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UNITED NATIONS PALESTINE COMMISSION
Communication Received from United Kingdom Delegation
Concerning Food Supply Position in Palestine

The following communication, concerning the food supply position in Palestine and with particular reference to (a) the subsidisation of cereals; (b) the subsidisation of margarine; and (c) termination of the Agreement between the Government of Palmetto and Messrs. Steel Brothers & Co. Ltd., Ms 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.

CONFIDENTIAL

15th March, 1948.

My dear Bunche,

May I refer you to the correspondence ending with your letter of the 11th March on the subject of the Food Supply position in Palestine.

I have duly conveyed to His Majesty's Government and to the Government of Palestine the proposals made by the Commission in year letters of the 5th and 11th March and I will communicate to you the replies as soon as I receive them.

In the meanwhile, I have received certain further information from Palestine on the subject of the food supply position there which will no doubt be of interest to the Commission. I enclose:-

- (1) A note on the Subsidisation of Cereals.
- (2) A note on the Subsidisation of Margarine.
- (3) A letter from Sir Henry Gurney to the Government Agents, Messrs. Steel Brothers and Company" Limited, giving the Company formal notice in view of the termination of the present Mandatory Administration on the 15th May.
- (4) Messrs. Steel Brothers and Company, Limited's reply.

As regards Enclosure I (Note on the Subsidisation of Cereals), the first seven paragraphs indicate the position up to the end of February, 1948. For the reasons set out in paragraphs 3 and 4 of my Note on Food Supplies which was sent to you under cover of my letter of the 3rd February (Answers to Questions B 10 and 11), it has been considered desirable in the general interest of consumers to introduce revised arrangements with effect from 1st March, 1948 for the distribution of cereals. These revised arrangements are set out in paragraph 8 of Enclosure I.

At the same time the cereals subsidy was reduced from £P19 per ton to £P9 per ton with effect from 1st March; this was necessary in order to keep within the total of £P,750,000 provided for subsidisation under Head II, item 7 of the 1947/48 Estimates. (The original provision of £P1,750,000 was supplemented by a further £P1,000,000.

The reason why action was not taken earlier to reduce this subsidy was that throughout the last twelve months there was a hope that peak prices for imported foodstuffs had been reached and that if the Government of Palestine could succeed in keeping down the official cost-of-living index to which wage rates and the Government high cost-of-living compensatory allowances are linked, there was a good chance of crystallising the tendency for all prices to move downwards. So long as there was a chance of this, it was felt that a cut in the subsidisation of cereals would be impolitic. It has now been found necessary to make this cut, firstly in view of the high prices of wheat flour consignments requested by the Government of Palestine to meet the special conditions now prevailing in Palestine and secondly in order to keep within the financial provision made for the cost of subsidisation. It is believed that owing to peculiar local conditions the price of white bread now fall and that there will only be a slight overall increase in the cost-of-living index as a result of this reduction in the subsidy. It has, moreover, been necessary to peg the cost-of-living index at 281 (the figure at the end of November) owing to the fact that it has been impossible to calculate a figure applicable to the whole country (in view of the artificial prices - usually much higher, sometimes lower, - which has been created through the strangling of channels of distribution by inter-communal strife).

I must point out that the existing Agreement between the Government of Palestine and Messrs. Steel Brothers and Company, Limited (my [letter of the 28th February](#) refers) will expire on the 15th May, 1948. As you will no doubt appreciate, the Government Agents have taken a major part in conjunction with the Food Controller in giving effect to the machinery for import, supply and distribution of basic foodstuffs. Enclosures III and IV refer to the termination of this Agreement and from paragraph 4 of Enclosure IV, it would appear that Messrs. Steel Brothers and Company, Limited would be interested in continuing to function as the Agents of the Commission should the latter so desire.

Yours sincerely,
(signed) J. FLETCHER COOKE

Dr. Ralph J. Bunche,
Principal Secretary to the United Nations
Commission on Palestine,
United Nations,
Lake Success.

ENCLOSURE I.

NOTE ON SUBSIDISATION - CEREALS

A general outline of subsidisation policy is given at page 831 of the Survey of Palestine prepared for the Anglo-American Committee of Enquiry. At the present time the principal objective of the policy is to ensure a cheap supply of bread and flour to the consuming public to which end imported cereals received in Palestine against I.E.F.C. allocations are sold at subsidised prices to flour mills engaged in the production of Palestine Standard Flour which is the term applied to flour produced under Government supervision from cereals imported on Government account. These mills are thus enabled to sell flour to wholesalers and bakers who in turn distribute to the consumer in the form of flour and bread at fixed prices regardless of fluctuations in the purchase price of the imported cereals.

2. The cost of the subsidy to Government varies with the price, type and quantity of cereals used in the production of Palestine Standard Flour. The quantity of this flour produced varies according to the time year end with the availability or otherwise of indigenous grain which in a good crop year goes a long way to supply the requirements of the rural areas of the country. The situation at present, however, is that there are virtually no stocks of indigenous cereals owing to the failure of last year's harvest and the population is entirely dependent on imported supplies until the new crop is harvested about July to August 1948. Production of Palestine Standard Flour is now proceeding at the rate of 13,000 tons per month and its constituents are Australian wheat flour as to 70% and barley flour milled from Argentine barley as to 30%.

