CHAPTER XV

TRANSPORTATION, COMMUNICATIONS, AND TOURISM

1. MAIN DEVELOPMENTS

The main factors which operated to restrain growth and output in 1974 were effective also in 1975; however, while in 1974 there had also been influences which offset this general trend (such as the carriage of goods and passengers for the defense services, the growth in El Al's share of traffic due to the Cyprus crisis, etc.), in 1975 the forces of restraint were unimpeded in all aspects of the year's activities.

Output in 1975 declined by more than one percent as against a 5 percent growth in 1974 and a rapid expansion--of more than 13 percent per year--in 1969-72.[1] The product from domestic transport remained stable in 1975, while the product stemming from international transport, including sea and airports, dropped by 5-6 percent. In accord with the development of the various sectors of the economy in 1975, the rate of exploitation of production factors declined in most of the secondary branches of the sector and in tourist services.

The drop in economic activities in Israel, the recession that prevailed in most industrial economies, and the decline in the defense establishment's demand for transport services (as compared with 1973 and 1974) were the principal factors causing the drop in product. Although rises in the price of fuel and fuel products in Israel and abroad were more moderate than in 1974, when prices rose by several hundred percent, they still had important consequences for branch development.

1. As a basis for the calculation of the changes in gross national product of the sector, the input-output data for 1968/69 are used. For secondary branches, the annual changes in their output serve as indicators for product-changes.

There was in fact a drop of 2-3 percent in output of passenger transport in Israel, but it resulted principally from cutbacks in services to the defense forces and the drop in tourism; while demand for and output of transport services on regular routes recorded a recovery, mainly in the second half of 1975. This recovery stemmed, *inter alia*, from the substitution of public transport for private--following the effects of income changes and of the relative increase in the cost of their maintenance.[2] Aside from this, it was aided by changes in income tax revenues in the wake of the reform, which sharpened the changes in relative prices to the benefit of public transport. The effect of these changes can be found as well in the marked reduction in average kilometrage per private vehicle. In 1975 there was a marked slowdown in the growth rate of the level of motorization, after this

Table XV-1
CHANGES IN REAL OUTPUT, PRODUCT, AND PRICES OF THE TRANSPORTATION AND COMMUNICATIONS SECTOR, BY BRANCH, 1969–75[a]
(percentages)

	Estimated weight in GNP of sector in 1974 (at 1968 prices)	Weight in revenue 1974	Annual increase or decrease (-)						
			Output				Prices[b]		
			1969–1972 annual average	1973	1974	1975	1973	1974	1975
Domestic services	**73.8**	**51.6**	**12.8**	**1.0**	**2.6**	**1.1**	**16.1**	**33.8**	**35.5**
Land transport	**40.8**	**32.2**	**8.4**	**-1.3**	**-1.3**	**-2.3**	**13.2**	**38.8**	**37.7**
Buses and subway	12.1	9.1	6.4	-0.3	-2.0	- 2.5	10.6	38.7	41.4
Taxis	4.2	3.6	4.6	6.0	-9.0	2.0	13.5	42.8	36.6
Trucks	23.7	18.7	10.5	-3.4	9.5	-3.0	14.6	37.9	36.0
Railway	0.8	0.8	2.5	5.6	-1.2	-3.0	10.2	44.4	38.5
Other	**33.0**	**19.4**	**22.3**	**5.2**	**9.3**	**6.8**	**21.4**	**26.2**	**32.3**
Oil and gas pipelines	7.4	2.1	51.9	-9.4	4.2	-16.7	17.0	36.9	40.8
Domestic air services	0.5	0.7	18.9	7.3	-4.9	10.9	19.0	46.4	49.4
Posts and telecommunications	25.1	16.6	19.4	7.2	10.5	9.6	22.0	24.3	30.8
International services	**26.2**	**48.4**	**12.7**	**12.8**	**10.2**	**-3.1**	**9.0**	**43.9**	**43.6**
Shipping and ports	**17.6**	**37.3**	**10.7**	**11.1**	**14.8**	**-0.8**	**11.1**	**47.8**	**42.4**
Shipping	7.3	30.6	10.9	12.7	13.7	0.8	8.0	54.0	40.8
Ports	10.3	6.7	10.2	7.3	19.0	-7.8	25.1	24.8	50.2
Civil aviation and airports	**8.6**	**11.1**	**16.7**	**15.6**	**-1.6**	**-10.8**	**3.9**	**32.3**	**48.2**
International aviation	7.2	10.3	16.5	15.8	-1.2	-11.8	3.4	33.2	48.1
Airports	1.4	0.8	20.8	13.7	-6.2	9.7	9.7	21.3	49.8
Total output at market prices[b]	**100.0**	**100.0**	**12.7**	**6.1**	**6.0**	**-0.9**	**12.8**	**38.5**	**39.4**
Estimated change in the sector's product, at fixed prices			13.4	3.0	4.7	-1.3			

[a] Revised data for previous years.
[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.
[c] Additional details of calculations and sources for this table appear both in the appendix to this chapter and the chapter itself.

2. Private vehicle services to owners are not included in branch output.

had risen at a much more rapid rate during the past few years.

In the field of land freight transport there was a drop in output, after a slowdown in 1974(9) and the general stabilization in 1974 (mostly in services of mobilized vehicles). The drop in output, whose demand is derived from the demand for products in the economy, was mainly due to the drop in investments in buildings and sitework, the decline in defense demand, the drop in transport for various industries, and the cutback in freight traffic from ports. Surplus production capacity accumulated in the trucking branch (relative to periods of calm security) mainly in the wake of the full entry into the market of the trucks imported after the war. This increased competition between transporters, which was expressed this year by not implementing fully authorized price rises.

Real output of the shipping services in 1975 showed a marked slowdown whose principal cause lay in the drop in transport of crude oil for transit needs, resulting from the decline in the world demand for crude oil (this also caused a sharp decline in output of pipeline fuel transport). Likewise, as a result of the reduction in demand by the economy, import freight carried by Israeli ships also declined. This drop steepened during the year, and port output was adversely affected by it. The rise in transport output between foreign ports and import freight partially compensated for this. The average yearly growth in transport capacity slowed in 1975, and net investment in ships was meagre. The real output of El Al suffered a marked drop in 1975, beyond that which was caused by the decline in tourists and passengers to Israel. Although the drop in air traffic to Israel moderated, disruptions in normal work and strikes at El Al caused the firm a loss of passengers to foreign airlines.

620,000 tourists arrived in Israel in 1975 (down by approximately one percent); the drop was particularly conspicuous in tourism from the United States. A recovery in tourist traffic to Israel was recorded in the second half of 1975 (according to seasonally adjusted data). The number of hotel bed-nights per tourist dropped by 6 percent, due, among other reasons, to a shorter average stay of tourists in Israel.

Direct income from tourism (based on data on conversion of currency by banks alone) amounted to $233 million (a rise of approximately 20 percent). Tourism's share in total export services rose from 11-12 percent in 1974 to 13 percent in 1975. Its share in foreign currency added value was higher, since the added value component in tourist revenue is above average, exceeding 80 percent. It must be noted that because of the sizable discrepancies between the official and black market rates of exchange, the flow of foreign currency from tourists and suppliers of tourist services to the black market

increased substantially in 1975, it appears.

The number of employees in the transportation, communications, and storage sector dropped by more than 3 percent during the year (data from manpower surveys) however, the average number of hotel employees rose by approximately 10 percent.

Gross investment showed a real drop of 39 percent (22 percent in 1974), mainly in ships and vehicles.

The output price index of the sector--including the effect of devaluations on output costs determined in foreign currency--rose by approximately 39 percent. This rise is similar to that of the consumer price index.

2. DOMESTIC TRANSPORT

(a) *Buses*[3]

The downward trend in real output in bus services, which first began to be marked in 1973, continued through 1974 and grew even stronger in 1975, during which output dropped by 2.5 percent. The product level of this branch was lower by 4-5 percent (at fixed prices) than in 1972.

Branch output derives from two principal sources: passenger conveyance on regular lines and passenger conveyance on special trips and tours for tourist purposes. While output on regular lines rose by 2-3 percent in 1975, output from passenger conveyance on special trips and tours dropped by 15 percent.[4]

The fluctuations in output from special trips is only in part tied to economic development in the economy and is influenced by changes in the volume of services to the defense establishment and in the level of tourist traffic to Israel. These factors caused the drop in output for the year.

In contrast to this, output from regular lines developed parallel to the economic development in the economy and the changes resulting from the war and its aftergrowth; output for the years 1973 and 1974 dropped by 9 and 4 percent respectively and rose, as mentioned, by 2-3 percent in 1975. A number of factors caused a rise in output from these lines for the year:

3. The survey does not deal with tour bus companies, which are not connected with the cooperatives and are not included in the statistics of the Central Bureau of Statistics. According to partial data, the trends in these firms are similar to the trends recorded in the field of special trips and tours within the framework of the cooperatives. Output and cost data for 1973-75 are different from those calculated by the Central Bureau of Statistics due to the adjustments made here for transport for the defense services at the end of 1973 and the beginning of 1974.

