CHAPTER XII

TRANSPORTATION, COMMUNICATIONS, AND TOURISM

1. Main Developments

The weakening of the uptrend in this sector's product, which began in 1972, carried over through the first nine months of 1973, when the level (at 1968 prices) rose 10.6 percent as against 13.1 and 15.2 percent in the first nine months of 1972 and 1971 respectively.[1] Nevertheless, the growth rate was still above the national average.

Changes in the sector's output[2] and product generally reflect developments in the economy as a whole, since most of the demand for its output is derived from the demand for the other sectors' output. But output changes in certain branches, such as civil aviation and the oil pipeline industry, are largely independent of current economic activity in Israel.

The major developments affecting the sector's product during the first three quarters of 1973 were the continued deceleration of tourist traffic to Israel and the more sluggish growth of residential construction and earthwork. Other factors were the changes in recent years in real private income and investment in transportation (especially ships and aircraft).

The standstill in the number of tourist arrivals in 1973, after the growth rate had dipped sharply in the previous year, largely explains the marked slackening of output growth in branches catering to the tourist trade: international and domestic air services, airports, and bus transport. Tourism is influenced by the economic situation in the countries of origin and by political and security developments in this region. During the year 661,700 persons visited Israel, earning the country $ 230 million, or about 20 percent of its total service exports during the first three quarters of the year.

The growth of land freight output (mostly trucking) slipped a notch, from 9–10 percent in 1972 to 8 percent during the first nine months of 1973. This was due primarily to the slower expansion of residential and other construction (including earthwork and noncivilian jobs). Agricultural freight also posted

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

[2] Total revenue at constant prices.

Table XII-1
CHANGES IN REAL OUTPUT, PRODUCT, AND PRICES OF THE TRANSPORTATION AND COMMUNICATIONS SECTOR, BY BRANCH, 1970–73
(percentages)

	Percent of GNP originating in sector in 1972 (at 1968 prices)	Weight in revenue, 1972	Annual increase or decrease (–)									
			Output					Prices				
						1973[b]					1973[b]	
			1970[a]	1971[a]	1972[a]	Jan.-Sept.	Entire year	1970[a]	1971[a]	1972[a]	Jan.-Sept.	Entire year
Domestic services	**76.4**	**54.2**	**13.5**	**11.2**	**12.3**	**9.4**	**—**	**0.8**	**11.3**	**9.9**	**17.0**	**—**
Land transport	44.9	35.6	8.9	8.3	7.9	6.4	—	4.6	12.5	13.7	15.7	—
Buses and subway	13.3	10.2	2.6	10.7	5.8	3.2	—	5.5	15.7	19.0	14.8	—
Taxis	4.7	3.9	5.0	4.0	5.0	7.0	6.0	4.4	15.2	17.4	12.9	13.5
Trucks[c]	26.1	20.7	12.9	8.9	9.8	8.0	—	4.0	10.0	11.0	17.0	—
Railway	0.8	0.8	7.5	–1.1	–0.6	3.4	5.6	9.0	14.8	5.5	10.8	10.0
Other	31.5	18.6	23.1	17.3	20.9	15.4	10.2	–6.1	8.9	3.3	19.3	19.7
Oil and gas pipelines[d]	8.3	2.3	105.7	54.6	43.0	22.6	–6.3	–55.2	6.4	6.9	2.0	2.0
Domestic air services	0.5	0.7	7.1	17.7	2.6	1.9	16.0	8.9	10.0	18.0	24.2	12.6
Posts and telecommunications	22.7	15.6	14.2	14.0	19.0	15.1	12.4	3.5	9.2	2.3	21.5	22.2
International services	**23.5**	**45.8**	**13.5**	**26.5**	**10.5**	**11.6**	**10.2**	**3.9**	**8.9**	**16.3**	**6.9**	**9.0**
Shipping and ports	15.5	33.8	12.8	25.0	9.1	13.7	8.5	6.9	5.9	18.6	7.8	10.8
Shipping[e]	6.9	28.1	13.4	29.1	9.4	14.1	8.6	9.0	10.5	20.2	5.0	8.0
Ports[f]	8.6	5.7	10.8	10.0	7.5	11.7	7.7	–0.1	5.4	11.3	21.6	24.9
Civil aviation and airports	8.1	12.0	15.4	30.8	14.3	6.0	15.1	–3.7	7.4	10.4	4.7	4.1
International aviation	6.7	11.1	15.0	30.5	14.3	6.1	16.1	–4.2	6.9	10.3	4.2	3.6
Airports	1.4	0.9	20.9	39.3	12.0	4.9	3.2	3.3	13.2	13.5	10.7	10.3
Total output at market prices	**100.0**	**100.0**	**13.5**	**17.7**	**11.5**	**10.4**	—	**2.1**	**10.2**	**12.8**	**12.3**	—
Estimated change in the sector's product			13.5	15.2	13.1	10.6	—					

[a] Revised data.
[b] Estimate.
[c] In estimating output in 1972 and previous years the weights obtained from the Central Bureau of Statistics Truck Survey were used. The growth of output in 1973 was estimated according to the CBS Current Truck Survey. The estimates also include trucks making nonrevenue hauls.
[d] The real output index was derived from the revenue and price indexes.
[e] Revenue data include chartering by one Israeli company to another. The use of real changes in shipping revenues (which include charter hire) as an indicator of the industry's product may impart a bias.
[f] The price indexes for 1970 and 1973 were derived from the Central Bureau of Statistics indexes of revenue at current and constant prices, while those for 1971 and 1972 were derived from the changes in revenue and the estimated changes in real output.
[g] 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.

a smaller increase, owing to the poorer yields because of damage from natural causes.

In domestic passenger conveyance—mainly buses and taxis—there was a moderate slackening of the uptrend between January and September 1973, with the relative share of taxi services rising (in the last two years hundreds of new taxis were added to the fleet). Domestic passenger services were affected by the growth of private income in recent years, which resulted in a much larger number of private cars relative to the growth of population. While this effect is discernible in the real consumption of consumer durables in general, it is important to note that since some private cars are also used for commercial purposes, this has helped to generate output—a contribution which, however, is not measured in the conventional system of national accounts.

The growth of private income in the past few years is also reflected in the rising output of postal and telecommunication services (excluding external work, in particular that performed for the defense establishment).

The expansion of shipping output accelerated during the period reviewed. (The measurement of this industry's real output involves statistical problems, notably the construction of price indexes for deflating revenue figures; biases in these indexes impart an opposite bias in the output calculations.) The data on hand show that the better performance can be mainly credited to an increase in import cargo transport and in operations between foreign ports, in both of which carrying capacity was enlarged greatly in the past two years. To be sure, in 1973 the total capacity of the Israeli fleet expanded by 10 percent, or half the previous year's rate, but freighter capacity rose steeply for the second consecutive year. In this connection it should be noted that there is no contradiction between the more laggard expansion of the merchant fleet's carrying capacity and the much heavier investment in shipping in 1973: because of the timing of ship deliveries there is always some lag before the acceleration of investment is fully reflected in the capacity and output data.

Output prices averaged 12.3 percent higher during the first three quarters of 1973, less than the rise in the general price level. But this is not surprising, since most of the sector's prices are controlled and some even subsidized (buses and Israel Railways), while others are determined by the international market and hence are not affected by domestic developments.

Real gross fixed investment was, at IL 1,900 million (1972 prices), up 65 percent, compared with the previous year's 13 percent decline. This impressive gain, which topped that in all other sectors, is explained by the much larger outlay on ships and aircraft and motor vehicles. As a result, the real gross capital stock also expanded strongly between the beginning of 1973 and the beginning of 1974, contributing most to the economy's incremental capital stock in the year under review. Hotel investment during the first nine months of 1973 is estimated at more than IL 200 million. The number of Israelis employed in transportation and communications (including storage) edged up only 0.9 percent in the first three quarters of the year, in contrast to 4.1 percent in 1972; this is well below the national average.[3]

The sector's operations were greatly affected by the October war. Part of the equipment and labor force was mobilized while another part, though not mobilized, was nevertheless harnessed to the war effort (El Al aircraft, buses, etc.). This shifting of productive capacity and output from civilian to noncivilian use disrupted production in other sectors of the economy, but by the same token it averted the idleness that would have resulted from the falloff in consumer demand (for El Al and Arkia Airways services, for example).

