palestine pounds would represent a total unfreezing of 250,000 pounds (about 6% of the blocked accounts).

of the refugees cannot benefit by this measure owing to the prohibitive conditions placed by Israel upon their return. Moreover, inconsistently, Israel refuses unconditional restoration of capital belonging to refugees, thereby for practical purposes preventing them from resettling elsewhere.

(3) According to the Arab experts, Israel's agreement to guarantee the eventual unfreezing of certain assets legally the property of Palestine Arab refugees cannot be looked upon as a new principle. From a legal and a moral point of view, and in accordance with its statement to the Commission (IS/13, paragraph 4), Israel is bound to restore to the legitimate owners the right to dispose of their property, at the end of hostilities; since the new procedure contemplated provides that the Arab Governments must await the end of hostilities to recover the funds which they would have agreed to advance to the refugees, there is therefore no change. Consequently and since in their view the Arab States will, according to the procedure envisaged, bear the final burden and risk of the transaction, they consider it desirable that each holder of a bank account, whatever be the amount of his account, should benefit by an advance of 100 Palestine pounds. According to the Arab experts, it would be unjust to exclude from the contemplated transaction families of modest means, who, having been unable to withdraw their funds from the banks, find themselves in a very difficult position, a position which may be the more distressing in view of the life to which they were accustomed, as compared to that of other refugees.

(4) The Arab experts feel that the reimbursement should be guaranteed by a Trustee of an international character, which might be either a British bank or an American bank.

(5) The guarantee obtained by the Arab States must be sufficient to permit them to make advances in local currency. Such advances will be possible only if the guaranteed reimbursement is in a hard currency to permit their Treasuries, or their issuing institutions, to make the advances in conformity with the existing regulations governing the system of coverage and/or of advances.

Further, if the reimbursement guaranteed to the Arab States should be in sterling, the Arab experts insist that it must be in transferable sterling. (See paragraph further on dealing with base

currency). This has been laid down as a prerequisite and sine qua non condition of the acceptance by the Arab experts of the contemplated procedure.

(6) Israel's reference to "the end of hostilities" as the expiration date of the transaction appears too vague from a banking point of view and should be made more specific.

(c) Analysis of the suggested procedure

The procedure can be broken down into three operations :

(1) The Arab Governments agree to make advances to the Palestine refugees in local currency;

(2) The Israeli Government guarantees to the Trustee that the advances made by the Arab States under the terms of this agreement, against accounts belonging to Arabs which are blocked in Israeli banks, will be reimbursed in sterling;

(3) A Trustee guarantees to the Arab Governments reimbursement of the advances made to refugees, in transferable sterling.

1. Role of the Arab Governments (or designated institutions).

A list of account-holders entitled to benefit by this transaction is first transmitted, by Israel, through the Trustee, to the establishments which are to make the advances. In this way the Arab institutions will be advised of the names of holders of bank accounts, and eventually of the numbers of the accounts and the total deposits as of the date chosen. This information, as detailed as possible, should make it possible for the Arab authorities to verify the identity of the applicants.

The question of identification of applicants, and the problem of rightful claimants in case of death, are matters which must be studied.

The institutions designated by the Arab Government then advance, to the Palestine refugees, the sums requested by them, in local currency.

These institutions, after making the advance, either equal to or less than the total amount of the refugee's account, receive from the refugee a receipt, made out according to a special form, which is sent to the Trustee.

One might look to the following establishments to make advances in local currency: \*

In the Hashemite Jordan Kingdom and in Arab Palestine: the Ottoman Bank which represents the Palestine Currency Board, issuer of the Palestine pound;

In Syria and in Lebanon: The Bank of Syria and of Lebanon, which is the issuing institution for these two countries;

In Egypt and in that part of Palestine which is under Egyptian control: The National Bank of Egypt, which is the issuing institution for that country.