3. The following calculation above the expenditure now being incurred by Government on the production of Palestine Standard Flour:

To produce 1000 kgs. Palestine Standard Flour the undemoted cereals are supplied by Government:-

	Australian wheat flour costing £P42 per ton ex store	£P29.400
500 kgs.	Argentine barley costing £P35 per ton ex store, which @ 60% extraction produces 300 kgs. of flour	£P17.500
	Cost of 1000 kgs. Palestine Standard Flour	£P46.900
	The above cereals are in fact sold to the mills at the following prices:	
700 kgs.	Australian wheat flour @ £P27 per ton	£P18.900
500 kgs.	Argentine barley @ £P 21 per ton	£P10.500
		£P29.400

4. Consequently a subsidy of £P17,500 is being paid for each ton of Palestine Standard Flour, the effect of which is to maintain a selling price ex mill of £P28.500 per ton and retail prices to the consumer of 32 mils per kg. for flour and from 34 to 41 mils per kg. for bread. The price of bread varies in accordance with the type of loaf and production conditions in different parts of the country.

5. In addition to the loss of £P17,500 per ton on sales of cereals, expenditure on transport is also borne by Government. This is incurred in moving flour from mills to distribution centres outside production areas. The amount involved is variable but maybe estimated at an additional £P1,500 on total production.

6. It is thus seen that Government's total outlay on the subsidisation of bread and flour amounts at the present time to £P19 per ton, which on a production of 13,000 tons per month equals £P247,000 or £P2,964,000 per annum.

7. Abolition of the subsidy would cause an increase in the price of Palestine Standard Flour of £P19 per ton to £P47.500 and a consequent increase in the price of bread of mils per kilograms. This would in be the Wages Committee Index by approximately 3.0i points.

8. With effect from the 1st March, 1948, revised arrangements as set out below have been introduced with a view to ensuring more effective distribution of supplies, having regard to the present distributed conditions in the country. At the same time the subsidy has been reduced from £P19 per ton to £P9 per ton so that the cost of subsidisation with effect from 1st March, 1948 will be approximately £P120,000 per month.

(a) Arrangements made by Government to provide bread and flour supplies during the remaining period of the present Administration, i.e. up to the 15th May, 1948 include the purchase of some 34,000 tons of Australian wheat flour. This quantity together with approximately 10,000 tons of barley flour which will be produced from stocks of Argentine barley now on hand and one further shipment scheduled to arrive is sufficient to cover the bread and flour requirements of the population up to 15th May, 1948, and for a short period thereafter at a consumption figure of 13,000 tons bread and flour per month. As regards the period immediately subsequent to the termination of the Mandate consultations are at present in train to ensure continuity of supplies to Palestine.

(b) It has been decided that the interests of the population will be better served if these supplies are issued through the normal channels of distribution viz. to wholesalers, retailers and bakers, in their original form i.e. white flour and barley instead of as hitherto is the form of an adulterated Palestine Standard flour. The reasons for this decision are firstly, that the resulting economies in handling and processing of cereals will, under present conditions, reduce delays in production and consequent non-delivery of allocations. Secondly, the preponderance of wheat flour over barley flour will allow for the greater proportion of the public's requirements to be supplied in the form of barley flour and white bread which are more acceptable to the public than the adulterated products.

(c) It must be realised, however, that a certain proportion of the future supply of bread and flour must be produced from the available barley if everyone is to receive his full entitlement. Government stocks of barley, sufficient to produce 10,000 tons of flour, will be sold to wholesalers and bakers who will be at liberty to make their own arrangements for the milling thereof; since it is essential that this flour should be made available for human consumption and not diverted to other purposes, it is hoped that the trade and all local authorities will cooperate, through any means which can be devised, to exit the varying local conditions, towards ensuring that supplies reach the consumer.

(d) The barley to be supplied is of very good quality and the flour produced therefrom will be superior to much of the flour produced in Palestine during the war years. While the fact that these arrangements will involve temporary hardship in the milling industry is appreciated and regretted, it is nevertheless necessary for the reasons already stated to meet the present emergency in this manner in the public interest, which must be permanent.

(e) Having regard to the cost of recent consignments of cereals and to keep within the amount provided for subsidisation (i.e. £P1,750,000 as estimated together with a supplementary £P1,000,000) the prices of £P40 per ton and £P24 per ton have been fixed for wheat flour and barley respectively ex Government Agents' stores, with effect from the 1st March, 1948. It is estimated that the corresponding retail prices to the consumer will work out approximately as follows:

White Flour - 45 mils per kg.
White Bread - 65 per kg.
Barley Flour - 34 mils per kg.
Barley Bread - 48 mils per kg.

