

UNITED NATIONS CONCILIATION COMMISSION FOR PALESTINE

RESTRICTED
W/62
20 April 1951
ENGLISH
ORIGINAL: FRENCH

PRESENT SITUATION WITH REGARD TO ARAB BANK ACCOUNTS
BLOCKED IN ISRAEL
IN RELATION TO THE RELEASES OF STERLING TO ISRAEL
BY THE BRITISH GOVERNMENT ON 19 JANUARY 1951 (x)

(Working paper prepared by the Commission's Economic Adviser)

I. FACTUAL BACKGROUND

1. By a British Treasury Decree of 22 February 1948, Palestine and Transjordan were excluded from the sterling area. At that time the Palestine Currency Board was in operation for both countries.

On 16 August 1948, a new monetary unit was established in Israel: the Israel pound (banknotes exchanged between 17 August and 17 September 1948) which was at par with the pound sterling and was devalued at the same time as the latter.

2. The total amount of Palestinian sterling assets frozen in London by the British Treasury was over 100 million pounds sterling^(xx) in 1948. These reserves have since been gradually used up by dual transactions in favour of two beneficiaries:

(x) See document SR/206 of 6 March 1951.

(xx) "Economist" of 27 January 1951 - "Israel's Sterling - 110 million"; 103 million according to information received from the Commercial Attaché of the British Legation in Tel Aviv (letter dated 9 March 1951 to the Economic Adviser of the Conciliation Commission).

(a) By the exchange of the old Palestine pound notes which were withdrawn from circulation following the monetary reforms carried out in Israel and Jordan. With the exchange of the old notes, the coverage of Palestine money (Palestine pounds were covered up to 100 per cent of their value by British securities which constituted the reserves of the Palestine Currency Board) was considerably diminished. (x)

(i) Sterling was obtained by Israel, by the redemption of banknotes, through the Anglo-Palestine Bank;

(ii) Sterling was obtained by Jordan, by the redemption of banknotes, through the Jordan Currency Board;

(iii) In the Gaza strip the operation of redemption is to take place in the future, on the one hand through Barclays Bank, and on the other hand through the National Bank of Egypt, which will buy back Palestine pounds from the refugees.

No difficulty has arisen in obtaining sterling for these operations, although all the sterling obtained has not been automatically transferred to the No. 1 Sterling Account of the States concerned.

The allocation of the Palestine Currency Board surplus at the close of its operations represents, as far as is known here, the only outstanding problem for this agency. In this connection, it should be noted that the Government of Israel relinquished its share in the surplus of the Palestine Currency Board against a lump sum of 2 million pounds. (xx)

(b) By releases in favour of Israel and Jordan.

Releases were made to Israel as follows:

(i) For the period 15 May 1948 - 31 March 1949: about 7.5 million pounds sterling;

(ii) By an agreement dated 30 May 1949: 6.95 million pounds up to October 1949;

(x) From 31 March 1948 to 31 March 1949, the Palestine Currency Board exchanged 35.7 million Palestine pounds (see Report of the Palestine Currency Board, 1949). From 31 March 1949 to 31 March 1950 the Palestine Currency Board exchanged 9.7 million Palestine pounds (Report of Palestine Currency Board).

(xx) "(d) The Government of Israel shall relinquish their claim to any share in the surplus of the Palestine Currency Board which may be properly allocable to Israel, which share is for the purposes of this Agreement, assessed at £2,000,000."

(iii) By an agreement dated 10 February 1950: 12.72 million pounds.

(iv) By the last agreement dated 19 January 1951: 13.7 million pounds for 1951/52.

Account should also be taken of the releases made between 22 February 1948 and 15 May 1948, which amounted to 14.5 million pounds for Palestine. No information is available as to how much of this amount went to Israel and how much to Arab Palestine.

The final agreement of 19 January 1951 provided for releases of 7 million pounds and 6,700,000 pounds respectively in the following two years. According to this agreement, the Government of Israel can use, in 1951, 2 million pounds of the amount allotted for 1952.

3. As a result of statements in the economic press^(x) to the effect that under this final agreement, the sterling reserves allotted to Israel by the British Treasury out of the Palestinian sterling assets would be practically exhausted, Arab circles became anxious as to the possible effects of the liquidation of Israel's sterling assets on the unfreezing of Arab accounts blocked by Israel.

II. ATTITUDE OF THE LEAGUE OF ARAB STATES

4. Following the visit to Cairo of the Chairman and Principal Secretary of the Conciliation Commission, the Assistant Secretary-General of the Arab League, Mr. Ahmad Shukairi, requested that the Commission's Economic Adviser should discuss with the League's experts the question of Arab accounts blocked in Israel.

