Chapter 12
The Reparations Agreement: A General Overview

An outline of the agreement

The "Agreement between the State of Israel and the Federal Republic of Germany"[1] contained seventeen articles, one addendum (a payment schedule which presented a list of goods and services to be provided as part of the first two payments), two annexes (to articles 7 and 9), nine pairs of accompanying letters (the first of which – 1a and 1b – dealt with the issue of personal indemnification of Israeli citizens, while the rest dealt with various articles of the agreement), as well as an additional pair of letters formulated in March 1953, on the subject of transporting the agreed-upon goods by way of ships flying the West German flag.

The agreement opened with a brief preamble providing an historical background for the Reparations Agreement. It clarified that the payment of compensation was intended to assist Israel in absorbing the survivors of Nazi persecution who had settled there. After these opening remarks, the terms of the contract were presented. The main ones among them were as follows:

1) The FRG would pay the State of Israel the sum of three billion DM. In addition, it would transfer to Israel 450 million DM earmarked for the Claims Conference. The provisions contained in the agreement would apply to the total sum of 3.45 billion DM.

2) The payment timetable would be as follows: a total of 200 million DM for the first "payment year" that would begin from the moment the agreement came into effect until March 31, 1953; a total of 200 million DM for the second payment year spanning the period from April 1, 1953 to March 31, 1954; there would then be nine annual payments of 310 million DM each; an additional 260 million DM would be paid in the final year of the agreement – year twelve. Each payment year, from the second year onward, would consist of the period commencing on April 1 of one year and ending on March 31 of the following year.

Should the Bonn government conclude that it was unable to provide the agreed-upon annual payments starting with the third year onward, it would have to notify Israel's representatives in writing about lowering the annual payment rate at least three months before the beginning of the third payment year. Nonetheless,

1 AIG, Agreement between the State of Israel and the Federal Republic of Germany, 125–151; AIG, Exchanges of Letters, 164.

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the new annual installments would "under no circumstances be allowed to fall bellow the sum of 250 million DM."[2]

3) The reparations funds were intended for the purchase of goods and services.

4) In the event that it obtained "an external loan or any other financial relief from external sources" in convertible currency, the FRG would seek to shorten the defrayal period.

5) The export of German goods to Israel under the Reparations Agreement would be subject to the general conditions applicable to the export of similar goods to any other country.[3] Goods exported to Israel under the agreement would not be re-exported to any third country, unless otherwise agreed-upon by the Israeli-German Mixed Commission. This prohibition would not apply to goods "which have undergone their final, substantial, and economically justified transformation in Israel."

6) The agreed-upon list of goods and services, as shown in the addendum, would be applicable to the first two payments. This list would serve as a template for the rest of the payments.

7) The Government of Israel would send to the FRG as its "sole and exclusive agent" a delegation with the purpose of implementing the Reparations Agreement. Said delegation would be referred to as the "Israel Mission." The mission would be entitled to engage in all activities which might be required in the FRG in connection with the "expeditious and effective implementation" of the agreement, such as delivering orders to West German suppliers, signing and executing contracts for the purchase of goods and services, paying for these goods and services, and consulting with governmental and non-governmental entities on any matter concerning its duties. The Israel Mission would be granted all the rights and immunities necessary to fulfill its function, including rights granted exclusively to diplomatic missions.

8) Once the Reparations Agreement came into effect, the Israel Mission would apply to Bank Deutscher Länder, or to any central bank of issue which might take its place, for an account in DM. The Bonn government would then deposit the annual reparations payments into this account.

9) If during the period of the implementation of the Reparations Agreement the economic capacity of the FRG should be impaired "in a fundamental and lasting manner," both parties to the agreement would hold a consultation in order to

2 In that case, the defrayal period would be extended to fourteen years.

3 This section was intended to prevent a situation in which German manufacturers would prefer to sell goods to any country other than Israel in order to retain the tax benefits granted by the Bonn government to exporters.

adjust the terms of West Germany's remaining obligation in accordance with the altered circumstances. Such an adjustment might entail a temporary suspension of the annual payments or a temporary reduction in their rate. Any such arrangement would not detract from the total amount due to Israel (i.e., 3.45 billion DM). Should the consultation between the parties to the agreement fail to yield results, the matter would be submitted to the decision of the Arbitral Commission. Pending this ruling, the Bonn government would be entitled to reduce the amount of the next due annual payment, provided it gave appropriate notice of its intention.

