CHAPTER XV

TRANSPORTATION, COMMUNICATIONS, AND TOURISM

1. Main Developments

This sector's rate of product growth slowed considerably in 1974: 4-5 percent as against 9-10 percent in the first three quarters of 1973 and an annual average of over 13 percent for the period 1969-72.[1]

The major developments affecting the sector in 1974 were the economic slowdown in Israel and throughout the world; the drastic rise in fuel prices following the energy crisis; the change in the defense establishment's level of demand for various transportation services following the war; and the decline in tourism. It is difficult to measure the effects of these developments accurately in quantitative terms, particularly for those transportation subsectors in which the negative consequences were minimized to some extent by various compensating factors. The most important of these factors was services rendered to the defense establishment, both as a result of the reserve call-up and in line with normal requirements. In addition, both the war and its aftermath and the security conditions prevailing in the region created a situation in which Israeli air and sea transport enjoyed a high degree of monopoly and preference.

In the field of passenger conveyance—principally buses and taxis—traffic on regular routes dipped considerably. The mobilization of the reserves at the beginning of the year, the decrease in real income, and the slackening of private consumption, all led to a smaller volume of travel both by private car and by public transport. Complementing this dip in demand was a decline in the supply of transportation services in the first quarter of the year when they were operated at only part strength. Fuel price hikes in 1974—which averaged 125 percent for gasoline and about 174 percent for diesel fuel—contributed significantly to higher vehicle operating costs (as well as to increased passenger fares and freight charges). They also led to reduced fuel consumption (in spite of the growth of the vehicle fleet).[2]

[1] Changes in the gross national product originating in this sector were calculated on the basis of input-output coefficients for 1968/69. The year-to-year changes in the output of the various branches serve as an indication of the change in their product.

[2] There was also a trend away from 93 octane petrol towards the cheaper 83 octane brand.

Table XV-1

CHANGES IN REAL OUTPUT, PRODUCT, AND PRICES OF THE TRANSPORTATION AND COMMUNICATIONS SECTOR, BY BRANCH, 1972-74[a]

(percentages)

	GNP originating in sector in 1972 (at 1968 prices)	Weight in revenue, 1972	Annual increase or decrease (-): Output				Prices		
				1973					
			1972	Jan.–Sept.	Entire year	1974	1972	1973	1974
Domestic services	**77.0**	**56.3**	**12.3**	**7.5**	**0.9**	**2.9**	**9.9**	**15.7**	**32.8**
Land transport	45.2	37.0	7.9	6.5	-1.5	-0.6	13.7	13.5	37.7
Buses and subway	13.4	10.6	5.8	3.5	-1.0	0.6	19.0	11.5	35.0
Taxis	4.7	4.0	5.0	7.0	6.0	-9.0	17.4	13.5	42.8
Trucks	26.3	21.5	9.8	8.0	-3.4	0.5	11.0	14.6	37.9
Railway	0.8	0.9	-0.6	3.4	5.6	-1.2	5.5	10.2	44.4
Other	31.8	19.3	20.9	9.6	5.5	8.1	3.3	19.7	25.9
Oil and gas pipelines	8.4	2.4	43.1	27.3	-6.8	3.5	6.9	2.0	26.3
Domestic air services	0.6	0.7	2.6	1.7	7.3	-6.5	18.0	19.0	42.8
Posts and telecommunications	22.8	16.2	19.0	7.6	7.2	9.2	2.3	22.0	25.3
International services	**23.0**	**43.7**	**9.5**	**13.5**	**12.8**	**9.6**	**16.0**	**9.0**	**43.3**
Shipping and ports	14.9	31.2	7.6	16.6	11.7	13.9	18.4	11.1	47.8
Shipping	6.2	25.3	7.6	17.9	12.7	12.6	20.2	8.0	54.0
Ports	8.7	5.9	7.5	10.7	7.3	18.9	11.3	25.1	24.9
Civil aviation and airports	8.1	12.5	14.3	6.3	15.6	-1.5	10.4	3.9	29.8
International aviation	6.7	11.5	14.3	5.5	15.8	-1.2	10.3	3.4	30.7
Airports	1.4	1.0	12.0	16.4	13.7	-4.6	13.5	9.7	19.3
Total output at market prices[b]	**100.0**	**100.0**	**11.1**	**10.1**	**6.1**	**5.8**	**12.5**	**12.6**	**37.9**
Estimated change in the sector's product, at current prices			13.0	9.6	3.1	4.6			

[a] Revised data for 1972–73.

[b] Including the defense stamp duty on bus, railway, and postal services; excluding bus and shipping subsidies, the deficit of the railway, and the tax on air and sea travel.

It should be noted that the gradual adjustment of relative prices over time, and the various institutional arrangements for refunding travel expenses, eventually reduced the initially significant effect of the jump in fuel prices. The slump in tourism in 1974 also considerably depressed demand for transportation services (including inland air transport). Transportation carried out for the army at the end of 1973 and the beginning of 1974 helped, however, to avert an even steeper decline in the output derived from passenger conveyance.

During the first nine months of 1974, the output of land freight (mostly trucking) dropped markedly, but for the year as a whole there was scarcely any change (including the influence of the mobilization of trucks during and after the war). Behind the slowdown in output growth were declining investment in building and earthworks and a deceleration in other branches of industry not directly connected with building. Towards the end of 1974 a surplus of trucking capacity was discernible. It should be noted that a great part of the productive capacity of the trucking branch was mobilized at the end of 1973, and to a lesser extent at the beginning of 1974, and it was thus difficult to estimate output accurately.

Changing patterns of income and real consumption were reflected in the real output (in physical terms) of the communications branch, which experienced a slowdown in 1974.[3]. In spite of the reduction in the number of new applications for telephones during 1974, the accumulated excess demand continued to rise and exchange utilization declined due to the inadequate expansion of the telephone network.

No change (let alone an acceleration) was registered in shipping output during 1974,[4] despite an increase in the volume of import cargoes handled (including imports for the defense establishment); this is explained by longer routes and by changes in the composition of the cargoes carried. These factors, together with the worldwide success of the "liner trade"—which accounts for a relatively high proportion of the branch's output—led to comparative prosperity in 1974 as against a general drop in tanker and bulk cargo freights. It should also be noted that Israeli tramp shipping operates on the basis of long-term contracts that protect the branch against sudden swings in charter rates.

The effects of the slump in world tourism in 1974 (and in tourism to Israel)

[3] The physical data relating to the output of this branch in 1973 and 1974 are more reliable than the data on revenue in terms of constant prices.

[4] As noted in the 1973 *Annual Report*, the measurement of this branch's real output involves statistical problems, particularly the construction of price indices. It would appear that in the figure for 1973 the increase in real output is overestimated. The price index for 1974 has been calculated on the basis of provisional partial data.

coupled with the 1974 aviation crisis were offset for El Al by the considerable increase in real output resulting from its freight operations immediately following the Yom Kippur War, and to a lesser extent throughout 1974. El Al's real output from passenger traffic also rose, in spite of the overall drop in air traffic to Israel. El Al was able to achieve a larger share of Israel's incoming and outgoing traffic at the expense of other airlines, and, therefore, for the year 1974 as a whole, El Al's output dipped by as little as 1 percent.

The tourism slump affected not only domestic transportation and aviation, but also seriously cut the hotel business as well as other enterprises serving the tourist trade. In the year reviewed, 624,700 tourists arrived in Israel,[5] and the direct income from tourism (based solely on data of foreign currency exchanged by banks) reached $ 195 million (15 percent below the 1973 figures). The contribution of tourist service exports declined in 1974 and accounted for only 11-12 percent of all service exports; in terms of added value, however, the percentage was higher.

Output prices rose by an average of about 38 percent for the branch as a whole during 1974—a somewhat lower increase than that of the general price level. The 38 percent rise was influenced, however, by the prices of services rendered directly to the armed forces which brought down the overall average. It should be remembered that the rates for the majority of the country's inland transport services are fixed by government regulation. Generally these rates are based on fluctuations in production costs and on the anticipated effects of any rate increases on the general price level. Furthermore, as an alternative to fare increases, public transport enjoys large subsidies (the railroads' deficit is covered by the government). International freight rates (sea and air) rose by over 43 percent largely as a result of the jump in fuel prices (200-300 percent) and, to a lesser extent, as a consequence of the devaluation of the Israeli pound.

It should be noted that El-Al's increased rates (within the framework of IATA—see note 48) and those of Zim (as decided by the various shipping conferences) reflect, as a rule, similar hikes in the rates charged by foreign lines operating services to and from Israel. The rate boosts also result in higher prices for related import services. In addition, they affect the relative share of foreign shipping lines in transporting Israeli goods and that of foreign airlines in flying Israeli passengers.

In transportation and communications (including storage) the total number of employees (excluding those from the Administered Areas working in Israel) rose by 6 percent in 1974, but the number of work-hours invested in transportation declined

[5] International freight rates (sea and air) rose by over 43 percent, excluding tourists to the Administered Areas, some of whom also visited Israel.

by 3 percent.[6] The average number of persons employed in the hotel branch fell by over 13 percent during the first three quarters of 1974 as compared with a rise of some 17 percent for the corresponding period in 1973.

