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### **THE JEWISH NATIONAL FUND**

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#### **Introduction**

The late Israeli prime minister Golda Meir once said: "The forest – God created it. But only in Israel does every tree have registered owners who financed its planting and its growth...and that is what makes the tree-planting effort of the Jewish National Fund not only a project for a forest that gives shade and pushes back the wilderness but also [an undertaking] that connects Diaspora Jewry to the land as partners in the act of redemption."<sup>1</sup>

The image of the JNF as that of a redeemer of the land and as a guardian and a developer of the forests of the state of Israel and of the lands of the nation is mistaken. Although the JNF is involved in forestation projects, its main activities focus on other subjects entirely: agricultural development, the development of infrastructure and water reservoirs, the rehabilitation of rivers, and more.

The JNF handles close to a billion shekels each year<sup>2</sup> and employs thousands of workers.<sup>3</sup> It is for all intents and purposes an arm of the state.

The JNF has tremendous influence in many areas in Israel: education, tourism, agriculture, employment, development and even the Israel Broadcasting Authority. Most of its influence focuses on real estate, via the Israel Lands Administration (ILA).

The JNF also has an effect on state revenues because of the tax exemptions for which it is eligible.

This *Policy Studies* examines the JNF's historical development, its activities and its association with the state. The study focuses mainly on the JNF's influence on government expenditures, land policy, and the real estate sector.

Finally, this study offers systematic solutions that are designed to cancel the influence of the JNF on land policy and on the state budget and to open the real estate market to free competition that will bring about economic growth throughout the whole Israeli economy.

## **History**

At the Zionist conference held in Katowice in 1884, Professor Zvi Herman Shapira proposed the establishment of a body "that would redeem the land of Israel from foreigners in order to turn it into a national acquisition that would not be for sale but would rather be for leasehold only." At the Fifth Zionist Congress held in Basle in 1901 his proposal was passed and a declaration was made for the establishment of the "Jewish National Fund," which began its activities by collecting donations, redeeming land and promoting the settlement of the land of Israel.<sup>4</sup>

The JNF raised (and continues to raise) funds in order to purchase land for the Jewish people, or practically speaking, for the state. The lands that were purchased were acquired for the Jewish people the world over, and not specifically for the Jews living in the land of Israel. The acquisition of the lands was based on the assumption that more and more Jews would immigrate to Israel and it was therefore necessary to acquire the lands for the Jews who would arrive in the future.

The small private donations of Jews from all over the world gave them the feeling that they were contributing to the achievement and continuation of the goals of Zionism.

At the Zionist Congress held in London in 1920 it was decided to establish "Keren Hayesod" – the United Israel Appeal, which began its activities in 1921 after being registered as a company in England. Until the establishment of the state of Israel in 1948 the UIA served as the financial arm of the state-in-the-making. After the establishment of the state, when many responsibilities of the Zionist Movement were transferred to the Israeli government, the UIA began to concentrate on financing immigration, so-called "absorption" and settlement and to this day it finances the activities of the Jewish Agency. After the establishment of the UIA the JNF ceased its activities in the promotion of settlement and concentrated only on raising funds for the purchase of land and the goal of redeeming the land of Israel from foreigners.

In 1948, after the establishment of Israel, the JNF reinstated its settlement activities and became the central settlement body, providing the myriads of immigrants with their initial livelihood working on forestation and land development projects. In 1958 it began the work of draining of the Hula swamps. (It now seems that the necessity and justification for that project were doubtful and that the draining of the Hula caused great damage to the environment. Indeed, since 1991 the JNF itself has invested massive sums in the rehabilitation of the Hula and in a project that is intended to prevent the flow of pollutants from the valley into the waters of Lake Kinneret.)<sup>5</sup>

## **Covenant with the Government**

On November 28, 1961, a covenant was signed between the state and the JNF. This covenant is of great importance because it is the basis for all the JNF's activities since then and the basis for all cooperation between the JNF and the state. It is the document that has dictated the manner of the JNF's operation in Israel.

The significance and the perplexities of this covenant will be addressed at length later in this paper.

Clause 3 of the covenant states:

“The government of Israel and Keren Kayemeth LeIsrael [JNF] have resolved to end the duplication resulting from the administration of their lands by different agencies, to concentrate the administration, conservation and care of these lands in the hands of the state. All the lands of the JNF (whether purchased in the past or to be purchased in the future) and the state lands will be administered by one body, the ILA, that will be set up for this purpose and that will administer the lands for the JNF and will transfer to it the revenues from the lessees and tenants....”<sup>6</sup> (author's emphasis).

Although this clause of the covenant solved the problem of duplication by centralizing the management of the land in the hands of one body and the government, it created even greater difficulties.

Clause 4 of the covenant states:

“The lands of Israel will be managed in accordance with the law, that is to say in accordance with the principle that land is not sold but rather only leased, and in accordance with the land policy that will be set by the council...the council will set the land policy with the goal of increasing the ability of the land to absorb [settlers] and to prevent the concentration of land in the hands of individuals” (author's emphasis).

This clause in effect prevents the existence and development of a land market in Israel.

Clause 6 of the covenant states:

“Any transaction concerning Israeli lands will be handled by the ILA in the name of the registered owners of such lands and serving as agents, and all the fruits of those lands are the property of the registered owners, and the state accepts upon itself, in exchange for this agreement, to bear the costs of the administration.”

The meaning of this clause is that the state will cover all the administrative costs of the JNF's lands that are in the hands of and administered by the ILA.

Until 1994 the JNF indeed paid no administrative fees to the ILA for the administration of its lands. After repeated demands by the ILA that the JNF pay administrative fees, the JNF

decided to pay. In 1994 the JNF paid the ILA some \$58 million in administrative fees. In 1995 the JNF paid the ILA about \$63 million, and in 1996 it paid about \$78 million.<sup>7</sup>

In 1997 a disagreement suddenly erupted between the ILA and the JNF regarding the administrative fees that the ILA demanded from the JNF for the administration of its lands. Given the drop in development costs with the tapering off of the mass aliya, and given that the JNF refused to pay anything, the ILA demanded that year that the JNF pay about \$35 million in annual fees for the administration and development of the lands.

Following the JNF's refusal to pay even this, the ILA deducted that sum for the administration fees, about \$35 million, from the leasing fees and the profits that the ILA was supposed to transfer to the JNF. After negotiations the parties reached a compromise on the sum of \$29 million per year that would be deducted from the profits due the JNF in lieu of administration fees.<sup>8</sup>

Gideon Vitkin, CEO of JNF's subsidiary Hemanuta claims that in the mid-1970s the JNF and the ILA reached an understanding whereby the JNF would bear administration expenses at a rate of 38 percent of the ILA's budget. This understanding was finalized even though the proportion of the lands owned by the JNF stands at only about 12 percent of all the lands administered by the ILA, and despite what is stated in the covenant.<sup>9</sup>

It should be noted that this understanding was never instituted and there was no legislation or decision by the Israel Lands Council that would arrange the participation of the JNF in this matter. Even the compromise that was reached, whereby the JNF will pay \$29 million as administrative fees, is very perplexing. After all it is the state that is supposed to bear the ILA's administrative expenses, and is the state that is supposed to finance the management of the lands owned by the JNF. The state had done so until 1994.

It was likewise stated in the covenant that the preparation and forestation of all state lands would be centralized in the hands of the JNF, which would set up the Land Development Administration for this purpose. The activities of this administration would focus on the preparation, development and forestation of all state lands.

Clause 14 of the covenant states: "The expenses involved in the preparation, development or forestation activities of Israeli lands will be borne by the registered owners of the lands on which the activities take place...If the government imposed upon the Development Administration to carry out preparation, development or forestation activities on the lands registered in the name of the JNF and the JNF notified the government that it was unable to carry out [the activities] at its own expense...*the government will bear the expenses involved in the said activities and these expenses will be paid to the JNF, whether by grant, by loan, by an exchange of assets*"<sup>10</sup> (author's emphasis).

The covenant also added new duties to the activities of the JNF: the redeeming of land from desolation, dealing in *hasbara* (propaganda) and providing Jewish-Israeli education. According to clause 16, "the government will extend aid to the JNF for *hasbara* and propaganda activities in Israel and abroad."

This clause, too, and the expenses incurred by it arouse astonishment that will be addressed at length below, because the JNF is undertaking information campaigns abroad in addition to those of the information branch of the Foreign Ministry and the activities of the Education Ministry and the Absorption Ministry, which also conduct the same informational activities.

### **The Incorporation of the Company**

Before we examine the problematic activities of the JNF that are based on the regulations and covenant cited above, it will be worthwhile to take a look at the structure and history of the JNF.

In 1901 the JNF became incorporated as a private company registered in England. With the enactment of the JNF Law in 1953, the JNF registered as an Israeli company and the English company's assets were transferred to it.

The JNF Law (1953) states in clause 6 that it is permitted to set up an incorporated body in Israel for the continuation of the activities of the existing company that was founded and incorporated in the Diaspora. The law likewise states that the laws pertaining to the new company will be the laws pertaining to local government authorities in Israel.

The JNF is registered as a private company.<sup>11</sup> Despite this fact the JNF is a national government body defined as a private company. The Finance Ministry also claims that the JNF is a national body. In a letter written by Yuval Rachlevsky, the supervisor of wages at the Finance Ministry, to the director general of the JNF in May 1999, he wrote, "The JNF is a public body, or at least pseudo-public, inasmuch as the monies that reach it originate from assets that belong to the public (revenues from the leasing of the lands) and it is therefore actually a body that relies on the public coffers....This being the case the norms that are customary to public bodies should apply to it...."<sup>12</sup>

### **The Company's Board of Directors**

The activities of the JNF are supervised by a 36-member board of directors that reproduces the executive of the Zionist Organization, which is composed of representatives of all the Zionist bodies in the Jewish world. The board members are appointed on the basis of a political party key. Forty percent of the board members come from the Jewish Israeli political parties, while sixty percent are from Jewish political and organizational bodies around the world: Hadassah, B'nei Brith, Maccabi, the Sephardic communities, WIZO, the Reform Movement, the Conservative Movement and others.<sup>13</sup> In fact the JNF is a political (and politicized) body, in addition to being an arm of the state often free to act independently of it.

Moshe Rivlin served as director general and chairman of the board of the JNF for 21 years, from 1977 until January 1998. When he retired the organization created a new position for him and he became the "president" of the JNF. This position is unpaid but comes with valuable benefits such as a car, chauffeur, office services, hotel and dining expenses and hospitality expenses. The expenses incurred by this position are estimated to be more than \$245,000 per

annum.<sup>14</sup> In November 1998, Rivlin was forced to resign his position following the publicizing of loans from the coffers of the JNF totaling \$100,000 that he had approved for himself.<sup>15</sup>

In January 1998, with the retirement of Moshe Rivlin from his position as director general and his appointment as president, the two largest Israeli political parties could not reach an agreement between themselves regarding a fitting candidate for the sought-after position. As a compromise they agreed to appoint Shlomo Gravetz from the Betar Movement (Likud) as chairman in rotation with Yehiel Leket from the One Israel Party (formerly the Labor Party). Leket would serve during the first two-year period as co-chairman (also a new position specially created in the wake of the difficult problem) until 2000, at which time the two would switch positions for two years. The full-time deputy chairman of the board is Haim Cohen.