4. This sub-branch accounts for 25-30 percent of its output and income.

1. In contrast to the two previous years, 1975 was a year of full and regular operation.

2. The relative prices of passenger conveyance services (buses and taxis), relative to costs of private vehicle travel, changed during the year in favor of public transport, for both interurban and local trips. As against a rise in public transport prices at an annual rate of 40 percent, the cost of use for private vehicles rose by more than 50 percent. (There was a continuous rise in these prices in 1975, while prices for bus service were subjected to a rise in tariffs at the end of 1974.)

3. In the wake of income tax reform, expenditures on travel by private vehicles for work purposes are no longer exempt from tax, while travel by public transport is recognized as deductible costs for tax purposes. Changes were also made in policy on the refund of travel costs where owners of vehicles received a fixed monthly payment (according to an allocation) supplemented by a partial refund of running costs. These changes gave significant advantage to the use of public transport and sharpened to a great extent the relative changes in prices to the consumer in favor of public transport. It seems that this is one of the explanations for the rise in seasonally adjusted revenue data at constant prices, as from August 1975; this in addition to the recovery of economic activity in the second half of the year.

4. Due to the drop in real income and private consumption, there appears to have been a certain transfer to use of public transport, although its extent is still difficult to estimate.[5]

The restraint in the rate of growth of the number of private vehicles and the degree of motorization in 1975 should be mentioned.[6] The number of private vehicles grew by only 4.5 percent in 1975, as compared with 15 percent annual average for 1968-74. It must be assumed that this phenomenon is to a large extent due to government policy, which administratively banned import of cars until September 1975 and caused a great increase in cost for imported vehicles (by approximately 75 percent).

Regarding the development in the field of passenger conveyance it is also possible to learn from the average kilometrage data per private vehicle; this dropped in 1975 by 11

5. The policy of granting road preference to public transport in the center of large cities may have also had some influence. The time and comfort of travel are important factors in determining the demand for public transport, no less, evidently, than the price.

6. The degree of motorization (in terms of private cars per 1000 people) amounted at the end of 1975 to 80, as compared to 78.2 in 1974, 70.1 in 1973, and 61.2 in 1972. At the end of 1975 there were 279.5 thousand cars.

percent compared with the previous year.[7]

The output growth trend of buses on regular routes compensated, it appears, for the general drop in economic activity in the economy, competititon from other vehicles (tenders and trucks) in passenger conveyance, and the decline in the conveyance of passengers from the administered areas.

The developments in output from 1972 to 1975 were not accompanied by parallel changes in branch input. During this period the number of workers rose by 4-5 percent (most of them in auxiliary services and not in the operation of vehicles), although the yearly rate of growth dropped during these years, and there was even a drop in the number of workers the last year. The fleet of buses operated by the company rose by more than 13 percent in the same period, apparently due to orders from previous years (see Table XV-1 in the appendix to this chapter).

This phenomenon, whether it indicates a rise in the level of service or a drop in productivity, causes substantial financial difficulty in the branch. The current system of supporting public transport as compensation for input cost rises and for not raising fares is not affected by the degree of exploitation of production factors in the branch. Changes in the support system would have brought an adjustment in the extent of services to the demand for conveyance,[8] including the use of alternative means of transport possibly more suitable than buses on different routes. The crisis which hit the transport cooperative demands an examination of their economic situation, as well as the structure of the branch, where the advantages of size in this branch (reflected in the administration of manpower, effective exploitation of equipment, planning, and development) were more fully exploited in companies smaller than Egged and Dan; it may well be that it is particularly the disadvantages in size that are now troubling the branch.

The input cost index for buses rose by 47.9 percent in 1975. Among the specific inputs the rise in the cost of fuel by 88 percent was particularly striking, while wages to employees of the cooperative rose by 40 percent.[9]

7. According to the provisional results of the survey of vehicle kilometrage, conducted by the Central Bureau of Statistics, the rise in the price of cars slowed, evidently, the process of discarding used vehicles, which reduced the average kilometrage on the one hand and raised the consumption of fuel per kilometre on the other.

8. This conclusion also emerges in Report No. 1 of the "Golomb Committee"- "The Public Committee on the Establishment of Tariffs and Financial Examination of Public Transport Cooperatives." Generally, traffic networks adjust their capacity to peak days and hours, which encourages passengers to transfer to use of public transport, bringing about an increase in their use particularly at peak hours and obliges added investment in public transport. This process increases the financial difficulties of the companies. Accordingly, there is great importance in a policy which will reduce the relation between the peak and the average number of passengers, such as staggering the business and school hours.

9. Data of the input price index of buses.

The accumulated deficit of the transport cooperatives grew during the past years notwithstanding the substantial growth in subsidies.[10] Subsidies to public transport in 1975 amounted to IL257 million, as compared to IL197 million in 1974 and constituted 35-38 percent of the revenue of the branch from regular routes.[11] It must be noted that the subsidies are not given according to considerations of earnings on particular routes, or by differentiating between interurban and local routes, and thus their designed effect is necessarily limited. From the point of government revenue and expenditure the effect of the subsidy on the consumer price index must be noted (also on linked debts in the economy).[12] The success of the policy, aimed at transfer from the use of private vehicles to public transport, does actually save investment in the infrastructure but it involves a loss of tax revenue imposed at a high rate particularly on the purchase and maintenance of private vehicles.

(b) *Taxis*[13]

There was a moderate rise in output in the taxi branch of 2 percent, as against a 9 percent drop in 1974. It should be noted that this was less than half the average yearly growth in 1969-72.

More than 200 taxis were added to the branch during 1975, which represents an annual growth rate of 5.7 percent following an addition of about 300 taxis per year in 1973 and 1974. These changes in supply and output indicate a drop in average output per taxi; therefore, even though higher tariffs compensated for the substantial rise in operating costs, the profitability of taxis declined.[14]

The explanation for the rise in output in 1975 is generally similar to that given for output development on regular bus-routes. During the past years almost the entire addition of taxis turned to urban services, while the supply of interurban services remained stable. From the data on the number of passengers of regular companies in the branch on interurban routes, it is possible to perceive the drop in the number of passengers by 2 percent as compared to 1974, but development in the economy for the year was not uniform: while during the first and second quarters of the year there were declines of 2 and 6

10. According to unchecked data presented to the "Golomb Committee" the accumulated deficit of Egged exceeded IL350 million at the end of 1975.
11. Subsidies constituted 25-26 percent of the total branch income in 1974 and 1975.
12. The weight of public transport in the consumer price index is 2-3 percent.
13. Excluding tourist taxis, independent car rentals, and vehicles operated by tourist agents and hotels. The estimates of changes in output are not obtained directly but are within the limit of estimates of partial reports received from the branch and data on the situation of taxis, whose source is the Central Bureau of Statistics.
14. The real cost in the free market of a taxi license ("Green Number") dropped in 1975 for the second successive year.

percent respectively (as compared with corresponding output the previous year), there were rises of one and 2 percent in the third and fourth quarters respectively.[15]

(c) *Road Haulage*[16]

Approximately 24 percent of the transport branch product stems from trucks. Since the output demand of the branch is derived from the demand in different branches of the economy, changes in the level of general economic activity and in demand from the defense services were immediately reflected in output in the truck branch.

Real output of the truck branch dropped in 1975 according to estimate by 3 percent; this following a stabilization in output (stemming from the civilian economy and defense establishment combined) in 1974, and a drop of more than 3 percent in 1973. Branch output in fixed prices was one to 2 percent lower in 1975 than in 1972.[17]

The principal factors for the drop in output in the branch in 1975 were the decline in investment in building and earthwork (mostly in the defense establishment) and in demand from industry, which is of great importance for the transport branch. Among the others are included: nonmetallic minerals (mainly phosphates), food, wood and wood products industry, plastic and rubber products, and a portion of nonmetallic minerals. A significant influence for the drop was in the movement of freight at the ports. Transport for the agricultural branch, amounting to 16-17 percent of the branch output, was a compensating factor which rose by a rate of approximately 7 percent.

There are other indications of output development during the year apart from those appearing in the discussions on industry, building, and agriculture in this report. The average kilometrage for trucks in 1975 dropped by 2 percent, both in gasoline-fuelled

15. Tariffs for taxi services rose at the end of 1974 and 1975, and the total average rise in taxes from all taxi services was approximately 37 percent.

16. Changes in branch output cannot be directly measured, but by indicators such as the industrial product index, the agricultural market, construction, siteworks, and so on; estimates of changes in output must therefore be considered with caution. The definition of the branch covers all trucks, including self-owned trucks of factories and farms. This definition of the branch is different from that customary in international accounting. Estimates for 1973 and 1974 also include the output derived from services applied in the Israel Defense Forces.