Civilian trucking was almost completely mobilized. Because the national emergency lasted longer than expected, the small number of trucks allocated by the Emergency Economic Board to meet the most essential civilian requirements could not, of course, cope with the demands of the economy. This branch became the principal bottleneck, interrupting production throughout the economy and leading to the enforced idleness of other factors of production. The construction industry was hit particularly hard, while the ports (many of whose workers were called up) became choked with imports and export goods could not reach them. The increased utilization of the railroad and speedy import of trucks failed to meet the economy's needs; the situation improved only with the gradual release of mobilized vehicles. The bus companies also suffered from the call-up of many workers, and the harnessing of this branch to the war effort resulted in a grave shortage of civilian carrying capacity, despite the drop in demand because of the mobilization of the reserves. At the same time, many buses were laid up during this period for lack of civilian drivers.

After the outbreak of war El Al Israel Airlines was the country's only air link with the rest of the world, and it was not until mid-November that other carriers resumed partial service. El Al's real output from cargo transport rose many times over the figure for the corresponding period of 1972 because of its role in the movement of vital materials. The slump in tourism, of course, reduced output in the passenger branch, although the company's share in passenger traffic increased.

Output of the pipeline transportation industry fell off because of the smaller

[3] According to Central Bureau of Statistics manpower surveys and labor force surveys of the administered areas. These figures should be treated with caution because of the large sampling error. Moreover, drivers of trucks owned by enterprises and agricultural settlements are not defined as transport workers. It should also be noted that the definition of the sector's output in this chapter differs from that in the national accounts. Along with the increase in the average number of hotel rooms, employment in hotels recommended for tourists rose appreciably in the first nine months of the year—16.6 percent as against 6.3 percent in 1972.

quantities pumped from Eilat after the imposition of a blockade on the Bab el Mandeb Strait and the disruption of production in the Sinai fields.

The shipping industry suffered less than the rest of the sector from the war. To be sure, it was hurt by the cancellation of sailings, the disruption of schedules, and the contraction of tanker output, but it apparently enjoyed a big increase in the transport of defense imports; however, this came too late in the year to significantly affect the 1973 figures.

The tourist industry was, of course, the chief victim of the precipitate drop in the number of persons visiting the country in the final quarter of the year. This applies in particular to hotels, which suffered a decline in occupancy rates (even before the war they had been on the downgrade).

2. Domestic Transport

(a) *Road haulage*[4]

The operations of the trucking industry, which hauls the bulk of the country's inland freight, largely reflect the level of domestic economic activity, especially in building and earthwork (civilian and noncivilian alike), which account for a substantial share of total freight volume.

The slackening of the uptrend in residential building and earthwork during the first nine months of 1973 (there was even a drop in housing starts and in building and earthmoving jobs for the defense establishment) dampened the output growth of this subbranch compared with the corresponding period of 1972—7–8 percent as against 9–10 percent. Those factors which in 1972 had generated most of the upward thrust pulled the level down in 1973. In industry, which accounted for over 70 percent of total ton-kilometrage hauled, the branches producing construction inputs were responsible, while the uptrend in agricultural produce and agricultural inputs (which accounted for about 15 percent of total ton-kilometrage) continued to falter, mainly because of the smaller crops of cereals and pulses due to adverse natural factors.

Between January and September 1973 the truck fleet expanded by 10.3 percent, a faster rate than in 1972. The large war-induced import (mainly large vehicles) further enlarged the fleet to an appreciable degree: in December 1973 there was a total of 88,800 trucks, of which 15,500 had an authorized load capacity of over 2.5 tons.

[4] Developments in this subbranch were estimated until 1972 on the basis of indicators and not direct measurements, and included all trucks, even those owned by enterprises and agricultural settlements (in 1970 this category accounted for approximately 20 percent of total ton-kilometrage of trucks with an authorized load capacity of 2.5 tons or more). This definition differs from that used in the national accounts. The change in real output in the first nine months of 1973 was estimated according to the ton-kilometrage data in the Central Bureau of Statistics Current Truck Survey, which covers vehicles with an authorized load capacity of 2.5 tons or more. In general, the indicators reinforce the survey findings.

Road haulage output prices went up by an estimated 17 percent in the first nine months of 1973, compared with 11 percent in 1972. These were influenced by the authorized tariff hikes of 15 percent in November 1972 and 9.5 percent at the beginning of August 1973.[5] Central Bureau of Statistics data reveal that average revenue per ton-km. rose 24 percent during the first nine months of 1973, but this was partly due to a change in the freight mix (a drop in the share of building materials, rubble and earth, etc.).

Despite the more sluggish growth of demand for transport, the larger number of trucks plying the roads, and the competition of vehicles from the administered areas, Israeli carriers benefited from the maintenance of official price control and the system whereby the Government approved tariff hikes on the basis of increased costs. It is questionable whether tariffs would have been raised to such an extent if market forces had been allowed free play, given the structure of the transport market, which is characterized by a relatively high degree of concentration of the trucking industry and the existence of large customers (the Government, institutions, etc.) who generally contract for transport services on a seasonal and long-term basis.

In the case of these customers at least, the maximum tariff hikes authorized by the Government became in effect the accepted minimum price. Hence the opposition of the truckers to the abolition of price control is quite understandable.

The October war resulted in the mobilization of most of the truck fleet, with a small number being operated by the Emergency Economic Board and essential enterprises. The Board was originally geared for a short period of intensive activity designed to meet the essential needs of the civilian population. With the prolongation of the national emergency and the mobilization of trucks, the productive capacity of the civilian economy was severely curtailed, especially in construction but also in other sectors. The ports became clogged with import goods and export products could not be hauled to them. The Board was hampered by the acute shortage of trained drivers, the allocation of vehicles unsuited to their assigned uses, the shortage of garage workers, and organizational difficulties. The outcome was that the few trucks allocated to the Board were relatively poorly utilized.

In the face of the truck shortage the Government imported 2,500 vehicles costing a total of $ 80–90 million, and granted customs concessions and easy financing terms to encourage their purchase. Subsequently it was decided to import another 500, and in December scores of European trucks-cum-drivers were hired. After the ceasefire the army began to gradually release vehicles; together with those imported in November and December, this helped to alleviate the shortage. Since the trucking industry hardly worked for the

[5] An additional tariff hike of 8 percent was approved in November 1973. But the actual increase was much larger owing to the grave shortage of vehicles.

civilian economy in the fourth quarter of 1973, it is difficult to estimate its operations during this period.

(b) *Buses*[6]

The first nine months of 1973 saw a drop in the real growth of the bus companies' output. This continued the previous year's trend, which followed a strong gain in 1971, but the growth rate was still higher than in 1970. The advance during the first three quarters of 1973 amounted to 3.2 percent, compared with 5.8 percent the year before, while revenue at current prices (excluding Government subsidies) reached IL 435 million.

In the last few years most of the changes in output growth were in revenue from special trips and excursions, which is influenced primarily by the development of tourism and to a lesser degree by the conveyance of workers from the administered areas and of military personnel. Income from this source, which accounted for about one-quarter of the bus companies' real output in 1972, decelerated noticeably during the first nine months of 1973 owing to the standstill in tourist traffic to Israel: the gain came to only 7.4 percent, in contrast to 17.5 percent in 1972 and 46.5 percent in 1971. The growth curve flattened most during the months of April to June (compared with the same period in 1972).

Output on the regular routes (which accounted for more than 73 percent of the total in 1972) edged up one percent during the first nine months of 1973, compared with rises of 2.6 and 3.3 percent in 1972 and 1971 respectively. However, care must he taken in drawing conclusions from these figures as some of the output changes may have stemmed from inaccurate reporting. Nonetheless, the recorded decline contrasts glaringly with the upsurge in real private consumption and the stable growth of the average population. The explanation lies both in long-term factors which affect the income elasticity of demand for bus services and alternative modes of transport and in random influences. One of the long-term factors is the rapid rise in the number of private vehicles relative to the growth of population. After moving up by an average of 15.5 percent in the two preceding years, the number of vehicles climbed 14.6 percent during the first nine months of 1973 and 18.2 percent for the year as a whole. This brought up the degree of motorization[7] to 69.1 in September 1973, compared with 61.7 at the end of 1972 and 55.2 at the end of 1971. This uptrend, attributable to the real income gains of the last few years, undoubtedly dampened the expansion of bus

[6] Including East Jerusalem buses and the Haifa subway, but excluding tourist buses not operated by the major bus companies (these are not covered by the Central Bureau of Statistics). Also excluded are the nontransportation operations of subsidiaries of the bus companies. Output figures for the branch also include revenue from parcel deliveries.