10) Should circumstances change during the implementation period of the agreement, "in such a manner as to result in an essential reduction of the substance of the obligation" assumed by the FRG, the contracting parties would hold a consultation "with a view to adjusting to such changed circumstances the annual installments still payable."[4]

11) The two sides would establish a Mixed Commission composed of an equal number of representatives from each side, whose role would be "to deal with all questions arising between the contracting parties out of or in connection with the implementation of the present agreement [and] to review the progress of such implementation."

12) Any disagreement concerning the "interpretation or application" of the Reparations Agreement that could not be settled via negotiations would be brought before an Arbitral Commission at the request of either contracting party. This commission would consist of one representative from each side, as well as a neutral umpire to be appointed by mutual accord. If no agreement should be reached regarding the umpire's identity, the umpire would be appointed by the president of the International Court of Justice in The Hague. The neutral umpire must not be a national of either of the contracting parties, or ordinarily resident within their respective territories, or in the service of either of them.

The implementation of the agreement

In early June 1952, shortly after the breakthrough in the reparations talks was achieved, Shinnar met with Finance Minister Kaplan and Minister without Portfolio Peretz Naftali and presented them with a plan he had devised regarding the future implementation of the Reparations Agreement.[5] According to his plan, a government

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4 This clause pertained to the stability of the DM.

5 ISA, MFA 2417/6, F. Shinnar to W. Eytan, June 29, 1952.

corporation called the "Purchasing Corporation" would be established as the "only buyer and seller" of the reparations goods. The establishment of such an institution, Shinnar maintained, would be essential to prevent Israeli private entities from coming into West Germany, after the agreement was signed, and trying to purchase goods and services at the expense of the reparations funds.[6] Already today, he warned, there were citizens who were exploring such options.[7] Similar warnings were issued by Goldmann[8] and Josephthal,[9] with the same solution in mind – the rapid establishment of a government corporation to implement the Reparations Agreement.[10]

Several government ministries, especially the IMFA and the Ministry of Finance, began discussing the apparatus that would implement the Reparations Agreement in the spirit of Shinnar's proposals.[11] The inquiry lasted all through the summer, and in mid-September, a few days after the agreement had been signed in Luxembourg, the new Minister of Finance, Levi Eshkol, presented the proposed structure of said apparatus to the government. The ministers approved the proposal but raised various ideas for its improvement.[12] These were taken into consideration and, over the following months, the structure of the new body was finalized.

On March 1, 1953, the "Shilumim Corporation" was officially founded. A seven-member board was appointed at its helm, chaired by Giora Josephthal. The company had two branches: the Israeli branch was headed by Hillel Dan, director of the Solel Boneh building company,[13] while the West German branch was headed by Felix Shinnar. Alongside the corporation, the government erected a public administration for reparations affairs – a kind of advisory body for the implementation of the agreement. Government oversight of the corporation's activities was to be carried out by way of a ministerial committee, headed by the Minister of Finance.[14]

The Israeli branch of the Shilumim Corporation was located in Tel Aviv and, over time, would come to consist of five departments: the commercial department, the credit department, the finance department, the technical department, and the

6 ISA, MFA 1782/15, F. Shinnar to E. Kaplan, June 13, 1952.

7 DEPI, Vol. 7, Document 195, F. Shinnar to E. Kaplan, June 13, 1952.

8 DEPI, Vol. 7, Document 204, N. Goldmann to D. Ben-Gurion, June 18, 1952.

9 ISA, MFA 2417/6, G. Josephthal to E. Kaplan, June 24, 1952.

10 Following these warnings, a government spokesperson issued a statement clarifying that the Israeli authorities did not and do not intend to grant any private entity a permit to conduct commercial transaction with the Germans in connection with the Reparations Agreement. ISA, 7563/4 A, Meeting of the Foreign Affairs and Defense Committee, June 23, 1952, 3.