17. There is a notable statistical difficulty in estimating changes in output in 1975. The use of customary indications shows, in fact, some growth or no change in output; however, use was made of additional information on factors which particularly influenced branch output in 1975 and were not fully expressed in these indicators. Among these factors, which in part are quantitatively estimated with difficulty, must be noted: the drop in output from services to the defense establishment, the direction of a part of output in different industrial branches to stock, without increasing the demand for transport, as with the Dead Sea Works, various chemical works and evidently in some metal industries as well; the growth in branch production destined to substitute for import, such as cement; the re-orientation of a portion of the production increase, principally in auxiliary construction branch, to export to the Administered Areas, with a use of vehicles from the Administered Areas; a rise in the share of vehicles in transport, particularly grain transport, containers, and building gravel.

trucks and diesel trucks. While there was a marked drop in the first and second quarter of 1975 (compared to parallel output in 1974),[18] there was no change in kilometrage in the third quarter and a rapid rise was recorded in the last quarter. The trends in kilometrage and output are generally similar, and as to the force of the changes we must note that during a period of unemployment of vehicles a rise in the weight of empty or half-empty trips can be expected.

Data on the stock of trucks according to permitted freight load shows that the carrying capacity grew by more than 17 percent in 1974, while in 1975 the carrying capacity dropped by approximately one percent.[19] These data may be erroneous, and the carrying capacity in 1974 was actually lower on the average and in 1975 markedly higher on the average than the statistical data for the following reasons: in 1974 the Israel Defense Forces employed some of the trucks, others were not operating because of war damage repair, and because of partial mobilization of their owners; the vehicles imported into Israel as well, within the framework of emergency import, did not immediately take part in transport operations for a variety of reasons; by contrast, in 1975 the entire transport potential was utilized. Likewise, the relative scrapping of small and used vehicles speeded up and they were replaced by larger and newer trucks with a higher carrying capacity.

The growth in the supply of carrying capacity in the field of large trucks is explained by the terms of preferential financing and subsidies for the purchase of vehicles. The government increased the carrying capacity for emergency periods in the wake of the lessons of the Yom Kippur War on one hand, and carriers had optimistic expectations of the demand for transport on the other. When most of the trucks arrived on the transport market, which weakened at the same time due to a drop in the level of economic activity, an excess supply of trucks was created (relative to output in calm security situation)[20] since the government did not take supplementary steps for the control of supply, such as the creation of truck reserves for emergency periods and enforcement of regulations on transport of excessive loads.

18. In trucks operated by diesel fuel.

19. For trucks whose permitted load was 2.5 tons or more. The stock of trucks, with an authorized load of 2.5 tons or more, amounted in December 1975 to 16,479 trucks (a drop of 0.2 percent); however, since the scrapping of vehicles was primarily of small trucks, so that the large trucks (8 tons or more), which provide the major constituent weight in transport capacity and output, grew by 4.5 percent (a net addition of 300 trucks).

20. In addition to this, there was evidently a wider use of independent vehicles by the Israel Defense Forces at the expense of rentals of civilian trucks. We do not have on hand data to estimate the extent of competition of vehicles from the Administered Areas in Israel, however, according to the estimate of the "Committee for the examination of the state of the trucking branch" in August 1975, the transport supply of the Administered Areas constitutes less than 6 percent of the transport supply in Israel. While the influence of this competition on output is evidently only marginal, it is still likely to influence prices.

Against the background of these developments in supply and demand, under conditions of rising production costs, competition between carriers in the branch increased considerably, and as a result of this, transport costs rose in 1975 as compared to 1974, as estimated, by only 36 percent. This rise in prices was lower than the price rises on the consumer index and is less than the annual average 46 percent price rise authorized by the Ministry of Transport. It is worthwhile noting that the authorized rise in tariffs was almost completely implemented in transport for government and public institutions while in other transport there was a more moderate rise in prices. During 1975 the credit period given to customers of the branch was also extended from three to four months.

The developments surveyed above caused a drop in earnings in 1975, and as in recessions in the past, organized carriers once again renewed their request for cartelization of the branch with a demand for minimum price protection and closure of the branch to new carriers by means of suitable government regulations.

(d) *Rail Transport*

The decline in real output of railroads sharpened in 1975, dropping by 3 percent as compared to 1.2 percent in 1974.[21]

For output derived from passenger carriage the drop was more moderate: 5.4 percent in 1975 as compared to 8.1 percent in 1974. The slowdown in the rate of the drop in output from passenger conveyance is explained by the developments reviewed in the discussion on the bus branch.

In the wake of the rise in the cost of travel by railroad, at an annual average rate of more than 48 percent as against the previous year, relative prices of passenger travel changed to the detriment of railroads.

For output derived from freight transport there was a drop of about 6 percent in 1975, after a rise at a rate of about 4 percent in 1974. The drop in freight transport was in almost all types of transport, excluding gravel, grains, and containers, whose share in rail transport rose at the expense of trucks. There is competition for grain and container transport between railroads and trucks, due to their relative profitability and to the expectations of rapid development in the future.[22]

21. Output is defined by turnover in fixed prices. In terms of passenger kilometres there was a drop of one percent, while in terms of freight ton-kilometres there was a drop of 11.4 percent.

22. In 1975 as in 1974, the cost of freight transport by rail rose on an average rate similar to the cost of truck transport--approximately 35 percent. Income of the railroads amounted to IL90.2 million in 1975, and the total deficit of the railroads rose by more than 9 percent as compared to 1974, amounting to IL55 million approximately (not including losses of the rail operations in the Gaza Strip).

It must be noted that the relative economic advantage to users of freight transport by trucks and railroad is likely to be different from that of the economy, if the real cost of inputs serving the two branches is taken into account; moreover, the railway deficits are covered by the government.

3. PIPELINES, DOMESTIC AIR SERVICES, POST AND TELECOMMUNICATIONS

(a) *Pipelines*

There was a marked drop of 16.7 percent in real output of the pipelines in 1975. The drop in output had started during the Yom Kippur War and its influence continued during 1974. In 1974 the demand for crude oil in the world had already contracted, after the accumulation of crude oil stocks in the industrialized nations. The economic recession that dominated the world during 1974 and 1975 and the policy of fuel savings taken by most of the countries of the Western world cut down still further the demand for crude oil. In the wake of this recession, international tanker shipping was particularly hard hit.

As a result of these international developments the demand for the services of the Eilat-Ashkelon fuel pipeline was also curtailed, and the quantity of crude oil that flowed through it was approximately 20 percent less in 1975 than in 1974. The flow of crude oil for transit dropped particularly, and this flow amounted to more than 13 million tons in 1975 as against nearly 19 million tons in 1974 (a 27 percent drop). Even the flow of crude oil to the domestic market was reduced at a rate of more than 2 percent.[23] The total flow of crude oil on the Eilat-Ashkelon pipeline came to 20.3 million tons as against 25.2 million tons in 1974.[24]

From the partial data in our hands, a sizeable loss for 1975 can be expected from the Eilat-Ashkelon fuel pipeline company, after it ended 1974 with a profit. With the anticipated operation of the Egyptian pipeline and the wider use of the Suez Canal (whose effect on shipping in 1975 was only marginal), losses can be expected for the Israeli line in the immediate future.

(b) *Domestic Air Services*[25]

Real output in 1975 rose by a rate of about 11 percent, as against a drop of 5 percent

23. It is worth noting that not all imported fuel arrives at Eilat. A small quantity of crude oil is likewise also sent to refinery for export. Total fuel imports for all purposes rose in 1975 by 9 percent.

24. In the amount of refined product flowing through the pipeline there was a marked rise in 1975--19.1 percent, while the amount of gas through the pipeline recorded a drop in 1975 at a rate of more than 9 percent.

25. The survey deals mainly with Arkia Airlines in the absence of statistical coverage for other factors operating on the branch; the weight of these was not significant in recent years.

in 1974.

Changes in tourist traffic to Israel and services extended to the defense establishment were the main influences on output. The total number of passengers of Arkia grew by more than 10 percent, yet while the number of passengers on special flights (largely for the defense establishment) dropped somewhat, the number of passengers on regular flights rose by 22 percent.[26]

Both in seat-kilometres available and in exploited passenger-kilometres, the rise in the share of regular flights at the expense of special flights is striking, a phenomenon stemming from the reduced demand by the defense establishment in 1975. The recovery in the demand for tourist flights grew more marked in the second half of 1975, and these amounted to 25-30 percent of the total travel by Arkia on regular flights in 1975.

There was a rise of approximately 50 percent in the output price index in domestic air service in 1975, and the total operational revenues of Arkia amounted to IL97 million.