Gross investment in transportation and communications (at constant prices) was down by about 22 percent during 1974. The cutback affected both buildings and equipment, except for investment in motor vehicles, which rose by approximately 7 percent.[7]

2. Domestic Transport

(a) *Buses*[8]

The slackened growth in the real output of the bus sector which characterized 1972 and the first three quarters of 1973 continued during 1974. An increase of less than 1 percent was registered as against the 3.5 percent gain achieved in the first nine months of 1973.[9]

Bus output derives from two principal sub-sectors—passenger conveyance along regular bus routes (approximately 70 percent of total output) and special trips linked with tourism. These two sub-sectors differ markedly, and each has its separate effects on total output. With respect to special trips and excursions the, main factor influencing output was the demand from the military sector which offset, to a large extent, the negative consequences of the 1974 tourism slump. The jump for the military sector was particularly noticeable in the last quarter of 1973 and the first quarter of 1974 (as compared with the corresponding quarters of the previous year). This boost from the military helped to moderate the decline in output.

The output of the regular bus services is, as a rule, influenced to a greater extent by the general economic climate. The 1971-73 (January-September) growth rate gradually weakened: users switched to alternative forms of transportation—private cars and taxis—as living standards rose.

[6] Data based on the Manpower Survey and the Family Survey in the Administered Areas. For further details, see the chapter on employment. But for the large-scale mobilization of the reserves, the input of work-hours would have risen by about 0.7 percent.

[7] See also the chapter on "Domestic Investment".

[8] Including East Jerusalem buses and the Haifa subway, but excluding tourist buses not operated by the major bus companies (which are not covered by the Central Bureau of Statistics). Also excluded are the non-transportation operations of the bus companies.

[9] The changes in output from special trips and tours take into account payments received from the armed forces for services performed in the last quarter of 1973 and the first quarter of 1974.

Real output fell in the last quarter of 1973 following the war, and the slack continued into 1974 partly due to the mobilization of drivers and to a drastic cut in demand as routes were suspended, time-tables cut, and night service curtailed. It was not until April, 1974 that normal services were finally restored. Although the rate of decline slowed in the course of the year, even in the third quarter output was 10 percent below the corresponding period in 1973. On an annual basis, output was down by about 3 percent. It would seem that, in addition to the direct effects of the war and the continuing mobilization, other factors influenced the decline as well.

The dip in real income and the slackening of private consumption in 1974 should logically have led to a switch to public transportation which would have resulted in an increase in its output. Whereas a continuous rise in real income does lead to a greater degree of motorization and to a downturn in public transport, the opposite does not hold true. A decline in real income in a particular year results instead in a cut-back in the number of journeys undertaken whether by public transportation or by private vehicles; its influence on the demand for private vehicles is marginal.

There was little change during the year in the relative tariffs for passenger transportation. For urban journeys, the tariffs changed slightly in favor of buses, while for interurban travel (where the demand is apparently more elastic) the change was to their disadvantage.

The sharp rise in public transportation tariffs in 1974 (50 percent in February and 40 percent in December) combined with the jump in vehicle operating expenses led, it would seem, to a more efficient use of alternative means of transport. Higher load factors for private cars were noted, and firms switched to using their own trucks and tenders (instead of buses) to transport their workers to and from work. The decline in freight traffic also led to greater use of other vehicles for passenger conveyance. In addition to the effect of these short-term factors, certain long-term elements should also be noted, such as the rapid rise in the number of private cars over the past few years (the increase occurred both in absolute terms and in terms of vehicles per capita). This climb continued throughout 1974, although at a somewhat slower rate. Additional private cars reduce the percentage of journeys undertaken in public transport and may even result in a decline in the absolute number of journeys.[10]

The growth of the labor force in the bus sector slowed considerably in 1974. The number of persons employed rose by only 1 percent as against a 3-4 percent increase in 1972 and in the first nine months of 1973. At the same time the bus fleet

[10] The degree of motorization at the end of the year (in terms of the number of private cars per 1,000 population) was 78.6 in 1974 as compared with 70.2 in 1973 and 61.2 in 1972.

expanded at a faster pace—approximately 6 percent over the year.[11] It should be emphasized that without a corresponding adjustment in carrying capacity, worsening traffic congestion leads to slower bus operating speeds; therefore more buses are required just to maintain existing standards of service.

The index of bus input prices rose on the average by more than 48 percent during 1974. Higher operating expenses coupled with lower rates of vehicle-utilization led to increased operating losses for the bus companies in 1974. The average hike in tariffs on the regular bus routes was 41 percent in 1974 (as compared with 12 percent in 1973 when the tariffs remained unchanged). In spite of the cut decided on in February, 1974, the government subsidies paid to the bus companies still amounted to IL 165 million over the year, more than 20 percent of their total revenue (which was over IL 750 million).[12] These subsidies are granted to the bus companies in lieu of further fare increases necessitated by higher input costs and also as compensation for the fare reductions offered to children and to the elderly. This compensation—given to the bus companies to cover the average rise in expenses between one tariff increase and the next—is unavoidable, because of the time that passes before the companies are authorized to bring their tariffs into line with operating expenses. A more rapid adjustment of tariffs would not only make the resulting hike more palatable to the public, it would also oblige the bus companies themselves to absorb part of the higher operating costs.

It should be noted that the problems of passenger transportation are particularly acute in the major urban centers and at specific hours of the day. The joint policy of tariff control and subsidies combined with administrative regulation should be concentrated on solving these problems. Specifically directing the greater part of the subsidies to the urban routes, instead of granting them in a lump sum to the bus companies, would help divert resources to where they are needed most—in the cities. It would also appear that the present system of subsidies leads to an inefficient use of resources. Large capacity buses are used for travel to distant points along light traffic routes whereas more efficient minibuses or taxis could be used instead.

If the basis for allocating the subsidies is to be changed, then it is essential that the companies install a separate cost control system for their urban routes. It is doubtful whether the proposed merger between Dan—which operates mostly urban routes—and Egged—which operates mainly inter-urban routes—will help bring about a change in the policy of public transportation subsidies.

[11] The monthly average of buses owned by the bus companies in 1974 was 4,600.

[12] The subsidies for 1973 amounted to IL 158 million, about 29 percent of bus revenues in terms of current prices.

(b) *Taxis*[13]

The output of the taxi subbranch fell by 9 percent in 1974. The decline was relatively greater than that experienced by the bus subbranch, since the income and price changes that depressed the general volume of travel were felt even more severely in the taxi sector, where income-and price-elasticity are apparently higher.

The 1974 downturn stands in contrast to the 1973 upswing in the transportation sector; then the taxis competed with the bus services and even took over part of their business in the last quarter when the buses were operated on a limited scale. The 1974 decline was also caused by the lighter tourist traffic and the relatively high fares charged by taxis on urban routes in comparison with the corresponding bus fares.[14]

Preliminary estimates show that the taxi fleet expanded by about 7 percent over the year, while the average increase for the year as a whole was considerably higher. At the end of 1974 the total taxi fleet numbered over 4,300 vehicles.

Fare hikes that adversely affected output in 1974 were introduced in November, 1973 and in February and December, 1974. The average fare increase over the year amounted to 42-43 percent.

The sharp rise in operating expenses on the one hand and the drop in average output per taxi on the other (whether as a result of lower demand or greater supply) led to a decline in profitability in 1974. These lower profits were reflected by the slight dip in the price paid for taxi licenses in the small free market noted at the beginning of 1974. Viewed against the inflationary tendency of the economy as a whole, this downward trend is particularly significant.

(c) *Road haulage*[15]

Since trucks are responsible for hauling the major portion of inland freight, changes in the level of domestic economic activity lead to fluctuations in the real output of the trucking industry. In particular, the fate of the industry is closely bound to that of the building and earthwork sectors (civilian and military alike).

[13] Excluding those of tour operators, self-drive rented cars, and cars operated by tourist agencies and hotels. It is to be noted that the estimates of changes in output are not based on direct measurement but on partial data supplied by the branch.

[14] The decline in the output of the inter-urban services (which account for about 30 percent of the subbranch's output and mileage) was less than that of the branch as a whole. Proportionately these services also benefited less from the comparative boom enjoyed by the branch in 1973.

[15] Until 1972 and again from 1974 developments in this subbranch were estimated on the basis of indicators and not by direct measurements. For a discussion on the 1973 output,

Trucking output was especially affected in the last quarter of 1973 by the large-scale mobilization of vehicles (particularly heavy trucks), and output in the civilian sector fell by 14 percent. The additional demand from the military and the emergency civilian sectors was not sufficient to compensate for these losses, and real output in 1973 dropped by an estimated 3.4 percent in contrast to the 8 percent advance registered for the first nine months of 1973.

The mobilization of trucks continued throughout the first quarter of 1974 though on a gradually reduced scale. After March and April, conditions in the branch returned to "normal". On an annual basis, the real output of the branch in the civilian sector expanded by over 4 percent (half the expansion achieved in the first three quarters of 1973), and in spite of having to operate under conditions of partial mobilization, the output of the branch as a whole remained almost unchanged.