The conversations between the Arab experts and the Commission's economic adviser took place in Cairo from 26 February to 2 March 1951. During this visit, talks were held with Azzam Pasha, Secretary-General of

(x) Inter alia, the "Economist" of 27 January 1951, p.224.

the League, Mr. Ahmad Shukairi and Namazi Pasha, Director of the Legal and Economic Department of the League. The appropriate departments of the British Embassy, in particular Mr. Waight and Mr. Wilson, British Treasury representatives, were kept informed of the discussions.

5. According to the Arab spokesmen, the position of the Palestinian Arabs who are now refugees in the Arab States is as follows:

- (i) The Palestinian Arabs deposited Palestine pounds which, according to the Statute of the Palestine Currency Board, were convertible into sterling. The majority of these deposits were in British banks, in preference to the Jewish banks operating in Palestine (90 per cent of the deposits, it would appear).
- (ii) The Government of Israel does not recognize these Arabs, who are now refugees in the neighbouring countries, as citizens of Israel, and refuses to permit them to return, thus at the same time preventing them from making use of their accounts in Israel. On the other hand, the Government of Israel prevents them from disposing of their accounts and applies to them a law and certain regulations which result in their being deprived of the use of their own money in resettling in the Arab countries.
- (iii) Legislation promulgated after their departure is being applied to these refugees who, moreover, are aware that Israel is profiting by the right of exchange into sterling of the Palestine pound.
- (iv) If it is left to Israel to restitute this money, which does not belong to her, (a) the date of repayment will remain indefinite, and the longer it is delayed the longer it will be before the refugees are resettled; (b) As Israel proposes to return these funds on the conclusion of peace, "subject to such general currency regulations as may be operative at the time"^(x), it seems doubtful whether the refugees will be paid this money in

(x) Statement by the Government of Israel (document IS/13, para. 4).

a currency which they themselves or the reintegration agencies can make use of.

(v) It would appear desirable for the United Kingdom, which in February 1948 took measures to freeze the Palestinian sterling assets, to take account, when it releases sterling to Israel, of the special case of the ex-Palestinian refugees. There is, indeed, no doubt that a portion of these frozen assets (between 4 and 5 million pounds?) represents purely Arab capital.

(a) The United Kingdom might perhaps take measures to transfer the assets of the refugees to them in the Arab States. Such measures would free capital which would enable them to resettle themselves;

(b) If the United Kingdom Government is unable to consider such measures, it should at least continue to keep frozen in London a sum equal to the approximate amount of the Arab bank accounts blocked by Israel, until the restoration of a more normal situation in the Near East.

6. The Secretariat of the League of Arab States intends to submit for the approval of the League at its next session, two memoranda on this subject, one addressed to the United Kingdom and the other addressed to the Conciliation Commission.

III. ATTITUDE OF THE BRITISH GOVERNMENT

7. Following the discussions in Cairo between the experts of the League of Arab States and the Economic Adviser, Ambassador Palmer approached Mr. Furlonge, of the Eastern Department of the Foreign Office, who was then in Jerusalem, and informed him of the interest taken by the Conciliation

Commission in the unfreezing of the Arab accounts and of the possible repercussions of the latest releases granted to Israel by the British Treasury.

The Conciliation Commission requested Mr. James Barco, alternate United States representative to the Commission, to visit London, accompanied by the Commission's Economic Adviser, in order to discuss the whole problem with officials of the British Foreign Office and Treasury.

8. Mr. Barco and the Economic Adviser were in London from 16 to 22 March and had discussions which clarified the various aspects of the problem. They met Mr. Evans, Mr. Brinson and Miss Waterloo of the Foreign Office. Sir Henry Knight, the United Kingdom representative on the Advisory Commission of UNRWA, was also present. In addition, conversations took place with certain private banks directly concerned in the operation, and with their solicitors regarding the case of the Arab Bank versus Barclays Bank.

9. The representatives of the Conciliation Commission pointed out that the operation of transferring to the refugees the amount of their accounts would be a relatively simple one in comparison with that of compensation, and, moreover, that restitution should come before compensation, particularly when movable property as easily transferable as bank accounts is involved.