(c) *Post and Telecommunications*[27]

The output of the post and telecommunications branch increased in 1975 at a rate of approximately 10 percent. After adjusting for revenue from external services (including the defense establishment), there was even an acceleration in output, which rose by 12 percent compared to 11 percent in 1974.[28] (See Table XV-3 in the appendix to this chapter.)

The average annual rate of growth in real output for 1973-75 was more than 9 percent, less than half the growth rate in 1969-72. According to the available financial data, the output in telephone services rose--covering more than 75 percent of the branch output--in the years 1973, 1974, 1975 at rates of 7.6, 18.1, and 11.3 percent respectively.

Physical indicators offer a better guide to real changes in output, both in the intensivity of telephone use, and the number of installations of new telephones. The rate of growth in the number of meter pulses dropped gradually from 1972 to 1974 and accelerated in 1975. The acceleration in the number of meter pulses was in local calls,

26. The total number of passengers on regular and special flights flown by Arkia amounted to 714,500 in 1975 (approximately 53 percent of the total passengers flew on regular flights of the company).

27. Does not include activities of the Postal Bank.

28. For 1973 and 1974, the allocation of postal revenue (on an accumulated basis) is unreliable either for quarters on calendar years; as to the reasons for this, see the Bank of Israel's Annual Report, 1974, pgs. 387-390. Accordingly, too much importance cannot be attributed to the rate of growth in real output, and particularly in telephone services for the years 1973-75. Likewise there is a lack of followup in the registration of revenue from the defense services.

while in international calls[29] there was indeed very rapid growth, but slower than in the previous year; in 1974 a large part of the telephone network was connected to the direct international dialing system. The intensity in the use of telephones for local calls dropped in 1973 and 1974 and stabilized in 1975. These changes are in accordance, generally, with changes in available income and real consumption for these years. It appears that the use of telephone services served to an increasing extent as a substitute for travel. Changes in relative prices between telephone service and transport, as well as in regard to other products and services in the economy, worked to the benefit of telephone services.[30]

Table XV-2
TELEPHONE SERVICES, 1971-75
(in thousands)

End of year	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	Applications	Applications outstanding	No. of calls (million meter pulses)
1971	400.0	42.8	77.9	87.0	1,386.6	-2	26	..	..
1972	444.1	48.6	94.2	124.7	1,609.9	14	21	43.3	16
1973	494.2	55.4	77.3	145.4	1,783.7	14	-18	16.6	11
1974	533.2	45.3	74.8	163.6	1.936.6	-18	-3	12.5	9
1975	583.6	54.0	75.7	179.4	2,150.0	19	1	9.7	11

[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).
[b] Applications outstanding is defined as the number of applications still pending from previous years and installations in process at the end of the year. Data for previous years has been adjusted.
SOURCE: Based on Ministry of Communications data.

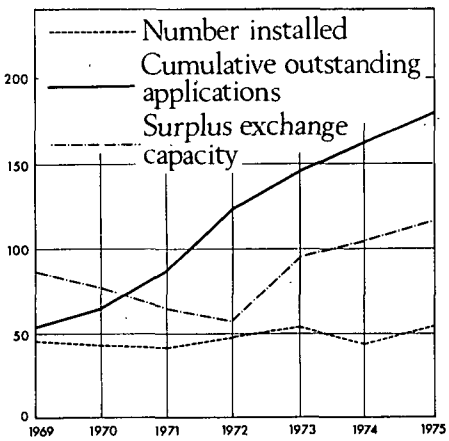
The overall expansion of telephone services is determined not only by the intensity in the use of existing lines, but also by net additions to the network. In 1975 there was a 19 percent growth in the number of installations of telephone lines (as compared to a drop of 18 percent in 1974), and the number of lines installed in 1975 was 54 thousand. The main explanation for this rapid acceleration is that there is generally an inclination by the Ministry to accelerate installation of lines towards the end of the budget year; from known reasons, this was not possible during the months of February and March 1974 but was

29. Direct dialing. In the summer of 1975 the second underwater cable went into operation between Israel and Europe, with a capacity of 1840 communication channels. The development in the field of international communication contact was rapid during recent years both in supply and demand.
30. The price index for telephone services rose in 1975 by 28-29 percent on average, after a rise of 22 percent approximately in 1974.

feasible during the same months in 1975. Likewise, during the past years there was recorded, on a national average, a rise in the unexploited volume of telephone exchange, which enabled increased installation of lines by wider use of the national network.[31] (See Table XV-2 and Figure XV-1.)

Figure XV-1

NUMBER OF TELEPHONES INSTALLED, OUTSTANDING APPLICATIONS, AND SURPLUS EXCHANGE CAPACITY, 1969–75
(in thousands)



SOURCE: Based on Ministry of Communications data.

The growth in the accumulated excess demand for telephone lines slowed in 1975 and amounted to 180 thousand applicants at the end of 1975. The telephone branch operates in conditions of market rationing characterized by a long list of applicants, and the number of requests for telephones is related to economic variables such as changes in income and the addition of new apartments; it is also influenced by the current rate of installation and rises with the rate of installations[32] in the wake of optimism in chances of obtaining a telephone. The telephone economy is not a closed economy, and its development plan depends on government budget outlays. In the course of time the Ministry accumulated unused stocks of equipment, constituting a financial burden to the telephone economy on one hand and causing a lack of budget for the completion and even distribution of the network on the other. Likewise, there is a relatively larger delay in the development of the system than in the development of exchanges, stemming from budget difficulties and administrative difficulties. It would seem that the emphasis on the development of exchanges stems also from a deliberate policy whereby by pressure of the accumulated surplus of equipment, additional sources will be allocated from the budget to the appropriate development of the network.[33] This did not in fact occur, and the effective limit on the development of the telephone system during the past years is still the government budget for the national network, without an examination of the profitability of

31. Note that unexploited capacity at the rate of 13 percent of the exchange facilities is customary by international standards, while beyond this there is an inexploitation of the exchange due to the rapid rate of growth and to some extent of the allocation of exchange capacity. In Israel 17 percent of exchange capacity was unused in 1974 and 1975.

32. It is worthwhile noting that 73 percent of all connected lines are in households and commercial establishments, 17 percent of the lines are in businesses, and 10 percent in government and public institutions.

33. Within the framework of the development budget the Ministry of Communications invested IL497 million in 1973/74 and IL539 million in 1974/75, and the budget for 1975/76 is IL600 million. These data indicate a real drop at a rate of 15 percent each year.

this development. The productive capacity of local industry producing switch equipment is also only partly exploited.

In real output from postal services, excluding telephone services to external factors, there was a marked rise in output in 1975 of 17 percent following a drop in 1974 of 12 percent.[34]

Revenue amounted to some IL2 billion in 1975. It should be noted that discounts of tens of millions of Israeli pounds per year are given to consumers in telephone and postal services. These discounts are given to invalids, welfare cases, and principally to government employees and are not subject to effective control or follow-up and incur sizeable losses in revenue, both to the service and to the government (by the reduction of revenues from service taxes). This granting of subsidies to specific groups of the population linked to consumption of a service distorts the allocation of resources.

In 1975 the average number of employees in the sector dropped by 1.7 percent.

Table XV-3
ISRAELI SHIPPING REVENUE AND OUTPUT GROWTH, 1972-75
(IL million, at current prices)

					Distribution of revenue				Percent annual increase in real output
	1972	1973	1974	1975	1972	1973	1974	1975	1975
Cargo (incl. fuel)[a]	1,010	1,233	2,292	3,233	84.6	84.9	90.1	89.6	1.7
Imports	(384)	(515)	(951)	(1,436)	(32.2)	(35.5)	(37.4)	(39.8)	..
Exports	(119)	(125)	(210)	(365)	(9.9)	(8.6)	(8.2)	(10.1)	..
Between foreign ports[b]	(507)	(593)	(1,131)	(1,432)	(42.5)	(40.8)	(44.5)	(39.7)	..
Passenger	16	15	—	—	1.3	1.0	—	—	—
Charter hire	148	160	200	324	12.4	11.0	7.9	9.0	0.7
Miscellaneous	20	44	52	51	1.7	3.1	2.0	1.4	-36.0
Total revenue	**1,194**	**1,452**	**2,544**	**3,609**	**100.0**	**100.0**	**100.0**	**100.0**	**0.8**
Estimated gross domestic product originating in shipping, at current prices	..	306.5	558.2	..					
Percent of revenue	..	21.1	21.9	..					

NOTE: Calculations based on unrounded figures, data for 1975 are provisional, for 1974 revised. Revenue from chartering vessels between Israeli companies amounted to IL 125 million in 1971, IL 184 million in 1972, IL 179 million in 1973, IL 262 million in 1974, and IL 477 million in 1975.
[a] The change in real output resulting from transport of fuel (for import and in transit) from 1974 to 1975 was 11.7%
[b] Incl. oil in transit.
SOURCE: Central Bureau of Statistics. Output change: Bank of Israel computations.