[7] Expressed in terms of the number of private cars per thousand population.

output. In addition, the deterioration in urban traffic conditions caused more persons to prefer the speedier taxi service over buses, especially those for whom time is money.

The slower increase in the number of residents from the administered areas commuting to work in Israel and the standstill in tourism (whose negative effect was not confined solely to revenue from special trips) were among the random factors pulling down the growth of bus output.

Along with the smaller output gain there was a more sluggish increase in employment and in the size of the bus fleet. The average monthly number of employed rose 3 percent during the first three quarters of 1973, compared with 4 percent in 1972, while the average monthly number of buses was, at 4,300, up 2.9 percent, compared with a 4.3 percent increase in 1972. As in 1972, output per employed inched up one percent.

The index of bus input prices shot up 23 percent during the first nine months of 1973. The biggest increases were in labor costs[8] (35.2 percent) and in fuel and lubricants. From November 1972 until the end of 1973 fares were not raised on regular routes (fares for special trips had been hiked in the first quarter of 1973). The average price increase on regular routes came to 14.3 percent during the first three quarters of 1973, while prices in the subbranch as a whole rose by an average of 14.8 percent. The bus companies received IL 80 million in subsidies for the period September 1972-August 1973 (compared with IL 69 million in the corresponding period in 1971–72) in compensation for the increase in costs between fare revisions (an arrangement virtually unique to this branch of the economy) and in lieu of a further fare hike.[9] In both these periods the subsidy amounted to more than 19 percent of revenue from regular routes and to more than 14 percent of total revenue.[10]

After the outbreak of hostilities the bus companies' capacity was largely mobilized. Many drivers were called up for active service, while most of the others worked for the army. After the ceasefire buses were gradually released, but many remained idle for lack of drivers. Thus in the final quarter of the year a large percentage of bus revenues derived from noncivilian rather than civilian transport. As with trucking, there are statistical problems in estimating output in this period.

[8] The reference is to hired workers only.

[9] This sum does not include compensation for the deferral of fare increases between September 1973 and February 1974. According to Ministry of Transport estimates, this will involve the payment of another IL 35–45 million.

[10] Caution should be exercised in comparing the change in the index of bus input prices with the increase in the subsidy, as the input basket used in calculating the index differs from that used to calculate the increase in operating costs for the purpose of revising fares.

(c) *Taxis*[11]

Real output of this subbranch accelerated during the first nine months of 1973, the gain amounting to an estimated 7 percent.

Provisional data reveal that the number of taxis reached 3,950 at the end of September 1973, after rising 6.8 percent during the first nine months of the year in comparison with the same period the year before (the increase for 1973 as a whole was somewhat smaller[12]). The reasons for the stronger demand for nonbus means of transport were given above, but it should be noted that the various types of taxi services did not share equally in the incremental demand. Incomplete data show that urban and special services benefited from this development but not the interurban service. As a result, most of the new taxis were employed in the urban service. There was also a shift from an organized to a more flexible operational framework permitting taxis to combine urban and interurban runs.[13]

The war and the mobilization of reserves had a relatively small effect on the taxi subbranch because of the special structure of its labor force. The curtailing of bus services in the final quarter of 1973 brought up the share of the taxis in total passenger-originated revenue.

Taxi fare hikes, which of course affected the revenue data for the year, were made in November 1972 and November 1973. In 1972 fares were upped along with bus fares, but in 1973 only the price of taxi services rose, while the bus companies were granted a larger subsidy in compensation for mounting costs. The average fare increase for all taxi services came to 12.9 percent in the first nine months of 1973 and to 13.5 percent for the year as a whole. Taxi revenue in 1973 is estimated at IL 230 million.

(d) *Rail transport*

The output of Israel Railways turned upward during the first nine months of 1973, reversing the declining trend of the previous two years. The growth rate accelerated in the final quarter, when greater resort was made of the railway for transporting freight because of the mobilization of civilian trucks.

Real output (measured as revenue at constant prices) went up 3.4 percent during the first three quarters of 1973 and 5.6 percent for the entire year, after inching down one percent in 1972. Most of the gain during the first nine months of 1973 was in freight transport, while passenger revenues slowed noticeably, in continuation of the trend evident since 1971 (passenger business

[11] Excluding those of tour operators and self-drive rented cars.

[12] Final figures on the number of taxis in December 1973 were not available when the Hebrew edition of the *Annual Report* went to press. According to provisional data, it came to 4,060—an annual average increase of 6.6 percent.

[13] A Central Bureau of Statistics survey of the taxi subbranch in 1970 showed that interregional services accounted for 20 percent of total revenue that year.

accounts for only 25–30 percent of the railway's total revenue). The increase in passenger transport during the first three quarters of 1973 was a mere 1.2 percent—about the same as for bus output on regular routes.

The first nine months of the year saw a notably larger haulage of grain, lumber, and potash exports, while decreases were recorded in cement, iron, refined petroleum products, and phosphate for the overseas market. During the period of fighting and in its aftermath there were further strong increases in grain, refined petroleum products, building materials, and containers, while mine and quarry products declined.

Output prices in the first nine months of 1973 were up by an average of 10.6 percent (18 percent in passenger and 8 percent in freight service) over the corresponding period of 1972.

The real increase in the railway's operations and the hiking of freight tariffs in 1972 resulted in a big revenue gain during the first nine months of 1973 and an even steeper one for the year as a whole; this brought the level up to IL 46 million by year's end.[14] The railway's deficit amounted to IL 32 million.

3. Domestic Aviation, Postal Services, and Oil Pipelines

(a) *Domestic air services*[15]

The weakening of the uptrend in Arkia Airways' operations in 1972 because of the slowdown in tourism and the transport of military personnel carried over through the first nine months of 1973, when real output rose only 2 percent.[16] But in the last quarter the war resulted in a sharp upswing in the company's operations and pulled up the average output growth rate for the year to 16 percent. This stemmed entirely from the increase in special flights (most of them for the defense establishment), while passenger-km. on the company's scheduled flights averaged 15.5 percent lower for the year. The passenger load factor rose from 70.7 percent in 1972 to 76.3 percent. The upping of fares in the past few years was apparently responsible for depressing the number of scheduled flight passengers from 351,700 in 1972 to 317,200 in 1973. Tariffs were hiked 24.2 percent in the first nine months of 1973

[14] Excluding the collection of the defense stamp duty, Treasury participation, and income from the Ashkelon-El Arish line, but including revenue from the transport of military personnel.

[15] In the absence of other information, this survey covers Arkia Airways only. The output of the other companies shrank appreciably in 1973, following the liquidation of several small ones.

[16] Until 1972 Arkia's output was measured according to Central Bureau of Statistics data on revenue at constant prices. For lack of such data for 1973, the change in its output this year was calculated as the change in passenger-km., while the change in output prices was calculated as the change in average revenue per passenger-km. The year-to-year comparisons should therefore be treated with caution.

Table XII–2

TELEPHONE SERVICES, 1968–73

(in thousands)

End of period	Direct subscriber lines connected[a]	No. of installations	No. of applications	Applications outstanding[b]	No. of telephone calls (million meter pulses)	Percent annual increase or decrease (–)			
						Installations	Applications	Applications outstanding	No. of telephone calls
1968	278.4	48.8	62.3	43.2	—	41	119	3	—
1969	321.3	45.4	64.6	53.5	—	–7	4	24	—
1970	361.0	43.7	61.9	64.5	—	–4	–4	21	—
1971	400.0	42.8	77.9	87.3	1,386.6	–2	26	35	—
1972									
Jan.-Sept.	436.8	39.5	68.5	112.0	1,180.4	—	—	—	—
Entire year	441.1	48.6	94.2	139.9	1,609.9	14	21	60	16
1973									
Jan.-Sept.	485.8	44.3	62.3	156.5	1,328.4	12	–9	40	13
Entire year	494.2	55.4	77.3	161.1	1,783.7	14	–18	15	11

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

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

SOURCE: Based on Ministry of Communications data.

and by 12.6 percent for the year as a whole (the average price per passenger-km. on charter flights is lower), compared with 18 percent in 1972. The company wound up the year with a total income of IL 42.8 million and a net profit of less than IL 500,000.