These bank accounts, amounting to between 4 and 5 million pounds, represent capital corresponding to between 12 and 14 million U.S. dollars. This is a considerable sum in comparison with the UNRWA "Reintegration Fund" which, once the Negotiating Committee has finished its work, will amount to 30 million dollars for the current period. In other words, the Arab accounts blocked in Israel correspond to one-third of the Reintegration Fund. This amount can also be compared to the figure of 1 million Israel pounds offered by Mr. Lourie, the Israel delegate, as a contribution to the Reintegration Fund, subject to certain special conditions which were attached to this offer.^(x) The unfreezing of this capital, whether

^(x) See document A/AC.41/SR.5.

directly or indirectly, would have far-reaching economic effects, either direct or indirect, and would enable a large number of refugees to resettle.

Any money which is not supplied out of the capital of the refugees themselves will have to be provided from other sources. It is therefore obviously in the interest of the States participating in the financing of UNRWA to facilitate the unfreezing of the blocked assets, if they do not wish to have to contribute this capital themselves, in one form or another.

10. The United Kingdom representatives officially confirmed that the latest releases of sterling granted to Israel do in fact exhaust that Government's sterling reserves.

The respective shares of Jordan and Israel were calculated on the basis of the geographical location of the banks. The British Treasury only took into account the geographical location of the banking institutions^(x) and was not able to take into consideration the personal status of the holders, whether Jewish or Arab, now living in Israel or as refugees in the neighbouring Arab States.

Finally, the United Kingdom representatives stated that, in their opinion, the question of unfreezing assets in favour of the Arab refugees was a matter to be negotiated between the Arabs and the Government of Israel, and that the British Government could not be involved in any way.

However, there will be other sterling resources available for Israel in the near future. On the one hand, the Israel Government has asked for requisition of the securities belonging to Israelis which are deposited in England. (The total amount of these securities is said to be approximately four and a half million pounds sterling.) On the other hand, the amount subscribed by Zionist associations during 1951 will probably amount to approximately £2,250,000 sterling.^(xx)

(x) The geographical situation of the Head Offices of the respective banks. According to information received, the sterling credits of Barclays Bank, Jerusalem, for instance, which were allocated to Israel's account owing to the fact that Barclays Bank is situated in the part of Jerusalem which is under Israel control, are said to include the sums deposited by Palestinians at Barclays Bank in Gaza. (?)

(xx) "Economist" of 27 January 1951.

In conclusion, in view of the measures taken by the British Government and the release to Israel of all her sterling assets, it is obviously too late to persuade the British Government to take the steps suggested by the Arab League.

IV. OBSERVATIONS

11. It is to be regretted that the very special case of the Arab refugees who have bank accounts blocked in Israel was not taken into account, in the first place in the freezing of the Palestinian sterling assets, and in the second place in the release operations, and that conservatory measures were not taken to protect the rights of the refugees pending the settlement of their political fate.

12. On the other hand, there should be no illusions as to the possibilities: (a) of utilizing the Israel assets in Great Britain requisitioned by the Government of Israel, or (b) of using the contributions of Zionists in Great Britain. It is obvious that if the British Government has not been able to take any steps to protect the Arab sterling assets, which formed part of the Palestinian assets blocked on Israel's account, its powers are likely to be even more limited in respect to these two sources of sterling, which undoubtedly all belong to Israel. (x)

13. In these circumstances it would appear advisable to approach the Government of Israel immediately:

- (a) to remind that Government that part of the sterling it has obtained in London served as backing for the deposits of Arab refugees in Palestine pounds, before the creation of the State of Israel, and

(x) British subjects holding bank accounts in Israel but residing in Great Britain must address their requests for release of the accounts in pounds sterling, to the exchange dept. of the Israel Finance Ministry. Agreement was reached on this subject on 19 January 1951 between the Governments of the United Kingdom and Israel, and the Israel authorities appear to be granting transfers in pounds sterling to a reasonable extent. British nationals are subject to the Israel exchange control regulations, but not to the laws and regulations concerning absentees which are applied to the refugees living in the Arab countries.

(b) to request, therefore, that the Government of Israel take steps to restore their accounts to the refugees as soon as possible, in currency which could be used for their resettlement in the countries where they are now living.

14. Without entering into the merits of the arguments put forward by either the Arabs or Israelis, but looking at the question from a purely economic point of view, it would be difficult to over-emphasize the beneficial effect which the restitution of this capital, amounting to between 12 and 15 million dollars, would have in enabling these refugees to resettle. On the one hand, it would relieve UNRWA in its difficult task, and on the other hand, the judicious use of this flow of capital in the economic circuit of the countries of settlement would make possible the absorption of a considerable number of refugees.
