

CHAPTER XV

TRANSPORTATION, COMMUNICATIONS, AND TOURISM

1. MAIN DEVELOPMENTS

The product of the transportation and communications sector rose 5–6 percent in 1978, after an 8 percent increase the year before.¹ The slower growth this year despite the expansion of economic activity can be explained for the most part by the slowdown in international aviation (and, to a lesser extent, of shipping); land transport, on the other hand, experienced an acceleration compared to last year.

The more sluggish rise in international aviation output resulted from a slackened growth of tourism to Israel, especially from the United States, due to the prolonged strike in El Al, which diminished its share of air traffic, and a slowdown in air freight, after an extraordinary expansion in 1977.

Signs of the recovery of economic activity were evident in the output of shipping and ports, principally in the transport of import cargoes and their port handling. This contrasts with the situation in 1977, when the main stimulative factors were export cargoes and transport between foreign ports.

Land freight output began to pick up already in 1977, due mainly to the extraordinary growth in the transport of quarried products for export. The recovery gathered force in 1978, chiefly in consequence of the larger volume of freight directly connected with the construction industry, as well as for the industrial branches, whose activity was stepped up.

The impact of the renewed rise in disposal income was evident in 1978 also in the growth of output of passenger conveyance, an increase in the number of private automobiles, and in the communications branch. Demand for telephones grew, but since installations fell short of the new orders, the backlog of outstanding applications rose to about 209,000.

International tourist traffic to Israel amounted to approximately 1,071,000 arrivals in 1978, a growth of 8.5 percent. Income from tourism totalled about \$ 582 million this year (21 percent of all exported services); this represented a gain of about 4 percent,²

¹ See notes a and c to Table XV-1.

² The 1977 figures for income from tourism were revised on the basis of Central Bureau of Statistics estimates which have not yet been published.

TABLE XV-1

**CHANGES IN REAL OUTPUT, PRODUCT, AND PRICES OF THE TRANSPORTATION AND
COMMUNICATIONS SECTOR, BY BRANCH, 1970-78**
(percent)

	Estimated weight in gross product of sector in 1977 (at 1972/73 prices)	Weight in revenue 1977	Output				Prices	
			Average 1973-76	1976	1977	1978	1977	1978
Domestic services	58.9	50.0	3.0	5.7	4.7	4.6	35.0	55.4
Land transport	38.7	29.4	-0.8	1.3	3.1	4.5	40.2	48.5
Buses	12.5	9.1	0.6	6.0	1.4	2.8	38.7	32.2
Taxis	4.7	3.7	-0.9	-2.0	5.0	3.0	47.3	35.3
Trucks	19.5	16.0	-1.7	-1.0	3.4	5.4	40.0	60.0
Railway	2.0	0.6	4.1	15.9	8.4	12.8	27.5	60.0
Other	20.2	20.6	9.3	12.6	6.9	4.8	28.3	65.4
Oil pipelines	2.3	1.9	-2.2	17.4	4.7	12.7	33.9	14.6
Domestic air services	0.5	0.7	0.5	-9.8	-2.8	-4.3	42.1	74.5
Telecommunications	17.4	18.0	11.0	13.2	7.5	4.3	27.2	71.0
International services	41.1	50.0	6.1	7.0	13.4	5.7	31.2	72.7
Shipping and ports	26.6	34.7	6.0	1.2	7.6	5.2	32.3	73.8
Shipping	20.3	29.2	7.1	2.3	9.0	4.0	32.3	75.9
Ports	6.3	5.5	0.6	-3.8	0.8	15.2	32.5	63.8
Civil aviation and airports	14.5	15.3	6.7	28.0	28.6	5.6	28.6	70.1
International aviation	13.0	13.8	6.6	28.0	28.2	5.0	28.5	70.1
Airports	1.5	1.5	7.5	27.1	23.6	11.0	60.8	70.4
Total output at market prices	100.0	100.0	4.4	6.4	8.9	5.1	33.1	64.1
Total gross product at 1972/73 prices			3.4	6.3	8.0	5.4		

NOTE: Output is at market prices, including the defense stamp duty (until April 1978) on bus, railway, and postal services, and excluding bus subsidies, the deficit of the railway, and the tax on air travel (until October 1977). Since 1976 the data include VAT collected from various subbranches. The change in the sector's product is estimated on the basis of data from the 1972/73 input-output tables (in contrast to previous reports, which used the 1968/69 tables); the annual output changes in the subbranches are used as an indicator of changes in the product at constant prices. Additional details regarding the calculations and sources for this table appear in the text of this chapter.

and deflated by the price rise of the average tourism basket, (i.e. in dollar terms) it came to only about 2 percent.