These three banks appear to be the most likely to execute with the necessary care transactions which will require detailed accounting and voluminous records. The latter, moreover, should eventually be centralised in order to obtain for the Arab States reimbursement in transferable sterling. (See paragraph further on dealing with base currency).

The Arab Governments, or the establishments designated by them, obtain from the Trustee the guarantee that the sums advanced will be reimbursed in transferable sterling which will be credited to their accounts 60 days after the end of hostilities, or after a date agreed upon.

## 2. Role of the Government of Israel

The Government of Israel submits a certified list of the holders of accounts entitled to benefit by the transaction, with the information mentioned above, which will permit identification of the applicants. A counter-list may be requested by the Trustee from Barclay's Bank, the Ottoman Bank and the Anglo-Palestine Bank, before the list is transmitted to the Arab Governments.

If Israel agrees to guarantee an advance of 100 pounds against every bank account, the procedure can easily be adjusted.

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\* Not a restrictive list; these establishments might work in collaboration with the local banks,

The State of Israel guarantees to the Trustee that a sum in pounds sterling equal to the advances paid by the Arab Governments within the terms of the agreement will be placed at the Trustee's disposal within 30 days following the end of hostilities, or on an agreed date.

On the other hand, the Government of Israel (or the Israeli banks) will receive from the Trustee the receipts given by the refugees in order to liquidate the Arab bank accounts, or to debit them with a sum equal to the advance paid.

### 3. Role of the Trustee.

The Trustee is chosen by the United Nations Conciliation Commission for Palestine, in agreement with the interested Governments, those of Israel, Syria, Lebanon, the Hashemite Jordan Kingdom and Egypt.\*

Its role is to serve as intermediary between the parties:

(1) It guarantees to the Arab States reimbursement of the advances made within the terms of the agreement;

(2) It obtains from Israel the guarantee that reimbursement will be made upon presentation of the receipts given by the Palestine refugees.

The selection of the Trustee will be a delicate question. This body must enjoy the confidence, not only of the two parties (Israel and the Arab States), but also of the Conciliation Commission. A choice must be made between British and American banks. Certain British banks have the advantage of being familiar with the regulations of the British Treasury and the financial market of the Middle East; but on the one hand, they might be considered as prejudiced in certain cases, and on the other hand, their selection might be questioned by certain Arab banks.

Certain American banks are well known for impartiality and financial reliability. It might be feared, however, that they would take too long to familiarize themselves with the special conditions of the transaction, if they should indeed accept the role of Trustee, given the virtually non-existent commercial interest of the transaction.

\* Iraq ?

Finally, subject to its acceptance, it would seem that the Bank of England would be the most desirable Trustee.

(1) The Bank of England maintains constant relations with the Government of Israel through the Palestine Currency Board and the Anglo-Palestine Bank. It also maintains direct relations with Barclay's Bank, with the Ottoman Bank (Palestine), with the National Bank of Egypt (Egypt), with the Bank of Syria and Lebanon (Syria and Lebanon), and with the Ottoman Bank (Hashemite Jordan Kingdom), which represents the Palestine Currency Board in the Hashemite Jordan Kingdom.

(2) Moreover, its activities, even in England, permit it to enjoy special facilities which would simplify the transaction. Given the fact that Arab assets at present frozen in Israel are in Palestine pounds, one may assume that they are covered by the assets of the issuing agency in Palestine (the Palestine Currency Board), which are in blocked pounds sterling. It seems possible that the Bank of England might set apart a sum equal to that envisaged for this transaction, against the assets of the Palestine Currency Board, and might effect the unfreezing of this sum in sterling on behalf of the Arab States at the expiration of the transaction. This sum, blocked in pounds sterling for the duration of the transaction, would permit the Arab States to make the necessary advance in local currency while being covered in sterling equal to the amount of those advances.