The salary of the chairman of the JNF is linked to that of the prime minister with an additional 25 percent “national institutions supplement” (which is a supplement given to all Zionist Organization employees and employees of the JNF). There are other benefits that will be at his disposal when he retires from his position: an office, driver, assistant, and a car for life on the model of Mr. Rivlin just noted.<sup>16</sup> On August 15, 1998 the Executive Council decided to make the salary of Co-chairman Yehiel Leket equal to that of Chairman Shlomo Gravetz (the cost of this parity is about \$12,500 per annum). Shlomo Gravetz claims that the parity of terms stems from the fact that he and Yehiel Leket are managing the JNF together and bear equal responsibility.

The above describes the structure of the JNF. Now let us take a look at its activities. Some noteworthy activities undertaken in the past by the JNF are:

- 1971-1980 – The preparation of the land infrastructure for the Besor region (Pithat Shalom) to which a number of settlements transferred after the peace accords with Egypt; expansive forestation operations throughout Israel.
- 1981-1990 – Infrastructure work at various tourist sites such as those in the Lake Kinneret region; the installation of thousands of picnic facilities in forests; archeological digs in Beit She’an (these activities were undertaken by the JNF despite the existence of an Antiquities Authority that is the official government body that conducts archeological digs); the excavation of artificial lakes in the Sapir Park in the Arava region and in the Timna Park near Eilat; the construction of water reservoirs in the Beit She’an Valley region and in the Besor region in the Negev in order to store rainwater (the Mekorot government company has a monopoly in Israel on water matters and it is unclear why the JNF also needs to be involved in the water economy); and large drainage projects in the Jezreel Valley.
- A huge wave of immigration from the Commonwealth of Independent States (the former Soviet Union) started in the early 1990s and the JNF joined the effort for immigration absorption. It prepared close to 50 absorption sites for immigrants (caravan sites), ran social absorption activities, the children of the immigrants were hosted in JNF youth camps and the adult immigrants were taken on tours to familiarize themselves with the country.

- 1991-1995 – The Hula rehabilitation program designed to prevent the flow of pollutants into Lake Kinneret and to make the land fertile again for agricultural purposes; the employment of immigrants in forests; the establishment of tourist sites and the construction of dozens of water reservoirs all over the country.
- 1995-2001 – The “Flourishing Negev” project for the development of agriculture and the establishment of settlements in the Negev and the Arava, via the construction of water reservoirs, the development of water sources, and the preparation of land for the absorption of dozens of families in the Arava; the preparation of infrastructure for hothouses, orchards, olive groves and pools for fish farms.
- 1998 – The JNF accepted the task of bringing the streams of Israel back to life and undertook to build drainage systems for the streams, direct their flow, reinforce their banks and establish parks on the banks of the larger streams. In 1998 the rehabilitation of 12 streams cost some \$6.3 million and in 1999, \$6.4 million was invested in the rehabilitation of 13 streams.<sup>17</sup>

Even today the JNF continues to build water reservoirs. This activity is of great significance to the water economy in Israel. So far the JNF has built about 115 reservoirs with a total capacity of some 100 million cubic meters, representing six percent of Israel’s average annual water consumption. The JNF has invested NIS 313 million in these efforts. The JNF invested \$8.75 million in the construction of reservoirs in 1999, and \$12.16 million in 2000.<sup>18</sup>

### **The Assets of the JNF**

The JNF owns 2.6 million dunams of land, representing about 17 percent of the area of Israel (1 acre = 4 dunams). About 2.4 million dunams of this land are managed by the ILA, while the rest is managed by Hemanuta, a subsidiary of the JNF.

The data in table 1 shows that over a million dunams (1,081,000 dunams in Jerusalem, Haifa, Tel Aviv and the Center) of the land owned by the JNF are located in urban communities and not in open areas.

One and a half million dunams of the JNF lands were purchased prior to the establishment of Israel, an additional million dunams were purchased in 1953 from the Development Authority, which is the body responsible for “absentee property,” meaning Arab property that was abandoned following the War of Independence in 1948. The acquisition of these lands by the JNF was done in exchange for a symbolic payment of IL 25 per dunam, in installments of IL 4 million per year, with an annual interest rate of 2.5 percent, unlinked to the Consumer Price Index.

The late Knesset member Yohanan Bader claimed that even those sums, which in no way reflect the true value of the land, were not actually paid by the JNF but were simply recorded to its credit in the government’s accounts.<sup>19</sup>

Table 1

**JNF Lands Managed by the ILA According to Administrative Region**

| Organized Land Area* under the Management of the ILA (in thousands of dunams) |               | JNF Lands under the Management of the ILA (in thousands of dunams) |   |
|---|---------------|--|---|
| Region  | Total         | Area   | Percent of the ILA's Land in the Region |
| Jerusalem   | 1,697         | 445  | 26%                                     |
| North   | 4,424         | 950  | 21%                                     |
| Haifa   | 923           | 204  | 22%                                     |
| Center  | 1,297         | 409  | 32%                                     |
| Tel Aviv  | 167           | 23   | 14%                                     |
| South   | 12,027        | 378  | 3%                                      |
| <b>Total in all regions</b>   | <b>20,534</b> | <b>2,409</b>   | <b>12%</b>                              |

Source: Finance Ministry, *ILA Budget Proposal for 2001* (Jerusalem: Finance Ministry, 2000), p. 35. [Hebrew] The above data is divided in accordance with the ILA's own division of regions.

\* Organized land – land whose ownership is clearly known. In addition the ILA has possession of 746,000 dunams of land whose ownership is unknown or disputed (see Finance Ministry, *ILA Budget*, p. 35).

Table 2

**Forests and Natural Pastures Managed by the JNF (dunams)**

| Forested Area | Area Planned for Forestation | Empty Area | Total   |
|---------------|------------------------------|------------|---------|
| 852,128       | 20,305                       | 88,548     | 960,981 |

Source: JNF, *JNF Activity Report 1998-1999* (Jerusalem: JNF, January 2000), p. 49. [Hebrew]

The JNF also owns property of missing persons and victims of the Holocaust. JNF Chairman Shlomo Gravetz told a state commission of inquiry regarding the location and return of property owned by Holocaust victims that 600 plots of land were in question and that he himself did not know how many dunams were involved. He knows that 366 plots were privately owned by Holocaust victims, 152 plots were transferred to the JNF by the Kishon company, 47 by the Hachsharat Hayishuv Israel Land Development Company (ILDC), and 29 by the Ma'agal company. (These three companies managed the land of private individuals before the establishment of the state. With the establishment of the state they transferred to the JNF lands that had been in the possession of Holocaust victims). The historian Prof. Yossi Katz, on the other hand, told the commission of inquiry that according to documents in his possession the JNF has 920 plots of land that had been privately owned by Holocaust victims.<sup>20</sup>

The JNF also owns land beyond the borders of Israel: a few thousand dunams in the Gaza Strip, which is currently under the control of the Palestinian Authority (PA) and broad tracts of land and in Areas A and B in Judea and Samaria, which are also controlled by the PA. The Deheisheh refugee camp, for example, is situated entirely on land owned by the JNF.<sup>21</sup> The JNF owns 53,000 dunams of land in Syria in a region located about 30 kilometers south of Damascus. These lands are registered in the name of the JNF in the Syrian land registry. Additional tracts of

land owned by the JNF are located in Jordan, mainly in the area of Naharayim that was transferred to Jordan following the peace accords. These lands are registered in the JNF's name in the Jordanian land registry. All the land was purchased by the JNF before the demarcation of borders recognized today.

The JNF's activities "in the field" are conducted mainly through its subsidiaries:

- **The Land Development Administration (LDA)** – develops and plans infrastructure, forestation operations, the maintenance of the forests, the rehabilitation of water sources, the construction of water reservoirs, parks, and more. The LDA also prepares land for agriculture despite the skepticism regarding the necessity of this industry in Israel in light of the condition of the water economy and the cost of manpower.

**Table 3**

**Preparation of Land for Agriculture According to Regions  
(Costs are in thousands of shekels)**

| Region       | 1998          |               | 1999          |               |
|--------------|---------------|---------------|---------------|---------------|
|              | Dunams        | Cost          | Dunams        | Cost          |
| North        | 3,550         | 5,607         | 2,640         | 3,426         |
| Center       | 2,896         | 1,152         | 2,165         | 1,520         |
| South        | 6,440         | 10,790        | 5,490         | 7,154         |
| <b>Total</b> | <b>12,886</b> | <b>16,949</b> | <b>10,295</b> | <b>12,100</b> |

Source: JNF, *JNF Activity Report 1998-1999* (Jerusalem: JNF, January 2000), p. 41. [Hebrew]

The LDA also develops and maintains some 400,000 dunams of pastureland and is a partner in the National Pasture Administration, together with the Ministry of Agriculture, the Jewish Agency and the ILA. In 1999 the JNF invested \$600,000 in these activities.<sup>22</sup> The LDA also drains and maintains groundwater aquifers. In 1999 alone, the JNF invested \$1.4 million in this (instead of Mekorot, the government company that has a monopoly over the water economy).

- **The Tel Aviv Development Company** – 91 percent of the shares of this company are held jointly by the JNF and the Jewish Agency (the remaining 9 percent are owned by the Tel Aviv Municipality).

- **The Matzok Mahav Company** – a company that operates heavy machinery for the infrastructure activities of the JNF.

- **The Corporation for the Halting of the Desert** – a partnership between the JNF and the American Forest Services and five universities in the United States. This corporation researches the expansion of deserts around the world and develops methods for coping with this problem. Some of these methods have been implemented successfully in Israel. The corporation is partially financed by the JNF and by an annual budget allocation of \$1 million from the U.S. government.

- **Partnership in Tourism Enterprises** – A plan was drawn up in 1993 by the Housing Ministry, in conjunction with the JNF and ILA, whereby private developers would receive five percent of the JNF's forests (40,000 dunams) for the development of business enterprises in exchange for three percent of the businesses' turnover, which would be paid to the JNF. The JNF would be responsible for paving access roads to the tourist sites and for supplying water. The implementation of this plan led to the establishment of the Monkey Park in the Ben Shemen forest, the horse farm built by Kibbutz Beit Oren, the amusement park beside Kibbutz Nachshon, the lookout and restaurant built by Kibbutz Harel, other restaurants, the Timna Park in the Arava region, the development of the Hoga Gardens as a water park in the Beit She'an Valley, guesthouses in forests and other projects and tourism enterprises on JNF lands.