The severe slowdown in the trucking industry was due to a decline in spending on residential and other building projects, earthwork, and roads in comparison with the first nine months of 1973. Only the fourth quarter upturn (compared with 1973), mainly in the defense sector and to a lesser degree in the civilian sector, enabled the 1974 annual output to reach the 1973 level. The weakness registered in these branches of the economy also affected output in those branches providing inputs to the building trade.[16] There was also a slackening of activity in the first three quarters of 1974 (as against 1973) in other economic sectors which accounted for an appreciable proportion of truck freight.

The changing supply situation in the branch was also considerably influenced by the war and its aftermath. The intensive use of trucks during the war increased maintenance costs and diminished truck worklife—particularly in the case of 2.5-8 ton vehicles. In addition to the vehicles that had to be scrapped, numerous others had to be put in for repair and overhaul long after the war had ended. Moreover, part of the fleet was not fully exploited, because many owners were called up for service. For all these reasons, figures of fleet strength cannot accurately reflect the number of trucks actually in operation at the end of 1973 and the beginning of 1974.[17]

see the corresponding chapter in last year's *Annual Report.* In this survey the subbranch includes all trucks, even those owned by enterprises and agricultural settlements (which in 1970-71 accounted for approximately 20 percent of total ton-kilometrage generated by trucks with an authorized carrying capacity of 2.5 tons or more). This definition differs from that used in the national accounts. In the last quarter of 1973 and the first quarter of 1974 part of the branch's output was derived from services rendered to the military sector. The revenue received from this source was re-expressed in terms of real output and prices.

[16] See also Chapters VIII and XIV.

[17] At the end of 1974 the fleet of vehicles with a carrying capacity of at least 2.5 tons was

Apart from these developments which tended to restrict the supply of trucks, significant numbers of trucks were ordered from abroad under an emergency imports scheme by which trucks were imported and sold on particularly generous credit terms. By the end of 1973 the first of these emergency imports began to arrive, and they were completed during the course of 1974. It should be noted, however, that these vehicles were not immediately absorbed by the civilian sector due to various technical and administrative problems. Furthermore, some of the trucks were bought by enterprises and agricultural settlements that did not use them to carry goods for third parties.

From January to December, 1974 the net addition to the truck fleet (after allowing for the number of vehicles scrapped) was over 1,200, an increase of more than 8 percent (as against a 2.3 percent rise in 1973). The growth in carrying capacity was even greater—15-20 percent—due to the preponderance of heavy trucks added. From what has been said above, it will be realized that the rates concerning the effective (operating) carrying capacity were somewhat lower, but sufficient data are not available for this figure to be estimated.[18] A surplus of carrying capacity began to be noted towards the end of 1974 as a result of the developing supply and demand situation.

Freight rates on the free civilian market declined at the end of 1973 and the beginning of 1974 as vehicles were released by the army, after which they slowly began to climb. Official increases in freight charges resulting from higher operating expenses took place in November, 1973 and February, 1974 following the hike in fuel prices and again in September and November, 1974 after the currency devaluation. The estimated average rise in freight charges over the year in the civilian sector was some 40 percent, close to the increase in the general price index.[19] The drop in the demand for trucking services and the resulting increase in competition between haulers prevented the rates from going even higher. It should be remembered, however, that, officially, freight tariffs are controlled by the government which lays down maximum rates.

estimated at 16,400. The fleet of vehicles with a carrying capacity of up to 2.4 tons (including commercial vehicles) slowed its expansion in 1974, rising by only 7 percent as against 14 percent in 1973. At the end of 1974 there were some 78,400 such vehicles.

[18] In the data collected by the Central Bureau of Statistics for the period April-September, 1974 there was an abnormally high proportion of "nil returns" due to the inactivity of many vehicles during this period.

[19] If one takes into account the activities of that part of the fleet which was mobilized, the average increase in freight rates during 1974 was 38 percent.

(d) *Rail transport*

The real output of Israel Railways, measured in constant prices, declined by about 1.2 percent in 1974.[20]

Passenger revenues, which account for 26-27 percent of total revenue, were down by 8.1 percent. This shortfall in comparison with the previous year was discernible in the first three quarters of the year; the considerable increase recorded in the last quarter was due to the low level of revenues in the same period in 1973. The slower output growth in the passenger sector continued the downward trend which began in 1971; it can be explained by the same factors that affected bus transportation.

Smaller gains were also registered for the freight sector in 1974—an advance of 3.6 percent as compared with 13.5 percent in 1973. The first half of 1974 did show an accelerated growth rate—when a large part of the truck fleet was still mobilized and therefore unable to compete—but in the last quarter there was a serious decline.

The tonnage of lumber, cement, potash, petroleum, and heavy fuel hauled for the overseas market slipped in 1974, while the volume of grain and building sand advanced at a slower rate than in 1973. Higher growth rates were noted, however, for refined petroleum products and phosphates for both the export and domestic markets. Freight output prices were up in 1974 in accord with the increases registered in the trucking sector (which were, in turn, in line with the rise in the consumer price index). The 1974 hike in passenger fares was more marked, 42.3 percent; while the average rise in rates for rail services as a whole was 44.4 percent over the year.

Railway revenues in 1974 reached some IL 65 million[21]—double the rate of increase achieved in 1973—due to the hike in rates. The deficit grew by 56 percent in 1974 to reach IL 50 million as against approximately IL 32 million in 1973.[22]

[20] In terms of passenger-kilometers, there was a decline of 9 percent. For freight, there was a 4.7 percent increase in ton-kilometers during 1974.

[21] Excluding the defense stamp duty, Treasury participation, and income from the Ashkelon-El Arish line.

[22] In 1974, work was begun on the Oron-Har Hahar line designed to serve the new phosphate site beginning in the summer of 1977. According to the Railways' estimates, the total investment will run to IL 90 million, of which one-half is to be financed by the phosphates enterprise.

3. Pipelines, Domestic Air Services, Post and Telecommunications

(a) *Pipelines*

The rate of output growth in the fuel pipeline and gas sector slowed appreciably in 1974 to 3.5 percent.[23]

This substantial deceleration follows the steep decline in the growth rates already recorded in 1972 and in the first nine months of 1973 when output was up by 43 and 27 percent respectively. The plummeting rate of growth in 1973 and the first three quarters of 1974 resulted from the war, the blockade of the Bab el Mandeb Straits, and the partial closing of the Abu Rudeis oil field at the end of December which lasted for a number of months.

World demand for crude oil continued to contract throughout 1974 as a result of the accumulation of large stockpiles by the fuel-importing countries and a cutback in consumption. As a result, the Eilat-Ashkelon pipeline was less fully exploited and the tankers servicing the line also experienced a slowdown. This situation must inevitably lead to a reexamination of the pipeline's future development plans. The throughput of crude oil in the Eilat-Ashkelon pipeline declined at the beginning of 1974, but the year as a whole showed a 6.2 percent increase over 1973, reaching some 25.4 million tons.[24]

The drop in the throughput of crude oil in transit was particularly severe in the first nine months of 1974—over 16 percent. Throughput for the local market (including fuel destined for refining and further export) climbed by over 8 percent in comparison with 1973.

As a result of changes in tariff policy, the data in our possession are not complete and tend to underestimate the output ascribed to the pumping of refined products (and of this subbranch as a whole). It would appear, however, that the quantity of refined products passing through the pipeline did not contract significantly in 1974. The volume of gas piped in 1974 was up by more than 29 percent over 1973. The abrupt swings in the volume of gas piped reflect the substitution that takes place between gas, crude oil, and heavy fuel in various industrial plants in the South of the country. At the beginning of 1974, the tariffs on most of the pipelines were raised by 50 percent. It should be noted, however, that the fuel pumped in transit is not charged the regular tariff but an attributed price since the fuel belongs to the pumping company.[25]

[23] This estimate has a downward bias—see explanation later in the text.

[24] The crude oil pumped in transit accounts for over 70 percent of the total throughput.

[25] The attributed price for 1974 was apparently underestimated in the absence of up-to-date data on pumping costs for that year.

The price index for the branch, including the effects of the devaluation, climbed by approximately 26 percent in 1974 (based on provisional data).

(b) *Domestic air services*[26]

The real output of the domestic air services declined by 6-7 percent in 1974 in contrast to the 17.3 percent advance achieved in 1973.

Behind this slump were the drop in Arkia Airways passenger traffic on its scheduled flights as fewer tourists arrived in Israel (a decline which made itself felt as far back as the second half of 1972) and the jump in the number of passengers carried on special flights—mainly for the defense establishment in the period following the end of the war. In the last quarter of 1973 these flights accounted for a particularly large proportion of the traffic; they constituted a somewhat lower share in the first three months of 1974.[27]

Total passenger-kilometers rose by just over 1 percent in 1974 in contrast to the 16.4 percent expansion in 1973. The fall-off in passenger-kilometers on scheduled flights was accompanied by an appreciable slowdown in the number of special flights. The supply (in terms of seat-kilometers available) also rose at a lower rate in 1974 (for scheduled flights, it even dropped below the 1973 figure). Demand increased even less, and as a result the passenger load factor fell to 73.1 percent (averaged over the year) as against 76.1 percent in 1973.

There were a number of tariff hikes during 1974 of which the sharpest was in March—over 50 percent (in line with the tariff increases on overland transportation). Prices rose on the average by 43 percent over the whole of 1974.