11 ISA, MFA 1811/10, M. Bartur to F. Shinnar and G. Josephthal, July 6, 1952.

12 ISA, Meeting of the Cabinet, September 14, 1952, 16–35.

13 This company was affiliated with Mapai.

14 ISA, MFA 1812/4, E. Nathan to Y. Robinson, June 7, 1953.

commodities and insurance department.[15] The role of the Tel Aviv branch was to prepare the lists of goods to be ordered from West Germany in coordination with government ministries and economic entities in Israel.[16]

The branch in West Germany, the “Israel Mission” (otherwise known as the “Purchasing Mission”), began its work on May 4, 1953. It established its headquarters in the city of Cologne,[17] in offices assigned to it by the local Jewish community.[18] In its early days, the mission was staffed by about fifty Israelis and twenty locals,[19] and consisted initially of four economic departments: purchasing, engineering, price comparison, and legal advisement. In time, a transport department and a banking department were added to the roster. In addition to these, there were also a political department, a consular department, a publicity department, and a security department.[20] The mission would receive the list of goods from Israel, contact relevant suppliers, and ask them for quotes. Having examined the bids received – in terms of price, quality of goods, supplier reputation, time of delivery, payment terms, geographical location of factory (which affected transportation costs) and so on – a supplier was selected.[21] The goods purchased would be sent to Israel and the Shilumim Corporation would deliver them to the customer who had ordered them – a government office, a public enterprise or a private entity – once they had been paid for.[22]

15 Bank of Israel, *The Reparations*, 61.
16 ISA, GL 11665/29, Bi-Weekly Report on the Implementation of the Reparations Agreement, August 16, 1953.
17 Various West German cities tried to convince Israeli officials to establish the HQ of the mission in their territories. They believed that such a move would strengthen their economy. Geller, *Jews in Post-Holocaust Germany*, 239. Cologne was one such city. Hillel Dan claimed that the decision to choose this city stemmed from the fact that Cologne offered the Israelis “favorable conditions.” Dan, *On an Unpaved Road*, 335. The Israeli historian Yeshayahu Jelinek argued that Cologne was chosen because of its location midway between Düsseldorf, the center of heavy industry in West Germany, and the capital Bonn. Jelinek, “Implementing the Luxembourg Agreement,” 192 (note 5). According to Yissakhar Ben-Yaacov, an Israeli diplomat who served in the mission, Jerusalem did not want to establish the mission in Bonn so as not to create the appearance of diplomatic representation (which could be interpreted as an overture to full and normal relations between the two countries). Ben-Yaacov, *A Lasting Reward*, 90.
18 Shinnar, *Out of Necessity and Feelings*, 57. Later, the mission would move to a building erected especially for it on a lot allocated by the municipal authorities in Cologne.
19 ISA, GL 11665/29, Bi-Weekly Report on the Implementation of the Reparations Agreement, August 16, 1953; Jelinek, “Implementing the Luxembourg Agreement,” 194.
20 Bank of Israel, *The Reparations*, 61.
21 ISA, GL 11665/29, Bi-Weekly Report on the Implementation of the Reparations Agreement, August 16, 1953.
22 Jelinek, “Implementing the Luxembourg Agreement,” 204; Lazarson, “The Implementation of the Reparations Agreement,” 76–77.

On July 23, 1953, the first goods purchased by the Israel Mission in West Germany were loaded at the Bremen port onto the "Haifa," a ship belonging to the Israeli national shipping company Zim.[23] To celebrate the occasion, a festive meal was served in the ship's dining room with the participation of the Mayor of Bremen, public figures from the city, the director of the Zim company, and the captain of the "Haifa," as well as Shinnar and some of his assistants.[24] A year and a half later, on January 23, 1955, the first German ship carrying reparations goods, the "Pergamon," docked at the Haifa port.[25] It would be followed by a total of 280 German ships, carrying about half of all the reparations goods eventually to arrive in Israel.[26]

The implementation of the agreement encountered a few problems over the years, but both parties overcame these relatively easily. In April 1965, twelve years after its historic ratification, the implementation of the Reparations Agreement was completed.