- **Tour Guides** – In February 2001 the Ministry of Education and the JNF signed a contractual cooperation agreement in order to “attract youth to the goals of the Jewish National Fund, to educate toward the values of the love of the country, nature and the environment. Under the terms of the agreement the Jewish National Fund received the right of first refusal to ‘train tour guides in the education system,’ based on a government decision to have tour guides trained only in accordance with standards to be set by the Education Ministry.”<sup>23</sup>

- **Hemanuta** – The constitution of the JNF does not permit the sale of property registered in the JNF's name, permitting only the leasing of lands for 49-year periods because they are “the lands of the whole Jewish people and national lands cannot be sold.”<sup>24</sup> In order to be able to sell land, the JNF set up Hemanuta, a subsidiary that would handle the administration and acquisition of the JNF's property and the sale of property unencumbered by the restrictions of the JNF's constitution.

Hemanuta owns senior citizens' homes and manages the property of childless people who transfer their property to the JNF in exchange for the right to live on that property, or in a seniors' home run by the JNF.<sup>25</sup>

Hemanuta also owns real estate that was purchased with government funds but is registered in the name of Hemanuta, which is theoretically a private company that can prevent the use or sale of land to entities whom the state cannot legally prevent from using the land.<sup>26</sup> Hemanuta is then something of a “backup” for the state in case it fails to prevent the existence of a market.

The company also owns tracts of land that were given to the PA, such as 25,000 dunams in the Binyaman regional council district and 350 dunams in Beit Jala, north of Bethlehem. Hemanuta has demanded compensation from the government for the lands that were given to the Palestinians, similar to the compensation that it received for land adjacent to Bethlehem that was expropriated and for which the company received \$49,500 per dunam, in keeping with the market value of the land and an evaluation by a land assessor.

Such a demand is literally absurd. The state expropriates thousands of dunams of land from the Arabs and transfers the ownership to the LDA, which sells the land to the JNF at a symbolic price. In the meantime the JNF leases the land to citizens at full price and when the state gives the land to the PA the JNF receives financial compensation from the state according

to the market value of the land, such as the \$25 million that it received for 500 dunams in Bethlehem. In other words, the JNF acquires land at a symbolic price, profits from it and then receives compensation from the government when the land is taken away.

Other famous tracts of land managed and leased by the JNF on the open market in Jerusalem, for example, are the Yeshurun synagogue, the facilities of the Eretz Yisrael hotel, the Khan Theater, 170 dunams in Pisgat Ze'ev, 80 dunams in northern Jerusalem near Kfar Hizmeh on which there are plans to build a neighborhood adjacent to Pisgat Ze'ev, and thousands of apartments in the big cities.<sup>27</sup> In recent years the JNF has continued to acquire ("redeem") land. In 1998 the land department at the JNF, which also manages the Hemanuta's properties, handled the purchase of 42,100 dunams of land inside the Green Line. That year the land department also rented out 23,000 dunams of agricultural land, 5 urban plots and 360 built properties.<sup>28</sup>

### **Work Force**

Up until 1998 the JNF employed over three thousand employees. Some of them were permanent employees and some temporary, and some were otherwise unemployed persons who were occupied in various activities, through a special arrangement with the National Insurance Institute (NII) – in other words the NII paid the JNF for its employment of unemployed persons in make-work projects.

In 1998 the JNF began to make organizational changes that included: 1. A voluntary retirement plan for both permanent and temporary employees; 2. The drafting of a new organizational structure; and 3. Raising the status of the temporary employees to be on par with that of the permanent employees.

Taking advantage of the voluntary retirement program were 208 permanent employees and 440 temporary employees, and the employment of the unemployed was halted in December 1998. The entire work force shrank by 1,220. The JNF currently employs about nineteen hundred people.

### **Budget**

The JNF's budget totals some \$250 million a year. Since 1998 there has been a reduction in the budget due to the economic slowdown in Israel, which has also affected the real estate market. There has also been a drop in the revenues of the ILA, which manages most of the JNF's lands and transfers most of its revenues to the JNF. About \$50 million is invested in forestation projects. This sum is only a fifth of the JNF's budget, while most of the budget is applied to maintaining and managing the large staff and to various development activities. "Seventy percent of the budget is invested directly in land and its development," said JNF's president, Moshe Rivlin.<sup>29</sup>

**Table 4**  
**Number of Employees in Recent Years**

| Year | Total Number of Permanent Employees | Unemployed People Specially Hired | Forest Department Employees |
|------|-------------------------------------|-----------------------------------|-----------------------------|
| 1993 | 1,250                               | 3,005                             | 1,250                       |
| 1998 | 2,200                               | 550                               | 1,500                       |
| 1999 | 1,900                               | None                              | 1,100                       |
| 2000 | 1,900                               |                                   | 1,100                       |

Source: *Ha'aretz*, October 7, 1998; JNF, *JNF Activity Report 1998-1999* (Jerusalem: JNF, January 2000), p. 14. [Hebrew]

### Budget Sources

These are the sources of the JNF's funds:

- Revenues from the leasing and use of the land via the ILA.
- Revenues from donations. The fundraising method currently used by the JNF is not for the JNF in general, via the "Blue Box," but rather via the sale of projects.<sup>30</sup> For example, a certain community in the U.S. builds a water reservoir at Kibbutz Gesher, or someone donates a meadow and comes to Israel to see which meadow it is. Another example is the promenade in Mitzpe Ramon, which was donated by a family from Switzerland. An old form of fundraising that was only recently made public was the sale of the names of settlements. The JNF sold the names for a reasonable price, which is how Kfar Yehezkel was named after a donor who gave IL 63,000, and similarly Ramat Yohanan and Kfar Marmorek, near Rehovot, were named for individuals. The name of Kibbutz Tel Amal was likewise changed to Nir David in honor of David Wolfsohn.<sup>31</sup>
- Living Wills: There are two types of living will transactions: When a childless senior who owns an apartment transfers possession of the apartment to the JNF, in exchange for the right to live in protective (senior-citizen) housing for the rest of his life; and an inheritance transaction, in which the property is transferred to the JNF or put under its authority and the owner receives the right to live in the property itself. The JNF received legal permission to handle living will transactions as part of the JNF Law (1953).<sup>32</sup>
- Revenues from the Ministry of Science, Culture and Sport. The ministry allocates a budget for the planning and rehabilitation of 50 historic sites being maintained by the JNF.
- Revenues from the sale of wood to the plywood industry. In 1996 the JNF sold \$6 million worth of trees to this industry. Israeli imports of raw wood total about \$200 million annually. The JNF claims that by 2007 it will be able to supply all of Israel's lumber needs.<sup>33</sup> The JNF has a commitment to supply the M.D.F. factory with 80,000 tons of wood a year for ten

years (the M.D.F. plywood factory was set up to process the trees cut by the JNF. The factory has recently run into financial difficulties, due to problems in obtaining raw materials).

- A research budget of \$1 million per year from the U.S. government since 1990, as mentioned above.

**Table 5**

**JNF Budget and Revenues  
(in millions of shekels\*)**

| Year | General Budget | Revenues from the ILA | Revenues Including Donations** |
|------|----------------|-----------------------|--------------------------------|
| 1997 | 900            | 800                   | 1,000                          |
| 1998 | 1,000          | 800                   | 1,000                          |
| 1999 | 693            | 576***                | 770                            |
| 2000 | 774****        | 449                   | 650                            |
| 2001 |                | 474                   | 670                            |

Source: Based on Finance Ministry, *ILA Budget Proposals* for 1997-2001 (Jerusalem: Finance Ministry); JNF, *JNF Activity Report 1998-1999* (Jerusalem: JNF, January 2000). [Hebrew]

\* See footnote 2 for dollar/shekel exchange rate table.

\*\* Excluding income from the JNF's other non-fundraising activities, whose scope is not known, but which are certainly substantial, and based on average annual donations of \$40 million, as reported by the JNF.

\*\*\* The drop in revenues stems from the economic slowdown in Israel and increased administrative expenses.

\*\*\*\* The real growth in the budget compared to the previous years stems from increased investments in land and the organizational changes in the work force, following which NIS 100 million worth of land was transferred for development.

Now that the scope of the JNF's activities has been clarified, this paper will address the influence of the JNF on the real estate industry in Israel and on the land policy.

### **The JNF's Land Policy**

The term land policy refers to the strategy that defines the goals that the policy is expected to achieve, the ways and means for achieving these goals, and the organizational, legal and administrative framework within which the policy is executed. The land policy includes the means to intervene with land rights and in the free market in order to promote public and national goals. The policy also includes means that are instituted by the government and the local authorities, such as taxation, expropriation, subdivision, registration and restrictions on the use and supervision of land.

### **The Legal Framework**

Although the ILA was founded only in 1960, it is clear that it sprang from the policies of the Zionist Organization, the Jewish Agency and the JNF from before the establishment of the state. These bodies in effect dictated government policy in the past. The policies of these bodies were based on two main strategic and ideological considerations. The strategic consideration, which has already been discussed, was the need to gain control of as much land as possible to put

in Jewish hands, in order to create or ensure the boundaries of the state that was about to be established. The ideological consideration stemmed from the sociological philosophy of the central stream in the Zionist leadership, which opposed private ownership of lands for ideological reasons, namely that private ownership leads to the unjustified wealth of the few; private ownership causes speculation and a subsequent increase in the price of land; it also causes over-urbanization and hampers the struggle for the return of the Jews to the soil.

These were the reasons behind the aspirations of Israeli governments to retain the permanent public ownership of the land of Israel. The government even anchored this desire in the Basic Law on Israeli Lands (1960), which has only three clauses:

1. A prohibition on the transfer of Israeli lands – owned by government, the LDA or the JNF – via sale or by any other method (such as a gift). Even the transfer of ownership to local authorities is forbidden (unless it was expropriated by them).
2. The above notwithstanding, the right to transfer ownership may be granted if accomplished by enacting a law. Despite the covenant between the state and the JNF, this option is not applicable to the lands owned by the JNF.
3. The term “land” includes the land itself and/or anything built on or permanently attached to it.

Not one of the Western countries has laws guaranteeing the public ownership of land. On the contrary, there are many states which actually enacted laws protecting the private acquisition of land. In 1992 Israel also enacted such laws.<sup>34</sup> This irregular situation is remarkable mainly for the fact that all Israeli lands, whether lands designated for national parks and the like or lands for construction, are only for lease and cannot be purchased.

Along with the Basic Law, the Israeli Lands Law was passed in 1960, with most of its clauses devoted to a list of transactions not covered by the Basic Law, and which do permit the transfer of ownership. The ILA Law (1960) called for the establishment of the Israel Lands Council and the ILA and dictated their work methods. The council had to have at least 18 members and no more than 24. Half of the council members are government representatives and half of them are from the JNF, with a government minister serving as council chairman.

### **The Institution of the Policy**

The ILA today is the body through which all the government’s land policies are applied to land in Israeli territory. The ILA decides who will receive the land, what price he will pay for it and the conditions for the use of the land. Like all the government organizations, the ILA is not influenced by market forces and is not obligated to maximize its profits. It sometimes happens, however, that the prices demanded by the ILA for leasing its land bear no relation to market prices or economic reality, and if the land does not sell, the Israeli government does not lose out and is not worried.