(c) *Post and telecommunications*

Revenue from communications in 1974 amounted to some IL 1,371 million as against IL 1,002 million in 1973.[28]

[26] In the absence of statistical data for other companies, this survey covers only the activities of Arkia (since 1973, however, the activities of the smaller companies have been negligible). The output data for 1973 have been amended to bring them into line with the data published by the Central Bureau of Statistics. The data for the fourth quarter of 1974 represent a provisional estimate only. Real output is defined as revenue at constant prices.

[27] In 1974 Arkia carried 647,200 passengers as against 679,400 in 1973.

[28] Excluding Post Office Bank income and including the defense stamp levy on postal and telephone services. The 1973 financial data appearing in the 1973 *Annual Report* have been corrected in line with the data published by the Central Bureau of Statistics. Attention is drawn to the fact that for 1973 and 1974 the breakdown of the revenue as reported by

Table XV-2

TELEPHONE SERVICES, 1970–74

(in thousands)

End of period	Direct subscriber lines connected[a]	No. of installations	No. of applications	Applications outstanding[b]	No. of telephone calls (million meter pulses)	Percent annual increase: Installations	Percent annual increase: Applications	Percent annual increase: Applications outstanding	Percent annual increase: No. of calls (million meter pulses)
1970	361.0	43.7	61.9	64.5	..	–4	–4	21	..
1971	400.0	42.8	77.9	87.3	1,386.6	–2	26	35	..
1972	444.1	48.6	94.2	139.9	1,609.9	14	21	60	16
1973									
Jan.–Sept.	485.8	44.3	62.3	156.5	1,328.4	12	-9	40	13
Entire year	494.2	55.4	77.3	161.1	1,783.7	14	–18	15	11
1974	533.1	45.3	74.8	188.0	1,936.6	–18	–3	17	9

[a] A direct subscriber line is defined as a connection from a central exchange to a subscriber (a subscriber may have more than one direct line). The number of direct lines connected at the end of the previous year, plus the number of connections during the year, is not equal to to the number of lines connected at the end of the current year, mainly because of lines disconnected and adjustments with respect to external removals.

[b] Applications outstanding from previous years, applications received during the year, and installation orders in the hands of the engineers, less installations during the year. In the absence of data on applications cancelled, the total figure is inflated accordingly. In 1971 the definition of outstanding applications was changed, but the data for 1967–70 were not revised for lack of data. The Ministry of Communications estimates the number of cancellations at 16–20 percent of the annual number of applications.

SOURCE: Based on Ministry of Communications data.

The 1974 real output of the telecommunications sector rose by approximately 9 percent (after adjusting for revenue from external work—mostly agency fees and work performed for the Defense Ministry).[29] The rate of output growth therefore remained constant (it was 9.5 percent in 1973). Telephone services continued to account for about 70 percent of total output. Given the somewhat unreliable financial statistics available, a better indication of changes in real output would probably be provided by the number of telephone meter pulses and the number of telephones installed during the period (see Table XV-2).

The number of meter pulses expanded at a slower rate in 1974 (7 percent) than in the previous year (11 percent), a slowdown which paralleled the development of the economy as a whole and the progress of real private consumption. It should be noted that while the price index for telephone services rose by 22 percent in 1974, as against 25 percent in 1973, relative to the change in the consumer price index the 1974 increase was higher, thereby preventing a further deceleration in telephone output.[30] Another factor may well have been a switchover from travelling to using the telephone, since the relative cost of travel increased in comparison with telephone tariffs.[31]

The demand for new telephones continued to decline in 1974, though at a lower

the Ministry of Communications (on a cumulative basis) by quarters and for the calendar years is not reliable. A comparison of the changes in telephone revenue at constant prices with the quantitative changes for the corresponding period (meter pulses, telephone installations, etc.) for 1973 and 1974 gives dissimilar and even contradictory results. A possible explanation is that telephone and other accounts for the last quarter of 1973 were not paid until the first quarter of 1974. It follows from the above that not too much importance should be attached to changes in the rate of output growth and particularly for that of the telephone services between 1973 and 1974.

[29] In recent years, income from these activities, which are not representative of the work of the Ministry, accounted for some 8-10 percent of total revenues.

[30] The slackening of the demand for local telephone calls was even more marked since the volume of international calls (in terms of minutes) grew at a faster rate than the demand for local calls during 1974. This rapid growth in international telephone traffic is to be explained by the expansion of the International Direct Dialing facilities made available to subscribers. During the period July-September, 1974, 25 percent of all international calls were dialed directly by subscribers, as against 5-6 percent in the corresponding period of 1973.

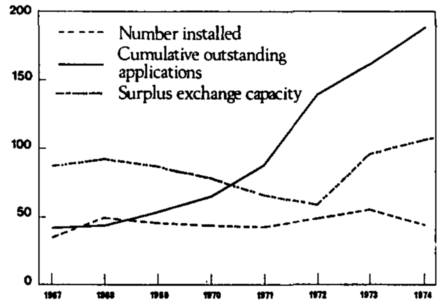
[31] The tariffs for telephone services (and the rest of the Ministry's services) were raised in April, 1973. The telephone installation fee was changed from IL 650 to IL 900 and the cost of local calls went up from 22 to 26 agorot. The monthly rental fees were also hiked. The annual average increase in the price of the Ministry's services in 1974 was 25 percent as against 22 percent in 1973.

rate than during 1973 when the dip first became evident. This deceleration is to be explained less by the increased charges than by changes in personal income and other factors such as the freezing of residential construction throughout 1974, budget cuts in both the public and private sectors, and the drop in immigration from the West. Not all of these factors are fully reflected in the volume of telephones installed, however, since new telephones are rationed on a priority basis and there is a long waiting list.

Figure XV-1

NUMBER OF TELEPHONES INSTALLED, OUTSTANDING APPLICATIONS, AND SURPLUS EXCHANGE CAPACITY, 1967–74

(in thousands)



SOURCE: Ministry of Communications.

The number of telephones installed also dropped in 1974—45,300 as compared with 55,400 in 1973. The 1974 installation rate was no higher than that achieved in 1969-70. In spite of the decline in the flow of applications for new telephones, the excess demand for telephones grew at a faster rate than in 1973 since the number of new applications still exceeded the number of new telephones installed. At the end of 1974, the accumulated excess demand reached 188,000—17 percent above the corresponding figure for 1973 (see Figure XV-1).

The effective limit on the supply of new telephones in 1974 was the telephone network. For the second year in a row, exchange capacity grew faster than the rate of new installations. As a result, unused exchange capacity climbed in 1974 to 16.8 percent, above the internationally-accepted rate required to ensure a satisfactory grade of service (13 percent). The unbalanced development of the telephone system as a whole results in lower quality service in spite of the surplus space and equipment available at exchanges.[32]

The total number of persons employed (including temporary staff) in the communications sector rose more slowly in 1974 than in the previous year—up 3.3 percent as against a 5.8 percent advance in 1973. The average number of employees over the year reached 16,400.

[32] In a situation in which the regional telephone managers aim at achieving the maximum number of new installations consistent with their annual budget, there is a tendency to prefer making new installations over maintaining the existing network, a preference which adversely affects the standard of service. Similarly favored are those new installations for which the work is comparatively uncomplicated.

(a) *Shipping*[33]

The growth rate of shipping output remained at the 1973 level of 12-13 percent. (If, as explained in note[34], the 1973 figures were overestimated, then the 1974 advance was even greater.) The industry's prices rose by an estimated 54 percent over the year (including the effects of the November, 1974 devaluation).[34]

The outstanding developments in the branch's operations during 1974 were:

1. A dip in the output attributable to crude oil transport over the first nine months and a slight increase for the year.
2. A sharp rise in the carriage of import cargoes (including defense items but excluding oil).
3. A more moderate decrease in export cargoes than that experienced in 1973.

[33] This section surveys the activities of the shipping companies (for a precise definition of the coverage, see p. 263 of the 1972 *Annual Report).* It does not include Israeli entities not defined as shipping companies such as the Citrus Marketing Board, which operates chartered vessels, and various other institutions. For Maritime Fruit Carriers, the survey covers only the operations of eight refrigerated ships sailing under the Israeli flag. The data on fleet strength do not include this company's tankers, since they are not defined as Israeli ships (even though they are on the Israeli Register). The other vessels of the company's fleet (refrigerated ships and tankers) sail under foreign flags, and because of the manner in which they are financed, they are not included in the data of Israeli fleet strength (nor are they listed on the Israeli Register). Their output is also excluded from the statistics.

[34] The change in shipping prices is a weighted average of the changes in freighter and fuel tanker rates, charter fees, and miscellaneous rates. For lack of data on specific cargoes and their prices, with respect to the freight rates charged by Zim, we have assumed a fixed cargo mix in its liner trade. It follows, therefore, that any alteration in the actual cargo mix will distort the revenue per ton figures for each line. These figures are used to indicate price changes. There will be a corresponding bias—in the opposite direction—in the estimated change in output measured in terms of revenue at constant prices. In addition, the calculation of shipping output is very sensitive to contractual changes (for example, in chartering, whether the shipper or the carrier pays for port services). Care should be taken, therefore, when comparing shifts in carrying capacity with changes in output, productivity, and utilization rates. The branch's 1973 price index appears to be underestimated, whereas the change in output seems to be overstated. Shipping revenue (excluding chartering activities between Israeli companies) reached IL 2,500 million in 1974. It should be noted that in 1974 the shipping companies' output accounted for over 7 percent of the transportation branch's GNP (at 1968 prices).

