

MEMORANDUM

TO: Ziyad Clot
Negotiations Support Unit

DATE: 03 January 2011

CC: Veijo Heiskanen, Zeinah Salahi, Maen Areikat, Nizar Farsakh, Andrew Kuhn

FROM: Thierry Senechal

SUBJECT: **Summary Note on the Valuation of Palestinian Refugee Losses for the Trilateral Meeting of 30th July 2008**

1. I refer to your email dated 17 July 2008 regarding the trilateral meeting of 30th July 2008.
2. I enclose herewith a draft summary note presenting the valuation methodology and the outcome of our work for the valuation of Palestinian refugee losses.
3. This note summarizes the work commissioned by the Negotiations Support Unit between 2004 and 2008. The scope of the work included a review of past assessment studies, an aggregate valuation of Palestinian refugee losses in 1948 and adjustment of the aggregate value to present day.
4. I would be happy to receive any feedback and comments so that I can incorporate these into the final draft, if appropriate, in order to get the document ready for the meeting of 30th July.
5. Do not hesitate to come to me if you have any question.

Valuation of Palestinian 1948 Refugee Losses
A Study Based on the National Wealth of Palestine in 1948
- Executive Summary -
(By Thierry Senechal, MBA/MPA)

INTRODUCTION

The Negotiations Support Unit (NSU) commissioned a comprehensive project to value Palestinian refugee losses as a result of their displacement in 1948 from what is now Israel. We have been instructed to carry out a detailed and objective valuation that can serve as a basis to a just and sustainable solution for the different loss categories: Rural land (including Beersheba land and built-ups); Urban land; Holy places; Loss of employment and livelihood; Personal property and movable assets; Business losses; and Arab share of state-owned property. The objectives of the valuation project were threefold:

- (1) Reviewing the historical records and past estimates, so as to reflect the purpose for which they can be used to derive an aggregate loss value (Since 1948, several studies have attempted to document, evaluate and measure the size and the values of the lost properties);
- (2) Defining original methods to value losses not covered in past studies (i.e. loss of livelihood, loss of holy place, loss of public infrastructures); and
- (3) Providing a comprehensive and accurate valuation of the full range of losses.

We concluded that the magnitude of the financial dimensions of an agreed-upon resolution for the refugees is very significant. We estimated the refugee property losses at **USD 3,293,363,781** in 1948 value and **USD 263,466,074,302** in present value (end of 2007).

METHODOLOGY RATIONALE AND ASSUMPTIONS

Our valuation is based on the assumption that all properties falling in the scope of this project have been lost. This assumption serves to simplify the valuation exercise by allowing the use of aggregate (instead of individualized) valuation methodologies. The assumption is based on technical considerations and therefore obviously **without any prejudice to the Palestinian negotiating position on the issue of property restitution**.

We have developed a variety of analytic techniques to ensure that our valuation work is technically justified, realistic, in line with international standards and independent. In particular, we have used the backward-looking approach whereby estimated current values of properties are determined on the basis of their historical values. In this method, historical values of the properties are brought to present value via internationally recognized present value formulas.

In terms of the valuation method, we have stated that the market valuation basis is technically the best internationally recognized standard. When such basis could not be used, i.e. due to a lack of reliable market data sets, recourse had to be made to compromise conventions. Fundamental to our valuation methodology was also the basic premise that all loss types had to be supported by suitable evidence from historical records. Today we can argue that we have gathered a unique set of raw data and information, often from official sources, i.e. United Nations and British Mandate documents (*A Survey of Palestine, Village Statistics*, etc.). We have taken care to report, in a transparent and concise manner, the rationale and functionality of our methods; we have ensured that all information and data used in our work have a clear and robust audit trail in order to minimize areas of subjective judgment.

ADJUSTMENT PRINCIPLES

In the course of the valuation, we had to derive a few monetary drivers and adjustment factors to insure that only refugee losses were included in our study. They are as follows:

- a. *Number of refugees in 1948*: The figure of 726,000 refugees has been found to be reasonable.