Another problem raised by attorney Avi Drexler, a former director general of the ILA, is that “in 1999 the administration [the ILA] understood for the first time that it is unable to cope with the sophistication of the real estate market and to manage a system that executes annual transactions to the tune of NIS 5 billion. Since 1961 the administration has been operating within the same structure and in the same framework, without any changes.”<sup>35</sup>

In recent years the policy of the ILA has been characterized by inconsistency. Every Israeli government has changed the ILA’s policy for political reasons and not for any real economic reasons. Paul Rivlin discussed this at length in *The Land Ownership System in Israel and the Sale of Public Lands*.<sup>36</sup>

As stated above, part of the covenant between the state and the JNF states that the management of the JNF’s lands will be handled by the ILA and that the JNF would have a 50 percent representation on the Israel Lands Council, which is the body that is supposed to supervise and outline the policy of the ILA.

The ratio between the number of JNF representatives and government representatives on the council is totally out of proportion to the ratio between JNF’s assets and the total lands managed by the ILA. Half the council members are JNF representatives while only 13 percent of the lands managed by the ILA belong to the JNF. Hypothetically, one might think that this more balanced division of the government representatives and those of the JNF would temper political decisions and influences on land policy. But that is not the case. The JNF cares only about its own interests. History has proven (as will be illustrated below) that even when specific decisions were made for the benefit of the public and the Israeli economy, when these were contrary to the selfish interests of the JNF, the JNF opposed them and even tried to torpedo the implementation of the decisions.

Below is a survey of the main changes in Israeli land policy over the years, and their relevance to the JNF. The leasing period in urban areas is 49 years with extension rights for an additional 49 years. In the past it was unclear under what conditions the extension would be granted. At the beginning of the 1980s, when the early leasing contracts began to run out, it became clear that from a social and political perspective it would be unacceptable to the ILA and the Israeli government for the tenants on the lands to be evicted or to have to pay a high sum for the renewal of the contracts. Ever since then the cost of renewing leasing contracts has gone down. During the capitalization campaigns of 1994-1996 (“capitalization” means the renewal of the leasing contract and the payment of advances for future leasing contracts in accordance with the current value of the land<sup>37</sup>) the public was offered contracts in which it was stated that the lease would be renewed at no additional cost when the time came.<sup>38</sup>

### **The Tsaban Commission**

In 1995 the ILA set up a commission headed by the ILA’s marketing manager, Dror Tsaban, and attorney Azari Levy. The commission’s task was to propose changes and improvements in the ILA’s work and to improve the service to the citizenry.<sup>39</sup>

The main points of their recommendations were:

1. The buyer of an apartment that is on government land will have to pay 98 percent of the land's value at the time of purchase, instead of the 91 percent charged until then. In exchange, the buyer will receive a leasing contract for 98 years (capitalization – with no annual lease payments).
2. The following payments to the ILA will be cancelled: annual lease payments, assent payments when the property is sold, and permit fees for the expansion of building rights on the property (under certain conditions).

Decision 747 of the council favored accepting the recommendations of the Tsaban Commission and decided to charge a council subcommittee with determining the best way to implement the commission's recommendations. Decision 747 was never actually implemented, for the following reasons:

- The subcommittee never submitted its suggestions for the implementation of the commission's recommendations.
- JNF representatives refused to accept the recommendations at a meeting of the land council. Their main objection concerned the recommendations that affected the leasing of lands.

Uzi Wexler, the director general of the ILA at that time, suggested a compromise solution, whereby the leasing period would be for four periods of 49 years, in addition to which the JNF would receive a permit to quarry land in the south of the country. Following negotiations on the matter the JNF agreed to accept the compromise proposal from the council.<sup>40</sup> The ILA began to draft new leasing contracts in accordance with the recommendations of the Tsaban Commission. The ILA felt that it was time to cancel some of the clauses in the previous contracts, such as: "No person may stay overnight an the apartment without the permission of the ILA," "Animals may not be brought into the apartment without the permission of the ILA," and so forth. These clauses were removed from the contracts. In addition, the contracts were worded in the spirit of the recommendations but with one small change: Instead of two periods of 98 years, it was decided to set four periods of 49 years (in accordance with the agreement reached with the JNF).

After the compromise agreement with the JNF, when everything was theoretically settled, Wexler's term of office ended, and with it the implementation of Decision 747, including the compromise and all its components.

### **The Ronen Commission**

In 1996, Ariel Sharon, in his capacity as minister of national infrastructure, decided to set up the Ronen Commission, headed by Dr. Boaz Ronen, and with the participation of Dr. Zvi Liber and Arnon Rabinovitz. The commission's task was to "reexamine the land policy in Israel." The commission was established in the wake of numerous complaints regarding the ILA's work and the bureaucracy at the ILA's offices, in addition to the non-implementation of the recommendations of the Tsaban Commission (Decision 747).

On April 4, 1997, the Ronen Commission submitted its report and its recommendations. The practical implication of these recommendations was the gradual privatization of national lands and the permanent transfer of rights to possess the lands.

The commission's recommendations were:

1. Reducing the cost of apartments in order to provide a suitable and affordable solution for people seeking housing throughout the country.
2. Privatizing the ownership of land by granting full ownership rights to apartment owners in capitalized urban apartment buildings (capitalized, meaning for which the annual lease fees for 49 years had been paid in advance). In the future, the transfer of ownership will be expanded for the use of land for other purposes and other types of buildings: After four years (meaning 2001) the transfer of ownership will be expanded to include separate urban homes on their own plots. After ten years (in 2007) the transfer of ownership will be expanded to rural residential dwellings. The essential prerequisite for the implementation of privatization is the alteration of the ILA Law and the changing of the covenant with the JNF.
3. The reduction of the bureaucratic dependence of the lessees on the ILA and recommendations for improving the work of the ILA.
4. The broadening of purchasing rights and of the lessee's rights to benefit from the land.

The commission likewise recommended changes to the policy regarding the rezoning of agricultural land. The recommendations for these changes have been frozen since 1997 and have not been discussed by the land council due to an interim ruling by the High Court of Justice in 1997, following a petition by the settlement movements (settlements referring to the historical movements in Israel, not to Gush Emunim) in which they expressed apprehension over the prejudicing of "their rights" to the land.<sup>41</sup> There is also a political dispute regarding agricultural lands.

The implementation of the recommendations of the Ronen Commission would have the following far-reaching effects on the Israeli economy, on the government's expenses in general and on the real estate market in particular:

1. The encouragement of private land enterprises.
2. The reduction of friction between the lessees and the ILA after the leasing of the land.
3. The reduction of the administrative burden of the ILA and a significant decrease in the budgetary expenses of the state and the ILA, whose expense budget is close to \$1.2 billion. The ILA's direct expenses for the handling of lessees, leases and information systems for the public amount to \$48 million.<sup>42</sup> It should be noted that the commission's recommendations would not cause a drop in the ILA's revenues because its tenants would be required to pay one-time capitalized payments, while the ILA's expenses for ongoing management over the years would be substantially reduced.<sup>43</sup>

The JNF, however, disagreed with the recommendations of the commission. The special need to convince the JNF stems from the fact that most of its lands are concentrated in high-demand areas, accounting for about half of the ILA's lands in those areas (six hundred thousand apartments and sixty thousand homes). Without the JNF's consent it would be impossible to transfer the possession of those lands to private ownership.<sup>44</sup>

The opposition voiced by the JNF stems mainly from ideological considerations, based according to an article in the JNF-sponsored *Karka* magazine, on the contention "that the recommendations of the Ronen Commission on selling national lands are not motivated by nationalistic-Zionist considerations and there is a risk that they will undermine the foundation on which the state of Israel was established."<sup>45</sup> The JNF objects to the sale of land to the public and to the recommended privatization and is relying on the covenant signed between the JNF and the state, according to which lands will not be sold but will rather be granted only as leaseholds.

Three other objections were raised by the JNF:

1. "The sale of developed lands may well reduce the administrative burden on the ILA, but one cannot ignore the fact that such sales will also release thousands of lessees from any attachment to national ownership."

This claim is demagogic to the core. The term "national ownership" is incomprehensible. The state of Israel has already been established. The state is a sovereign entity and even if a private body were to buy land it would not be able to transfer the sovereignty of that land to another state. Moreover, the private owners of a plot are subject to the government and they are not sovereigns on their land, or do they own the land in fact.

This same goal could likewise be achieved through general legislation, and the advantage would be that such laws would also apply to privately owned land. A study conducted by Prof. Yehoshua Weisman revealed that there are more than a few countries that have laws on their books restricting or forbidding the transfer of land (in various ways) to foreigners (European Union member states have requested to gradually remove these prohibitions regarding citizens of EU countries).<sup>46</sup>

It should be noted that there are currently no Israeli laws that provide any protection from the sale of privately owned land to foreign entities or to "hostile entities." Foreign entities do purchase land in tenders issued by the ILA, through Israeli representatives. Some examples are the Herzliya marina project and the Aviv Gardens project in Lod, which was purchased by a French investor via an Israeli representative, attorney Dror Hoter-Yishai.<sup>47</sup> At a symposium at Tel Aviv University on May 26, 1997, then Infrastructure Minister Ariel Sharon said, "Forty percent of the apartments in Tel Aviv and a high percentage of the apartments in Jerusalem are built on private land. Have we witnessed a wave of Saudi acquisitions in Tel Aviv? No. The alarm being raised has entirely different reasons."<sup>48</sup>

2. The implementation of the recommendations "will cause serious damage to the development needs of the state because the national ownership of the land serves as a guarantee for the setting of land policy in keeping with continued development and the absorption of immigrants."

This claim also has no basis. The state retains the right to expropriate lands for public needs and the ILA makes acquisitions for public purposes, such as the needs of government ministries, settlement and security; in cases in which the owners of land are not interested in selling, the state has the option of offering the owners alternate lands or expropriating the land. In 2000 the government spent \$125.7 million on land purchases, alternate land grants and expropriations for public needs. In the 2001 budget proposal there was an allocation of \$112.7 million for these purposes.<sup>49</sup> The claim that national ownership is a guarantee for the continuation of development and immigrant absorption is most perplexing.

It could even be said that activities on which money must be spent would be more effective and efficient than activities on available land that does not cost anything at all, as such activity is sometimes totally superfluous, so that it is preferable to pay for land that is really needed than to retain the ownership of all state lands for those special cases.

An interesting economic argument appeared in the JNF-sponsored *Karka* magazine:

3. “The purchase of land by the public and the transfer of land from one person to another will activate new financial resources and the need for bank credit, the mortgaging of assets and the quick realization of profits, and as everyone knows these are among the main causes of inflation.”<sup>50</sup>

This interesting economic claim is not true. An increase in private enterprises and the competition in the market will cause prices to drop and real wages to rise. The public will save substantial sums that could be put in savings, which will in turn increase the bank’s financing sources and bring down interest rates. As a direct result, investments in the economy will increase, leading to renewed economic growth. The money will be directed straight to investments or to increased private consumption, which will also indirectly lead to accelerated economic growth. Under the current capitalization method, the leasing of the land already costs 91 percent of the real value of the land,<sup>51</sup> and it turns out that investors are not deterred from investing due to the fact that the land will not be sold to them but will rather only be leased to them for 49 years with an option for an extension. Despite the need for bank credit in the amount of 91 percent of the value of the property, inflation has not been caused by the activity in the real estate market.