Table XV-3

ISRAELI SHIPPING REVENUE AND ESTIMATED PRODUCT, 1971–74

(IL million, at current prices)

			1973			Distribution of revenue				Percent annual increase[c]	
	1971	1972	Jan.–Sept.[a]	Entire year	1974[b]	1971	1972	1973	1974	1973	1974
Cargo (incl. fuel)	759	1,010	925	1,233	2,271	82.2	84.6	84.9	90.2	22.0	84.3
Imports	330	384	332	515	934	35.8	32.2	35.5	37.1	34.0	81.4
Exports	99	119	100	125	206	10.7	9.9	8.6	8.2	4.7	65.9
Between foreign ports[d]	330	507	493	593	1,131	35.7	42.5	40.8	44.9	17.1	90.6
Passenger	13	16	15	15	—	1.4	1.3	1.0	—	-7.0	—
Charter hire[e]	145	148	119	160	199	15.7	12.4	11.0	7.9	8.1	24.3
Miscellaneous	6	20	21	44	49	0.7	1.7	3.1	1.9	124.4	9.9
Total revenue	**923**	**1,194**	**1,080**	**1,452**	**2,519**	**100.0**	**100.0**	**100.0**	**100.0**	**21.6**	**73.4**
Estimated gross national product originating in shipping, at current prices											
IL million	190	233	208	265	..						
Percent of revenue	20.6	19.5	19.3	18.3	..						

[a] Revised data.
[b] Provisional data.
[c] Calculated from unrounded figures.
[d] Including crude oil in transit.
[e] Revenue from the chartering of vessels between Israeli companies amounted to IL 125 million in 1971, IL 184 million in 1972, IL 170 million in 1973, and IL 217 million in 1974.

SOURCE: Central Bureau of Statistics.

4. A continuing decline in the volume of tramp cargoes accompanied by an increase in ton-kilometers.[35]

5. An expansion in revenues derived from chartering Israeli ships.

6. For the first time in the history of Israel shipping, the branch earned no revenue whatsoever from passenger transport following the discontinuation of Zim Passenger Lines.

Although Israeli shipping carried 3 percent more tonnage in 1974 than in 1973 (excluding fuel and cargoes carried in chartered Israéli ships), the rise in ton-kilometers seems to be mainly attributable to increases in the Israeli share of the expanding American[36] and international routes (including tanker operations). To a lesser extent the Israeli share also rose on the European routes at the expense of Mediterranean traffic.

The merchant fleet's carrying capacity expanded more rapidly in 1974—by 15.2 percent as compared with 10.1 percent in 1973 (see Table XV-4 and Figure XV-2). This rate was below that achieved from 1970-73, however, but above that of 1969. The growth of the tanker fleet was particularly vigorous, with a net gain of three large tankers. The freighter fleet's carrying capacity also continued its growth, as old ships were replaced by new and specialized ones (the increase in comparison with 1973 reflects the expansion of the freighter fleet during the second half of 1973).

The trend towards using flags of convenience continued to predominate and even intensified in 1974 (at the end of the year such ships accounted for 83.5 percent of the fleet). The use of flags of convenience gives the shipowner both commercial and financial benefits in addition to such advantages as preferential taxation and lower wage scales. In addition to these factors, which are not peculiar to Israel[37], there is the specifically Israeli problem of the Arab boycott. Although the total economic effects of the boycott on Israel's economy are not clear, it clearly does diminish the added value earned from shipping revenues.

The net investment in the purchase of new vessels in 1974 was $ 145 million at current prices, as against $ 184 million in 1973.

Israeli shipping, particularly "Zim", also operates chartered vessels. On the basis of partial data, the relative share of chartered ships in the total tonnage carried by Israeli shipping declined in 1974. Using chartered vessels, usually older ships manned by foreign crews, normally leads to lower costs and fewer commercial

[35] There are statistical problems involved in measuring this figure due to changes in the classification of the lines following the operation of Zim's container line— "Tricontinental".

[36] Based on Zim's data only.

[37] In international shipping the use of flags of convenience by multi-national companies is very common.

Table

ISRAEL'S MERCHANT FLEET, BY TYPE

(End of period)

Type of ship	Number of ships 1970	1971	1972	1973	1974	Tonnage, excl. deadweight 1970	1971
Passenger	2	2	2	2	2		
Dry cargo	92	90	84	82	80	1,385.3	1,379.5
General	57	57	53	55	53	346.8	352.1
Refrigerated	13	11	11	8	8	101.2	89.7
Bulk carriers	22	22	20	19	19	937.3	937.7
Tankers[b]	13	23	24	23	28	743.5	1,774.2
Total cargo ships	**105**	**113**	**108**	**105**	**108**	**2,128.8**	**3,153.7**
Thereof:							
Under foreign flags							
Percent	24.8	31.9	36.1	41.0	51.9	56.6	70.9
Number	26	36	39	43	56	1,205.0	2,235.7

[a] The carrying capacity of cargo ships is calculated as the product of the tonnage, speed, and percentage of the period during which the vessel was Israeli-owned.
[b] Excluding the tankers belonging to Maritime Fruit Carriers, which sail under a foreign flag and hence are not treated as Israeli-owned shipping; revenue from their operation is not included in Israeli shipping revenue. Only part of the tanker fleet of another com-

risks[38]. The world shipping boom that marked 1973 ended in 1974. Due to the recession in the industrialized countries, the smaller volume of grain purchased from the U.S. by the Soviet Union, and the supply and demand developments in the oil markets of the world, the volume of world maritime activity contracted considerably. The estimates of the tonnage carried during 1974 show an increase of 5 percent over 1973 as compared with a 12.8 percent advance in 1973. In terms of ton-kilometers the gains were 4.1 percent in 1974 as against 17.3 percent in 1973.[39] The decline was particularly felt with respect to crude oil and oil products,

[38] At the time this survey was compiled it was not possible to estimate the share of Israeli shipping in the country's import and export cargoes during 1974 due to the manner in which military cargoes were recorded. In 1973, Israeli shipping carried 63 percent of the import and 52 percent of the export cargoes. The percentages in 1974 are higher, apparently because of changes in the cargo mix and as a result of the war situation.

[39] Source:*Feanly and Egers Chartering Co. Review 1974*, pp 10-11.

OF SHIP AND TONNAGE, 1970–74

passenger ships ('000 tons)			Percent annual increase in carrying capacity[a]				
1972	1973	1974	1970	1971	1972	1973	1974
1,398.7	1,518.4	1,518.9	0.1	-0.4	1.4	7.0	5.8
393.5	525.2	525.7	-0.9	1.5	12.4	29.6	19.2
89.7	77.7	77.7	—	-2.3	-9.1	-6.6	-6.1
915.5	915.5	915.5	0.4	—	-1.2	-0.9	-0.2
2,037.2	2,372,5	3,006.4	77.1	96.3	37.0	12.3	21.6
3,435.9	**3,890.9**	**4,525.3**	**18.2**	**33.3**	**20.3**	**10.1**	**15.2**
2.548.3	3.104.6	3.772.2					
74.2	77.8	83.5					

pany is included in the number of Israeli tankers. but the company's total income from the transport of oil is included in the revenue data.

SOURCE: Based on data of the Central Bureau of Statistics and of the Shipping and Ports Division of the Ministry of Transport.

iron ore, and grain cargoes. Along with the slack in demand, a surplus of carrying capacity was noted on the world shipping market, particularly with respect to tankers.

While all shipping rates moved strongly upwards in 1973, the rates generally turned downwards in 1974, although on a yearly average most tramp rates were above the 1973 level.[40] Noticeable exceptions to the price trend were oil freight rates, which dropped 40-50 percent on the basis of an annual average (the slump was even more marked in the course of the year), and rates in the liner trade, which rose steadily throughout 1974 due mainly to the worldwide inflation and increased operating costs (principally fuel). The increased liner rates were accompanied by higher fuel, foreign currency, congestion, and war risk surcharges.[41] At the same time

[40] See the discussion on changes in shipping rates in the 1973 *Annual Report* pp. 270-271.

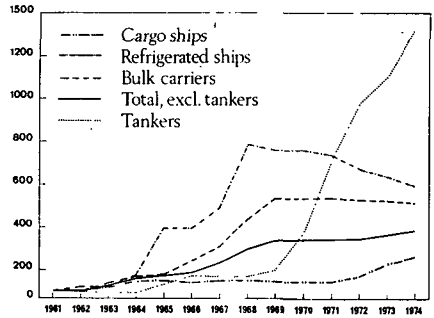
[41] The German price index of liner cargo shipping shows an increase of 33.5 percent as

that tariffs were raised, an attempt was made to minimize the effects of higher fuel costs by reducing sailing speeds, etc. In this manner the shipping companies successfully compensated for the increased fuel costs, and firms belonging to the various shipping conferences that always economized on fuel managed to earn a surplus income (rent).

Figure XV-2

INDEX OF THE CARRYING CAPACITY OF ISRAEL'S MERCHANT FLEET, 1961–74

(1961 = 100)



Source: Central Bureau of Statistics.