- b. *Armistice line adjustment*: We have calculated the exact scope of land falling outside the Armistice Line.
- c. *Arabs remaining in the Israel occupied territories in 1948*: We have made adjustments whenever necessary for the Arab inhabitants that remained in their homes in the Israel-occupied territories in 1948.
- d. *Land sales in the years before 1948*: Our methodology takes into account the land transfers before the war.
- e. *Growth adjustment factors*: Prices in the pre-war period have been adjusted to their 1948 value.
- f. *1948 USD/£P exchange rate*: We have used the exchange rate effective on 29 November 1947 (4.0319).

VALUATION FINDINGS

First, we have reported that the Palestinian economy at the time of the war was a viable economy. Despite the contention of many that Palestine was a land without people and economic prospects, Palestine was in fact densely populated and intensively cultivated, with a significant flow of output and income. When Great Britain was asked to govern Palestine in 1920 under the terms of the mandate, it found a subsistence economy primarily based on agricultural production. By 1948, the economy had completely changed. Agriculture was complemented by a strong industrial sector, the population of about 2 million was growing at a solid rate and the country's economy had become a player on the world stage, almost showing an even balance of foreign trade of manufactured products.

Having this in mind, we set out below a summary of the findings of each of the loss types reviewed.

Valuation of rural property:

The valuation of rural land included the following categories of land owned by private individuals, state, or religious groups: Cultivable and uncultivable land; Village built-up areas; and Beersheba sub-district land. We considered the entire rural land existing in all sixteen sub-districts of Palestine (including Beersheba).

We first studied the history of the refugee question, including the first attempts to value refugee abandoned land. Information about the scope of land has been easily identified in the historical records from past UNCCP estimates and "Village Statistics" datasets. In total, we have estimated that the Palestinian refugees have lost 4,984,320 dunums of rural land (excluding Beersheba). For Beersheba, we concluded that the loss of cultivable and potentially cultivable land was equal to 4,896,650 dunums, grazing land being equivalent to 7,680,350 dunums. For the valuation of rural land, we have decided to use the market monetary drivers provided in the study entitled "Palestinian Rights and Losses in 1948" (Atif Kubursi). We have not relied on the traditional UNCCP valuation data, which are underestimated, and therefore not in line with market realities.

As we find it, the overall loss of rural property by the 1948 refugees represented a grand total of **USD 1,605,590,475** (in 1948 values). This value has been calculated by aggregating results for the following types of immovable property: rural land for USD 954,415,934 (excluding Beersheba sub-district); Village built-up areas for USD 25,198,040 (land and buildings); and Beersheba sub-district land for USD 625,976,501.

2. Valuation of urban property:

Palestine under the British mandate had many urban centers and villages with infrastructures. For instance, the population of Tel Aviv and Jaffa reached 80,000 before the war. Indeed, the historical record is well documented in terms of description of cities and villages under the British Mandate. For instance, "All That Remains" describes the destiny of some 420 Palestinian villages and towns that were cleansed and destroyed in most cases during the occupation of Palestine in 1948.

From different official sources (i.e. "A Survey of Palestine"), we have been able to collect and recoup cost data for valuing urban lands and buildings. We are satisfied with the type of data collected and our valuation has thus been conducted on a market valuation basis, which is the preferred approach. All historical market or construction cost data obtained from "A Survey of Palestine" have been adjusted to

reach a fair market value in 1948.

The following urban areas have been retained for our valuation: Acre, Beisan, Nazareth, Safad, Tiberias, Haifa, Jerusalem, Jaffa, Ramla and Beersheba. The total scope of urban land lost by Palestinian refugees has been estimated at 56,174 dunums, urban buildings being estimated at 5,437 dunums. The aggregate loss of urban land is **USD 511,369,445** (in 1948 value). This figure has been obtained as follows: USD 83,357,230 (urban land) plus USD 566,473,144 (Urban buildings) minus USD 138,460,929 (deduction for sale of property from Arabs to Jews 1945-1947).