While the selection of the Bank of England would present certain advantages, its appointment to the post of Trustee, in case it should accept, would give rise to some objections. It might be maintained that it would be prejudiced, since it would eventually be responsible for obtaining, by itself, the implementation of the guarantee which it would itself have given: namely, reimbursement in transferable sterling. This consideration gives rise to the view that certain Arab States might prefer the selection of the Federal Reserve Bank, or another American bank, as Trustee.

However, the selection of the Bank of England presents sufficient advantages to warrant its recommendation. The objections which might be formulated with regard to it could be answered, by a request that the United Nations should arbitrate any differences which might arise, or by fixing, through detailed agreements, the relations between the Trustee

and the States concerned (or the designated establishments).\*

#### 4. Miscellaneous questions

##### (1) Base Currency

The following currencies are excluded:

(a) The Israeli pound, which could serve no useful purpose for the Arab issuing agencies, since they could not legally base their advances upon such coverage, this, without entering into the political aspect of the question;

(b) The Palestine pound, since it could not serve to cover the advances and can be utilised only in Palestine and in the Hashemite Jordan Kingdom, and for the reason that it will probably no longer exist as legal tender on the date when reimbursement will be made to the Arab States - since August 1948 the Palestine pound has been replaced in Israel by an Israeli pound, and about January 1950 the Jordan dinar would become legal tender in the Hashemite Jordan Kingdom.

It remains, therefore, to find a currency which will be acceptable to the Arab States from both the technical and the political point of view. Given the fact that the assets deposited by Palestinians in their banks before their flight were in Palestine pounds, and that these Palestine pounds are legally convertible into pounds sterling, the base currency indicated would appear to be the pound sterling.

However, a point of capital importance must be made here. The pounds sterling may, at the end of the transaction, either be transferred to the No. 2 account of the States which shall have made the advances, that is credited to a blocked account, or be credited to their No. 1 account, upon which the Arab States benefiting may draw at will, up to the total of the advances which they have made in local currency to the refugees.

The Arab experts have stated categorically that they will consider the procedure of advances only if a formal guarantee is given that the

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\* It would also seem possible to ask a personage of world repute in the sphere of finance to agree to assist in arbitrating any differences which might arise in applying this procedure. The personage in question might be proposed to the parties concerned, by the Conciliation Commission and would follow the progress of operations in the technical sense on the Commission's behalf.



sterling which is reimbursed to the Arab States at the end of the transaction is credited to their No. 1 account. That is, the Arab States expect to recover pounds sterling which are "transferable", or in other words, capable of being turned to account at will within the sterling area (United Kingdom and "scheduled territories") and within the transferable area.

In conclusion, in the interests of simplifying the operation of the transaction, there is every advantage to the choice of the pound sterling as the base currency. (a) It could, subject to certain conditions of convertibility and guarantee of exchange, serve as cover for the issuing agencies of the Arab countries and (b) it could be accepted unquestioningly by the Arab Governments from a political point of view.

(2) Rate of Interest

The question of the rate of interest to be charged by the establishments which will be called upon to make the advances is one which must be settled between Israel, the Arab Governments and the establishments in question (for instance, who will pay it and what will be the amount). Needless to say, it should be held to a minimum, in view of the humanitarian purpose of the transaction.

(3) Rate of exchange for reimbursement

The rate of exchange for reimbursement must be determined between the Trustee and the Arab States. It may be considered that the rate should be fixed according to the relation between the pound sterling and the Arab currency in question, based upon the parities declared to the International Monetary Fund, or those existing in the free market, or the official market, during a given period. The question of an exchange guarantee must eventually be settled between the contracting parties (Israel and the Trustee; the Trustee and the Arab Governments).