Gross real investment in the transportation and communications sector (including roads) was up 2 percent in 1978, reversing a former year decline. All of the incremental expenditure was on motor vehicles. The number of workers employed in the sector (including storage) expanded by approximately 3 percent this year, compared to more than 2 percent in 1977.

2. DOMESTIC TRANSPORT

(a) Passenger Conveyance³

The total output from the transport of passengers grew approximately 3 percent in 1978.

The growth of bus output on regular routes is apparently connected with both the rise in disposal income and the relative decline in the price of the urban and interurban services,⁴ which benefit from a government subsidy.

On the supply side the outstanding development was an increase in employment: more than one thousand hired workers were taken on – a growth of 7.3 percent, compared to 4.6 percent in 1977. The input of mandays worked, by contrast, was a more moderate 3.2 percent, similar to the rate for output. Along with the expansion of public transport, 1978 witnessed a growth of about 7 percent in the number of private motor vehicles (an addition of 21,000 cars), the services of which are not included in the measured output of the branch. The expansion of the number of private automobiles was larger this year than in each of the preceding years since 1975, but fell below the figure for the early part of the decade. The degree of motorization rose by 4.7 percent to stand

³ Consists of passenger transport on buses, taxis, railroad, Arkia domestic airline, and to a partial extent trucks. In the absence of statistical coverage, the output of tour bus companies which are independent of the cooperatives, tour operators, and self-drive rented cars are not included. The calculation of the change in output from special trips, and tour and excursion transport seems to have had a downward bias in the last two years.

⁴ The average rise in the prices of bus service was only 29 percent (and over the course of the year only 21 percent). Taxi services became more expensive by an average of about 35 percent, while prices in the railway passenger branch increased by 34–35 percent. Maintaining a private car went up by an average of about 45 percent, while the price of private cars shot up by more than 100 percent.

at 88.2 by the end of 1978.⁵ This was accompanied by a slight increase in the average yearly mileage per vehicle, though the level was still about 13 percent lower than in 1974.

The index of bus input prices rose by an average of about 57 percent; since fares were not raised correspondingly, the direct subsidies given to the bus companies were doubled to about IL 1.6 billion.⁶ In the absence of data for estimating the volume of subsidies for special trips and excursions, we must impute the full amount of the subsidy to the regular routes. This brings up the subsidy rate in relation to total passenger fares collected by the bus companies from 58 percent in 1977 to 88 percent, and in relation to total revenue⁷ on regular routes, from 40 percent in 1977 to 50 percent. It should be noted that the subsidy keeps fares at a relatively low level, but it is not allocated in such a way as to achieve the maximum benefit from the standpoint of transportation goals, such as reducing the traffic load in the city centers, regulating traffic during peak hours, and the like. Furthermore, no significant changes are to be expected in travel patterns unless the subsidy is accompanied by a policy designed to improve bus services, by introducing better vehicles, increasing the frequency of runs, and reduction of overcrowding. In addition to the direct subsidy, the bus companies are provided with cheap credit for purchasing buses, and the subsidy element in such financing apparently has the same distorting effects as in other branches of the economy.

B. FREIGHT TRANSPORT⁸

Real freight transport output rose by an average of more than 6 percent in 1978, compared to approximately 4 percent in 1977. After a decline in 1975 and 1976,⁹ the level picked up in the second half of 1977 along with the recovery in economic activity.

⁵ The degree of motorization is measured in terms of the number of private motor vehicles per 1,000 inhabitants. For 1974–77 it was respectively: 78.2, 80.0, 81.7, and 84.2; this places Israel between Greece and Spain.

⁶ Not including the payment for transporting soldiers.

⁷ Fares and subsidies, excluding the defense stamp (until April, 1978) and value added tax.

⁸ The transport of freight by trucks, railroads, buses, and Arkia, and pumping of crude oil and refined petroleum products through pipelines.

⁹ As for the change in the output of the trucking industry, it should be emphasized that this is not measured directly, but by means of indicators, such as the industrial production index, agricultural marketing, transport of quarried materials in trucks, etc. Therefore one must treat the estimated change in output with caution. In addition to this, for the purpose of calculating the output for 1978 we made use of the data from the Survey of Trucks for 1977 (the data for 1977 were revised accordingly). The change in real output for rail freight transport in 1978 was calculated at the Bank of Israel. The

The renewal of economic growth, especially in construction, obviously had its effect on freight haulage. Such transport, most of it by the trucking industry, is particularly sensitive to changes in construction activity and this explains the differential output growth rates for 1977 and 1978. Freight transport directly connected with the construction industry (more than one-quarter of the output of the trucking industry) contributed one percent to the growth in trucking output in 1978, whereas in 1977 its contribution was still negative (-3 percent). Truck transport of quarried materials (potash and phosphates for export) had an opposite impact: this contributed 3-4 percent to the incremental output in 1977, but less than 0.5 percent in 1978, Part of this development is explained by the change in the distribution of quarry freight between trucks and the railroad, and a change in the length of the routes.¹⁰ Agricultural freights somewhat depressed trucking output in 1978, just as in the previous year.