34. There is no explanation for this phenomenon except in the manner of allocating revenue by calendar years.

4. INTERNATIONAL TRANSPORT SERVICES

(a) *Shipping*[35]

The growth rate of real output of Israeli shipping slowed markedly in 1975 to one percent as against 13-14 percent during 1973 and 1974 and approximately 11 percent in 1969-72. The slowdown was accompanied by a drop of about one percent in dollar prices on average for sector: the increase in prices in Israeli pounds is estimated at 41 percent.[36]

A number of main factors influenced branch development in 1974. Among these stood out the drop in local demand (including the defense services) that caused a drop of 7-8 percent in the amount of import freight (excluding fuel) carried by Israeli shipping and also the marked drop in transport of crude oil for transit purposes, which is of significant weight in output in recent years. These were partially compensated by the 6 percent rise in the amount of export freight, and the rate of more than 20 percent of the freight quantity transported between foreign ports (following a drop in 1974). The principal activity in the field of transport between foreign ports concentrates on the "Tricontinental Line" of Zim Company, based on the transport by new container ships. The growth in transport on this line is remarkable against the background of the drop in world commerce. The output derived from leasing ships to foreigners stabilized in 1975.

In the field of freight transport by Israeli shipping there was no change in 1975 in the total tonnage, although the rise in the share of American and international lines, lines relatively longer, indicates an increase in the ton-kilometre carried by shipping. We have no seasonally adjusted data on hand to estimate the development during the year in the field of import freight transport, but it is known that in the last quarter of 1975 the amount of freight carried was 22 percent lower than in the parallel quarter in 1974.

The drop in output derived from transport of crude oil by Israeli shipping was in line with international developments. The drop in world demand for crude oil and the 11 percent

35. The activities of shipping firms are surveyed here. This review does not cover operations of Israeli concerns which are not defined as shipping firms, such as the Citrus Marketing Board which operated chartered ships, etc. The survey covers the operations of only eight refrigerated ships belonging to the Maritime Fruit Carriers. The remainder of its ships and the output derived from them are not included as they are not defined as Israeli ships.

36. Estimates of the changes in shipping prices are calculated by weighting the changes in the cost of freight transport, fuel, charter rates, etc.; as to changes in the cost of freight transport (mainly on Zim routes) a permanent basket of the total freight according to route is used, in the absence of more specific data on amounts of freight and prices. Thus, since the changes are in revenue per ton on each line, which is used as an indicator of the changes in price, a bias will be introduced when the components of the freight on a line change, and so real changes in output measured in revenue at constant prices will also be biased (in the opposite direction). Likewise, the existing measurement of shipping output is extremely sensitive to changes in the structure of contractual relations between shipping factors, and one must be cautious in comparing changes in transport capacity with changes in output.

contraction of maritime commerce in 1975 had adverse effects on the demand for the Eilat-Ashkelon fuel pipeline services, and consequently on the tanker service to and from this route. On this development there has not been, as yet, any influence on the Israeli shipping lines, since most of their tankers are leased to the Trans-Asiatic Company and to the Tanker Services Company under long-term charter. However, if demand in the tanker market does not increase, shipping firms are likely to be badly hit when their charter contracts expire (the first ones are expected to have run out in 1976). The change in the carrying capacity of Israeli shipping in 1975 is almost completely the result of the absorption of large tankers in 1974; in 1975 there were no significant changes in the fleet of ships, and net investments (deducting sale of ships) was less than $2 million.[37] Half the Israeli maritime commerce fleet and more than 85 percent of its loading capacity sailed under a foreign flag at the end of 1975. Even after deducting the load capacity of tankers as well (all of which are under foreign flags, for special reasons), the share of the fleet flying foreign flags in the loading capacity of the remaining ships amounted to 56 percent[38] (see Table XV-4). Parallel to this phenomenon, the rise in the relative share

Table XV-4

ISRAEL'S MERCHANT FLEET, BY TYPE OF SHIP AND TONNAGE, 1971-75

Type of ship	Number of ships				Tonnage at end of year (thousands deadweight tons)				Percent annual increase[a] in carrying capacity			
	1972	1973	1974	1975	1972	1973	1974	1975	1972	1973	1974	1975
Dry cargo												
General	53	53	53	53	396.2	527.7	525.7	527.7	12.4	29.6	19.2	1.1
Refrigerated	11	8	8	9	89.7	77.7	77.7	79.4	-9.1	-6.6	-6.1	1.4
Bulk carriers	20	19	18	18	913.6	913.6	889.8	889.8	-1.2	-0.9	-0.2	-2.6
Total dry cargo[b]	**84**	**82**	**79**	**80**	**1,399.5**	**1,519.0**	**1,493.2**	**1,496.9**	**1.4**	**7.0**	**5.8**	**-1.0**
Tankers[c]	24	23	28	27	2,037.2	2,372.5	2,981.9	2,986.2	37.0	12.3	21.6	16.7
Total cargo ships	**108**	**105**	**107**	**107**	**3,436.7**	**3,891.5**	**4,475.1**	**4,483.1**	**20.3**	**10.1**	**15.2**	**10.1**
Thereof:												
Under foreign flags	(39)	(43)	(56)	(52)								
Percent	(36.1)	(41.0)	(51.9)	(48.6)	(74.2)	(77.8)	(83.5)	(85.4)				

[a] The carrying capacity of cargo ships is calculated as the product of the tonnage, speed, and percentage of the year during which the vessel was Israeli-owned.

[b] Excluding tankers.

[c] Excluding 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 company 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.

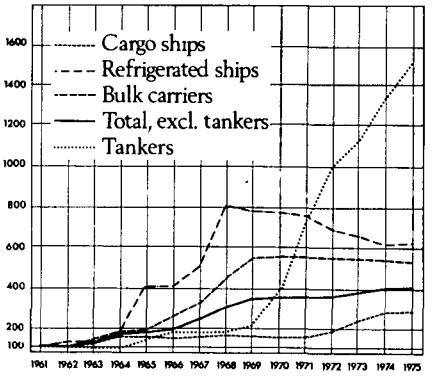
37. Included in export is the sale of the passenger ship Nili; does not include the investment in remodelling ships at an additional $6 million.

38. It should be noted that in 1975, 26 percent of the total world shipping sailed under flags of convenience. See discussion in the Bank of Israel Report 1974, page 393.

of Israeli shipping (in owned ships and those under foreign charter) in import-export freight traffic at Israeli ports is striking.[39] This development demonstrates the extremely limited competition in transport to and from Israel and is particularly marked by the fact that most of the cargoes are carried by the Zim line.

Figure XV-2

INDEX OF THE CARRYING CAPACITY OF ISRAEL'S MERCHANT FLEET, 1961–75
(1961=100)



SOURCE: Bank of Israel calculations.

The slowdown, that characterized world shipping in 1974 as a result of the recession in economic activities in industrialized nations became sharper this year and developed into a drop in activities. Changes in the level of world economic activity are generally mirrored in a time lag by world shipping. The drop in the level of world commerce in 1975 is estimated at 8 percent in terms of tonnage, as against a growth of 4 porcent in 1974 (in terms of ton-kilometres there was a drop at the rate of 7 percent in 1975, as compared to a growth rate of 6.4 percent in 1974).[40] The drop in transport covered all freight, excluding grain (following USSR grain deals) and particularly striking is the drop in the transport of crude oil (11 percent) refined fuel and iron ore. The nonutilization of shipping increased in 1975 and particularly affected the container branch;[41] transport tariffs did not cover, in many cases, operational costs. The drop in prices in the tanker branch was at a rate of 40 to 60 percent, according to the type of ship and the cargo carried. This was the second year of sharp drops in prices in this sector. The lot of ships operating under charter in other fields did not improve either.

An exception was the development of shipping in the liner trade, whose prices continued to rise in 1975, if at a markedly lower rate than in 1974,[42] which, *inter alia*, was due to the easing in the price rises in fuel and even somewhat of a drop in them.

It has already been noted in previous reports that Israeli shipping is less influenced by conjectural changes in world shipping. The main operations of Zim line are in terms of

39. In 1975 the share of Israeli shipping in the total import freight was 69.3 percent, as compared to 63.0 and 64.4 percent respectively, in 1973 and 1974. The share of import freight to Israeli shipping in 1975 was 62.1 percent.
40. Source: Feanly & Egers Chartering Co. Review, 1975.
41. In addition to overt nonutilization, concealed underutilization deepened and was manifested in a reduction in cruising speed, the use of ships as warehouses, etc. Likewise, many ships, mostly bulk ships, were confined in Mediterranean ports and in Nigeria by congestion that prevailed in these ports, so that the overt nonutilization of shipping was reduced. The opening of the Suez Canal had only marginal influence at this time.
42. The German price index of liner cargo shipping shows a rise of 9.4 percent, including a 10.2 percent rise for general cargoes, as against 32 percent in 1974.