Since the greater part of Zim's operations are in the liner trade, its tariffs (and those of the shipping conferences) moved in line with those on the international liner market, though the changes were somewhat more marked. Average revenue per ton was up by about 70 percent (43 percent on the European lines, 74 percent on the Mediterranean routes and over 50 percent for the American and international traffic). The higher average revenue per ton, however, was affected not only by changes in cargo mix but also by the degree of monopoly that Zim held on any given line. Rates increased 80-100 percent in the oil transport field in the last quarter of 1973, but in the second half of 1974 they dropped dramatically from their earlier level. Data on Zim's 1974 profits are not yet available, but they were certainly considerably higher than the $ 5 million shown in 1973. Zim's revenues reached $ 400 million in 1974. It should also be noted that Zim's container line (Tricontinental), which accounted for over 40 percent of the cargo tonnage and revenues, earned a considerable profit in 1974.

(b) *Ports*

The real output of the ports grew faster in 1974 (as measured in terms of revenue at constant prices)—rising by approximately 19 percent as compared with some 13 percent in 1973.[42] This gain was mainly due to the rapid expansion of general

an annual average for 1974 as against 6.3 percent for 1973. The Norwegian chartering index shows a rise of 35.6 percent in 1974 as compared with a hike of over 100 percent in 1973. The British shipping index shows a similar trend.

[42] We must emphasize here that the price index covering port revenues (as calculated by the Central Bureau of Statistics) has not yet been adjusted to measure changes in the

Table XV-5
CARGO TRAFFIC THROUGH ISRAEL'S PORTS, 1973-74
(thousands of tons)

	Percent of total tonnage in 1973/74[a]	Percent of total port revenue in 1973/74[a]	1973			Percent annual increase[b]		
						1973		
			Jan.–Sept.	Entire year	1974	Jan.–Sept.[c]	Entire year	1974
Import cargo								
Grain (bulk)	21.1	13.0	1,244.3	1,795.7	1,884.3	16.2	24.1	4.9
Minerals (bulk)[d]	6.5	1.1	346.3	423.5	569.8	49.4	18.4	34.5
Chemicals and edible oils (liquid)	—	0.7	117.3	153.8	169.9	8.5	9.2	10.5
General cargo	35.7	73.5	2,493.0	3,246.3	3,625.7	17.5	10.0	11.7
Thereof:								
Containers and trailers	6.6	14.8	399.1	547.6	758.8	214.0	151.5	38.6
Cement in bags	2.1	..	120.9	196.3	225.9	–57.4	48.1	15.1
Total import cargo	**63.3**	**88.3**	**4,200.9**	**5,691.3**	**6,249.7**	**19.0**	**14.7**	**11.2**
Export cargo								
Citrus	10.1	5.1	739.1	952.2	986.1	–8.8	–8.0	3.6
Minerals (bulk)	15.9		1,188.8	1,396.1	1,656.5	5.9	–7.0	18.7
Thereof:								
Potash	8.4	0.1	688.4	790.9	784.5	2.9	–2.6	–0.8
Phosphates	6.4		462.4	552.8	772.7	14.0	–11.0	39.8
General cargo, incl. bulk grain	10.7	6.5	793.1	972.5	1,014.0	20.2	7.7	4.3
Thereof:								
Containers and trailers	5.5	2.3	366.0	468.2	558.4	177.3	98.5	19.2
Total export cargo	**36.7**	**11.7**	**2,756.6**	**3,365.3**	**3,719.9**	**5.3**	**–3.4**	**10.5**
Total cargo volume	**100.0**	**100.0**	**6,957.5**	**8,984.6**	**9,969.6**	**13.1**	**7.2**	**11.0**

[a] Excluding revenue from fuel and passenger transport.
[b] Calculated from unrounded figures.
[c] Compared with January–September 1972.
[d] Including cement.
SOURCE: Israel Ports Authority.

import cargoes (including containers) which rose by 11.7 percent over the year as compared with a 10 percent increase in 1973. Revenue from general import cargoes accounted for 73.5 percent of the ports' 1973/74 cargo revenues (excluding oil) (see Table XV-5).

The volume of export cargoes handled also showed a higher rate of increase in 1974—10.5 percent as against the decline of 3.4 percent recorded in 1973 (principally caused by the extensive call-up of port workers in the last quarter of the year). The total volume of cargoes handled by Israel's ports during 1974 amounted to about 10 million tons—11 percent above the 1973 figure.

While most cargo tariffs are based on the way the cargo is packed and the manner in which it is handled, an appreciable part of the ports' revenues come from the "wharfage dues" which are based on the value of the cargoes concerned. These dues are levied at a higher rate on import cargoes than on exports; as a result the total charge per ton of imports is 4-5 times as much as that levied on export cargoes.

Port charges rose considerably in March and again in November, 1974 to compensate for the currency devaluation. Over 1974 as a whole, the index of port charges rose by approximately 25 percent.[43]

The ports' capacity for handling container cargoes has been steadily developed over recent years, including 1974. This technology greatly increases output per worker. Coupled with the slower growth in the volume of cargoes handled at the end of 1974 and the beginning of 1975, this development led to moves to reduce the number of hands employed by the ports.

(c) *International aviation*

The year 1974 marked a watershed in international aviation both with respect to operating costs and supply and with respect to demand which in turn affected output and prices. The changes resulted from the energy crisis, the economic slowdown in the industrialized countries of the West, and the worldwide inflation.

While the fate of El Al is closely bound up with developments in international aviation, the above-mentioned elements did not have any serious effects on the company due to certain compensatory factors specific to the air traffic (both passenger and freight) to and from Israel.[44]

handling charges for containers. Revenue from this source accounted for 15 percent of total port revenues from cargo handling (excluding fuel) in 1973/74. Care should be taken, therefore, when comparing the magnitude of these changes.

[43] Port revenues during 1974 amounted to approximately Il 557 million.

[44] For a detailed discussion on tourist traffic to Israel see below.

El Al's real output in 1974 (measured in terms of revenue at constant prices) dropped 1.2 percent below the 1973 level which was well above the 1972 figures (an increase of 15.8 percent).[45] The dip was the direct result of a 6.3 percent decrease in the number of tourists arriving in Israel by air and an overall decline in the number of air passengers travelling in both directions—5.3 percent in 1974 and 3 percent in 1973. The Yom Kippur War had a decisive influence on El Al's passenger and cargo traffic during both years.

Output from passenger traffic in 1974 advanced 8.8 percent over the previous year. This gain was achieved, despite the overall decline in passenger traffic, because El Al increased its share of the total at the expense of foreign airlines during the opening months of the year. The higher share was maintained in the period following peak levels experienced during and immediately after the Yom Kippur War when foreign airlines suspended their flights to and from Israel. El Al's percentage of the traffic also rose during July and August at the time of the crisis in Cyprus. In addition, the annual output growth rate from passenger traffic was affected by the jump in the last quarter of 1974 as compared with the corresponding period in 1973. Over the year as a whole, El Al's share of the traffic passing through Ben-Gurion Airport was 53.3 percent as against 50.9 percent in 1973, while its share of total seating capacity rose to 45.1 percent in 1974 compared to 43 percent the year before.

The substantially greater volume of air freight carried in the last quarter of 1973 brought up El Al's figures for the year. The results for the first three quarters of 1974 were also well above the corresponding 1973 figures, but for the year as a whole, freight output was down 22 percent.

All the indicators show that international aviation passed through a crisis in 1974—a crisis that first became evident in 1973. Output measured in terms of the number of passengers, passenger-km., and cargo ton-km. showed a rate of growth well below those of the 1960s and 1970s.[46] Even on the North Atlantic route, the most important international route (on which El Al also operates [47]), the IATA [48]

[45] El Al's real output in the first nine months of 1974 rose 9.4 percent compared to a 5.5 percent advance in the corresponding period in 1973.

[46] For the year 1974, the following percentage increases were recorded by the member countries of the ICAO (except for the USSR): number of passengers—3.2 (the annual average from 1964 to 1974 was 10.4); passenger-km.—3.6 (12.2); cargo ton-km. —11.9 (16.6); total ton-km. (passengers and cargo)—5.3 (13.2).

[47] In 1974, El Al carried 2.6 percent of the total passenger traffic on this route and its share in seating capacity was 2.1 percent. El Al's passenger load factor on this route was 71.8 percent (the second highest rate achieved), while the average for all airlines was 58.2 percent (59.4 percent excluding the American airlines).

Table XV–6

OUTPUT AND UTILIZATION OF EL AL AIRCRAFT, 1972–74

			1973			Percent annual increase			
							1973		
	Unit	1972	Jan.–Sept.	Entire year	1974	1972	Jan.–Sept.	Entire year	1974
1. Available seat-km.	million	5,585	4,401	5,430	5,425	21.8	0.8	–2.8	–0.1
2. Revenue passenger-km.	million	3,550	2,827	3,491	3,769	9.8	0.9	–1.7	8.0
3. Passenger load factor (2 ÷ 1)	%	63.6	64.2	64.3	69.5				
4. Available ton-km. (passenger and freight)	million	736	590	809	781 [a]	10.3	2.6	9.9	..
5. Revenue ton-km.	million	425	352	508	494 [a]	4.9	6.3	19.5	..
6. Ton-km. load factor (5 ÷ 4)	%	57.7	59.7	62.7	..				