Trucking did not change significantly in 1978; the number of trucks apparently remained the same, but relatively small vehicles which were scrapped were replaced by larger ones.¹¹ The capacity which had built up until 1977, disappeared with the growth in demand for transport, which began in the second half of 1977, and with the banning of overloading of dump trucks at the end of 1977. In some areas a manpower shortage was felt. These supply and demand developments were reflected in transport tariffs, which rose by an estimated 60 percent on an annual average. Thus the authorized price rises fully materialized and were even exceeded, for the the second year in a row.¹² The recovery of the trucking industry and the expectation of a boom in such transport in the coming years with the military redeployment in the Negev resulted in a substantial rise in orders for trucks at the end of 1978.

During 1978 there was an accelerated growth of output of the oil pipelines - about 13 percent, compared to 5 percent last year. This stemmed from the pumping of both crude

source for the remainder of the data is the Central Bureau of Statistics and the transporters' organizations. The definition of the trucking branch includes all trucks, even those which are not used primarily for commercial haulage. This definition differs from that customary in the national accounts. The output of the oil pipelines was calculated in the Bank of Israel on the basis of data supplied by the parties concerned.

¹⁰ The railroad line to the phosphate field in Nahal Zin was inaugurated in 1978. Potash hauling was also adversely affected by the strike in the Dead Sea Works.

¹¹ We are not yet in possession of data on the number of motor vehicles for 1978; the discussion is based on estimates only.

¹² Also taking into account those price rises attributable to the application of the regulations governing authorized overloading by dump trucks. Except for these trucks, transport rates are actually under government control.

TABLE XV-2
TELEPHONE SERVICES, 1974-78
(In thousands)

	Direct subscriber lines connected ^a	No. of installations	No. of applications	Applications outstanding ^b	Meter pulses	Percent annual increase ^c			Meter pulses	
						Installations	Applications	Applications outstanding	Total	International calls
	(millions)									
1974	533.2	45.3	74.8	166.9	1,936.4	-16.9	-3.2	15.8	8.4	..
1975	583.6	54.0	75.6	179.6	2,200.2	19.2	1.1	7.6	13.6	..
1976	627.0	52.3	66.5	185.1	2,555.8	-3.1	-12.0	3.1	16.2	49.7
1977	671.2	50.5	69.7	192.7	2,835.7	-3.3	4.8	4.1	11.0	122.1
1978	717.7	48.5	78.6	209.2	3,414.8	-4.0	12.8	8.6	20.4	63.6

^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 from previous years, applications received during the year, and installation orders in the hands of the engineers at the end of the year. In the absence of data on applications cancelled, the figure is likely to be slightly upward-biased.

^c Calculated from unrounded figures.

SOURCE: Ministry of transport and communications.

oil and refined petroleum products for domestic consumption and from the increased throughput of oil in transit.

3. TELECOMMUNICATIONS¹³

Measurement of the change in the output of the telecommunications branch, on the basis of financial reports, indicates a slowdown in growth, from 7.6 percent in 1977 to 4.3 percent in 1978; less the output of services provided to the defense establishment and other external factors,¹⁴ it declined from 14 percent to about 7 percent. It appears, however, that the actual change in output, particularly of telephone services, was greater in 1978 than in 1977. So far we have no full explanation for the substantial gap between the financial and the physical data.¹⁵ Since current revenue from telephone services accounts for close to 80 percent of all telecommunications income, the physical data on these services probably provide a more reliable indication of the development of telecommunications output. The data (see Table XV-2) show that in 1978 the growth in local calls greatly accelerated, and the rapid growth in international calls also continued, though at a slower pace than last year's exceptional rate. This pattern accords with the recovery of economic activity. Following the subsiding demand for telephone installations¹⁶ in 1974-76, there was an upturn in 1977, which grew much stronger in 1978, as anticipated.

The extra demand for telephones was not fully met; on the contrary, since 1976 there has been a 3-4 percent drop in the annual number of installations, with the result that the backlog of outstanding applications reached more than 209,000 at the end of

¹³ Not including the activity of the Postal Bank.

¹⁴ The output from services provided to external factors is measured at the time of payment for the service, but the timing of payments is not regular and is almost totally unconnected to real activity.

¹⁵ As regards the distribution of activity by years, the financial data are generally less reliable than the physical data. Part of the discrepancy in the measurement for 1977 and 1978 stems from the fact that from August, 1976 through May, 1978, a new subscriber paid in advance for 3,000 meter pulses. Another explanation, which may turn out to be decisive, lies in the lag in collections for telephone services at the end of 1978.