"the liner trade" and in the framework of maritime conferences, which give protection to their members, and Zim has a decisive weight in Israeli commerce. Likewise, most of Zim and El-Yam container and bulk-load ships are under long-term charter, and they enjoy preference in government transport, which has a substantial share in imports to Israel (oil, grain, defense imports, etc.). All these, even if they do not assure large profits, reduce the uncertainty and risk which characterize the shipping trade.

As for Israeli shipping's liner trade, on the average, rise in prices (in foreign currency) was estimated at approximately 11 percent[43] in 1975. There was a drop in prices in the transport of crude oil by Israeli holds at a rate of more than 27 percent, but only fuel carried for transit purposes is at international tariffs, while transport rates for imported fuel is determined by the "cost-plus" agreement, according to which transport prices actually rose. As for ships chartered to foreigners, prices rose at a rate of 14 percent, due to the successful timing of charter contract renewals for bulk transport, part of them as early as 1974.

Profits are expected for the Zim company in 1975, but will be, apparently, lower than net profit (IL47 million) recorded in company accounts in 1974.[44]

Due to the crisis in certain fields of world shipping where the Maritime Fruit Carriers operated, this firm was hit by substantial financial difficulties, although these did not influence the output of Israeli shipping and the state of its ships in 1975.

(b) *Ports*

The real output in 1975 of ports revenue (at constant prices) declined at a rate of 7.8 percent, after an acceleration of 19 percent in 1974.[45] The drop in output was due to the drop in economic activity, primarily influencing the quantity of imported freight, and to the weakened international market which affected the quantity of export freight. The drop in total freight traffic in Israeli ports came to 11.2 percent. In the amount of freight imported a drop of 14.2 percent was recorded, while in the quantity of freight exported the drop was more moderate--6.2 percent. Particularly striking is the drop in the quantity of general imported freight, which contributes approximately 75 percent of total earnings

43. Including the carriage of grain from the United States to Israel under contract. These tariffs were raised significantly at the end of 1974 after several years of transport at rates lower than those of the international market, which involved losses for the shipping firms.

44. After allocating some IL78 million for taxes, and the allowance for losses in connection with deposits with a foreign firm of IL42.6 million.

45. In view of the sharp drop in the quantity of freight and particularly of general import freight, there is evidently an underestimate of the drop in output. We have at present no explanation for this.

Table XV-5
CARGO TRAFFIC THROUGH ISRAEL'S PORTS, 1973–75
(thousands of tons)

	Percent of total tonnage in 1974/75[a]	Percent of total port revenue in 1974/75[a]	1973	1974	1975	Percent annual increase[b] 1973	1974	1975
Import cargo								
Grain (bulk)	18.7	10.2	1,795.7	1,884.3	1,908.3	14.1	4.9	1.3
Minerals (bulk)[c]	5.9	1.9	423.5	569.8	651.5	18.4	34.5	16.3
Chemicals and edible oils (liquid)	1.8	1.0	153.8	169.9	163.6	0.2	10.5	3.7
General cargo	35.4	74.2	3,246.3	3,625.7	2,636.8	10.0	11.7	-27.3
Thereof:								
Containers and trailers	(7.8)	(10.1)	547.6	758.8	851.5	151.5	38.6	12.2
Cement in bags	(2.1)	..	196.3	225.9	145.2	48.1	15.1	-31.7
Total import cargo	**61.8**	**87.3**	**5,691.3**	**6,249.7**	**5,360.1**	**14.7**	**11.2**	**-14.2**
Export cargo								
Citrus	10.6	5.0	952.2	986.1	1,067.6	-8.0	3.6	8.3
Minerals (bulk)	17.5	2.7	1,396.1	1,656.5	1,313.8	-7.0	18.7	-20.7
Thereof:								
Potash	(8.9)		(790.9)	(784.5)	(767.0)	(-2.6)	(-0.8)	(-2.2)
Phosphates	(7.4)		(552.8)	(772.7)	(472.0)	(-11.0)	(39.8)	(-38.8)
General cargo, incl. bulk grain	10.1	5.0	972.5	1,014.0	1,018.9	7.7	4.3	0.5
Thereof:								
Containers and trailers	(5.6)	(2.3)	(468.2)	(558.4)	(618.0)	(98.5)	(19.2)	(10.7)
Total export cargo	**38.2**	**12.7**	**3,365.3**	**3,721.4**	**3,490.4**	**-3.4**	**10.6**	**-6.2**
Total cargo volume	**100.0**	**100.0**	**8,984.6**	**9,971.1**	**8,850.5**	**7.2**	**11.0**	**-11.2**

[a] Excluding revenue from fuel and passenger transport.
[b] Calculated from unrounded figures.
[c] Including cement.
SOURCE: Israel Ports Authority.

of the ports. The fall in the export of phosphates was the decisive influence in the total decline in export volume (see Table XV-5).

Both in imports and exports the transition to container freights continued, although at a slower rate. The technological changes in Israeli and world shipping dictated the adjustment of ports to the changeover to containers, and this period of adjustment can be expected to continue. To this end was devoted most of the development budget of ports in the past few years. The technology of the changeover to a unified type of freight enables a sizeable reduction in work input even under conditions of freight traffic growth and cuts down the waiting time of ships in port, which is a major component in the operational expenditures of modern ships. The full implementation of the advantages of technological changes is, of course, made possible if lift equipment and quays are intensively exploited, so that their partial operation (15-16 hours per day on average) prevents full exploitation of the possibilities and results, apparently, in overinvestment.

There was a 9.5 percent drop in the number of employees in ports in 1975 (on a monthly average).

There were a number of tariff rises during the year discriminating in favor of export freights and consolidated freight, and in November 1975 most port fees were linked to changes in the rate of exchange. The general rise in the price index for port services (including "wharfage dues" levied on the value of the merchandise) came to 37.7 percent on average in 1975.

(c) *International aviation*

The crisis in international aviation continued in 1975 and even deepened. This development came in the wake of the recession in Western European nations and the United States, the energy crisis, the increased cost of fuel, and the rise in wages and other costs. These braked the rapid growth of air services on one hand and raised operational costs on the other. Airlines in the Western world were hit by losses and financial difficulties while owning a large surplus of flight equipment.

The developments in international aviation also affected the activities of El Al in 1975, being mainly tied to tourist traffic to Israel. The number of tourists arriving by air in Israel in 1975 declined by 3.4 percent from 1974, and the number of passengers entering and leaving Israel by air also dropped at a similar rate. In addition to this El Al's output was damaged by work disputes, which caused a strike of the company's operations and the loss of passengers transferred to foreign companies,[46] The company's share of air traffic to Israel dropped from 53.6 percent in 1974 to 50.6 percent in 1975; output from air freight also dropped this year.

These developments caused even more reduced operations by El Al in 1975 than in 1974, notwithstanding a moderation in the rate of drop in the number of tourists who arrived in Israel by air.[47] While in 1974 special factors operated to compensate for the drop in air traffic (the influence of the Yom Kippur War and the Cyprus crisis), these did not occur in 1975; moreover, special factors operated to bring about a loss in output to the company.

Total El Al output, measured in revenue at fixed prices, fell on average by 11.2

46. According to El Al data, 14.2 thousand passengers were transferred to foreign companies for this reason in 1974 and 41 thousand in 1975. Compared to this, 11.6 thousand passengers were transferred from foreign airlines to El Al during the Cyprus war. It is desirable to note that as from July 1974 El Al terminated its flights to Cyprus. The number of immigrants carried by El Al dropped in 1975 by 45 percent as compared with 1974.

47. It should be noted that a recovery in tourist traffic to Israel by air began in September 1975.

Table XV-6
OUTPUT OF EL AL AIRCRAFT, 1972-75
(in own and hired aircraft)

	Unit	1972	1973	1974	1975	Percent annual increase 1972	1973	1974	1975
1. Available seat-km.	million	5,585	5,430	5,425	4,891	21.8	-2.8	-0.1	-9.2
2. Revenue passenger-km.	million	3,550	3,491	5,769	3,242	9.8	-1.7	8.0	-14.0
3. Passenger load factor (2)/(1)	%	63.6	64.3	69.5	66.3				
4. Available ton-km. (passenger and freight)[a]	million	736	809	777[b]	759	10.3	9.9	..	..
5. Revenue ton-km.	million	426	508	495[b]	466	4.9	19.5	..	..
6. Ton-km. load factor (5)/(4)	%	57.7	62.7	..	61.4				

[a] For passengers based on average weight of passenger.
[b] Data on cargoes for 1974 are provisional.
SOURCE: El Al Israel Airlines.

percent in 1975 (1.2 percent in 1974). In terms of passenger-kilometres there was a drop of approximately 14 percent.