3. **Valuation of holy places:**

4.

In our study the term “holy place” only refers to mosques and churches. It excludes properties belonging to religious institutions that are used as living quarters or for administration, such as orphanages or hostels. It also excludes synagogues, archeological work, sculptures and paintings, graveyards and shrines.

Following 1948, most of the Arab holy places were either destroyed or confiscated. For instance, in the village of Sarafand, a destroyed village near Haifa, the destroyed building was approximately 100 years old, 350 square meters, and has been referred to as one of the best-engineered mosques in Palestine. The Catholic church of al-Bassa, a northern Galilean village, used to be a fine two-storey building in the Byzantine style and today the second floor has completely disappeared into rubble, and the rest of the structure is in critical danger of collapse. Of course, many destroyed holy places were significantly less important in size, especially the ones in villages.

a. The total number of destroyed holy places has been derived from a third-party study entitled “Sanctity Denied”, cross-reference being made to the “Atlas of Palestine”. The valuation has been made on an historical estimated reinstatement cost basis (1948). You should also note that we have decided not to value holy places under non-market valuation approaches (i.e. contingent valuation) which aim at discovering what individuals would be willing to pay for asset conservation (such techniques would require important qualitative data in order to derive a proxy for valuing the loss of cultural heritage).

b. Under an historical construction cost basis, the loss of holy places represents a grand total of **USD6,460,233** (in 1948 price).

5. **Valuation of the loss of employment and livelihood:**

6.

For many Palestinians, the 1948 war marked a rapid transition from a previously stable condition of relative welfare into a condition of poverty, destitution and refugeehood that has persisted over an extended period of time for the refugees themselves but also their descendants. We have evidenced that a loss took place in respect of income forgone due to loss of jobs and complementary inputs over a finite horizon. We have been concerned with the notion of lost opportunities rather than psychological damage.

We have designed an original income-based (labor oriented) methodology comprising of two parts: (1) the valuation of the loss of employment for an estimated 25% of the population being fully employed; (2) the valuation of loss of livelihood for the remaining 75% of the population. Our work consisted of estimating the size of the refugee population at different moments in time, the size of the employable refugee population, the average yearly wage rate and standard costs of living in order to value their loss of employment and livelihood distinctly. The strength of our analysis lies in the fact that our estimation is based upon reliable data extracted from the historical record.

The loss of employment and livelihood represented a grand total of **USD 494,871,422** (in 1948 value).

7. **Valuation of personal property and movable assets:**

By the end of 1948, four fifths of the Arab Palestinian population had fled from Palestine to what is now known as the West Bank and the Gaza Strip; the rest went to Lebanon, Syria, Jordan and other countries within and outside the region. In the course of their flight, the refugees left behind their belongings and all manner of property.

It is difficult to estimate the exact scope of movable assets belonging to Palestinian refugees. A wide variety of standards of living exists, ranging from that of nomadic Bedouin in the desert areas to the cultivated Palestinian in the larger towns. In our context, it is evident that an average Palestinian refugee had at its disposal a variety of movable assets, e.g. vehicles, cash, households, food and clothing, etc. Ordinary household effects would include furniture, tools and similar objects used in daily life. For the wealthiest, it would include art works and various financial securities.

Sufficient data at the aggregate level were collected for the following categories: livestock, private vehicles, commodities, foreign financial assets and household effects. A specific valuation methodology was designed for each category at the aggregate population level. Finally, adjustments based on population drivers were made to calculate the share of ownership of the refugees. For one category, household effects, we had to design an indirect approach, using income consumption parameters.

In total, we have estimated movable asset losses at **USD180,844,923** (in 1948 value).