All the JNF’s claims, some of which are mentioned above, are demagogic to the core. The real reasons that the JNF objects to the implementation of the Ronen Commission’s recommendations are:

1. The JNF’s claim that as the owner of the land it is the one that should benefit from the sale of property and its future improvement, meaning the proposal to sell “saturated” housing (which has at least four housing units on two stories; in other words, apartment buildings). Under the commission’s recommendations, the only entity that will benefit from the huge increase in the value of the land with the planning of a multi-story building in place of an old structure, will be whoever buys the apartment building; and this will be instead of the JNF benefiting as the owner of the land.

2. The implementation of the recommendations would cause a significant reduction in the JNF's revenues. Following the loss of a portion of its income, the JNF will have to decrease the size of its work force.
3. The loss of the power and influence that the JNF has as the largest landowner in Israel, and as a member of the Israel Lands Council.

The recommendations of the Ronen Commission were adopted by the minister of national infrastructure. The Israeli government also approved the commission's recommendations as part of a general decision to adopt the principles that form the basis for the commission's report.<sup>52</sup> Despite this government decision, the JNF managed to exploit the absence of one of the members of the government at a meeting of the Lands Council on May 5, 1997, due to illness, and voted to postpone the vote confirming the recommendations of the council. On June 29, 1997, the Lands Council also passed a motion with a majority of one and in the face of opposition from all the JNF representatives on the council; this decision stated that in light of the dispute and the differences of opinion regarding the recommendations concerning the agricultural land, all the recommendations would be returned for debate by the council, which would now be required to approve each clause individually.<sup>53</sup>

The JNF even disputes the very authority of the Ronen Commission, and whether, after the approval of the principles of the report by the government and by the Lands Council, the reforms for the changes to the policy are fixed and binding, or whether they are only "a platform for a discussion as a framework for policy changes in the future."<sup>54</sup>

The JNF announced that the government's decision was not binding on it and was not applicable to its lands.<sup>55</sup> But that was not the end of the matter. On May 28, 1997, the JNF's legal advisor, Meir Alafia, served the legal advisor to the Infrastructure Ministry with a first notice for the dissolution of the ILA.<sup>56</sup> The JNF threatened that the dissolution of the ILA would be implemented if the infrastructure minister initiated legislation to reduce the number of the JNF's representatives on the Lands Council. In the notice the JNF wrote: "The Infrastructure Ministry is prevented from taking legislative initiative. The covenant cannot be changed unilaterally and any change to it requires the agreement of the other party with six month's notice regarding such [change]."<sup>57</sup>

Even after the approval of the recommendations by the Lands Council, the JNF seems to claim that it did not have to accept the change in policy that was passed by a majority of only one vote and further argued that this was an abuse of the power of the majority.<sup>58</sup> The JNF said that the Lands Council was only a "trustee" of the JNF's property and there are principles governing trusteeship that the trustee cannot change, such as safeguarding the ownership of land by the JNF and safeguarding the JNF's right to benefit from the fruits of the use of the land. It is unacceptable, the JNF said, that the majority should force a change on the minority in matters of principle.<sup>59</sup>

In June 1977 the Lands Council decided to initiate action, against the wishes of the JNF, to transfer the ownership of seven hundred thousand housing units "with capitalization contracts in urban areas" (meaning contracts that would undergo the capitalization process by the time

ownership was transferred). In actual fact the ILA embarked on a campaign to capitalize the land of lessees in apartment buildings and by August 2000, 114,000 leases had been capitalized.<sup>60</sup>

Despite the JNF's threats in the notice to the Infrastructure Ministry, on July 8, 1998, then Infrastructure Minister Ariel Sharon proposed a law changing the make-up of the Lands Council. He proposed increasing the number of public representatives by six, such that the council would have thirty members, and since the number of JNF representatives would not be altered, the government would be assured of a clear majority. The bill passed its first reading in the Knesset and was transferred to the Economics Committee to be prepared for debate. The bill was then "buried" in the committee and was never submitted to the Knesset for second and third readings.<sup>61</sup> Despite the JNF's threats, it did not leave the Lands Council following the presentation of the bill. The JNF probably did not leave the council because it would have been the primary loser by doing so, because it is incapable of managing all its lands without paying management fees, or at the symbolic fee rates it pays today. The JNF would also lose all its influence over Israeli land policy. Such an inability to influence and to look out for its personal interests would cause a reduction in the profitability of the JNF as the largest landowner in the state.

### **Decision 848**

On November 19, 1998, the Lands Council passed Decision 848 despite the opposition of all the JNF representatives. This decision stated that the leasing period for urban lands to be allocated for tenders after January 4, 1999, would be 196 years and the capitalized leasing fees would continue to be 91 percent of the value of the land.<sup>62</sup> If one were to calculate using the principles according to which capitalization fees had been set at 91 percent until the new decision (the calculation of the current value of the land for 49 years),<sup>63</sup> the economic significance of the decision to lease for 196 years is that the new rate of capitalization fees for the longer period should have been 99.99 percent, instead of 91 percent. And if the remuneration for the longer lease were left unchanged (at 91 percent), this means that the land is being granted at a discount of 9 percent.

It should be noted that from a legal and practical point of view a 196-year lease is like outright ownership. In a ruling handed down by the High Court it was determined that a leasing arrangement with such terms is no different than the full transfer of ownership of the land.<sup>64</sup> The implementation of the decision was postponed until a later date to be determined in the future, because of the influence of the JNF on the Lands Council.

### **Permit Fees**

Leasing fees are determined at the time leasing rights are purchased, in accordance with the value of the land and the conditions prevalent when the contract is drawn up. When there is a change in the use of the land other than that which appears in the leasing contract, the ILA conditions its agreement to such change on the payment of permit fees that are levied in the following instances: changes in building rights (additions to the building), a change in the designated use of the property, and division of the property. Permit fees are set at 51 percent of the value of the general improvement stemming from the requested change (there is also a legal

issue of whether the change in the designation or the use should be viewed as a purchase of the rights to the land, something that incurs the levying of purchase tax).

The ILA claimed that the handling of the levying of permit fees costs the state more than the revenues generated by them. In January 1999 the government proposed an exemption from permit fees. This proposal was supported by the ILA for the above-mentioned reason. The proposal was rejected, however, because of JNF opposition.

On January 5, 2000, the government again proposed the cancellation of permit fees. The proposal again met with the objection of the JNF. "The government's proposal to grant an exemption is unacceptable to the JNF," said JNF Chairman Shlomo Gravetz. "This is because the granting of a sweeping exemption represents a financial benefit of extraordinary scope to the stronger classes [of society]. Permit fees are levied on those who build homes that are more than 160 square meters."<sup>65</sup>

It should be noted that the JNF's interest in not helping the stronger classes is based on entirely different reasons. The main loser from the cancellation of permit fees would be the JNF, which doesn't pay any of the costs for the levying of the taxes called permit fees, because the JNF, in accordance with its covenant, is exempt from paying management fees to the ILA for the management of its lands; but on the other hand it does reap the profits the lands generate.

Another reason for the JNF's objections to the cancellation of permit fees stems from the fact that a change in the designation of land or property requires the return of the original leasing contract to the ILA and the signing of a new leasing contract. In most cases contract renewal fees include the option of extending the lease for an additional leasing period, something that costs the lessee an additional fee of 5.5 percent of the value of the land without the buildings. The JNF is also not interested in losing out on these fees.

### **The JNF's Influence on the Marketing of Land to the Public**

The concentration of the JNF's lands together with those of the state in the hands of one administrative body (the ILA) creates continual conflicts. "The Zionist emotions of the JNF and the economic realism of the ILA cannot live together," said Shmuel Ben Eliyahu, director general of the Housing Ministry.<sup>66</sup>

The ILA sometimes markets lands with phenomenal discounts and leases land for less than its real value. These discounts are granted in specific cases in accordance with government policy in order to promote preferred national goals, such as in development towns, in the Negev and in kibbutzim and moshavim, and are examples of Israeli statism in land policy.

The JNF strenuously objects to the whole issue of discounts on land. In this case the objection may be justified but the reason for the objection is not justified. The reason for the JNF's objection is clear: the granting of discounts causes a reduction in the JNF's profits, because most of the JNF's revenues come from the ILA's revenues from the marketing of land. Even when the state wants to promote projects through private developers, the JNF tries to look out only for its own interests. For example: In 1991 the JNF objected to the expropriation of

1,200 dunams of an area that it owns in Har Homa in Jerusalem. The government's purpose in expropriating the land was to promote the construction of a large Jewish neighborhood in southern Jerusalem. The JNF was interested in handling the whole project itself and therefore objected strenuously. It even claimed that the expropriation was superfluous and was liable to cost the state compensation of \$80 million.<sup>67</sup> The JNF's objection was not accepted by the Ministerial Committee on Jerusalem. The land was expropriated (without compensation of \$80 million) and was sold to private developers and contractors who built the neighborhood and sold the apartments at competitive prices.<sup>68</sup>

The JNF backs up its objections to the discounts policy with logical arguments. "This is discrimination in favor of the preferred sectors, such as the kibbutzim, moshavim..." says Haim Cohen, deputy chairman of the JNF. "Why can a member of Kibbutz Tsor'a, who has been living on the kibbutz for 35 years, now buy his apartment for 11 percent of its value, while a resident of nearby Beit Shemesh who has been living in his apartment the same length of time does not receive such a discount?"<sup>69</sup> There is logic in Haim Cohen's question, but he fails to mention that while the JNF invests a lot of money to ensure the income of farmers (in the project for the growth and encouragement of agriculture in the Negev, for instance), it does not invest in any initiatives to help the unemployed in Beit Shemesh.

Another conflict of interest between the ILA and the JNF is the principle of equality. The state of Israel must treat all its citizens equally. This principle was stated in the High Court of Justice's ruling in the Katsir case, in which the court declared that every citizen of the state has the right to purchase land and build his house on it, even if he is an Arab who wants to live in a Jewish town. The ILA must market its lands to all Israeli citizens.<sup>70</sup>

Contrary to the above, the JNF leases its lands only to Jews. "The Jewish people's ownership of the national lands shall not be transferred to foreign hands," states the JNF's constitution.<sup>71</sup>

In November 2000 a proposal was presented to the Knesset by Knesset Member Amnon Rubinstein for the amendment of the ILA Law. The purpose of the amendment was to strip the JNF of its right to give or withhold its agreement when the ILA transfers or leases the JNF's land to non-Jewish citizens.

Clause 6 of the covenant between the JNF and the state says: "All transactions shall be executed by the ILA in the name of the registered owners of the lands and as agents." If the JNF were truly a private institution and it owned land, then it should have the right to dispose of the land as it wishes. The above proposal would then be stripping private ownership rights. If the JNF is an arm of the state, intervention by the government in land sales is an extension of state power.