¹⁶ Generally speaking this series behaves in a similar fashion to the real disposal private income, purchases of durable goods, etc. At the same time, a comparison of these series lacks some significance, since the demand for telephones includes applications from businesses and the public sector, which do not react to economic changes in the same way as do households.

1978. In Israel telephones are not distributed according to consumer preferences and market forces; hence they are not supplied to customers even when the investment would be economically worthwhile. It appears that the inefficiency of the telephone service and the prevailing labor relations are the principal reasons for the growing gap between demand and supply of telephones. Unutilized development budgets bear this out, as does the gap between district and central office labor schedules in the telephone services. It should be noted that the gradual switchover to more sophisticated telephone exchanges in recent years is permitting a substantial savings in manpower in these services.

The average rise in the prices of telecommunications output was 71 percent in 1978, a much higher rate than for the consumer price index. This phenomenon marked all telecommunication services. Comparison of the price indexes in telecommunications services (in the consumer price index) to the general index for the past three or four years reveals an almost identical rise.

4. INTERNATIONAL TRANSPORT

A. SHIPPING AND PORTS

Shipping and port output expanded, as in the previous year, by more than 7 percent, but in contrast to 1977, the growth rate accelerated this year for ports and dropped substantially in shipping.¹⁷ Cargo transport output, where growth slackened, was hurt by the strike in the Israeli merchant marine — except for oil tankers — which broke out at the beginning of 1978 and lasted for 80 days. On the import and export routes the strike-bound ships were replaced by chartered vessels;¹⁸ the slowdown occurred mostly on cargo routes between foreign ports, and particularly Zim's "Tricontinental" container line. In oil transport — especially that between foreign ports (to and from the Eilat-Ashkelon pipeline) — there was an accelerated growth of output in 1978. This was not the case in chartered shipping plying international routes, where activity shrank in real terms as a result of the sale of ships which had engaged in this trade (see Table XV-3).

¹⁷ The change in real shipping output is measured as the change in revenue at constant prices. The estimated change in shipping prices was calculated by weighting the price change for freight transport, fuel, and charter hire. The change in the prices of freight transport (on Zim lines) was measured on the basis of a fixed basket (the previous year's) of total freight according to routes. Since the change in revenue per freight-ton serves as an indication of the change in price, a change in the composition of cargoes on the route will bias the price index. Therefore one should relate with caution to the estimated changes in output from year to year.

¹⁸ This may have lowered the percentage of added value in the branch's output.

TABLE XV-3

ISRAELI SHIPPING REVENUE AND OUTPUT GROWTH, 1976-78
(IL million)

Revenue by type of shipping				Distribution of revenue (%)			Percent annual increase in real output		
	1976	1977 ^a	1978	1976	1977	1978	1976	1977	1978
Cargo (incl. fuel) ^b	4,297.2	6,183.2	11,360.7	92.5	92.5	92.8	5.4	8.1	4.4
Imports	1,614.9	1,930.6	3,510.2	34.8	28.8	28.7
Exports	505.9	924.8	1,437.3	10.9	13.8	11.7
Between foreign ports	2,176.4	3,327.8	6,413.2	46.8	49.7	52.4
Charter hire ^c	312.8	445.9	685.1	6.7	6.7	5.6	-17.7	18.9	-10.9
Miscellaneous	35.6	68.2	201.2	0.8	1.0	1.6	-44.9	47.0	58.9
Total revenue	4,645.6	6,697.3	12,247.0	100.0	100.0	100.0	2.3	9.0	4.0

^a 1977 data are revised; 1978 data are provisional.

^b Including crude oil in transit. The growth in real output from the transport of fuel in 1978 was 10.1 percent.

^c Revenue from chartering vessels between Israeli companies amounted to IL 538 million in 1976, IL 718 million in 1977, and IL 1,215 million in 1978.

SOURCE: Central Bureau of Statistics and shipping companies; change in output: Bank of Israel computations.

The expansion of services on export and international nonfuel lines caused the acceleration of output in 1977, whereas this year the recovery in import cargoes was the decisive factor. Export tonnage grew at a similar rate to last year's, but in transport between foreign ports the gain in tonnage dropped to 7 percent, compared to about 28 percent in 1977 and 22 percent in 1976. Import tonnage carried by Israeli shipping was up more than 10 percent after three consecutive years of absolute decline. This change in the trend can be attributed to the recovery of economic activity, which had already begun in 1977, and apparently also to stock building.