El Al airlines was compelled (in part the result of worker strikes) to reduce its supply in terms of seat-kilometres. Along with this, there is a difficulty in adjusting capacity to conditions of a drop in demand, since at a certain stage this adjustment requires flight cancellations, whose consequence is a reduction in the level of service offered. So there was a reduction in average passenger occupancy from 69.5 percent on El Al flights in 1974 to 66.3 percent in 1975, larger than the decline in the level of international aviation. With this it must be noted that the occupancy coefficient is still higher than customary on scheduled airlines in international aviation. In world aviation (excluding the USSR) passenger occupancy in 1975 was 55 percent, and of this on the North Atlantic route 57.4 percent.

Early assessments of the development in international aviation show that 1975 was a worse year than the preceding one and this for several reasons: the growth in the number of passengers and passenger-kilometres on scheduled airlines (on regular flights, international and domestic) was only half the growth in 1974; this is the lowest rate of growth recorded since the Second World War.[48] For the first time there was also a drop in air freight (in terms of ton-kilometres) in 1975. Airlines did not succeed in reducing services offered as in 1974, and as a result of this the exploitation of airplanes

48. According to preliminary data on regular routes of member states of the international aviation organization (excluding the USSR), the following changes were recorded in 1975 (in percentages): the number of passengers--2.4 (9.3 annual average for 1965-75); passenger-kilometers--2.6 (11.0); ton-kilometre freight--1.5 (13.3) and in total ton-kilometres (passengers and freight)--1.4 (11.4); seat-kilometres offered-- 5.1 (11.1).

declined while the dimensions of loss caused to the companies grew.

In regular services of IATA[49] airlines on the North Atlantic route, the most important both in international air traffic routes as well as in the operations of El Al, there was a drop for the second successive year in the number of passengers at a rate of 6 percent (22 percent for El Al). Against this, the number of passengers on charter flights of the same airlines rose by 10.2 percent (after a drop of 30 percent in 1974). This was evidently the result of special effort by the companies, burdened by a surplus of equipment, to fill their planes. In 1975 the branch had still not succeeded in organizing to meet the rapid curb in growth that characterized it during the sixties and seventies, and in view of the rise in fuel and other input costs. The crisis in the aviation industry compelled governments and organizations to re-examine their aviation policies.[50]

The price rises in aviation services in 1975 were moderate relative to those in 1974. Prices for flights (to passengers) on the North Atlantic run did not rise during the year, remaining at the level of the end of 1974. On European routes there was a rise during the year of more than 9 percent (for passengers) and 10 percent for freight. (All these changes in prices are calculated in dollars.)

The output cost index of El Al (in terms of IL) rose in 1975 by an average of 48 percent (mostly the result of devaluations).[51]

A significant loss for 1975/76 is expected for El Al airlines, mainly the result of the drop in traffic, strike damage, and the start of the reform in income tax and wage payments in its wake.[52]

The average number of employees in Israel grew in 1975 by 3.2 percent, a phenomenon evidently related to preparations for the incorporation of an additional Boeing 747.

(d) *Airports*

In 1975 there was a drop in international air traffic to and from Israel: the number of travellers (not including transit passengers)--at a rate of 2.4 percent, and in quantity of freight--8.7 percent (see Table XV-4 in the appendix to this chapter).

49. IATA is the international organization of the airline companies.
50. At the end of 1975 a committee was set up to examine "the consequences of the authorization of charter flights to Israel beyond the current volume." In accordance with the committee's findings and recommendations, the Government decided to establish a controlled experiment for a number of years (from 1976) and within its framework to widen the authorization of charter flights to additional groups of tourists and from additional areas of the world.
51. The income of El Al in 1975 (calendar) amounted to more than IL1.1 billion at current prices.
52. El Al purchased at the end of 1975 an additional Boeing 747, at a total investment of $40 million, and it entered into service only in April 1976. During this period the airline assumed expenditures in depreciation and interest.

Real output measured by revenue at constant prices, including domestic aviation and various accessory services (not directly connected with aviation operations), rose by 2-3 percent in 1975,[53] as against a drop of 6.2 percent in 1974.

The output cost index rose by approximately 50 percent in 1975 (21.3 percent in 1974), rises reflecting changes in the airport dues and in tariffs for services and concessions in 1974 and in 1975 as well as the effect of the devaluations.

5. TOURISM[54]

The drop in the number of tourists entering Israel, which began in 1973 (a slowdown had already been recorded in the second half of 1972), continued in 1975 but at a more moderate rate--0.8 percent. The number of tourists arriving by air also showed a more moderate decline--3.4 percent compared with 6.3 percent in 1974 and 10.5 percent in 1973.

620 thousand tourists arrived in Israel in 1975 as against 625 thousand in 1974.[55]

Table XV-7
TOURIST TRADE: BED-NIGHTS, LENGTH OF STAY, AND INCOME, 1972-75

					Percent annual increase			
	1972	1973	1974	1975	1972	1973	1974	1975
Tourist arrivals	727,532	661,651	624,727	619,554	10.8	-9.1	-5.6	-0.8
Thereof: on cruises	(42,703)	(57,768)	(55,105)	(60,500)	21.7	21.1	-4.6	9.8
Bed-nights in hotels recommended for tourists (thousands)	5,084.5	4,310.1	4,187.7	3,944.2	5.0	-15.2	-2.8	-5.8
Thereof: In 4-5 star hotels (thousands)	2,862.1	2,387.6	2,532.6	2,451.1	8.2	-16.6	6.1	-3.2
Average stay of tourists (in days)								
Up to one month	12	10	12	12				
Up to three months	17	16	18	17				
Median stay	13	13	14	13				
Income in foreign currency								
Total ($ million)[a]	211.9	230.3	195.0	233.3	18.8	8.7	-15.3	19.7
Average per tourist ($)[b]	291.3	378.1	312.1	376.6	7.3	19.5	-10.3	20.7

[a] The sum converted at commercial banks by foreign tourists and by suppliers of goods and services to tourists (excl. El Al).
[b] The average currency conversion per tourist in 1974 and 1975 quarterly was accordingly:
1974: 243, 325, 296, 391
1975: 547, 462, 274, 308.
SOURCE: Central Bureau of Statistics and Ministry of Tourism.

53. This is evidently an upward estimation. Airport income at current prices amounted in 1975 to more than IL98 million as compared to IL64 million in 1974. The estimate of the investment in main projects for 1975 is IL24-25 million.

54. The discussion is concerned with tourism from abroad to Israel and does not deal with domestic tourism or travel by Israelis abroad.

55. Does not include 120 thousand tourists entering from Arab countries by way of the Jordanian bridges to the Administered Areas, 3.6 percent fewer than in 1974.

Foreign currency earnings from tourism in 1975 showed a nominal rise of 19.7 percent, and amounted to $233.3 million,[56] which constituted 13 percent of total export services and 6 percent of total export merchandise and services in 1975; given the relatively high added value rate of export services to tourists--estimated at more than 80 percent--the export contribution of it to the economy was higher.

The 20 percent average yearly rise in conversion per tourist is likely to be misleading since it does not reflect reliably the actual changes in tourist expenditures in Israel, for during 1975, in spite of the devaluations, the gap between the official and black market rates of exchange increased considerably. Many tourists preferred from the outset to change their money on the black market, and others purchased services in foreign currency. In addition to this, the measure of control over conversion by suppliers of tourist services was not effective enough, and almost certainly some of their foreign currency incomes found its way to the black market, or at best they postponed the day of conversion in order to profit from the expected devaluation. Also the drop in the average length of stay per tourist and the smaller share of American tourists in the total number of tourists were factors contributing to the drop in average expenditure per tourist.

Up to May 1975 there was increased conversion of foreign currency, but a large part of this increased conversion was due to the postponed conversion of foreign currency received from tourists who arrived in the last months of 1974, while from May to December there was a drop in the rate of conversion per tourist of 5 percent. In December 1975 the drop in conversions by tourists reached 38 percent (relative to this month in 1974). These occurred in spite of the rise in cost of staying in Israel (see Table XV-7).

There is no final data available at the moment on the development of world tourism in 1975, but the temporary data show a slight rise in world tourist traffic compared to 1974 (perhaps slightly due to early economic recovery in some countries); in general the same economic forces that brought about a recession in world tourism in 1974 continued to operate in 1975; the economic recession in the United States and Western Europe, which caused a drop in available income and a growth in unemployment and the increased cost of flights and ground services in most countries which were the source or destination of tourism.

The lack of political stability and fears of expected developments in this field also

56. Includes conversions in banks by foreign tourists and foreign currency changes of suppliers of merchandise and services to tourists. Includes also expenditures of tourists financed by means of conversion in Israel of Independence and Development Bonds. Does not include income of El Al from travel tax.

affected tourist traffic in 1975. Among these events may be mentioned the disturbances in Spain and Portugal, Lebanon, and Morocco. The relative calm in our region without doubt improved the relative standing of Israel as compared to other tourist countries in the Mediterranean. This was evidently one of the reasons, besides economic recovery in those countries that are an important source of tourism; for the improvement in tourist traffic to Israel in the second half of 1975, after it had showed signs of decline after the Yom Kippur War.