(b) *Posts and telecommunications*

Revenue from communications[17] during the first nine months of 1973 amounted to an estimated IL 788 million. After adjusting for the rise in prices, the growth of output (i.e. revenue at constant prices) fell below the 1972 figure—15.1 as against 19 percent. Part of the income was earned from external work (mostly agency fees and jobs performed for others, mainly the Defense Ministry). This income does not reflect the current operations of the Post Office or the level of economic activity.[18] Its exclusion from the output data shows a marked acceleration in the real output of postal services during the first nine months of 1973—a 24.4 percent gain as against 19.6 percent in 1972. This was in line with the growth of private consumption during these months.

Income from telephone services, which accounted for 70 percent of total revenue in 1972, moved up more rapidly during the first three quarters of 1973—51.8 vs. 23.3 percent. But after adjusting for the advance in prices, the growth rate held virtually steady at 22–23 percent, even though some slackening might have been expected because of the smaller increase in the number of telephones installed and meter pulses recorded. Another factor which was expected to depress the output growth rate during the first three quarters of 1973 was the much steeper increase in telephone service prices (both installation fees and service charges)[19]—24.3 percent compared with 11.1 percent in 1972.[20]

The decline in the number of telephone applications during the first nine months of 1973 contrasts vividly with the upsurge in private consumption. While this may be partly ascribed to deficient data on current applications and the backlog of outstanding applications, there were apparently several other reasons: the revision of installation fees and service charges (though in telephone services the price effect is smaller than the income effect), the

[17] Excluding Post Office Bank income and including the defense stamp levy on postal and telephone services. Ministry of Communications data for 1973 are downward-biased for several reasons. A revised estimate made by the Bank of Israel and the Ministry raises the figure for 1973 by IL 100 million.

[18] Such income accounted for more than 10 percent of total Post Office revenue in 1972.

[19] This seems paradoxical, but it was most probably due to the quality of the data for 1973 and the monthly breakdown.

[20] At the beginning of February 1973 the installation fee was raised from IL 450 to IL 650 and both the monthly service charge and the price of calls went up (for local calls from 18 to 22 agorot).

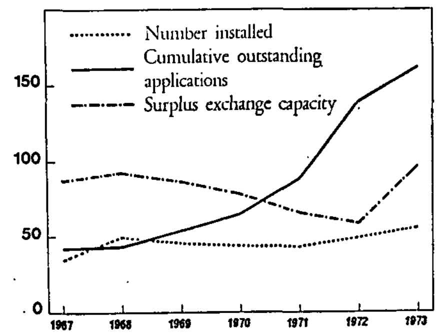
advancing of applications toward the end of 1972 in anticipation of a price increase, and the more laggard growth in new home acquisitions (see Table XII-2).

Despite the smaller increase in the number of installations, the contraction of demand retarded the rise in outstanding applications, which stood at around 157,000 in September 1973 and 161,000 by year's end. Telephone exchange capacity expanded proportionately more than the number of installations, so that surplus exchange capacity went up from 11.7 percent at the end of 1972 to 15 percent in September 1973 and 16.3 percent by the end of the year (see Figure XII-1).[21]

Figure XII-1

NUMBER OF TELEPHONES INSTALLED, OUTSTANDING APPLICATIONS, AND SURPLUS EXCHANGE CAPACITY

(in thousands)



SOURCE: Ministry of Communications.

The average rise in communication prices during the first nine months of 1973 was much greater than during the corresponding period in the previous year: postal service tariffs went up 16.5 percent and telephone services by 24.3 percent; the overall increase was 21.5 percent, more than the advance in the consumer price index.

Real output for all of 1973 was up 12.4 percent; less revenue from agency fees and work performed for others, the gain was 19.5 percent, about the same as in 1972. Prices climbed 22.2 percent on an annual average.

(c) *Pipelines*

After a strong upswing in 1970 and 1971, the first two years of operation of the Eilat-Ashkelon pipeline, the output of the pipeline transportation industry advanced more slowly in 1972 and the first nine months of 1973—by 43 and 22.6 percent respectively. For 1973 as a whole the level was down 6.3 percent—a direct result of the war and the blockade of the Bab el Mandeb Strait, which interfered with the regular transport and pumping of crude oil.

During the first nine months of 1973, 21.1 million tons of crude were pumped through the Eilat-Ashkelon pipeline, compared with 18.1 million tons in the previous nine-month period. About 75 percent of the throughput was in transit (imports-for-exports), while the rest was destined for local consumption. The year reviewed saw the start of operation at the Ashdod refineries, which received a total of 1.2 million tons. The total quantity of

[21] This in itself should have improved the standard of service, since the maintenance of a proper standard requires a certain amount of capacity to be kept in reserve. International practice sets this at about 13 percent of total exchange capacity.

crude transported through the Eilat-Ashkelon pipeline in 1973 came to 23.8 million tons, compared with 25.8 million tons in the previous year.

The throughput of refined products expanded considerably during the first nine months of 1973—43.2 percent as contrasted with a 6 percent decline in 1972 (for all of 1973 the increase was 53.2 percent). All pipelines shared in the gain, including the new one running from Ashdod to the Gliloth Terminal (near Herzliya).[22]

The 2 percent increase in the pipeline industry's prices resulted from the raising of the tariff for natural gas piped by Magal Israel Gas Enterprises. Other prices remained unchanged in 1973.[23] From 1968 to 1973 the share of the pipeline industry in the gross national product originating in this sector went up from 3 percent to 8.3 percent (at 1968 prices).

4. International Transport Services

(a) *Shipping*[24]

The expansion of shipping output (defined as revenue at constant prices) accelerated during the first nine months of 1973, when the rate reached an estimated 14 percent. However, the measured change in output should be treated with caution because of the method of calculating the change in the industry's prices (freighter and fuel tanker rates, passenger fares, and charter hire), which is estimated at 5 percent for the first nine months of 1973).[25]

[22] The Ashdod-Jerusalem pipeline was put into operation in mid-1972.

[23] All pipeline tariffs were raised 50 percent in February 1974.

[24] This section surveys the operations of shipping companies registered in Israel (irrespective of the ownership of the vessels or the flag under which they sail) and subsidiaries registered abroad but which from the standpoint of ownership, control, and management may be regarded as Israeli companies. Excluded from this survey are the activities of Israeli entities not defined as shipping companies, such as the Citrus Marketing Board, which operates chartered vessels (30 during the 1972/73 citrus season), and others (such as Merico Shipping Ltd.), which are not covered by the statistics. As for Maritime Fruit Carriers, this survey covers only the operations of eight Israeli-flag refrigerated ships, while the data on fleet strength for 1973 and previous years have been adjusted for three of the company's tankers which are no longer defined as Israeli ships. The other vessels in the company's fleet (refrigerated ships and tankers) carry foreign flags, and because of the manner in which they are financed are not treated as Israeli-owned shipping.

[25] The change in shipping prices is a weighted average of the changes in freighter and fuel tanker rates, passenger fares, and charter hire. Regarding Zim, for lack of data on specific cargoes and their prices we have assumed a fixed cargo mix in its liner trade. Obviously if the cargo mix has altered, this would impart a bias in the per ton revenue figures, which are used here as an indicator of the company's prices. For this reason the index of shipping prices is probably understated and the estimated change in output in 1973 is overstated. In addition, the measurement of shipping output is very sensitive to contractual changes (for example, in chartering whether the shipper or the carrier pays for port services); therefore care should be taken in comparing changes in carrying capacity with those in output, productivity, and utilization rates.