Port output and freight traffic in Israeli ports were also affected to a decisive extent by the expansion of imports to the country. Total import cargo grew by 12.4 percent in 1978, after a 1.5 percent decline last year. In contrast, the growth of export tonnage slackened.¹⁹

The share of Israeli shipping in the country's waterborne commerce declined this year for both imports and exports, apparently because of the merchant marine strike; it amounted to 58.1 percent of imports and 42.7 percent of exports.²⁰

Table XV-4 shows the change in carrying capacity in 1978. Zim took advantage of the merchant marine strike to sell a number of obsolescent freighters, over the objection of the seamen's union, and acquired more modern vessels which will permit a saving in operating costs. It should be emphasized that the technological improvements, reflected in the operation of specialized ships and new container vessels do not find full expression in the conventional measurement of the growth of supply, so that one must be careful in drawing conclusions regarding the utilization of the fleet. In sum, the net investment in the fleet (purchases of ships, less sales of ships) amounted to about \$ 13-\$ 15 million. There was an average decline of about 4 percent in the number of persons employed in shipping compared to 1977, and of about 8 percent compared to 1975²¹ (with a drop in the proportion of foreigners in the crews). The total output prices of Israeli shipping rose by an average of about 6 percent in 1978; in cargo transport the increase was 8-9 percent (in dollar terms), a faster rate than in the previous two years. It should be noted that the price increases in world liner shipping (and for most of Zim's ships)

¹⁹ It should be noted that the growth in imports of general cargoes — mainly industrial goods — which contributes about 70 percent of ports' revenues (excluding oil), reached 22 percent and about 3 percent in 1977. In exports the most striking changes were the accelerated growth of general cargoes, a more sluggish quantitative growth of phosphates, and a decline in potash tonnage.

²⁰ Compared to 59.1 percent and 63 percent of imports in 1977 and 1976, respectively, and 45.9 percent and 53.9 percent of exports.

²¹ The decline was greater among seamen.

TABLE XV.4

ISRAEL'S MERCHANT FLEET, BY TYPE OF SHIP AND TONNAGE, 1976-78

End of year	Number of ships			Tonnage (1000 dead-weight tons)			Percent annual increase in carrying capacity ^a		
	1976	1977	1978	1976	1977	1978	1976	1977	1978
General cargo	55	57	53	558.1	594.7	590.7	4.3	5.8	2.5
Refrigerated ships	3	4	3	6.7	11.8	6.7	-48.1	-77.6	4.9
Bulk carriers	19	21	20	946.1	986.4	925.5	1.0	1.7	0.4
Total dry cargo ^b	77	82	76	1,510.9	1,592.9	1,522.9	-1.9	1.0	1.3
Tankers	24	24	25	2,941.5	3,045.1	3,069.8	-1.1	2.5	2.7
Total cargo ships	101	106	101	4,452.4	4,638.0	4,592.7	-1.0	1.9	2.2

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

^b Excluding tankers.

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

generally reflect the rate of world inflation.²² The income of Israeli shipping from operators between foreign ports (including transit shipping of oil) and from charter hire represented about 58 percent of total revenue in 1978, compared to 56 percent in 1977 and 53 percent in 1976 (see Table XV-3). This fact has special importance in light of the strengthening of protectionist trends in shipping, the change in the sources of oil supplies to Israel in consequence of the events in Iran, and the limited scope of Israeli trade (relative to the carrying capacity of the fleet).²³

According to partial data, Zim finished 1978 with an operating loss, which is chiefly explained by the strike.

B. INTERNATIONAL AVIATION AND AIRPORTS

The rapid growth in the output of international aviation and airports in 1976 and 1977 was curbed in 1978, when the gain came to approximately 6 percent as against 28 percent in the previous two years.²⁴

The plunge in the growth rate is especially prominent in light of the relative boom in world international aviation in 1978; an advance of 12 percent (in terms of passenger-kilometers and ton-kilometers), which brought up the occupancy rate of planes and improved the profitability of airlines.²⁵

The real growth in El Al's output from transporting passengers was only 1–2 percent this year, compared to 13 percent in 1977, while the growth in output from cargo transport by El Al and CAL slowed even more: 2–3 percent, compared to an approximate doubling of output in 1977. Several major factors caused the more sluggish expansion of El Al's total output in 1978: a much smaller increase in airborne tourism to Israel

²² In 1978 there was a drop in world maritime trade (in ton-kilometers), and the industry continued to be depressed: the number of new ships and construction orders both declined. The recovery and transport price fluctuations in some branches of shipping, despite the basic recession, generally stemmed from a growth in the demand for tankers due to oil stockpiling in fear of a rise in prices, chiefly in the second half of 1978, and especially on the heels of the crisis in Iran. The large-scale import of grain by China also stimulated demand in the chartered shipping market.

²³ There were signs in 1978 of a tendency for the Western European companies to sell ships to countries with relatively cheap labor, which were thus less vulnerable to the slump.

²⁴ The change in output is measured as the change in revenue at constant prices.