The rise in flight costs to Israel has been discussed above, in the discussion on El Al; there were also rises in prices for various tourist services in the economy, but we have no means of estimating their extent. According to estimates of the Ministry of Tourism, accomodation services constitute 40 percent of the total expenditure of the tourist, and they are the principal component in the cost of stay of the tourist. An indicator of the increased cost of hotel services is the change in bed-night income in IL: these rose on average for all hotels recommended to tourists by more than 46 percent, while in the four and five-star category (whose share of tourist lodging is more than 60 percent) there was a rise in revenue from bed-nights by 36 percent. It should be noted that hotels--particularly in the higher categories--tended in 1975 to give sizeable reductions to Israelis in order to increase room occupancy. In terms of dollars there was not, apparently, a marked change in the cost of hotel services to tourists. From 1972 to 1975 Israel did not apparently raise the average cost per tourist, compared to important tourist countries in Western Europe.[57]

In 1975 there was an additional sizeable drop in the number of tourists from the United States of approximately 17 percent, and a more marked drop in those arriving by air. The drop eased in the course of the year and stopped at the end; in December 1975 (as compared to December 1974) a rise of 34 percent was recorded in the number of tourists from the United States. According to partial data there was a drop in tourist traffic from the United States to Europe during 1975 but a lower rate than that to Israel (see Table XV-5 in the appendix to this chapter).

57. This estimate is based on an examination of changes in the consumer price index, in Israel and in other countries, after adjusting for changes in the rate of exchange in the period 1972 to August 1975. The comparison was made for the American, German, and British tourist. This is no more than rough indication of changes in relative prices of tourist services of Israel and other countries. One should of course beware of arriving at exaggerated conclusions in this comparison owing to the difference between the basket of consumer prices and the basket of tourist expenditures in each country; the difference between the effective rate and the official rate vis-a-vis the tourist and others. It is important to bear in mind the effect of differences in travel distances between different countries and consequently the large differences in flight costs and the significance of flight expenditures in the total expenditure of the tourist.

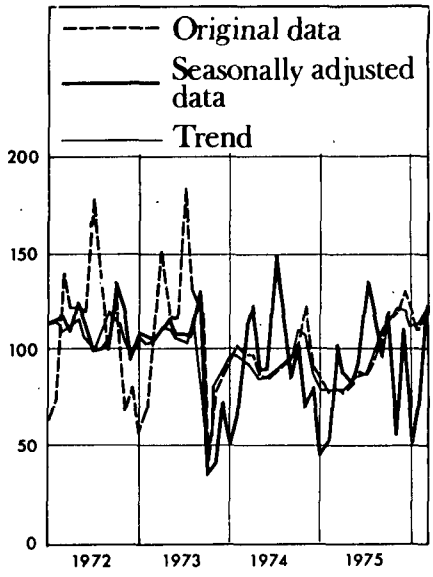
There was a rise of 7 percent in the number of tourists to Israel from European countries, and this tourism comprised 52 percent of the total traffic to Israel (mostly on cruises). The number of tourists from Europe in 1975 exceeded its real level in the years 1972-73.

An examination of seasonally adjusted data[58] for 1975 shows that the recovery in tourist traffic to Israel began in May-June and strengthened in September-October--evidently influenced by the signing of the separation of forces agreement and the partial economic recovery in the world. In January-February 1976 traffic weakened somewhat but strengthened again in March 1976.

During the months January-April 1976, in comparison to the parallel months in 1975, there was a rise at the rate of 49 percent in the number of tourists (according to the original data, 9 percent higher than in 1972, see Figure XV-3).

Figure XV-3

INDEX OF MONTHLY TOURIST ARRIVALS, 1972-75
(1971=100)



SOURCE: Based on Central Bureau of Statistics data.

The number of bed-nights of foreign guests in hotels are the most reliable measure of tourist output. The number of bed-nights for foreign guests in recommended hotels to tourists dropped by 5.8 percent in 1975, but since the bed-nights to Israelis in the same hotels increased by 6.8 percent, the total number of bed-nights dropped by only 1.4 percent. During the same period there was a rise of 5 percent in the number of rooms, and average yearly occupancy in tourist recommended hotels dropped by 7.1 percent, from 47.6 to 44.2 percent.[59] (See Table XV-8 and Figure XV-4.)

Against the background of the drop in general demand for services in hotels recommended for tourists--a drop at the rate of 1.4 percent in guest bed-nights (tourists and Israeli citizens) the growth in the number of rooms in these hotels was striking, at a rate similar to that of 1974--5 percent; the average number of rooms amounted to 20.7 thousand (a net addition of 1000 rooms on average compared to 1974).[60] The rise in the number of

58. The level of the short-period trend together with irregular fluctuations.
59. In hotels of the two highest categories, however, the number of bed-nights of foreign tourists fell by 3.2 percent, while Israeli bed-nights rose by 36 percent. At the same time the number of rooms in these hotels rose by 13 percent, and consequently, average annual occupancy dropped to 45.2 percent.
60. At the end of 1975 there were 21.1 thousand rooms in hotels recommended for tourists, of which 11.6 thousand (55 percent) were in hotels of the two highest categories.

Table XV-8
HOTEL ROOMS, OCCUPANCY, AND EMPLOYMENT, 1972-75

					Percent annual increase			
	1972	1973	1974	1975	1972	1973	1974	1975[a]
Number of hotel rooms (annual average)	20.629	22,366	22,372	23,606	4.8	8.4	—	5.5
In hotels recommended for tourists	17,124	18,755	19,681	20,656	8.9	9.5	4.9	5.0
In hotels of the two highest ratings	(7.071)	(8,700)	(9,875)	(11,172)	(17.5)	(23.0)	(13.5)	(13.1)
Occupancy ratio in hotels recommended for tourists (local and foreign)	59.3	48.5	47.6	44.2	1.8	-18.2	-1.9	-7.1
In hotels of the two highest ratings	(66.5)	(50.0)	(49.5)	(45.2)	(-5.9)	(-24.8)	(-8.7)	(-1.0)
Number of employees in recommended hotels (annual average)	11,275	..	11,270	12,376	6.3	..	..	9.8

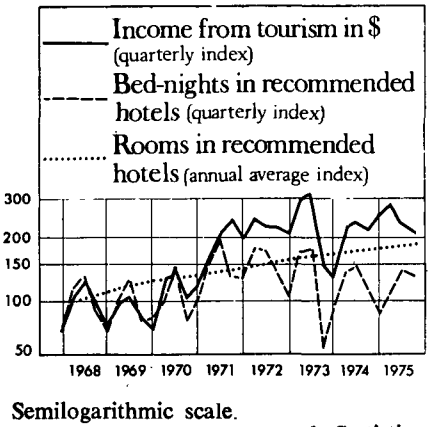
[a] 440 hotel rooms not rated in 1974 were graded 4-5 stars in 1975, grading of hotels with 446 rooms were changed.
SOURCE: Central Bureau of Statistics.

rooms, in spite of the freeze on hotel construction, stems mostly from the completion of projects exempted from the freeze due to their advanced stage of construction. Likewise, in the wake of reduced immigration, the transfer of additional rooms for use by the Jewish Agency was largely avoided, and the total number of these rooms deducted from the supply of hotel rooms was apparently smaller in 1975.[61]

The average number of employees in hotels recommended to tourists rose by approximately 10 percent in 1975. The rise in the number of employees, in excess of the growth in the number of rooms, stems from the relatively large addition of rooms to hotels in the four and five- star category (13 percent) in which the number of employees per room is higher; also room occupancy in hotels of this category was above average.

Figure XV-4

INDEX OF TOURIST BED-NIGHTS, INCOME FROM TOURISM, AND ROOMS IN RECOMMENDED HOTELS, 1968-75
(average 1968=100)



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

61. Investment in hotels (at current prices) in 1975 was estimated at IL165 million--a nominal drop of 36 percent, reflecting a sharper real drop. The share of government financing in total investment in hotels was some 48 percent in recent years.

Of service industries only the hotel trade enjoys export premiums which amounted in 1975 to IL50 million. According to the system operating until recently, premiums were given without conditions of foreign currency conversion, and the premium in fact on tourist bed-nights was more than on tourist dollars. For the sake of accounting a parity was assumed between revenue from tourist and from Israeli bed-nights.[62]

62. The basis for granting premiums to hotels is likely to change in 1976 when a new system will be introduced requiring hotels, tourist agents, and others to carry out these business dealings in foreign currency received from tourists by means of special bank accounts. Payment for hotel services in Israeli pounds will involve an increase in price to the tourist, while premiums will only be awarded on the basis of receipts in foreign currency.