8. Valuation of business losses:

Prior to 1948, Palestine had a growing economy. Arabs were mostly involved in agriculture, milling grain, tobacco manufacturing and parts of the textile and metal industries. We have been able to collect information for key industries and small enterprises but also for hotels and restaurant, commerce and construction businesses, laundries and small workshops, which were predominantly Arab-owned. At this stage of our review, we could not identify the Palestinian share of large industrial companies. We have divided the valuation into six major categories of business in the pre-1948 economy: (1) Manufacturing and handicraft businesses; (2) Building and construction businesses; (3) Hotels, restaurants and cafés; (4) Domestic and other services; (5) Commerce and finance; and (6) Commercial vehicles.

Considering the differences in nature between the listed categories of business losses, it is not an easy task to settle for one methodology suitable for all. The task at hand has been to estimate both the value of the infrastructure of industries, hotels and restaurants, whilst also valuing the loss of income derived from these same businesses. Output data has been identified in the historical records for the year 1944 (Loftus National Income) and adjusted to reflect the share of refugees in 1948 value.

- a. We estimated that the value of Palestinian income-producing property at **USD344,793,033** (in 1948 value).

9. Valuation of State-owned property:

State-owned property was a significant part of the Palestinian economy. Infrastructure such as roads, railways and seaports, as well as postal services and telecommunications played a crucial role in mobilizing the factors of production facilitating economic growth in the Palestine. Furthermore, the public sector encompassed a noteworthy stock of buildings enabling public services such as policing, education, health care and government at the national and local levels.

To evaluate state-owned property, at least two methods can generally be applied: (1) The number of assets in each category multiplied by their estimated replacement value (or cost) per asset; (2) Output of a sector (or all assets within it) multiplied by an appropriate capital-output ratio. For public transportation and communications (Railways, shipping and aviation, post office), we have preferred to use the method which analyses the contribution of state-owned property to the Palestinian national output in 1944 (Output has been multiplied by an appropriate capital-output ratio to estimate the real value of these assets so crucial to the Palestinian economy). For other public facilities (i.e. buildings related to education, Government, police, hospitals, etc.), we have collected data on the number of buildings and used the average

construction cost based approach developed in earlier section to reach an aggregate estimate.

Our valuation of state-owned property amounted to **USD 149,434,249** (in 1948 value).

PRESENT DAY VALUATION

We have examined the possible methods of adjusting the value of losses to reflect current day monetary values. We have asserted that in awarding interest, the parties would rightly recognize that the Palestinian refugees are justly compensated not only for the original loss but also for the passage of time between the date of loss and the date of full reinstatement. We have demonstrated the following:

- a. It is a standard business practice to charge interest to people and organizations willing to give up the temporary use of their money.
- b. Interest should run from 29 November 1947. We advocated that interest should cease to accrue on either the date of final negotiation of an agreement or the date of payment of compensation.
- c. The rate of inflation is not sufficient to arrive at the correct interest rate. We have proposed to use a rate derived from a risk-free instrument. Such rate would include all risk factors (systematic, regulatory, and inflation), plus the time value of the money itself. The rate would be based on the UK Gilts market because we could not identify reliable data for neighboring countries. The proposed rate for the period of reference is an average of 7.58%.
- d. We have rejected the notion of simple interest on the grounds that compounding is an international standard applied in most time value applications. We have proposed to use yearly compounding to reflect standard practice on a conservative basis.
- e. The final aggregate value of **USD 3,293,363,781** has been actualized from 1st January 1948 to 31 December 2007 by using the rate of 7.58% on a yearly compounding basis. We obtain the following result: **USD 263,466,074,302**

CONCLUSION

During the four years of our study, it becomes obvious that the refugee property question is extremely complex, standing as one of the core unresolved issues of the conflict. After surveying various published estimates prepared over the years by Palestinian, Israeli and international experts, and based on our own work, we have been able to assess the financial magnitudes necessary to implement a comprehensive solution for compensation of Palestinian refugees for 1948 losses.