²⁵ The cuts in world air fares contributed to the relatively rapid growth. In 1978 the position of IATA in establishing flight tariffs continued to weaken mainly due to U.S. civil aviation policy.

TABLE XV-5

OUTPUT OF EL AL AIRCRAFT, 1976-78
(in owned and chartered aircraft)

	1976	1977	1978 ^a	Percent annual increase		
				1976	1977	1978
1. Available seat-km. (million)	6,534	7,064	7,183	30.9	8.1	1.7
2. Revenue passenger-km. (million)	4,340	4,890	5,001	33.8	12.7	2.3
3. Passenger load factor (2/1) (percent)	66.4	69.2	69.6			
4. Available ton-km., freight (million)	346	537	592	24.0	55.2	10.2
5. Revenue ton-km. (million)	189	355	398	26.8	87.8	12.1
6. Ton-km. load factor (4/3) (percent)	54.6	66.1	67.2			
7. Available, ton-km., passenger and freight (million) ^b	934	1,176	1,233	28.3	25.9	4.8
8. Total revenue ton-km., passenger and freight (million)	580	795	843	31.5	37.0	6.0
9. Overall load factor (8/7) (percent)	62.1	67.6	68.4			

^a In 1978 El Al was strike-bound for three weeks.

^b Including equipment chartered to CAL, excluding postal cargoes. For passengers, based on an average passenger weight (including baggage: 90 kg.); including scheduled flights, flights of new immigrants, and charter flights (on El Al and El Al Charter).

SOURCE: El Al Airlines.

and a shrinking of tourist traffic from the United States. (The lowering of fares on flights to Israel on the North Atlantic and a few European routes, which was put into effect only in autumn as a reaction of the scheduled carriers to the operations of the charter lines, had only a limited impact in 1978.) El Al was strike-bound for three weeks in April 1978, due to a labor relations crisis in the company; the strike undoubtedly affected the company's output after the end of the strike as well.²⁶ It should be pointed out that the

²⁶ The strike and the rise in the share of the charter companies in total traffic volume depressed El Al's share in the air traffic to and from Israel from 51.4 percent in 1977 to 48.3 percent in 1978. Total passenger traffic at Ben-Gurion airport rose by more than 13 percent, while the number of El Al passengers grew by only 7 percent.

growth in air freight transport in 1977, due to CAL's operations and the introduction of Boeing 747 cargo planes, was an exceptional occurrence which cannot be repeated every year to a similar extent. El Al did not benefit in 1978 from the rapid growth of traffic on the North Atlantic route – the most important international route and also the source of a formidable share of El Al's traffic and income²⁷ – since the expansion of traffic on scheduled flights, which became cheaper this year, was largely due to the diversion of passengers from charter flights, in which El Al was not active up to now. The liberalization of aviation policy in 1978 resulted in an almost complete lifting of the restrictions on charter flights toward the end of the year, but the results of this policy can be examined only in the longer run, when the scheduled carriers and the companies operating charter flights will adjust to the changed market conditions.²⁸

The new aviation agreement with the United States, which went into effect at the end of 1978, grants El Al additional landing rights in the United States, permits charter flights from all parts of the United States, and allows each side freedom in setting fares between the two countries. The influence of the agreement could not of course be felt to any notable degree in the year reviewed.

In 1978 the number of El Al employees increased by an average of about 9.5 percent (more than 400 workers). This was connected in part to the acquisition of a convertible Boeing 747 (for passengers and cargo) in June, 1978.²⁹ Final data on El Al's revenues and expenditures in fiscal 1978/79 were not available at the time of writing this chapter, but in view of the output and price developments described above, along with the increase in expenditures, particularly in wages, the company probably wound up the year in the red to the tune of \$ 25–\$ 30 million. Wages per employee (which includes a foreign currency component in the salaries of flight crews) rose by about 75 percent in 1978, which exceed the national average increase. Wages accounted for about one-third of the company's expenditures.

²⁷ The overall growth in scheduled traffic to and from the east coast of the United States was 23 percent in 1978, while the figure for El Al rose by only 3 percent. Total transatlantic traffic on all airlines (including charter flights) grew by about 11 percent.

²⁸ See the discussion in section 5.

²⁹ The plane was purchased for \$45.2 million.

5. TOURISM³⁰

After two consecutive boom years in international tourist traffic to Israel, 1978 witnessed a substantial slowdown, with a growth of only 8.5 percent. Some 1,071,000 visitors came to the country this year.³¹

World tourism, too, grew at a similar rate,³² which is actually considered relatively high, but during the previous two years Israeli tourism outpaced the gain in world tourism. The growth in world tourism over the last two to three years occurred despite inflation, slow economic growth, and monetary instability in the world. This development was made possible thanks to an intensive sales effort in various countries and the liberalization and reduction of the fare structure for flights to major tourist centers, so that tourism now occupies a foremost place in consumers' preferences in Western Europe.