Outcomes of the agreement

The agreed-upon list of goods and services featured five distinct groups.[27] Their total value, at the end of the twelve-year period of the agreement's implementation, was as follows:

– Group A – ferrous and non-ferrous metals – about 391 million DM or 93.5 million USD (11.3% of total purchases).
– Group B – products of the steel manufacturing industry – about 1.3 billion DM or 319.5 million USD (38.4% of total purchases).
– Group C – products of the chemical industry and of other industries – about 337 million DM or 80.5 million USD (9.8% of total purchases).
– Group D – agricultural products – about 91 million DM or 22 million USD (2.6% of total purchases).
– Group E – services[28] – about 257.5 million DM or 63 million USD (7.5% of total purchases).

23 The first shipment consisted of iron bars. *Davar*, July 24, 1953; *Shearim*, July 27, 1953.
24 Shinnar, *Out of Necessity and Feelings*, 60.
25 *Davar*, January 24, 1955; *Ha-Tzofeh* January 24, 1955.
26 Teitelbaum, *The Biological Solution*, 99.
27 This subchapter is based on the following studies: Bank of Israel, *The Reparations*; Lazarson, "The Implementation of the Reparations Agreement"; Ginor, "The Impact."
28 Refers to insurance fees, transport and freight, administrative expenses, and "any other expenses incidental to the above."

In addition, approximately 1.05 billion DM or 254.5 million USD were spent on fuel, which amounted to 30.4% of total purchases.

Numerous branches of the economy developed thanks to the reparations funds, and the benefits of this process rippled outward through the Israeli economy. On the whole, it can be stated that the equipment purchased with the reparations money was of great economic importance especially in the development of shipping, railways, the electricity system, fishing, and construction. An economic macro-analysis shows that close to 26% of the investment assets and about 11% of the input factors imported to Israel between 1953 and 1965 were financed with the reparations money.[29] On the other hand, reparations financed only about three percent of the consumer goods imported over this period. In other words, the compensation funds received from the FRG were invested in the advancement of the Israeli economy almost exclusively.

According to the Bank of Israel, the reparations actually helped pull the economy out of the deep abyss into which it had sunk during the first years of the Jewish state's independence.[30] Although it would have probably been possible to find at least partial capital substitutes for reparations, this would have required a great deal of effort, and it would have taken the Israeli economy a lot longer to climb its way out of the quagmire and flourish. However, it was not at all certain that the State of Israel, faced with a tangible existential threat by its Arab neighbors, could afford to be in a severe economic crisis for a long time.

29 About half of the fuel consumed in Israel in the years 1953–1965 was financed with reparations funds.

30 Echoes of this claim can be found in the following studies: Kleinschmidt, "Von der 'Shilumim' zur Entwicklungshilfe"; Könke, "Wiedergutmachung und Modernisierung."

Equipment purchased in West Germany with the reparations money

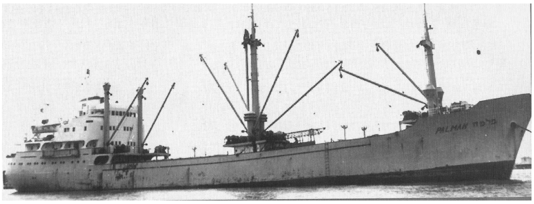

Figure 12.1: “M.S. Palmach” – a cargo ship weighing 2,200 tons, launched in December 1956. Purchased for a private Israeli shipping company. (Courtesy of the Zim archive).

Figure 12.2: “S.S. Zion” – a cargo and passenger ship weighing 7,000 tons, launched in July 1955. Purchased for Zim, the Israeli national shipping company. (Courtesy of the Zim archive).

Figure 12.3: A railcar, purchased for Israel Railways. Entered service in early 1956. (Courtesy of the Israel Railways).