



UNITED NATIONS
GENERAL
ASSEMBLY

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Dist.
RESTRICTED

A/CN.2/R.348
9 April 1976

ORIGINAL: ENGLISH

COMMITTEE ON CONTRIBUTIONS
Thirty-sixth session
New York

REPRESENTATION BY ISRAEL

The following communication dated 6 April 1976 from the Minister of the Permanent Mission of Israel to the United Nations addressed to the Chairman of the Committee on Contributions is submitted to the Committee for its consideration:

"Referring to the Secretary-General's letter No. FI 313/1 (1) of 5 February 1976 with regard to the forthcoming meeting of the Committee on Contributions, my Government has requested that the attached aide-mémoire be considered by the Committee, in addition to the normal statistics provided by the Bank of Israel.

"As you know, for the period of 1974-1976, Israel was assessed at 0.21 per cent. It is our considered opinion that the assessment rate of the Government of Israel is somewhat high in relation to other developing countries and in terms of the factors described in the attached aide-mémoire.

"My Government would greatly appreciate it if the Committee, under Your Excellency's able guidance, would find it possible to make a downward adjustment in the rate of assessment in the next scale."

AIDE-MEMOIRE

Some considerations concerning the assessment of relative shares
in the United Nations budget with special reference to the Case
of Israel

There are several considerations of principle generally accepted by the United Nations Committee on Contributions which ought to affect Israel's assessed percentage in the forthcoming over-all revision of assessments. They will here be described in general terms, since the details required for an estimate of their precise quantitative effect are not available, especially the specific formula used by the United Nations with respect to general factors or specific adjustments. It is not clear at this writing to what extent these factors have in fact been taken into account in past assessments. In any case, it is desirable that they be taken into account when the new assessments are determined.

It is accepted that a country's national income at market prices (the central factor in the dues assessment) may not be properly converted into United States dollars by use of the formal exchange rate. There are two possible reasons for adjustment in this respect: (a) for a "multiple exchange rate" system, an average, or some specific rate, may be used instead of the formal rate, and (b) the rate used may be adjusted for major lags behind relative price level movement (i.e. major deviations from "purchasing power parity").

In the case of Israel, it is mainly consideration (b) which must be taken into account, i.e. the lag between the accelerating rate of price inflation and the rate of formal devaluation during the relevant period used for the assessment (1972, 1973 and 1974).

The United Nations Committee on Contributions explicitly notes its own practice of adjusting the exchange rate used in such a situation. In the relevant period (1972-1974), the official rate of the Israel pound fell from £I 4.2 to £I 6 per United States dollar, but since the devaluation occurred in November 1974, the average decline was negligible. The average formal dollar/£I rate (which would be used in the absence of adjustment) would be £I 4.2 for 1972, £I 4.2 for 1973 and £I 4.45 for 1974. During this period (that is from end 1971 to end 1974), consumer prices rose by 88.7 per cent compared to an average for "industrial countries" of only 26.5 per cent. Both these figures are based upon average of monthly changes as computed in the International Monetary Fund (IMF). Of course the adjustment can be approximated in various ways, but the general idea

is that the rate of exchange used should at least approximately keep up (year by year) with the difference between Israel's rate of price inflation and that of its trading partners.*

Since this was not done, the £I/dollar rate used in the coming assesseent should definitely be adjusted by (to be precise) the difference between the average formal devaluation of the Israel pound (relative to its trading partners as a group) and the excess of its rate of price inflation over theirs. Only in the forthcoming assessment would this adjustment matter a great deal. If it is not made, Israel's contribution will be greatly exaggerated (possibly by 50 per cent or more).

Another consideration concerns the practical test used by the Committee to judge a country's "ability to secure foreign currency", namely, the ratio of its external public debt service costs to its export earnings. It appears that Israel should be eligible for some adjustment downwards on this basis.**

The 1974 annual report - chapter V, shows that the total debt service in 1974 was \$872 million, equal to 25.4 per cent of earnings from exports of goods and services (28.7 per cent in 1972, 25.7 per cent in 1973). It also shows that government external debt was about 76 per cent of the national total.***

Prepared by the Bank of Israel,
Research Department, and the
Ministry of Foreign Affairs,
Division for International Economic
Organizations.

Jerusalem, March 1976

* This does not mean that the £I/\$ rate has to change by the full difference in the rates of price inflation noted. Only the Israel pound/"world" rate has to do this, and this rate has fallen (due to the decline of the dollar) by more than £I/\$ rate. This means that a fraction of the adjustment would be taken care of by the fact that "European" national incomes (in dollars) would have risen during this period due to the rise in their currencies relative to the dollar (and the Israel pound), and this reduces our share of the total United Nations assessment. Nevertheless, most of the adjustment is still required in the £I/\$ rate used in the assessment calculation.

** This and the earlier adjustment considerations are best described in chapter V of the report of the Committee on Contributions to the General Assembly at its twenty-eighth session in 1973, Official Records of the General Assembly, Twenty-eighth Session, Supplement No. 11 (A/9011 and Corr.1 and Add.1) /.

*** See tables V-13 and V-14.