It is difficult to explain the relative slowdown in tourism to Israel in 1978. In part it can apparently be explained as a cyclical reaction to the boom of 1976 and 1977, since the boom was accompanied, generally speaking, by a reduction in the level of tourist services, the results of which are evident later on. The substantial slowdown (and even reduction in the number coming by air) in tourism from the United States should be particularly emphasized; it appears that the decline occurred mainly among the Jewish clientele,³³ and cannot be explained by purely economic factors, but by other factors which characterize the long-term trend, the quality of service, the scope of family visits, and interest in participation in special events in Israel. Therefore the decline of the dollar against European currencies can account for only part of this development, since the fact

³⁰ The survey deals with international tourism to Israel and not with internal tourism, or with imports of tourist services. International tourist traffic to Israel is composed of tourists and of visitors from cruise ships. It does not include day-visitors from Lebanon, a traffic which began in 1976 with the opening of the "Good Fence", and amounted to about 105,000 visitors in 1978.

³¹ Of these, 81.3 percent reached Israel by air, 6.8 percent by land, and 10.4 percent on cruise ships. The 137,000 visitors from Arab countries to the administered areas are not including here.

³² On the basis of statistics on tourist arrivals. The growth in income from world tourism is estimated at about 11–12 percent, and accounted for about 5 percent of world trade in 1978.

³³ Evidence for this comes, for example, from the tourism figures for New York and for the other parts of eastern United States. In the number of tourists coming from New York by air there was a decline of about 3 percent compared with 1977 and 28 percent compared with 1972.

TABLE XV-6

TOURIST TRADE: BED-NIGHTS, LENGTH OF STAY, AND INCOME, 1975-78

	1975	1976	1977	1978	Percent annual increase ^c			
					1975	1976	1977	1978
International tourist arrivals (thousands)	619.6	796.6	986.5 ^a	1,070.8 ^a	-0.8	28.6	23.8	8.5
Thereof: cruise travelers (thousands)	60.5	63.9	92.6	112.1	9.8	5.6	45.0	21.0
Bed-nights in hotels recommended for tourists (thousands)	3,944.2	5,347.0	6,509.7	6,727.1	-5.8	35.5	21.7	3.3
Thereof: In 4-5 star hotels (thousands)	2,451.1	3,389.7	4,133.5	4,270.1	-3.2	38.3	21.9	3.3
Average stay of tourists (in days)								
Up to one month	12	12	12	11				
Up to three months	17	16	16	15				
Median stay	13	12	13	11				
Income in foreign currency								
Total (\$ million) ^b	292.2	424.8	558.6	582.0	4.1	45.2	31.5	4.2
Average per tourist (%)	472	533	566	543	4.9	12.9	6.2	-4.1

^a Excluding about 20,000 entering from Lebanon in 1977 and about 105,000 in 1978 (visits of UN soldiers and citizens of Southern Lebanon), and visitors to the administered areas.

^b The data for 1975-78 are unpublished revised estimates of the Central Bureau of Statistics.

^c Before rounding figures.

SOURCE: Central Bureau of Statistics.

that Western Europe has become more expensive for Americans apparently hurts tourism to Israel, which in many cases constitutes part of a package tour to Europe.

For evaluating the change in the prices of Israeli tourist services in 1978, one has to rely on indicators in the absence of a direct measurement. Average revenue per tourist bed-night in hotels rose this year by about 99 percent; adjusting for the devaluation of the Israeli pound against the dollar, the increase in dollar terms was 18–20 percent. Taking into consideration the incentives which hoteliers received until 1977 for converting their foreign currency income, the growth in revenue per tourist-night amounted to 66 percent in Israeli pounds, and to 15 percent in dollars.³⁴ The increase in average revenue per tourist-night eclipsed the rise in both the general price index and the input price index between the last quarter of 1977 and the last quarter of 1978, and points to a deterioration in the terms of trade in hotel tourist services.

Only 30 percent of tourist-nights in Israel were spent in recommended hotels, but detailed data on tourist expenditures outside hotels are lacking, so that a rough estimate was made of the average price increase for the total basket of tourist expenses in 1978 compared to 1977. This shows that prices rose approximately 70 percent in Israeli pounds and about 2 percent in dollars terms, on a yearly average. From the last quarter of 1977 to the last quarter of 1978 the increase came to 55 percent in Israeli pounds and more than 15 percent in dollar terms.

Foreign currency income, from the conversion of foreign exchange by tourists and from suppliers of tourist services, amounted to \$ 582 million in 1978, representing 27 percent of total service exports in current prices, excluding the administered areas. The growth in foreign currency income compared to 1977, was 4 percent in nominal terms³⁵ and 2 percent in real terms.