[a] Provisional data.
SOURCE: El Al Israel Airlines.

carriers experienced a 6.2 percent drop in traffic on their scheduled flights as against a 5.5 percent increase in 1973. Traffic on IATA charter flights plummeted 30 percent. Demand for aviation services declined mainly as the result of the economic recession in the U.S. and the mounting costs of tourism.

Beginning in the second half of 1973, the hike in fuel prices became more severe after October of the same year. This rise, together with higher prices for other inputs, led to a steep increase in aircraft operating costs. Between January, 1973 and April, 1974 fuel costs soared by over 250 percent. Whereas fuel costs had accounted for only 8-10 percent of total operating costs in the past, their share rose to 20-25 percent in 1974. The cost increases came on top of a situation of excess capacity and under-utilization of aircraft. As a result, fares were raised during 1974, on some lines by as much as 30 percent (in terms of dollars), which in turn led to a further drop in demand. The lighter traffic, coupled with heavier losses, led to intensified competition between the airlines and to a mutually-agreed reduction in the number of flights. Governments intervened to attempt to reallocate international flights among the various national carriers.[49] The drop in tourism to Israel decreased hotel-occupancy rates and diminished revenues for other associated tourist activities, resulting in renewed demands that the government amend its aviation policy and authorize low-cost charter flights.

Due to higher operating costs, El Al hardly increased the number of seat-kms. available. Capacity was adjusted to demand by reducing the frequency of flights and by allocating aircraft more efficiently among the various routes. Aircraft utilization in terms of flight-hours also dropped in 1974. The net result was to increase the number of passenger-kms. sold as compared with the number of seat-kms. available. The figure for 1974 was 69.5 percent as compared with 64.3 percent in 1973 (see Table XV-6). The number of passengers carried by El Al rose by 2.7 percent in 1974 (as against a 1 percent increase in 1973). While the growth for all lines to and from Israel was 4.4 percent, on the North Atlantic route it reached 9.2 percent.

The price index of El Al's output rose on the average by 30.7 percent during 1974 (including the effects of the devaluation), while the passenger price index was up by a lesser amount—25.2 percent.[50] At current prices El Al's 1974 income was over IL 840 million, as against some IL 651 million in 1973.

[48] IATA is the International Air Transport Association made up of the international airlines.

[49] Particularly evident was the American opposition to the European airlines that do not have a domestic aviation potential and compete with the American airlines by exploiting their favorable geographic location to carry passengers between two foreign countries.

[50] Because of the manner in which the price indices are calculated, the decline in the weight of the American traffic and the compensating increase in the weight of the European

(d) *Airports*

Passenger traffic through Ben-Gurion Airport in 1974 decreased by 5 percent (including transit passengers). The volume of freight handled also declined 1.1 percent. The quantitative shortfalls were reflected in a 4.6 percent drop in real output in 1974 as against the 13.7 percent advance in 1973.

The price index of airport output rose by an average of 19.3 percent during the year as a result of the hike in the airport charge and in the tariffs for services and concessions.[51]

5. Tourism[52]

Tourist traffic to Israel first began to decelerate in the second half of 1972, although during the year the number of tourists increased by 11 percent. For the first nine months of 1973 the number of tourists remained almost stable in comparison with the corresponding period of 1972 (except for cruise visitors whose numbers dropped by 3 percent). For 1973 as a whole, tourist traffic was down by 9 percent, mainly due to the war.

The decline continued throughout the first three quarters of 1974, but for the year as a whole traffic was off by only 5.6 percent. The drop in the number of tourists arriving by air was even more marked—15.4 percent for the first nine months of 1974 and 6.3 percent for the year as a whole.

During 1974, 624,700 tourists arrived in Israel compared with 661,700 in 1973.[53] Foreign currency receipts from tourism in 1974 were approximately $ 195 million, some 15 percent below the 1973 earnings.[54] The share of tourist exports in the country's total service exports and in the total exports of goods and services also contracted in 1974,to 11 percent and 6 percent respectively (as against 20 percent

traffic (where the revenue per passenger-km. is higher) are shown as a growth in real output rather than as a rise in tariffs. It should also be noted that in 1974 low-cost youth fares from the U.S., which were introduced in 1973, were suspended.

51 At current prices, 1974 airport revenues amounted to Il 64 million as compared with Il 56 million in 1973.

52 This section surveys foreign but not domestic tourism.

53 Excluding 124,000 tourists who visited the Administered Areas, 11 percent more than in 1973; some of these tourists also visited Israel.

54 Including foreign currency conversions by tourists in Israel and by suppliers of goods and services to tourists. The data also comprise the value of Independence and Development Bonds cashed in at Israeli banks to finance tourist outlays but exclude fares paid to "El Al".

and 10 percent for the first three quarters of 1973).[55]

A survey of tourists departing by air in the summer of 1974, carried out by the Ministry of Tourism, showed that tourists exchanged their foreign currency not only at banks but also on the black market where they obtained a higher rate. It is estimated that the sums involved were significant.

That the average expenditure per tourist dropped 10 percent tends to reinforce this conclusion, since the average length of stay rose in 1974 (in comparison with 1973 and 1972), and only the decreasing share of American tourism in the total traffic to Israel could help to explain such a decline.[56]

The overall volume of world tourism slipped 3 percent in 1974 following the deceleration in 1973 (a 7 percent advance over 1972). The dip in air tourist travel was even more severe as travellers switched from air to overland transportation following the hike in air fares (particularly for journeys within Europe and between the U.S. and Mexico). Listed among the principal factors that led to the decline in world tourism are:

(a) The recession in the U.S. which characterized 1973 and 1974. Economic activity also slowed in a number of industrialized countries in Europe. In addition, worldwide inflation and monetary instability reinforced the feelings of uncertainty of the prospective tourist.

(b) Higher international air fares, raised in response to worldwide inflation and particularly as a result of the steep increase in fuel prices during 1974.

(c) The unsettled political and security situation in such tourist areas as the Middle East, Cyprus, Greece, and Portugal.

The above developments brought in their wake fewer tourists, shorter trips in terms of both time and distance, a switch to lower classes of service, and a cutback in tourist purchases.

The pattern of world tourism also changed in 1974. Europe was particularly badly hit by the drop in tourism from America, a decline that was only partially compensated for by an expansion of intra-European tourism.[57] At the same time, tourism to Central and South America (mostly from the U.S.) increased remarkably.[58]

[55] In previous years, the value-added component of tourist revenue was estimated to be 70-80 percent.

[56] One must be careful, however, in comparing the number of tourists in a specific period with the volume of currency exchanged during the same period due to possible time-lags in exchanging currency at the banks.

[57] Almost all Western European countries recorded a drop in the number of bed-nights in 1974. Greece, Italy, Spain, and Portugal were the countries hardest hit in this respect.

[58] Tourism to the Middle East (excluding Israel) also showed an upward trend but in this

In addition to the general decline in world tourism, tourist traffic to Israel in 1974 was also influenced both by the Yom Kippur War and by the overall security situation.

Aside from the increase in air fares to Israel, prices were hiked for tourist services within the country: transportation, restaurants, and accommodation. For example, hotel rates for bed and breakfast in recommended tourist hotels rose by an average of about 26 percent over the year.[59] Reduced occupancy rates led to fierce competition, however, and as a result local residents were granted appreciably lower rates than were foreign tourists. The prices of hotel services to tourists rose by 20-25 percent with the devaluation, which had only a limited effect in 1974. According to partial data on dollar changes in the level of tourist services in Europe, Israel's rates seem to have increased relatively faster.

Higher tourist charges in Europe have a direct effect on tourism to Israel. Because a significant proportion of American tourists add a visit to Israel to their trip to Europe, any dip in American tourism to Europe decreases tourism to Israel. For the American tourist, Israel is a supplement and not an alternative to Europe.

During 1974 the number of tourists arriving from the U.S.[60] dropped by 9 percent. European tourism was down by 6 percent, but it maintained its share of the total tourist traffic to Israel—approximately 46 percent. Since 1973, Europe's share of tourism to Israel has exceeded that of North America—some 38 percent in 1974. In 1974 the number of tourists from France dropped sharply, while German tourism increased considerably.

The seasonally adjusted data [61] for 1974 reveal that tourism recovered in the first quarter of the year, particularly following the Disengagement of Forces Agreement in January, only to decline again in the second quarter. From July through November the level of tourism rose continuously, reaching a peak in the latter month when Israel was host to many well-attended international congresses. Among other factors the El Al strike, which resulted in the cancellation of a number of flights, led to a decline from the November level in December, 1974 and January, 1975. Although the drop in incoming air tourism continued, there was a slight rise in

region intra-regional traffic is relatively high. Compared to the corresponding period in 1973, provisional figures for January-June, 1974 show a drop in the number of American tourists leaving by air—in the case of Europe, a decline of 17 percent, while for South and Central America there were corresponding increases of 18 and 33 percent respectively.

59 The change in income per night varied between one class of hotel and another. For five-star hotels, the increase was 22 percent; for four-star hotels—16 percent and for three-star hotels—34 percent.