Another point of friction between the JNF and the ILA stems from the fact that there is no proper demarcation of the lands owned by the state, the JNF and the JNF lands that are being managed by its subsidiary, Hemanuta. The division of the ownership is sometimes unknown, and there have been cases in which the ILA leased lands belonging to the JNF that had not been

transferred to the ILA. Nachman Shechter, president of an umbrella organization of real estate agents, claims that “the ILA has leased tens of dunams of land that were not in its possession.”<sup>72</sup>

One example of this resulted in the cancellation of a tender for the construction of hundreds of housing units in Har Yona in Upper Nazareth. The tender was cancelled after it turned out that it was not possible to build on the designated land because it was owned by the JNF.<sup>73</sup> The cancellation of the tender had economic ramifications because the contractors who won the tender had already paid for the land and had begun to market and advertise the apartments that were supposed to be built. Even the compensation that will be paid to them for the damages caused by the cancellation will not cover the anguish of the contractors and the buyers or the damage to the reputations of the contractors who were hurt. The ILA also leased lands belonging to Hemanuta that had never been transferred to ILA management, and did so without Hemanuta’s knowledge. This mistake was caused because of other lands that the ILA manages in the same region. The case came to light after one of the lessees submitted an application to build a gas station on land that is currently being used for agriculture.

The ILA claims that the whole subject of the ownership is under investigation. These errors raise questions as to the manner in which state lands are being managed, not just by the ILA, but also by Hemanuta and the JNF.

### **Tax Exemptions and the Effect on the State Budget and Government Expenditures**

Despite the running of the JNF as a private company that looks out for itself and its goals, the JNF is exempt from paying taxes to the state treasury. This exemption has a great effect on state revenues, considering the scope of the JNF’s activities and the extent of the JNF’s revenues. Beyond the effect on the government’s revenues and on the state budget, the exemptions discriminate against the citizenry when the purchase of land ownership rights from a private person requires the payment of purchase tax, while such a purchase from the ILA is tax exempt.

### **The Legal Framework**

The JNF Law (1953) states: “The law of the new company (the JNF) is that of a local authority,” and “in certain matters the company will be exempt from taxes and fees or any other payment that is paid to the state or to a local authority.”<sup>74</sup>

### **Exemption from Purchase Tax**

Purchase tax is levied on the purchase value of a property (including Value Added Tax). Residential apartments are subject to a tax of 0.5-4.5 percent. Land and commercial buildings are subject to a 4.5 percent tax. Until 2000 the JNF was exempt from purchase tax. In 2000 purchase tax was cancelled and in its stead a sales tax was instituted, which will be explained later.

Despite what is stated in the JNF Law, that it is governed by the laws of a local authority, it turns out that the JNF received benefits beyond those granted the local authorities or government companies: The Land Improvement Law (Purchase Tax) (1974) states, “...[T]he World Zionist Organization, the JNF, Keren Hayesod...and Hemanuta are exempt from purchase

tax. A local authority must pay purchase tax at a rate of 5 percent regarding the sale of land rights...the Perazot urban government company for housing in Jerusalem, the Halamish government company...the Shikmonah government company...must pay purchase tax at a rate of 5 percent.”<sup>75</sup>

### **Exemption from Registration Fees**

Clause 10 of the JNF Law (1953) states: “Any transfer of property or obligation, ...and any other action based on the transfer...are exempt from all taxes, fees or other payment that is paid to the state or to a local authority.” The reason for the granting of this exemption from paying fees for the registration of a rental or a mortgage,<sup>76</sup> is the desire to reduce bureaucracy when the land rights are transferred.<sup>77</sup> It turns out that the right to enjoy reduced bureaucracy is reserved for the ILA and the JNF alone.

### **Exemption from Sales Tax**

In 2000 purchase tax was cancelled, as mentioned above, and since then Israeli citizens are not fined for purchasing real estate. Instead a new tax was imposed, called sales tax. The JNF contends that it should be exempt from this tax, too, because it replaces the purchase tax that was canceled and from which the JNF was exempt. In a letter that Shlomo Gravetz sent to Finance Minister Avraham Shochat in November 1999, Gravetz wrote, “It has already been concluded with the previous finance minister, Meir Sheerit, that the JNF will be released from the obligation to pay sales tax.” In the meantime the requested exemption has not been granted. In protest, the JNF has ceased transacting land exchanges with the ILA.<sup>78</sup>

Shlomo Gravetz says that the value of the exemption is in the region of \$2.5 million per year,<sup>79</sup> because the tax will be applicable to land sales only and not to the sale of apartments that the JNF owns by itself or through Hemanuta. It is reasonable to assume that the JNF would not be fighting so hard for the exemption if only \$2.5 million was in question. The JNF’s revenues from the land sales that it transacts for the ILA have reached close to \$200 million per year. \$2.5 million is little more than 1 percent of the volume of the JNF’s land sales, while the sales tax is 3.5-5 percent of the value of the land.

### **Exemption from Income Tax**

By law, the JNF is exempt from paying income tax. Income tax is paid on net profits, and since the JNF does not report to the stock exchange or to the public in any other fashion, it is impossible to know if there are any profits. No response was available from either the JNF or the Finance Ministry on this matter.<sup>80</sup>

### **Exemption from Improvement Fees**

In 1996 and 1997 the Finance Ministry demanded that the JNF pay \$36.1 million per year for improvement fees (fees due on land improvements). This demand was rejected by the JNF, on the perplexing basis that since it pays the ILA a certain sum for managing its lands it is therefore exempt from paying improvement fees.

We must recall that there is an understanding between the JNF and the ILA, according to which the JNF will pay management fees equal to 38 percent of the ILA's budget, even though only 13 percent of the lands managed by the ILA belong to the JNF, and despite the contents of clause 6 of the covenant, which exempts the JNF from paying management fees to the ILA.<sup>81</sup> This understanding was never implemented and was never expressed in either legislation or decisions of the Lands Council; instead the JNF pays an agreed sum of \$25 million per year as management fees. Now a committee including representative of the JNF and the ILA has been set up to determine if the JNF should pay improvement fees.<sup>82</sup>

### **Indirect Improvement**

A government decision in 1995 ruled that, in accordance with a recommendation by the Finance Ministry, government ministries and various other bodies would be required to pay for development expenses that until then had been covered by the ILA. For example: When the Public Works Department makes a road that is intended to develop a new region, the cost of the road must be divided among all the landowners who benefit from it. The immediate significance of this was the loss of \$36.1 million for the JNF in 1996, \$35.9 million in 1997 and \$32.9 million in 1998.<sup>83</sup>

The JNF opposed the implementation of the decision and in 1999 a new arrangement was proposed, according to which the monies from 1998 would not be collected, half the sum paid in 1997 would be returned and none of the sum paid in 1996 would be returned. The JNF objected to this inexplicable arrangement as well and the issue was transferred to the attorney general, for him to deal with. "If the matter is not resolved peacefully," said Shlomo Gravetz, "it will be resolved in court. There is no justification for the expropriation of the money and we will not give in."<sup>84</sup> He added, "They forget that the JNF is also involved in the improvement and development of land. Do they want us to start making an accounting so that we can tell them how much they owe us for the improvement?"<sup>85</sup> In the meantime the JNF is paying only direct development and improvement costs for the development that is being carried out on the land itself and not for development that affects the value of the land, such as roads in the area.<sup>86</sup>

"Even those sums are inaccurate," contends Attorney Azari Levi, formerly an assistant to the director general of the ILA, "and they are not exact calculations of the development, the effort, and the resources that the ILA invests in the improvement of the JNF's lands." Levi claims that the purpose of the payment is "to reduce the sum that the JNF receives, which is too high anyway."<sup>87</sup>

Over and above the actual cost demanded for the improvements made to the land, the main significance of the exemption from indirect improvement fees is when the land is sold. The JNF receives its income from the leasing of land handled for it by the ILA. Were it not for the infrastructure that the state develops and finances, the leased land would have no value. When this land development is not deducted from the value of the land, the JNF receives a much higher sum than the real value of the land that is sold. This intensifies the absurdity of the exemption from income tax because if the JNF has no expenses for the development, the profits from the high leasing fees should be subject to taxation.

## Government Financing

Five hundred dunams of land in the center of Jerusalem, on which the prime minister's residence and the neighborhoods of Talbieh and Rehavia are built, belongs to the Greek patriarchate. The Greek Orthodox Church leased the area to the JNF in a leasing agreement that will run out in another fifty years (in 2050). In 2000 the JNF decided on a daring campaign to redeem the land because it fears that in the future the patriarch might not agree to extend the agreement. The JNF therefore set up a dummy company abroad and hired agents and a lawyer who brought about the agreement of the patriarch to sell the land to the dummy company for \$20 million. (It should be noted that the police are investigating crimes that were committed during this transaction.)

Since the JNF did not have the funds to complete the transaction, the finance minister loaned the JNF the required sum, \$20 million. This whole exercise and the government expenditure were completely unnecessary: First, the existing lease agreement grants the JNF an exclusive option for another 50-year extension, so there is no immediate danger to the Rehavia neighborhood; second, if the patriarch were to refuse to lease the land in the future (in another fifty years) the state could resort to its option to expropriate the land. After all, it is impossible to evacuate all of Talbieh and Rehavia because of the expiration of a lease agreement. Then Finance Minister Shochat claimed that "legally, the government manages the JNF's lands, and it is therefore the government's responsibility to put the funds at the JNF's disposal, and the government is not safeguarding the JNF, but rather the residents who live in the apartments on the land that was leased from the patriarch."<sup>88</sup>

## Exemption from Tenders

The Tenders Law exempts the JNF from issuing tenders. The exemption from a tender is conditional on the JNF's financing 25 percent of any project that is undertaken.

This exemption prevents free competition for projects and grants the JNF preferred conditions not granted to developers in the private sector. It is likewise impossible to check whether the JNF is executing the projects at the lowest prices. Despite the fact that the JNF finances 25 percent of the cost of the projects, something that theoretically lowers the cost to the state, there is still the serious problem that no market price has been set. Furthermore, even if the JNF's involvement really does reduce the cost of state projects by 25 percent, the JNF is still skirting the Tenders Law in that it transfers some of the work to subcontractors without conducting a tender. Projects that were 25-percent financed by the JNF include the preparation of the infrastructure for a cowshed on a kibbutz, the preparation of the beaches of Lake Kinneret and the construction of a fence around the Gaza Strip.<sup>89</sup>

## Tax Benefits Abroad

Even in the U.S., the JNF claims that it is exempt from paying local property taxes. In 1999, the JNF submitted an application for a tax exemption on its office buildings on Long Island. In its application, which was filed in the municipal court in Nassau County, New York, the JNF claimed that it was eligible for the exemption because it is an organization whose

purposes are religious, charitable and welfare related. The claim was withdrawn because the JNF's lawyer did not have detailed financial statements. The Nassau district attorney, who objected to the JNF's claim, said that the JNF was a political, discriminatory and racist arm of the state of Israel, and was in no way an organization whose purposes were religious, charitable or welfare related.<sup>90</sup>

Most European countries grant income tax exemptions on donations to the JNF. In December 1999, the Israel Police began to investigate suspicions that the JNF was laundering money via phony donations. The JNF is suspected of accepting large sums of money as donations and bequests; after the funds were recognized by the tax authorities as tax-deductible expenditures, the money was allegedly returned in cash to the donors via couriers, after the JNF had taken a cut for itself.<sup>91</sup>

### **The JNF's Forestation Activities**

Despite the JNF's image as a keeper of the forests, and as a body charged with forest development, it turns out that the forestation activities of the JNF constitute only a small portion of its budget and its activities (20 percent). Most of the JNF's budget doesn't go toward investments in the forests at all, but rather to the development of infrastructure, agriculture, education, tourism, donations to politically favored bodies, and of course toward the maintenance of its large work force, which enjoys "modest" salaries plus a "national institutions wage supplement" (a 25 percent supplement).