The proportion of tourists coming to Israel from Europe has been rising steadily in recent years, and in 1978 the number went up by more than 12 percent (24 percent in 1977), representing more than 55 percent of the total. It should be noted, that in spite of inflation, Israel became less expensive, relatively speaking, for the European tourist, due to the upward revaluation of European currencies against the dollar (and the IL) in 1978. Even so, tourist services provided by Israel's competitors, such as Greece, Spain, and Portugal, are still cheaper than this country.

³⁴ The growth in revenue per bed-night (tourists and Israelis) was 77 percent on the average, and, including the incentives paid in 1977, about 57 percent. It should be noted that the average change in revenue per bed-night does not take into account the change in the hotel mix, the scope of the services sold in the hotels, and their quality.

³⁵ Based on a revised Central Bureau of Statistics estimate for 1977.

TABLE XV-7
HOTEL ROOMS, OCCUPANCY, AND EMPLOYMENT, 1975-78

	1975	1976	1977	1978 ^a	Percent annual increase ^b			
					1975	1976	1977	1978
Number of hotel rooms (annual average) (thousands)	23.6	24.2	24.9	26.3	5.5	2.5	3.0	5.6
In hotels for tourists (thousands)	20.7	21.5	22.4	23.6	5.0	4.0	4.2	5.3
In hotels of the two highest ratings (thousands)	(11.2)	(11.6)	(12.1)	(13.0)	(13.1)	(3.4)	(5.1)	(7.3)
Occupancy ratio in hotels for tourists (local and foreign)	44.2	51.2	55.0	53.5	-7.1	15.8	7.4	-2.7
In hotels of the two highest ratings	(45.2)	(54.1)	(58.7)	(56.7)	(-8.7)	(19.7)	(8.5)	(-3.4)
Number of employees in hotels for tourists (annual average) (thousands)	12.4	13.6	15.0	16.8	9.8	9.8	10.7	11.8

^a At the end of 1978 there was a total of 26,700 rooms. Of these, 24,000 were in tourist hotels, including 13,400 rooms (55.8 percent) in the highest rated hotels.

^b Calculated from unrounded figures.

SOURCE: Central Bureau of Statistics.

During 1978 the liberalization of aviation policy was broadened, and toward the end of the year charter flights were actually permitted from all parts of the world, while fares on scheduled airlines, both on the Atlantic route and from other European countries, were significantly reduced. Despite this, total airborne tourist traffic to Israel grew by only 6 percent in 1978 (39 percent on charter and 2 percent on scheduled flights).³⁶ It should be noted that the significant reduction of fares from the United States to Israel, the introduction of additional special fares (already in force for two years to other countries), and the authorization of charter flights from all parts of the United States, took effect only in the autumn of 1978 and therefore could make its impact felt only to a minor extent in 1978.³⁷ One should not, of course, draw any comparisons based on the results of the liberalization in 1978 as regards the overall future potential of airborne tourism to Israel, because of the short period of time which has elapsed and the lag in adjusting to the market; but it may be noted that from the end of 1978, the conditions under which Israeli aviation operates were, generally speaking, equalized with those customary in other tourist countries.

The average length of tourists' stay in Israel fell this year, apparently in consequence of the decline in the share of Jewish visitors and of tourists from North America. There was also a significant slowdown in 1978 in tourist bed-nights in recommended hotels (see Table XV-6). In contrast to 1976 and 1977, when the number of bed-nights by Israelis in hotels dipped, there was a slight upturn in 1978. Total bed-nights rose less than the supply of rooms, so that the average annual occupancy rate in hotels declined (see Table XV-7).

Despite the declared policy of constructing hotels for popular tourism, in practice most of the additional rooms in 1978 were in the more expensive hotels (those in the two top categories).³⁸

This goes some way to explain the substantial increment in the average number of workers, which was higher in 1978 than the rise in both the number of rooms and bed-nights. The growth in the share of charter flights, which helped to smooth out some of

³⁶ The corresponding figures for tourists from Europe are a total of 12 percent, of which 66 percent were on charter flights and 3 percent on scheduled flights.

³⁷ In 1978 approximately 114,000 tourists reached Israel on charter flights (about 18,000 on El Al planes). Some 17,000 flew directly to Eilat, as compared to 12,000 in 1977.

³⁸ Investments in tourism infrastructure amounted to about IL 550 million in 1978, of which IL 270 million went for hotels (in 1977, IL 327 million and IL 191 million, respectively). These figures reflect a zero growth in total real investment, and decline of 15–20 percent in hotel investment.

the seasonal fluctuation in tourist traffic, also apparently increased the need for manpower in the branch.