60 Excluding cruise passengers.

61 The short-term trend, including irregular factors.

Table XV-7

TOURIST TRADE: BED-NIGHTS, LENGTH OF STAY, AND INCOME, 1971–74

			1973				1973		
	1971	1972	Jan.–Sept.	Entire year	1974	1972	Jan.–Sept.	Entire year	1974
Tourist arrivals	656,756	727,532	579,059	661,651	624,700	10.8	0.4	–9.1	–5.6
Thereof: Cruise travelers	39,195	47,703	52,757	57,768	55,100	21.7	54.7	21.1	–4.6
Bed-nights in hotels recommended for tourists ('000)	4,842.5	5,084.5	3,805.2	4,310.1	4,187.7	5.0	–4.7	–15.2	–2.8
Thereof: In 4–5 star hotels ('000)	2,644.3	2,862.1	2,071.8	2,387.6	2,532.7	8.2	–5.2	–16.6	6.1
Average length of stay of tourists (in days)									
Up to one month	14	12	12	10	12				
Up to three months	19	17	18	16	18				
Median stay[a]	16	13	13	13	14				
Income in foreign currency									
Total ($ million)[b]	178.3	211.9	194.6	230.3	195.0	18.8	23.0	8.7	–15.3
Average per tourist ($)	271.5	291.3	336.1	348.1	312.1	7.3	22.5	19.5	–10.3

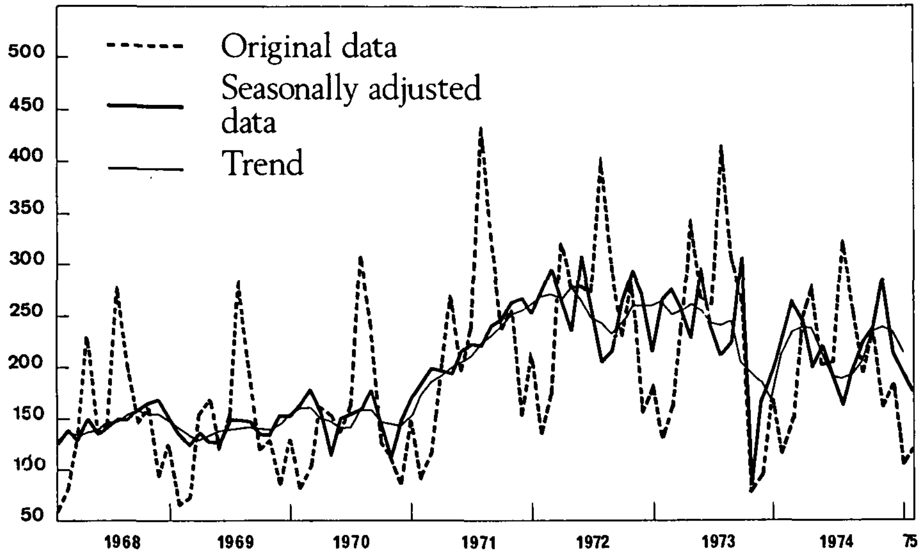
[a] Since 1972 the data are calculated more precisely.
[b] The sum converted at commercial banks by foreign tourists and by suppliers of goods and services to tourists (excl. El Al).
SOURCE: Central Bureau of Statistics and Ministry of Tourism.

March, 1975. For the first quarter of 1975 the number of tourists dropped 17 percent as compared with 1974 (see Figure XV-3).

Figure XV-3

INDEX OF MONTHLY TOURIST ARRIVALS, 1968–75

(1967 = 100)



SOURCE: Based on Central Bureau of Statistics data.

The data on tourist bed-nights more accurately reflect the output from tourism than do the statistics on the number of tourists. In the first nine months of 1974, the number of foreign tourist bed-nights spent in recommended hotels dropped 15.5 percent, while for 1974 as a whole, the decline was 2.8 percent.[62](see Table XV-7).

A more moderate decline was noted in the number of tourist bed-nights spent in four and five-star hotels during the first three quarters of the year, and for 1974 as a whole a 6 percent advance was recorded. It should be remembered, however, that the supply of four and five-star rooms also expanded at a faster rate. In addition, these hotels may have granted proportionately greater price reductions. That the number of tourist-nights declined less than did the number of tourists (excluding cruise passengers) is apparently the result of longer stays in Israel as well as the arrival of proportionately fewer youth tourists (who have less recourse to hotels).

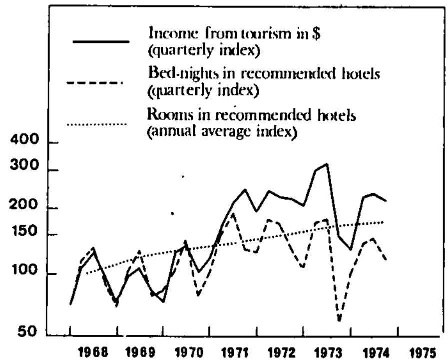
[62] The corresponding figures for Israeli bed-nights were: a 7 percent increase for the first three quarters of 1974 and a 10 percent increase for the year as a whole.

Against this background of sinking demand, the number of recommended rooms becoming available for tourists, particularly in the four- and five-star grades, expanded significantly, although to a lesser extent than in 1973. With respect to hotels not recommended for tourists, the number of rooms available dropped, apparently because their elasticity with respect to market conditions is much greater (see Table XV-8).

Figure XV-4

INDEX OF TOURIST BED-NIGHTS, INCOME FROM TOURISM, AND ROOMS IN RECOMMENDED HOTELS, 1968–74

(average 1968=100)



Semilogarithmic scale.
SOURCE: Central Bureau of Statistics and Ministry of Tourism.

Restrictions on the construction of new hotels were introduced even before the Yom Kippur War, when it was already clear that a surplus of rooms was in prospect. In 1974 no new construction was authorized, and a building freeze was imposed on hotels still in an early stage of construction. In addition, terms of credit for hotel construction were tightened in July, 1974. These actions, however, could not prevent the opening of new hotels that had been started years previously at a time when tourism was booming and government assistance and favorable terms of finance were readily available.[63] Hotels were converted to alternative uses on a comparatively small scale in 1974 due, among other factors, to the decline in immigration and the consequent drop in the demand for rooms by the Jewish Agency.

The number of rooms recommended to tourists (taken as an average over 1974) rose by 4.9 percent as against a 9.5 percent advance in 1973. The increase was greater in the case of the top-grade hotels. At the end of 1974 there were 20,350 rooms in recommended hotels of which 10,900 (54 percent) were in four and five-star hotels. Hotel investment at current prices reached IL 258 million in 1974 (of which IL 125 million was in the form of government loans). A further IL 19 million was invested in other tourist projects (of which IL 7 million was financed by government loans).[64]

[63] For a discussion of this topic, see the 1972*Annual Report 1972*, p. 280.

[64] During 1973, investment in hotels at current prices reached IL 247.8 million (of

Table XV-8

HOTEL ROOMS, OCCUPANCY, AND EMPLOYMENT, 1971-74

							Percent annual increase					
			1973		1974				1973		1974	
	1971	1972	Jan.–Sept.	Entire year	Jan.–Sept.	Entire year	1971	1972	Jan.–Sept.	Entire year	Jan.–Sept.	Entire year
Number of hotel rooms (annual average)	19.683	20,629	22,294	22,366	22,784	22,768	5.2	4.8	9.0	8.4	2.2	1.8
In hotels recommended for tourists	15,719	17,124	18,626	18,755	19,560	19,681	7.0	8.9	11.9	9.5	5.7	4.9
In hotels of the two highest ratings	6,020	7,071	8,171	8,700	9,702	9,875	11.1	17.5	20.2	23.0	18.7	13.5
Occupancy ratio in hotels recommended for tourists (local and foreign)	60.4	59.3	54.4	48.5	49.6	47.6	20.6	-1.8	-13.4	-18.2	-8.8	-1.9
In hotels of the two highest ratings	70.7	66.5	..	50.0	..	49.5	22.5	-5.9	..	-24.8	..	-1.0
Number of employees in recommended hotels (annual average)	10,611	11,275	13,133	..	11,391	11,270	14.7	6.3	16.6	..	-13.3	..

SOURCE: Central Bureau of Statistics.

Because of the considerable increase in the number of Israeli bed-nights, there was no catastrophic decline in the hotel occupancy rate, which averaged 49.6 percent for the first three quarters of 1974 as against 54.4 percent in the corresponding period of 1973. The average occupancy-rate for the whole of 1974 was only 47.6 percent.[65]

Since the beginning of 1973, the government has paid hotel operators a premium on every dollar earned from foreign tourists. The rate varied during 1973 and 1974 and in September, 1974 stood at IL 1.15. Following the November devaluation, this premium was cancelled, only to be reinstated in January, 1975. The object of the premium is to prevent or at least contain increases in tourist hotel rates (in terms of dollars); the premium is not granted with respect to other tourist services.

which IL 117.9 million was covered by government loans). For other tourist projects, the figure was IL 26.3 million (IL 8.5 million in government loans). The data refer to projects handled by the Tourist Industry Development Corp. At the beginning of 1975, there were 2,500 rooms under construction and a further 7,500 that had been approved by the Ministry of Tourism.

[65] For four and five-star hotels, the average occupancy rate was 49.5 percent.