The data in table 6 shows that in recent years the JNF's activities in new plantings and in maintaining the existing forests and parking areas have decreased. On the other hand there has been an increase in the forestation department's activities that are not directly related to forest development.

Most of the forested areas in Israel are not even owned by the JNF, but are rather owned by the state and the Development Authority and the JNF takes care of some of them.<sup>92</sup> According to the Mandatory Forest Directive, a chief forest supervisor is appointed, whose job it is to preserve the areas declared "Forest Reserves," in which the cutting down of trees is forbidden and only planting is allowed. Most of the plantings undertaken by the JNF are actually in the areas owned by the ILA that are not forest reserves. These plantings are done mainly to establish possession of the area; in the future it will be possible to harvest the trees or to use the forest for other purposes.

There is also a dispute over the execution of the JNF's forestation activities. In recent years a number of petitions have been filed against the professional work that the JNF is doing in its forests.

**Table 6**  
**Forestation Department Budget**

| Year | Total Forestation Budget<br>(thousands of shekels*) | Expenses as a Percentage of the Total Forestation Budget |                    |                 |                              |
|------|---|--|--------------------|-----------------|------------------------------|
|      |   | New Plantings  | Forest Maintenance | Parking Areas** | Other Forestation Activities |
| 1996 | 150,000   | 17.6   | 20.7               | 13.8            | 47.9                         |
| 1997 | 170,000   | 18.7   | 18                 | 12.7            | 50.6                         |
| 1998 | 176,500   | 18.1   | 14.6               | 8               | 59.3                         |
| 1999 | 175,350   | 17.4   | 13.7               | 7.5             | 61.4                         |

Source: JNF, *JNF Activity Report 1998-1999* (Jerusalem: JNF, January 2000), p. 24. [Hebrew]

\* See footnote 2 for dollar/shekel exchange rate.

\*\* About four hundred parking areas are maintained by the JNF.

There are other bodies in Israel that perform the same forestation activities, such as the Nature Reserves and National Parks Authority, the ILA, the Agriculture Ministry and the Environment Ministry. There is a lot of friction between the JNF and the other bodies that perform exactly the same activities. For example, there is a severe disagreement between the JNF and the Nature Reserves and National Parks Authority, with both groups being interested in winning the authority to manage approximately five hundred thousand dunams of proposed nature reserves. The Nature Reserves Authority claims that these are areas for which it is legally responsible. The JNF on the other hand contends “that it is not logical to neglect areas that require a budget just because the [Nature Reserves] Authority wants control over them...and the public interest is that the JNF continue to take care of the forests.”<sup>93</sup> This means that the JNF is demanding that the area be put under its management because it has the budget to develop it.

The ILA also performs forestation activities in areas that are in its possession. This in order to prevent the takeover of the lands by others. The ILA invested \$4.25 million in these activities in 2000 and in 2001 it will invest about \$5 million.<sup>94</sup>

In recent years a number of scandals have been publicized regarding possible criminal activities by the JNF, concerning the alleged misleading of donors who planted forests and whose forests were then uprooted and planted again by other donors, or about forests for which funds were donated but which were never planted.<sup>95</sup>

What is most ironic is that the JNF cuts down the trees that it plants. So it turns out that the JNF’s forestation activities, despite the proclaimed motivation by the heads of the JNF, are actually motivated by three main factors:

1. The image of the keeper of the forests, as the body entrusted with the forestation activities in Israel, aids and serves as the main drawing card for the collection of donations for the rest of the JNF’s activities.
2. The forest also serves as no small source of income, considering the JNF’s recreation and tourism activities.

3. The forests are an additional source of income as they provide the raw material for the lumber industry. A special mill (M.D.F.) was built at the Golani Junction to absorb and process the trees cut down in the JNF's forests. The JNF committed itself to supplying the mill with 80,000 tons of wood per year for 10 years.<sup>96</sup>

Israeli taxpayers are left with the question, what are the differences between the JNF, the Society for the Protection of Nature in Israel (SPNI), the National Parks Authority, the ILA and the Environment Ministry, all of which perform the same activities?

### **The Reason for the JNF's Survival**

Despite all the criticism, the JNF is surviving and continuing to function in its old format. The JNF has vast influence over all the Israeli establishment's institutions, including the media and the government. The JNF is represented in the plenum of the Israel Broadcasting Authority, the Authority for the Development of the Galilee, the Tel Aviv Development Company, the Pastures Authority, the Agriculture Ministry and more.

Other reasons for the JNF's survival are:

It has vast influence over the political institutions of Israel. The JNF retains its influence via donations to many bodies and politicians who have influence in all fields, such as donations for the construction of a park adjacent to the grave of the Baba Sali (a famous rabbi) in Netivot, donations totaling \$500,000 for the establishment of the Menachem Begin Heritage Center, donations to the Betar Jerusalem soccer team, to the Jabotinsky Institute, to synagogues in Beit She'an, and more. A JNF emissary to a European country noted that over the duration of his posting he collected funds for the construction of hothouses in Moshav Shazar, the paving of a playground in Eilat and other various projects, "all through the close ties of the [local] authority head to the heads of the JNF."<sup>97</sup>

- The enormous organizational infrastructure that benefits from the JNF's very existence, which provides not-insubstantial salaries and fringe benefits.
- The state interest in maintaining a body that is legally permitted to distinguish between Jews and Arabs, and also a body that undertakes infrastructure development activities for the state.

### **Conclusion and Recommendations**

As this study has illustrated at length, the activities of the JNF extend to many complex areas, starting with education, through agriculture, infrastructure development, tourism and recreation, donations to various institutions, forestation and last but not least its influence on all land policies and the Israeli real estate market. The JNF has an economic influence, and usually not a positive one, on every facet of activity in Israel, mainly because of the vast range of activities in which the JNF is involved. The following recommendations attempt to cope with the problems that were raised, keeping in mind the principles of economic freedom.

## **The Partnership with the ILA**

The JNF is the owner of lands that have been entrusted to the management of the ILA. As the owner, the JNF has all the rights to manage its lands according to its aims and its principles. No one has any right to dictate principals of operation to the JNF, such as to sell its land instead of leasing it or to lease land to someone to whom it does not want to lease. But on the other hand, the JNF cannot force the state of Israel to operate according to the JNF's principles and to continue the existing policy in the real estate market, according to which land is granted as a leasehold and is not sold, something that causes bureaucratic dependence on the ILA.

In the past few years three solutions have been proposed:

1. The Ronen Commission – which proposed an exchange by the two bodies: the JNF would give the state all the lands the state wanted to transfer to the ownership of local residents, and the JNF would receive alternate lands.

This proposal is the simplest and easiest to implement. A mechanism for the exchange of lands already exists in the Basic Law on Israel Lands (1960). But this would merely be “putting out a fire,” by solving the localized problem of properties whose ownership the ILA wants to transfer.

2. The proposal of the former director general of the ILA, attorney Avi Drexler – to completely separate the ILA from the JNF, so that the JNF could realize the goals it has set for itself independent of the ILA.

This proposal would create far-reaching problems for the economy, as two classes would be created: second-class homeowners who would have to continue to suffice with leasing contracts and to pay taxes at every opportunity, and first-class homeowners who could make changes to their property without paying taxes.

3. The proposal of Knesset Member Dan Meridor – the JNF should be dismantled and the JNF's lands transferred to the ownership of the state.

The best solution would be to dismantle the JNF as MK Meridor suggested, but there is no reason to nationalize the JNF lands before selling them; they can be sold directly and freely to whoever wishes to buy them.

Yet this is not enough. This “privatization” needs to be met by a similar privatization of state lands currently held by the ILA, as part of a wide reform of Israeli land policy, which will open the market to free and competitive sales without minimum or maximum prices set by the ILA or anyone else. The Ronen Commission was a first step towards the necessary reform.<sup>98</sup>

We can't think of a reason for the continued existence of the JNF. If the JNF were a private charitable organization which collects donations in the Diaspora, for investment in philanthropic activities with welfare, religious, educational and charitable goals, it would have to convince potential donors that it is worth donating to.

## Forestation, Education and Infrastructure Development Activities

All the JNF's forestation and land-preservation activities should be executed by one organization such as the Nature Reserves and National Parks Authority, which will centralize all the activities. There is no reason for these activities to be handled by several parallel bodies at the expense of the government, the Environment Ministry, the ILA and the Agriculture Ministry (all of which mean the same thing to the taxpayer).

It is also recommended that the organization chosen to centralize all the activities conduct most of them via outsourcing services – i.e., the transfer of the work to private companies via tenders – obviating the need to increase the work force in the public sector.

Any educational activities currently being undertaken by the JNF can certainly be handled by the private sector if there is any real need for them; at the very least, the government should outsource them. Similarly, infrastructure-development activities should be offered in tenders on the free private market.

After the implementation of all these recommendations there will no longer be any need to trouble the Knesset with legislation to cancel the various tax exemptions granted to the JNF.

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## NOTES

<sup>1</sup> As quoted by Yehiel Leket in *Yediot Aharonot*, September 12, 1991.

<sup>2</sup> Most of the figures noted in this study are in dollars and are not exact. The exact figures are those that appear in the source documents in shekels. The dollar figures were calculated using average annual exchange rates. Below is a table showing the average dollar/shekel exchange rate in the years covered by this study:

| Year | Exchange Rate | Year     | Exchange Rate |
|------|---------------|----------|---------------|
| 1994 | 3.01          | 1998     | 4.10          |
| 1995 | 3.01          | 1999     | 4.13          |
| 1996 | 3.19          | 2000     | 4.11          |
| 1997 | 3.45          | May 2001 | 4.16          |

<sup>3</sup> *Globes*, January 29, 1998.

<sup>4</sup> Ephraim and Menahem Talmi, *Zionist Lexicon* (Tel Aviv: Ma'ariv Library 1978), p. 340-342 (Hebrew).

<sup>5</sup> [www.kkl.org.il/aboutkkl/english/a\\_amana.htm](http://www.kkl.org.il/aboutkkl/english/a_amana.htm).

<sup>6</sup> *Ibid.*, *Covenant*, clause 1.

<sup>7</sup> *Globes*, February 4, 1997; February 3, 1997.