Table XII-3

ISRAELI SHIPPING REVENUE AND ESTIMATED PRODUCT, 1970–73

(IL million)

	1970	1971	1972		1973		Percent annual increase or decrease (–)[a]			
									1973	
			Jan.-Sept.	Entire year	Jan.-Sept.	Entire year	1971	1972	Jan.-Sept.	Entire year
Cargo (incl. fuel)	586	759	731	1,010	922	1,227	29.5	33.1	26.1	21.4
Imports	277	330	281	384	331	513	19.1	16.6	18.0	33.5
Exports	87	99	97	119	98	123	13.6	20.3	1.3	3.5
Between foreign ports[b]	222	330	353	507	493	591	48.8	53.5	39.4	16.5
Passenger	10	13	13	16	15	15	22.8	30.0	12.0	–7.0
Charter hire	132	270	252	332	252	338	104.9	22.8	–0.3	2.0
Thereof: Between Israeli companies	68	125	141	184	130	179	83.2	47.0	–8.0	–2.5
Miscellaneous	6	6	15	20	24	36	–5.0	223.6	53.8	80.0
Total revenue	**734**	**1,048**	**1,012**	**1,378**	**1,213**	**1,617**	**42.7**	**31.5**	**19.8**	**17.3**
Estimated gross national product originating in shipping, at current prices	149	190	—	233	—	—	27.5	22.6	—	—

NOTE: Some of the data are estimates.
[a] Calculated from unrounded figures.
[b] Including crude oil in transit.
SOURCE: Central Bureau of Statistics.

Freight transport to Israel and operations between foreign ports were mainly responsible for the bigger output gain.

Shipping revenue between January and September 1973 added up to IL 1,213 million.[26] The share of gross national product originating in shipping (excluding income from charters between Israeli companies) has declined in recent years, and in 1972 it stood at 18.5 percent. This is undoubtedly connected directly with the stepping up of operations between foreign ports and indirectly with the growing proportion of Israeli vessels sailing under foreign flags (see Table XII-3).

The year reviewed saw a boom in world shipping. The upswing began in the second half of 1972, and was reflected by the soaring of tramp shipping tariffs (both voyage and time charters) by over 150 percent and an even sharper rise in tanker rates. This can be ascribed primarily to the more vigorous growth of international waterborne commerce in 1973, which moved ahead by an estimated 10–11 percent, compared with 6.6 and 4 percent in 1972 and 1971 respectively. Most of the extra demand was for tanker and bulk carrier shipping, and it was in these categories that the price increases took place. The global inflation and the exchange rate fluctuations also pushed up shipping charges as well as shipbuilding costs. The energy crisis, aggravated by the October war, led to the imposition of fuel surcharges by shipping companies. The liner trade largely escaped these stiff price hikes, the increases here being much more moderate.[27]

Fluctuations in world shipping prices are sharpest for vessels employed on short charters for transporting raw materials, which are subject to drastic changes in demand even in the short run. Most of the vessels in the liner trade carry general cargo and their rates are usually determined within the framework of shipping conferences. There is comparatively little switching of ships from one type of operation to another, and this is becoming even rarer with the expansion of specialized shipping.

The structure of Israeli shipping and the manner of operating the vessels prevent the industry from capitalizing in the short run on booms in world shipping, just as they cushion it against a slump. Zim engages primarily in the liner trade, while most of its chartered shipping is employed on a long-term basis.

At the beginning of 1973 Zim and the shipping conferences upped the tariffs on various lines by 10–12 percent, and during the year the conferences also imposed stiff congestion surcharges[28] and exchange rate equalization levies

[26] This represents gross revenue, including income from charters between Israeli companies.

[27] The German price index of liner cargo shipping shows an increase of 4.3 percent during the first nine months of 1973 as compared with the same period the year before and a 6.3 percent rise for the entire year.

[28] Container, roll-on roll-off ships, and passenger vessels carrying cargo were exempt from the surcharge.

of 4–6 percent (in March 1973). Tariffs were jacked up by another 6 percent in July 1973, and fuel surchages were imposed in November and December 1973. These price increases left their greatest impress on those routes where Zim enjoys an almost monopolistic status: average revenue per ton on the European and Mediterranean routes was up 30 and 39 percent respectively on an annual average, while on the other routes the figure rose only a notch or even declined.[29] It should be noted that tariff hikes are not immediately reflected in a general price increase because of the existence of long-term contracts.

The uptrend in the carrying capacity of Israeli-owned shipping slowed during the first nine months of 1973, when growth amounted to only 6.6 percent. For 1973 as a whole the figure was 10 percent, compared with more than 20 percent in 1972.[30]

The deceleration was especially striking in new tanker tonnage (a number of supertankers were acquired, but in the second half of the year). The expansion of cargo shipping capacity accelerated with the addition of two large ships to the Zim container service (four container ships had been purchased in 1972).[31] The operation of these vessels, which call on numerous ports in three continents, involves heavy commercial risks and a large capital expenditure. The contribution of these investments to value added in shipping and to the industry's future profitability cannot be determined at present (initially this line operated at a loss).[32] In 1973 Zim also operated a number of modern multi-purpose cargo ships (see Table XII–4 and Figure XII–2).

Along with its purchase of modern cargo ships, Zim sold a number of obsolete bottoms whose maintainance costs had gone up (especially after the rise in fuel prices). The completion of the process of renovating the Israeli merchant marine ran into opposition on the part of the seamen.

A number of older Israeli freighters were sold in the course of the year, and Zim and El Yam disposed of their last refrigerated ships, leaving those of Maritime Fruit Carriers (which are employed on long charters) the only ships of this type in the branch. It appears that aside from Zim and the tanker fleet, Israeli firms have ceased to invest in ships for carrying the country's waterborne trade.[33] The proportion of Israeli ships carrying foreign

29 As already noted, average revenue per ton is influenced by changes in the cargo mix.

30 Despite the more sluggish growth of carrying capacity in 1973, there was an accelerated increase toward the end of the year; this apparent inconsistency is explained by the timing of ship deliveries.

31 Some $ 60 million was invested in these container ships in 1972 and another $ 50 million in 1973, in addition to the outlays on shore facilities and the containers necessary for the operation of this line.

32 Because of technical difficulties on the ships, among other things.

33 The share of Israeli shipping in total import tonnage shrank from 72.5 percent in the first nine months of 1972 to 62.3 percent during the corresponding period in 1973, while its share in the export trade fell from 61.8 to 48.5 percent. The share of Israeli shipping

Table XII–4

ISRAEL'S MERCHANT FLEET, BY TYPE OF SHIP AND TONNAGE, 1969–73

Type of ship	Number of ships					Tonnage or passenger capacity ('000 deadweight tons or number of berths)					Percent annual increase or decrease (–) in carrying capacity[b]				
	1969	1970	1971	1972	1973	1969	1970[a]	1971	1972	1973	1969	1970	1971	1972	1973
Passenger	3	2	2	2	2	2,227	1,064	1,064	1,064	1,064					
Dry cargo	93	92	90	84	81	1,384.4	1,385.3	1,379.5	1,413.7	1,518.4	11.1	0.1	–0.4	1.4	7.0
General cargo	58	57	57	53	54	350.0	346.8	352.1	393.5	525.2	–6.9	–0.9	1.5	12.4	29.6
Refrigerated	13	13	11	11	8	101.2	101.2	89.7	89.7	77.7	–3.0	—	–2.3	–9.1	–6.4
Bulk carriers	22	22	22	20	19	933.2	937.3	937.7	930.5	915.5	22.7	0.4	—	–1.2	–0.9
Tankers[c]	14	13	23	24	26	770.1	743.5	1,774.2	1,926.4	2,473.5	18.6	77.1	96.3	38.8	12.1
Total cargo ships	**107**	**105**	**113**	**108**	**107**	**2,154.5**	**2,128.8**	**3,153.7**	**3,340.1**	**3,991.9**	**13.4**	**18.2**	**33.3**	**20.4**	**10.0**
Thereof:															
Under foreign flags															
Number	27	26	36	39	43	1,231.6	1,205.0	2,235.7	2,437.5	3,104.6					
Percent						57.2	56.6	70.9	73.0	77.8					

[a] Excluding one supertanker which was introduced into service in January 1970, withdrawn in April 1970, and put back into service in 1972; included in the 1970 data on carrying capacity.
[b] The carrying capacity of cargo ships is calculated as the product of the tonnage, speed, and percentage of the period during which the vessel was Israeli-owned.
[c] The data for 1971–72 have been revised owing to the exclusion from the fleet of three 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.

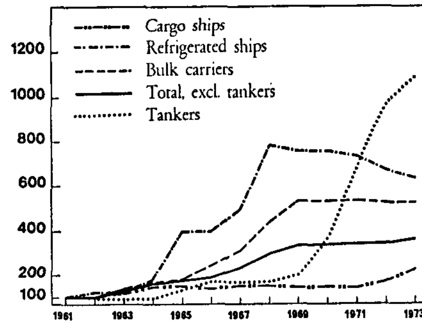
SOURCE: Based on data of the Central Bureau of Statistics and of the Shipping and Ports Division of the Ministry of Transport.

flags in the total capacity of the merchant fleet continued to rise in 1973, and stood at 77.8 percent by year's end,[34] when the total capacity of Israeli shipping (excluding passenger ships)[35] reached some 4 million tons.