(4) Total amount of the operation

It is impossible to determine the total amount of the operation, amount will differ according to whether the advances are made only to holders of accounts which amounted to not more than 100 Palestine pounds on 1 January 1948 (Israeli proposal), or whether advances up to 100 Palestine pounds are granted to all account-holders without distinction (Arab proposal). In any case, the operation will require

considerable administrative work on the part of the banks, which will be approximately the same whatever the total sum involved (1/4 or 1/2 million pounds). This expense will be translated into interest to be paid to the intermediary organs for services rendered. Consequently, in order to reduce this expense, it would be wise to provide for an operation involving about 500,000 pounds sterling, or approximately 10 to 12% of the total amount of Arab bank accounts blocked in Israel.\*

(5) Date of the final settlement

The date of the final settlement of this transaction is indeterminate, and it would be desirable for the Trustee to obtain precise details as to what the parties understand by "the end of hostilities". A formula might be proposed, which would be preferable from a banking point of view, according to which the date of expiration would be "60 days after the end of hostilities, or in any case, 1 January 1953 at the latest".

(6) Place and date of meeting of the Mixed Committee of Experts

The experts of the Israeli and Egyptian Governments have declared themselves ready to meet wherever and whenever the Commission desires. They would prefer, however, that the meeting place should be the nearest neutral spot. Mr. David Horowitz has suggested Cyprus as a meeting place, since it is close to the financial services, the issuing agencies and the banks of the two countries, and more easily accessible than Jerusalem to the Egyptian experts.

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III. CONCLUSION

The two parties have finally accepted the principle of a procedure based on advances. This acceptance in principle must now find

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\* This total of 500,000 pounds sterling appears to be desirable (a) for the prestige of the Conciliation Commission, which cannot launch an operation on so ambitious a scale, from a banking point of view, without being assured that the amount involved is appropriate to the circumstances, and (b) from the point of view of the refugees, to whom the Commission should provide tangible assistance.

expression in specific agreements which will permit the application of the principle.

A. 1. In order to lay down the precise conditions of the procedure, the Mixed Committee of Experts should meet, to submit recommendations to the Conciliation Commission for Palestine, which in turn may request the Arab States and Israel to apply that procedure.

2. Agreements should then be concluded:

- (a) between Israel and the Trustee, and
- (b) between the Arab States (or their issuing agencies or banks designated for the purpose) and the Trustee.

However, as is apparent from the conditions laid down by the Arab States as regards their acceptance in principle of this procedure, the question of the selection of a Trustee (and the latter's eventual approval by the States concerned), and the question of reimbursement of the Arab Governments in transferable sterling, remain to be studied. Without doubt these questions would logically arise after agreement between the Israeli and Arab experts in the Committee, but the agreement would run the risk of remaining theoretical if, specifically, Great Britain could not guarantee to the Arab States or to the Trustee the unfreezing, at the end of the transaction, of a sum in pounds sterling equal to the amount of the advances paid in local currency.

It would appear desirable, therefore, to sound out the competent British authorities, in order to determine (a) whether they consider it possible to unfreeze a sufficient amount in sterling to permit the operation to be carried through, and (b) whether the Bank of England could eventually accept the role of Trustee.

B. The General Committee has followed the negotiations step by step, and its interventions, as well as those of the Principal Secretary, with the Arab and Israeli delegations in New York, attesting as they have to the importance attached by the Conciliation Commission to the matter of unfreezing of refugee funds, have resulted in the acceleration of conversations in the field, and in the achievement of an agreement in principle upon the procedure suggested. In the course of the negotiations, the experts, Egyptians as well as Israeli, have demonstrated a sincere desire to co-operate, and it is thanks to their active assistance

that in spite of points of view quite divergent at the start, it has finally been possible to establish the basis of a procedure,

C. The operation may be described, finally, for Israel, as an eventual release of frozen Arab capital which, for the time being, will not endanger its position, and which will permit the Arab Governments to make advances within the terms of the laws and regulations of their issuing agencies. The compromise of which this procedure is the result on the technical level is the cause of its imperfections, but that very character of compromise should also permit it to achieve more quickly its practical purpose, that of providing assistance to a certain number of the refugees.

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