<sup>8</sup> *Ibid.*

<sup>9</sup> Gideon Vitkin, "Reform in Land Policy: 'The Ronen Commission,'" *Karka* 44 (Jerusalem: The Land Use Research Institute, June 1998), p. 33. [Hebrew]

<sup>10</sup> [www.kkl.org.il/aboutkk1/english/a\\_amana.htm](http://www.kkl.org.il/aboutkk1/english/a_amana.htm).

<sup>11</sup> In response to a parliamentary query in the Knesset on December 3, 1997, National Infrastructure Minister Ariel Sharon replied, "The JNF is a corporation separate from the state and the state has no authority to dictate the purposes of its incorporation. The transfer of lands owned by the JNF are subject to the regulations of that corporation." Nevertheless, it appears that the JNF does function as a national arm and serves the goals of the state in instances in which the state itself cannot legally do certain things, such as not settling Arab citizens in a certain settlement. Parliamentary query, June 25, 1977, [www.knesset.gov.il](http://www.knesset.gov.il)

<sup>12</sup> *Globes*, March 30, 2000.

<sup>13</sup> *Globes*, December 3, 2000.

<sup>14</sup> *Globes*, January 6, 1998.

<sup>15</sup> *Ma'ariv*, October 30, 1998.

<sup>16</sup> *Yediot Aharonot*, September 11, 1998.

<sup>17</sup> JNF, *JNF Activity Report 1998-1999* (Jerusalem: JNF, January 2000), p. 33. [Hebrew]

<sup>18</sup> *Ibid.*, p. 31.

<sup>19</sup> *Yediot Aharonot*, August 31, 1999.

<sup>20</sup> Meeting of the Parliamentary Investigation Committee for Locating and Returning Property Belonging to Holocaust Victims, *Protocol*, September 10, 2000, [www.knesset.gov.il](http://www.knesset.gov.il).

<sup>21</sup> *Ha'aretz*, July 14, 1996.

<sup>22</sup> JNF, *JNF Activity Report 1998-1999*, p. 41.

<sup>23</sup> *Globes*, February 6, 2001.

<sup>24</sup> JNF Memorandum of Incorporation, *Yalkut Pirsumim* 354, June 10, 1954. [Hebrew]

<sup>25</sup> JNF, *JNF Activity Report 1998-1999*, p. 14.

<sup>26</sup> In the JNF's leasing contracts there is a restriction on the lessee, prohibiting him from transferring rights to the property to non-Jews. On June 25, 1997 MK Azmi Bishara asked National Infrastructure Minister Ariel Sharon a parliamentary query: "1. Does such a restriction exist? 2. Will the ministry take

action for the cancellation of the restriction?" As noted in footnote 11, the infrastructure minister replied that "the JNF is a corporation separate from the state...the transfer of lands owned by the JNF are subject to the regulations of that corporation...and no one can interfere in this issue." Parliamentary query, June 25, 1997, [www.knesset.gov.il](http://www.knesset.gov.il)

<sup>27</sup> *Jerusalem*, February 20, 1998.

<sup>28</sup> JNF, *JNF Activity Report 1998-1999*, p. 14.

<sup>29</sup> *Ma'ariv*, June 21, 1994.

<sup>30</sup> *Ha'aretz*, January 19, 1993.

<sup>31</sup> Yossi Katz, *Anthology on the Problems of Zionism, the Yishuv and the State of Israel* (Be'er Sheva: Ben-Gurion Heritage Center, Ben-Gurion University, 2000), p. 28. [Hebrew]

<sup>32</sup> *Globes*, April 15, 2001.

<sup>33</sup> *Ha'aretz*, July 14, 1996.

<sup>34</sup> *The Lands Law, Dinim v'Od*, CD 28. [Hebrew]

<sup>35</sup> *Globes*, October 7, 1999.

<sup>36</sup> Paul Rivlin, *The Land Ownership System in Israel and the Sale of Public Lands*, Policy Studies, no. 4 (Jerusalem: Institute for Advanced Strategic Political Studies, April 1990), p. 11. [Hebrew]

<sup>37</sup> Current value – how much it is worth today, a future sum determined in advance according to the number of leasing periods and a set interest rate for each period. The formula is  $FV/(1+R)^t = PV$ . The calculation is done according to a 5 percent annual yield on the land and 5 percent annual interest.

<sup>38</sup> ILA, *ILA Annual Report for 1995* (Tel Aviv: State of Israel, 1996), pp. 5-6. [Hebrew]

<sup>39</sup> ILA, *Report by the Committee for Determining the Reorganization of Urban Land* (Tsaban Commission), (Tel Aviv: ILA, December 1995), p. 54. [Hebrew]

<sup>40</sup> *Ma'ariv*, February 23, 1997.

<sup>41</sup> High Court of Justice, 3360/97. Among the petitioners were the Moshav Movement, the Farmers Union, the United Kibbutz Movement and the National Kibbutz Movement. The "Keshet Hademocratit Hamizrachit" also filed a petition against the ILA in the High Court against the implementation of the recommendations in the agricultural sector. *Dinim v'Od*, CD 28 (244/00).

<sup>42</sup> Finance Ministry, *ILA Budget Proposal for 2001* (Jerusalem: Finance Ministry, 2000), vol. 26, p. 28. [Hebrew]

<sup>43</sup> *Ibid.*, "Explanatory Notes to the Budget Proposal," p. 40.

<sup>44</sup> *Ha'aretz*, April 3, 1997.

<sup>45</sup> Elisha Efrat, in “Reform in Land Policy: The Ronen Commission Report — An Evaluation — Responses,” *Karka* 45 (October 1998).

<sup>46</sup> Rachel Alterman, *Between Privatization and the Continuation of National Ownership* (Jerusalem: Florsheimer Institute, April 1999). [Hebrew]

<sup>47</sup> *Ha'aretz*, July 14, 1996.

<sup>48</sup> *Globes*, May 27, 1997.

<sup>49</sup> Finance Ministry, *ILA Budget Proposal for 2001*.

<sup>50</sup> Efrat, “Reform,” *Karka* 45, p. 43.

<sup>51</sup> Menahem Melochna, economist and real estate assessor, interview with the author, January 29, 2001.

<sup>52</sup> Government decision No. 2156, passed June 13, 1997; Vitkin, “Reform,” notes 2-3, p. 15.

<sup>53</sup> In addition, the council passed two more decisions connected with the Ronen Commission:

1st. To release 600,000 lessees in apartment buildings from paying permit fees (permit fees are charged on any changes in the use of land other than that stated in the leasing contract. The ILA makes the granting of a permit conditional on the payment of the fees. Permit fees are set at 51 percent of the value of the general improvement obtained from the requested change).

2nd. The cancellation of the minimum fee in the ILA’s land tenders.

<sup>54</sup> Vitkin, “Reform.”

<sup>55</sup> *Globes*, June 16, 1997.

<sup>56</sup> *Yediot Aharonot*, June 1, 1997.

<sup>57</sup> *Yediot Aharonot*, May 29, 1997.

<sup>58</sup> Pliah Albeck, in “Reform in Land Policy: The Ronen Commission Report — An Evaluation — Responses,” *Karka* 45, p. 51.

<sup>59</sup> *Ibid.*; and Vitkin, “Reform.”

<sup>60</sup> Finance Ministry, “Explanatory Notes to the Budget Proposal,” *ILA Budget Proposal for 2001*, p. 35.

<sup>61</sup> The proposed bill was not discussed by the committee and was therefore not submitted to the Knesset for second and third readings.

<sup>62</sup> *Globes*, July 26, 1999.

<sup>63</sup> See note 37.

<sup>64</sup> Justice Ministry, *Piskei Din* (1) (Tel Aviv: Justice Ministry, January 1980), vol. 50, p. 517 [Hebrew] in which the arrangement for leasing for generations is discussed. Among other things the question was raised as to whether the right to lease could be conditioned on the development rights being retained by the owner and not being transferred to the lessees.

<sup>65</sup> *Globes*, January 6, 2000.

<sup>66</sup> *Yediot Aharonot*, March 4, 2001; for more information on the “realistic” policy of the ILA see Rivlin, *The Land Ownership System in Israel*.

<sup>67</sup> *Ha'aretz*, April 28, 1991.

<sup>68</sup> *Ibid.*

<sup>69</sup> *Ma'ariv*, March 3, 1996.

<sup>70</sup> High Court of Justice, file 6698/95, *Adal Ka'adan and Iman Ka'adan v. the ILA, the Housing Ministry, the Tal-Eiron Local Council, the Jewish Agency, Katsir Cooperative Communal Settlement in Samaria, Ltd., and the Farmer's Association of Israel*. Ruling handed down March 8, 2000.

<sup>71</sup> JNF Memorandum of Incorporation.

<sup>72</sup> *Yediot Aharonot*, March 4, 2001.

<sup>73</sup> *Ibid.*

<sup>74</sup> *JNF Law* (1953), clause 6.

<sup>75</sup> *Land Improvement Tax Regulations* (1974), *Dinim*, vol. 19, p. 11821 and *Dinim v'Od*, CD 28.

<sup>76</sup> *Land Regulations (Fees)* (1974), *Dinim*, vol. 20, p. 12180.

<sup>77</sup> Vitkin, “Reform,” p. 15.

<sup>78</sup> *Globes*, February 21, 2000.

<sup>79</sup> *Globes*, January 9, 2000.

<sup>80</sup> *Globes*, March 30, 2000.

<sup>81</sup> Vitkin, “Reform,” p. 33.

<sup>82</sup> *Globes*, 3-4 February, 1997.

<sup>83</sup> *Ha'aretz*, November 14, 1995.

<sup>84</sup> *Globes*, January 7, 1999.

<sup>85</sup> *Ha'aretz*, February 2, 1997.

<sup>86</sup> *Ha'aretz*, March 3, 1998.

<sup>87</sup> *Ibid.*

<sup>88</sup> *Yediot Aharonot*, July 24, 2000.

<sup>89</sup> *Ma'ariv*, July 6, 1993.

<sup>90</sup> *Kol Ha'ir*, October 22, 1999.

<sup>91</sup> *Kol Ha'ir*, December 24, 1999.

<sup>92</sup> Gideon Vitkin, "Wanted: A Proper Separation Between the JNF and the ILA," *Karka* 50 (December 2000), p. 143. In the article Vitkin contends that the JNF should have demanded that the forestation lands be registered in its name in exchange for its investments in them. Thus the JNF would have an incentive to continue investing in and improving its properties!

<sup>93</sup> *Globes*, September 21, 2000.

<sup>94</sup> Finance Ministry, *ILA Budget Proposal for 2000*, clause 980241.

<sup>95</sup> *Ma'ariv*, June 29, 2000; *Kol Ha'ir*, February 9, 2000.

<sup>96</sup> *Globes*, June 20, 1997.

<sup>97</sup> *Globes*, December 3, 2000.

<sup>98</sup> More can be learned about the problems stemming from land policy coordinated by the ILA in Rivlin's *The Land Ownership System in Israel*.

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