Figure XII–2

INDEX OF THE CARRYING CAPACITY OF ISRAEL'S MERCHANT FLEET, 1961–72

(1961=100)



Source: Bank of Israel calculations.

Net investment in shipping in 1973 totalled $ 184 million at current prices ($ 156 million during the first nine months), compared with $ 22 million in 1972 ($ 13 million in the first nine months).

Total shipping revenue amounted to IL 1,617 million in the year reviewed. Prices went up by an estimated 8 percent on an average, and real output by 8.6 percent. The war could harm only the liner trade and income from the transport of crude oil, owing to the cancellation of sailings, the disruption of schedules, and long turnabout time; it could not affect income from charter hire, which is a function of the length of the charters and not the rate of ship utilization.

Operating costs rose sharply in 1973 (especially after the October war, when fuel become much dearer). Zim's net profit for 1973 came to an estimated IL 25.7 million, as against the IL 23 million shown on its books for 1972.[36] The company's balance sheet as of December 31, 1972 lists capital and reserves of IL 183.5 million, while long-term liabilities (less current maturities) amounted to IL 782 million.

(b) *Ports*

The real output growth of Israel's ports rose from 7.5 percent in 1972 to 11.7 percent during the first nine months of 1973.[37] This was mainly due to the increase in import cargoes (these accounted for more than 80 percent of total port revenue in the year 1972/73), though export cargo volume

in total import tonnage for the year reviewed was down from 62.7 percent in 1972 to 52 percent.

34 The economic significance of this is discussed in the 1972 *Annual Report,* p. 293.

35 At the beginning of 1974 the Ministerial Economic Committee approved the discontinuation of the Zim Passenger Lines.

36 Besides increased operating costs, the decline in profits was partly due to the fact that Zim had liabilities (to shipyards, especially for tankers) in German and Dutch currency, while its tanker charters were stated in dollars. Thus the floating of European currencies resulted in a capital loss to the company, which will probably be written off over the next few years.

37 See the notes on the method of calculation in Table XII–1.

Table XII-5
CARGO TRAFFIC THROUGH ISRAEL'S PORTS, 1972-73
(thousands of tons)

	Share in port revenue in 1972/73[a] (%)	1972		1973		Percent annual increase or decrease (-)		
		Jan.-Sept.	Entire year	Jan.-Sept.	Entire year	1972	1973 Jan.-Sept.[c]	1973 Entire year
Import cargo								
Grain (bulk)	9.8	1,070.6	1,447.1	1,244.3	1,795.6	-10.0	16.2	24.1
Minerals (bulk)[d]	1.9	232.0	358.3	346.5	424.2	76.4	49.4	18.4
Chemicals and edible oils (liquid)	0.6	107.9	140.1	117.0	153.0	1.4	8.5	9.2
General cargo	68.9	2,121.0	2,955.2	2,494.0	3,249.4	8.6	17.5	10.0
Thereof:								
Containers and trailers	4.1	125.9	214.2	395.3	538.8	—	214.0	151.5
Cement in bags	—	210.4	308.4	89.8	160.1	—	-57.4	48.1
Total import cargo	**81.2**	**3,532.4**	**4,900.7**	**4,201.8**	**5,622.2**	**4.9**	**19.0**	**14.7**
Export cargo								
Citrus	8.3	810.0	1,034.4	738.9	952.1	-4.1	-8.8	-8.0
Minerals (bulk)	3.6	1,130.2	1,498.3	1,196.6	1,393.5	2.0	5.9	-7.0
Thereof: Phosphates	—	485.9	641.8	471.8	552.3	—	2.9	-11.0
Potash	—	602.2	801.7	686.4	780.9	—	14.0	-2.6
Chemicals and edible oils (liquid)	—	25.8	35.5	35.6	35.6	100.0	38.0	0.1
General cargo, incl. bulk grain	6.9	659.8	905.0	792.9	974.4	13.3	20.2	7.7
Thereof: Containers and trailers	1.7	134.7	227.7	373.4	451.9	—	177.3	98.5
Total export cargo	**18.8**	**2,625.8**	**3,473.2**	**2,764.0**	**3,355.6**	**3.2**	**5.3**	**-3.4**
Total cargo volume	**100.0**	**6,158.2**	**8,373.9**	**6,965.8**	**8,977.8**	**4.2**	**13.1**	**7.2**

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

also went up at a somewhat faster rate during this period. Total port revenue amounted to IL 279 million in the first nine months of 1973 (IL 375 million for the entire year).

Approximately 7 million tons of cargo moved through the country's ports during the first three quarters of 1973—a gain of 13.1 percent, compared with 4.2 percent in 1972. The fastest increase was in import tonnage, with general cargoes, grain, and cement setting the pace (see Table XII–5).

Port service prices went up by an appreciable 21.6 percent during the first nine months of 1973 (24.9 percent for the entire year). In April most tariffs were hiked by over 13 percent and some by tens of percent. It should be noted that there is an upward price drift even in the absence of tariff changes, because wharfage fees are charged on an ad valorem basis.[38]

The war-time mobilization of workers and equipment, along with the partial shutdown of Eilat Port, depressed port output in the last quarter of 1973. A large proportion of the workers at Eilat and Ashdod ports were called up, though the percentage was smaller at Haifa (due to the age structure of the labor force). The acute truck shortage and the almost complete utilization of storage space on the eve of the war resulted in the clogging of the ports, and only the allocation of additional space outside the dock area and the preparation of additional improvised facilities forestalled a serious worsening of the situation. Despite these obstacles, real port output averaged 7.7 percent higher in 1973, about the same rate as in the previous year.

(c) *International aviation*

The growth of tourism continued to lose steam during the first nine months of 1973,[39] and the number of persons arriving by air was actually down 2.6 percent from the corresponding period in the previous year. As a result, the expansion of El Al's real output[40] continued to slacken. Most affected was the passenger branch, where output rose only 2.2 percent during the first nine months of 1973, compared with 19.3 percent in 1972. By contrast, cargo revenue began to accelerate even before the October war, rising 13.2 percent during the first nine months of 1973 as against 7.4 percent in 1972.

The 1972 rebounding of the world air transport industry from the slump of the previous two years was followed by another slowdown in 1973. Provisional data show that the scheduled carriers belonging to the ICAO registered a 9.9 percent increase in passenger traffic (in terms of passenger-km.), after having enjoyed a gain of more than 13 percent in 1972, while

[38] On October 23, 1973 storage charges were raised 50 percent in order to induce importers to clear their shipments out of the choked ports.

[39] See the discussion below.

[40] Measured as revenue at constant prices.

cargo traffic (measured in ton-km.) developed similarly—an expansion of 14.8 percent in 1973 following an 18 percent gain in the previous year.

When this report went to press there were no data available on the North Atlantic route, the most important route in the world. But according to provisional figures, the growth of traffic was slower than in 1972. This can be attributed to the economic situation in the United States and the decline of the dollar against European currencies until July, as well as the aggravation of the energy crisis toward the end of the year. The higher cost of fuel, which was first raised in mid–1973 and was jacked up even more steeply in October, as well as the increase in other service costs, resulted at the end of 1973 in strong pressure on the part of the airlines for another fare hike, after the prices on most routes had already been raised at the beginning of 1973. The airlines also attempted to utilize their flying equipment more efficiently by reducing the frequency of flights and by pooling agreements.