ENCLOSURE II.
NOTE ON SUBSIDISATION - MARGARINE

The object of the margarine subsidisation fund is to maintain the price of margarine to the consumer at the present level of 20 mils per 100 grs. packet despite fluctuations in the cost of raw materials.

Margarine is a blend of hard and soft oils and whereas hard oil in the form of coconut oil has been in steady supply at a fairly stable price for an appreciable period, soft oils have been very difficult to procure and then only in small parcels at widely varying prices. As a result the production cost of margarine during the past year has invariably exceeded the maximum selling price authorised by Government. In order, to enable the factories engaged in the manufacture of margarine to continue in production and at the same time retail the margarine to the public at the permitted selling price, losses incurred in the process have been refunded by Government. The cost of the oils used per ton of margarine to permit sale of the product at 200 mils per kg. must not exceed £P124,450 whereas actual cost of these oils is now in the region of £P140.

Government has authorised a subsidy on margarine of up to £P6,600 per month which is more than adequate at the present time to cover refund to the margarine factories on the monthly production figure of about 400 tons.

Abolition of this subsidy would involve an increase in the selling price of margarine of £P - 20 per ton or 15 - 20 per kgr. and an additional undesirable feature would be a continually fluctuating selling price of the product. This would increase the Wages Committee Index by ½ point. It has been decided to continue this rate of subsidisation for margarine up to 31st 2/3/48

MN

COPY.

12th February, 1948.

ENCLOSURE III

SF/68/48. Gentlemen,

I am directed by the High Commissioner to refer to Clause 4(iv) of the Agreement made in 1943 between His Excellency the High Commissioner for Palestine on behalf of the Palestine Government and your Company, appointing your Company the agents of Government for the purpose of purchase and/or receipt and distribution of commodities etc., and to inform you that in accordance with the Clause cited above, three months notice is hereby given of the termination of this Agreement on the 15th May, 1948.

2. Your Company will appreciate that formal notice in accordance with the terms of the Agreement is being given now in view of termination of the present Mandatory administration on the 15th May (whereupon one party to the agreement would disappear) and not on account of any dissatisfaction with the manner in which your Company has carried out its obligations as agents of this Government. Indeed I am to take this opportunity to convey an expression of the High Commissioner's appreciation of the efficient way in which your Company has discharged its duties under the agreement, especially under the present increasingly difficult conditions, and the spirit of courtesy and cooperation which has existed throughout. Your Company has reason to be satisfied with the part played in successfully maintaining essential food supplies for Palestine over an extended period and often in face of difficulties such as those arising from shipping delays.

3. With regard to the period after the 15th May, it is assumed that the United Nations Commission will wish to consider continuation of existing methods of procurement and distribution and my therefore wish to arrange for an extension of your agency. Steps are therefore being taken immediately to bring the matter to the notice of the United Nations through the United Kingdom Delegation in New York.

I am, Gentleman,
Your obedient servant,
Sgd. H. L. G. Gumey
CHIEF SECRETARY

Mssrs. Steel Bros. & Co. Ltd., 4
43, Kings Way,
P.O.B. 1412, HAIFA.
Copy to: Food Controller
Commissioner on Special Duty (Mr. Mills).

COPY.

ENCLOSURE IV.

STEEL BROS. & CO., LTD.,
P.O.B. 1412,
HAIFA.

18th February, 1948.

The Chief Secretary,
Government of Palestine,
JERUSALEM
Sir,

We have the honour to acknowledge receipt of your letter SF/68/48 dated 12th instant conveying to this Company formal notice terminating on the 15th May 1948 the Agreement made in 1943 between His Excellency The High Commissioner and ourselves, covering the purchase, receipt and distribution of commodities in Palestine.

The reason which has occasioned the termination of this Agreement in fully understood, and we are sure that the Directors of the Company would wish to be associated with the request that you might be so good as to convey to His Excellency the High Commissioner for Palestine, our appreciation of the generous recognition of our work which His Excellency has been so kind as to ask you to now to us.

It has been a pleasure for us to be of service to your Government, and we would like to place on record our high regard for the friendly, considerate and understanding treatment and support which we have at all times received at the hands of the Officials of the Palestine Government, with whom it has been our pleasant duty to cooperate during the past eight years.

The subject matter contained in the concluding paragraph of your letter is receiving our interested attention, and we are pleased to note that you consider the United Nations Commission may wish to arrange for an extension of our Agency. We thank you for the steps which are being taken to bring this matter to the notice of the United Nations, through the United Kingdom Delegation in New York.

We have the honour to be,
Sir,
Your obedient servants,
per pro STEEL BROTHERS & CO. LTD.
(Sgd.)

APPENDIX “B”

A	(i)	Based on existing salaries plus expatriation allowance.
A	(ii)	Based on an average monthly salary of £60.
A	(iii)	Based on an average monthly salary of £30.
B	(ii)	Based on 63 x £20.
B	(iii)	Based on 67 x approximately 10/- a day.
B	(iv)	Based on maintenance of 3 vehicles taken from Palestine, 1 for 1 month, and 2 for 3 months, which would probably be cheaper than hiring local transport.

[Document in PDF format](#)