El Al was also affected by the situation in the world air transport market. But added to this was the dampening effect of the terrorist attacks on Israel's air communications, which continued sporadically until July 1973.[41]

The number of passengers carried on El Al's scheduled and special flights inched up only 1.2 percent to 597,900 during the first nine months of 1973, as compared with a 12.6 percent advance in 1972. The increase in the carrier's routes to and from Lod during this period came to only 3 percent, after having reached 14.6 percent in the previous year, while the increases on the transatlantic route were 1.4 and 5.1 percent respectively. In 1973 Europe's share of the passenger traffic to Israel continued to expand at the expense of North America. The decline in tourism from the United States sharpened competition between El Al and the foreign carriers for the European business. El Al's share in available seat-km. on routes to and from Lod remained more or less unchanged at 30.7 percent (according to provisional data) during the first nine months of 1973, despite the introduction into service of a third Boeing 747 (jumbo jet) at the end of April 1973. The explanation lies in the diversion of incremental capacity to freight transport and a precipitate drop in chartered flying equipment. El Al's share in passenger traffic to and from Lod during the first nine months of 1973 and the year as a whole came to 46 and 50.9 percent respectively, compared with an annual average of 45.2 percent in 1972.[42]

The airline's total available seat-km. (including chartered flying equipment) edged up 0.8 percent during the first nine months of 1973, with the increase being in line with growth of revenue passenger-km. during this period (0.9

[41] The downing of the Libyan airliner which had intruded into Israel's airspace over Sinai apparently also had a dampening effect on traffic to this country.

[42] The introduction of the additional Boeing 747, involving an investment of some $ 30 million, enabled El Al to reduce its costs per seat-km. flown, since unit operating costs are much lower for this plane than for the Boeing 707.

Table XII–6

OUTPUT AND UTILIZATION OF EL AL AIRCRAFT,[a] 1971–73

	Unit	1971	1972		1973		Percent annual increase or decrease (–)		
							1972	1973	
			Jan.-Sept.	Entire year	Jan.-Sept.	Entire year		Jan.-Sept.	Entire year
1. Available seat-km.	million	4,584	4,366	5,585	4,401	5,430	21.8	0.8	–2.8
2. Revenue passenger-km.	million	3,232	2,803	3,550	2,827	3,491	9.8	0.9	–1.7
3. Passenger load factor (2÷1)	%	70.5	64.2	63.6	64.2	64.3			
4. Available ton-km. (passenger and freight)	million	667	575	736	590	809	10.3	2.6	9.9
5. Revenue ton-km.	million	405	331	425	352	508	4.9	6.3	19.5
6. Ton-km. load factor (5÷4)	%	60.8	57.6	57.7	59.7	62.7			

[a] Own and chartered aircraft.
SOURCE: El Al Israel Airlines.

percent). Thus the passenger load factor was, at 64.2 percent, the same as in the first nine months of 1972. In this connection a distinction must be made between the company's passenger transport potential, which is a function of the total capacity of the planes and the total number of flying hours technically possible, and available ton-km. (see Table XII–6).[43]

During the first nine months of 1973 available ton-km. (passenger and freight) went up 2.6 percent. The gain in revenue ton-km. was 6.3 percent, so that the overall load factor (passenger and freight) rose from 57.6 percent during the first nine months of 1972 to 59.7 percent during the corresponding period in 1973.

From the outbreak of fighting until November 1973 El Al was the only company maintaining air communications between Israel and the outside world, even though a large percentage of its manpower and equipment was mobilized. The most striking feature was the big increase in freight revenue, especially during the final quarter, when the figure soared 250 percent above its fourth-quarter level the year before. This extraordinary gain pulled up the company's real output gain for the year to 16.1 percent, in comparison with 6.1 percent during the first nine months and 14.3 percent in 1972.

While the price index of El Al's total output rose only 3.6 percent during 1973, this was partly due to the method of calculating the changes in freight prices (including defense imports). In addition, the decline in the share of the United States in the traffic and the increase in that of the European routes, which yield a higher revenue per passenger-km., were treated in the index calculations as an increase in real output and not in prices.

Moreover, reduced excursion fares to Israel began to be sold in the United States in October 1973, and in April reduced fares were introduced for youths flying from the United States and Europe. The price index of El Al's passenger output moved up 5 percent in 1973, compared with 12.2 percent in 1972 (including the influence of the devaluation of the Israeli pound). The year reviewed saw several fare revisions, totalling 6–7 percent on an average.[44]

El Al's income for 1973 reached IL 699.9 million. The company's books show a net profit of about IL 600,000 for 1972/73. (Income and expenditure data for the year 1973/74 were not available when this Report went to press.) Equity capital and reserves came to IL 176 million on March 31, 1973, while

[43] Available ton-km. (as well as available seat-km.) is a function of the number of planes, their capacity, and the frequency and length of flights. The frequency and length of flights are largely determined by the airline's network of routes and its landing rights. In the face of ebbing demand it is, of course, possible to cut operating costs by only partially utilizing the company's flying equipment.

[44] Dollar fares went up in countries whose currencies were floated against the dollar, even when the fares remained unchanged in local currency. It follows that in these countries the rise exceeded 6 percent. It should be noted in this context that the floating of European currencies increased El Al's expenditures in Europe in dollar terms.

long-term liabilities (excluding current maturities) amounted to IL 282.1 million.

(d) *Airports*

The uptrend in the number of tourists flying to and from Israel sagged noticeably during the first nine months of 1973, when the increase was a mere 1.9 percent, as against 14.3 percent in 1972.[45] This depressed the real output[46] growth of the country's airports from 12 percent in 1972 to 4.9 percent during this period. The fourth-quarter drop in passenger traffic pulled the annual average advance down to only 3.2 percent.

Service charges rose by an average of 10.3 percent during the year, helping to bring airport revenues up to IL 51 million.

5. Tourism[47]

After sinking in 1972 to its long-run average growth rate, tourist traffic to Israel virtually tapered off during the first nine months of 1973 in comparison with the corresponding period the year before (see Figure XII–3). There were 579,100 arrivals, earning the economy $ 195 million in foreign currency —almost 23 percent more than in the first nine months of 1972.[48] This increase closely reflects the price rise of the various tourist services.

Tourism accounted for 20 percent of total service exports during the first nine months of 1973 and for 9.6 percent of total exports of goods and services. It should be noted, however, that the relative importance of tourism to the Israeli economy is greater than indicated by these figures, since its value-added component (in foreign currency) is much higher.[49]

The October war led to a 9.1 percent slump in the number of tourist arrivals in 1973 as a whole, in contrast to the 10.8 percent advance in 1972. Income from this source rose 8.7 percent to reach $ 230 million, after an 18.8 percent gain in the preceding year. According to provisional data, the expansion of world tourism sagged from 9 percent in 1972 to 5–6 percent. This was a result of the deceleration (and in some months even absolute decline) of traffic from the United States. The slowdown is generally attributed to the inflation and the economic uncertainty prevailing in the Western world in the year

[45] There was a 17.6 percent increase in freight movement through Lod airport during the first nine months of 1973.

[46] Measured as revenue at constant prices.

[47] This section surveys foreign but not domestic tourism.

[48] Including foreign currency conversions by tourists in Israel and by suppliers of goods and services to tourists. The figures also include the value of Independence and Development Bonds cashed in at Israeli banks to finance tourist outlays, but exclude fares paid to Israeli airlines and shipping companies.

[49] In previous years the value-added component was estimated at 80 percent.

reviewed. The decline of the dollar against European currencies made Europe more expensive for Americans, while other factors were the war in the Middle East, the upping of air passenger fares, and, to a lesser extent, internal developments in the United States.

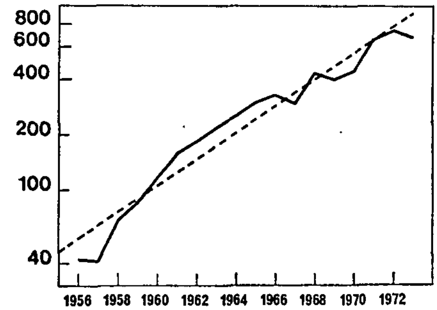
In general, these factors also had a negative effect on traffic to Israel, though the increased price of tourist sevices in this country was not due to any change in exchange rates (the IL is officially pegged to the dollar, so that the drop in the dollar also pulled down the IL against European currencies), but rather it was a result of the prevailing domestic inflation. Thus, while the number of travelers from North America was down 11.7 percent during the first nine months of the year (in contrast to a 7.7 percent increase in 1972), the number from Europe rose 4.9 percent (which, however, was less than in the previous year). It should be noted that the increased cost of a European trip for the American made a combined Israel-European tour dearer, and was likely to reduce either the number of persons coming to this country from the United States or their spending here. According to the Ministry of Tourism, the price of hotel services in Israel has gone up 20 percent since April 1973, while in the European tourist centers it has advanced to a similar extent in dollar terms. But in analyzing the changes in tourist traffic to this country it is difficult to separate the impact of purely economic factors (such as changes in relative prices) from that of political and security developments.

Deseasonalized data for 1973[50] show an increase in tourist movement to Israel in January and February and a downturn in the next two months. In May the level rebounded, but it fell again in June and July. In September it turned upward, apparently because of the sale of cheap package tours and

Figure XII–3

TOURIST ARRIVALS, 1956–73

(thousands)

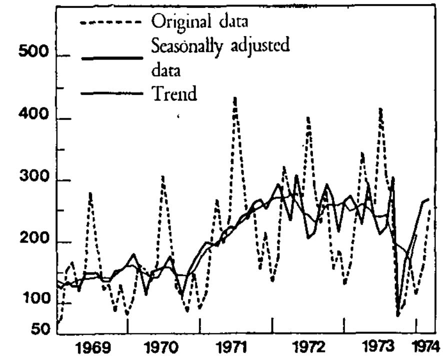


SOURCE: Central Bureau of Statistics.

Figure XII–4

INDEX OF MONTHLY TOURIST ARRIVALS, 1969–74

(1967=100)



SOURCE: Central Bureau of Statistics.

[50] The short-term trend, including irregular factors.

the holding of several international conventions in this country (see Figure XII–4).

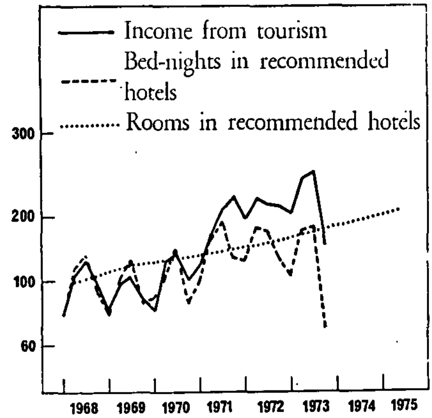
The number of arrivals in October, the month of the war, plummeted 75 percent below the seasonally adjusted figure for September. In November and December it picked up after the disengagement agreement went into force on the southern front, and the recovery lasted until February 1974. In March the seasonally adjusted figure apparently fell again.

In 1973 (both the first three quarters and the year as a whole) there was a drop in the number of persons flying to Israel and those coming overland; only in cruise travelers was an appreciable increase recorded. The latter stay for a very short time, but the amount they spend per day (excluding hotel bills) is relatively high.

Figure XII–5

INDEX OF TOURIST BED-NIGHTS, INCOME FROM TOURISM, AND ROOMS IN RECOMMENDED HOTELS, 1968–73 AND FORECAST FOR 1974–75

(1968=100)



[a] Average.
Semilogarithmic scale.
SOURCE: Central Bureau of Statistics and Ministry of Tourism.

The slump in tourism from North America and the rise (though slower than before) in that from Europe reduced the share of the former in total tourist traffic (excluding cruise travelers) during the first nine months of 1973 to 38.2 percent—even smaller than in the 1960s. The expansion of Europe's share was accounted for mainly by France and Germany. These changes probably indicate a decline in the percentage of Jewish tourists.

While the number of visitors (excluding cruise travelers) dropped 3 percent during the first nine months of 1973, the number of tourist nights in recommended hotels went down 4.7 percent. For four- and five-star hotels (the two highest categories) the downturn was even greater—5.2 percent. Since there was no change in the average stay during the first nine months of the year, it seems that a larger proportion of the tourists stayed in kibbutzim, youth hostels, and the like. This conclusion is strengthened by an analysis of the change in the age composition of the visitors in comparison with 1972: the share of youths rose while that of the higher age groups declined (see Table XII–7 and Figure XII–5).

The average number of rooms available for tourists in recommended hotels rose notably during the first nine months of 1973—by 11.9 percent as against 8.9 and 7 percent in 1972 and 1971 respectively. The increase was especially

Tabl

TOURIST TRADE: BED-NIGHTS

	1968	1969	1970	1971
Tourist arrivals	431,966	408,974	441,294	656,756
Thereof: Cruise travelers	27,692	23,996	22,213	39,195
Bed-nights in hotels recommended for tourists ('000)	3,400.4	3,214.1	3,431.6	4,842.5
Thereof: In 4–5-star hotels ('000)	1,854.6	1,784.6	1,904.6	2,644.3
Average length of stay of tourists (in days)				
Up to one month	13	13	13	14
Up to three months	17	18	19	19
Up to one year	22	25	25	24
Median stay[a]	15	16	16	16
Income in foreign currency				
Total ($ million)	96.0	85.8	103.9	178.3
Average per tourist ($)	222.0	214.5	235.4	271.5

[a] Since 1972 the data are calculated more precisely.

steep in hotels of the two highest categories—23 percent, with the level rising strongly even in the fourth quarter.

In this connection it should be noted that hundreds of rooms in lower-rated hotels were converted to other uses, such as immigrant absorption centers, which would not be practical in four- and five-star hotels (see Table XII–8).

The total number of rooms in recommended hotels came to 19,616 at the end of 1973[51] (9,756 in four- and five-star establishments). Investment in hotels amounted to IL 230–240 million in the first nine months of the year,

[51] Including hotels closed during their off-season. Of this number, 4,156 are in Jerusalem, 5,110 in Greater Tel Aviv, and 1,599 in Eilat. The increment forecast for 1974–76 is about 7,000 rooms, most of them in four- and five-star establishments.

XII–7

LENGTH OF STAY, AND INCOME, 1968–73

1972 Jan.-Sept.	1972 Entire year	1973 Jan.-Sept.	1973 Entire year	Percent annual increase or decrease (–) 1969	1970	1971	1972	1973 Jan.-Sept.	1973 Entire year
576,525	727,532	579,059	661,651	–5.5	7.9	48.8	10.8	0.4	–9.1
34,105	47;703	52,757	57,768	–13.3	–7.4	76.5	21.7	54.7	21.1
3,993.3	5,084.5	3,805.2	4,310.1	–5.5	6.8	41.1	5.0	–4.7	–15.2
2,185.4	**2,862.1**	2,071.8	2,387.6	–3.8	6.7	38.8	8.2	–5.2	–16.6
13	12	12	10						
18	17	18	16						
24	24	24	23						
14	13	13	13						
158.2	211.9	194.6	230.3	–10.6	21.1	71.6	18.8	23.0	8.7
274.4	291.3	336.1	348.1	–3.4	9.7	15.3	7.3	22.5	19.5

SOURCE: Central Bureau of Statistics and Ministry of Tourism.

while an additional IL 15 million was invested in other tourist services. The accelerated increase in the number of rooms, combined with the decline in the number of tourists and bed-nights, sharply depressed the occupancy rate, above all in hotels of the two highest categories. This prompted the Ministry of Tourism to stop approving the construction of hotels in Tel Aviv and Eilat, and since August 1973 it has not approved investments in new hotels of the two highest categories anywhere in Israel. This followed years of actively promoting such construction by means of cheap financing and various other concessions to investors.[52]

[52] See Bank of Israel, *Annual Report 1972,* p. 304.

Table XII-8

HOTEL ROOMS, OCCUPANCY, AND EMPLOYMENT, 1969–73[a]

	1969	1970	1971	1972		1973		Percent annual increase or decrease (–)				
								1970	1971	1972	1973	
				Jan.-Sept.	Entire year	Jan.-Sept.	Entire year				Jan.-Sept.	Entire year
Number of hotel rooms												
(annual average)	17,846	18,717	19,683	20,453	20,624	22,294	22,315	4.9	5.2	4.8	9.0	8.2
In hotels recommended for tourists	13,730	14,685	15,719	16,648	17,124	18,626	18,755	7.0	7.0	8.9	11.9	9.5
In hotels of the two highest ratings	4,958	5,419	6,020	6,799	7,071	8,171	8,700	9.3	11.1	17.5	20.2	23.0
Occupancy ratio in hotels recommended												
for tourists (local and foreign)	50.4	50.1	60.4	62.8	59.3	54.4	48.5	–0.6	20.6	–1.8	–13.4	–18.2
In hotels of the two highest ratings	59.1	57.7	70.7	—	66.5	—	50.0	–2.4	22.5	–5.9	—	–24.8
Number of employees in recommended												
hotels (annual average)	8,411	9,254	10,611	11,264	11,275	13,134	—	10.0	14.7	6.3	16.6	—

SOURCE: Central Bureau of Statistics.