

## CHAPTER XII

# TRANSPORTATION, COMMUNICATIONS, AND TOURISM

### 1. MAIN DEVELOPMENTS

OUTPUT<sup>1</sup> IN THE transportation and communications sector slowed appreciably in 1972: total revenue at current prices amounted to a little over IL 4,900 million, representing a real gain of 12 percent, compared with 18 percent the year before. The sector's product also expanded more sluggishly—12 percent as against more than 14 percent in 1971.<sup>2</sup> The milder decline in the product growth rate is explained by the fact that output decelerated most in branches where the product component of output is comparatively small. The sagging of output growth was due primarily to those factors which in 1971 had stimulated its acceleration: tourism to Israel and changes in the country's shipping output.

After a remarkable 49 percent upsurge of tourist traffic in 1971, the year reviewed saw a slackening of the advance (particularly in the second half), and the average gain for the year came to only 11 percent. As a result, the output growth of El Al and the airports was down by more than half, and the domestic transport branches catering to tourists were also affected.

In domestic passenger conveyance (apart from air services) output accelerated in 1971 in line with the growth of population, economic activity, income, and real private consumption; this was accompanied by a sharp 15.5 percent increase in the number of private cars, for the second consecutive year.<sup>3</sup> The rapid uptrend in car ownership over the past few years has important implications, entailing a heavy investment in the transportation infrastructure, especially in the large cities.

In shipping, output growth slipped from 29 percent in 1971 to 9-10 percent. Israel's oil tanker fleet, whose revenues derive from both freight haulage and charter hire, was mainly responsible for this development, as the expansion of tanker tonnage slowed from 40 percent in 1971 to 20 percent. It must be

<sup>1</sup> Total revenue at constant prices.

<sup>2</sup> Changes in product were calculated by weighting the changes in the output of the various branches of the sector by their shares in the 1968/69 product; for this purpose the input-output data for this year were adjusted.

<sup>3</sup> The degree of motorization, i.e. the number of private cars per thousand population, was 61.7 at the end of 1972, compared with 55.2 and 49.2 at the end of 1971 and 1970 respectively.

remembered, however, that the number of tankers was doubled in 1971 and capacity enlarged by 116 percent.

Domestic freight output (mostly trucking) increased at about the same rate as in 1971, but the pattern of growth changed somewhat. There was an accelerated rise in the haulage of mine and quarry products and construction materials, due to the more vigorous pace of construction activity, but in agricultural and some industrial products the growth rate drifted downward. The decline in noncivilian demand for transport services made it possible to meet the burgeoning demand of the other sectors of the economy despite the much slower expansion of the truck fleet.

Communications revenue—particularly from telephone services—moved up more rapidly in 1972. While telephone installations increased considerably this year following a decline in 1969–71, they still lagged behind current demand, which has been very brisk in the past few years owing to the growth of real income and economic activity. By the end of 1972 the backlog of outstanding applications reached almost 140,000.

The sector's prices averaged 13 percent higher in 1972, a figure similar to that for the economy as a whole. In land transport the rise was about 14 percent. In passenger conveyance most fares are controlled, and were it not for the heavier subsidization of the bus cooperatives in 1972, the increase would have been much greater.<sup>4</sup> In the trucking industry tariffs were not raised to the full extent officially authorized, and the estimated average rise over the year was 11 percent. International transport prices averaged 17 percent higher (including the effects of the 1971 devaluation of the Israeli pound); in civil aviation and airports the increase was 12 percent, and in shipping and ports—19 percent.

Employment in this sector (transportation, telecommunications, and storage) was up 4.1 percent, compared with 2.9 percent in 1971.<sup>5</sup>

Real gross fixed investment was down 13 percent to IL 1,461 million (at 1971 prices). This was the result of a 73 percent drop in ships and aircraft, which was partially offset by a 27 percent increase in other items (including roads). The sector's capital stock expanded by 9 percent, or by 10–11 percent if ships and aircraft are excluded.<sup>6</sup>

During the year 727,500 tourists visited Israel, and direct income from this source amounted to \$ 213 million—up 19.3 percent from 1971. Tourism accounted for 20 percent of Israel's total service exports.

<sup>4</sup> Passenger fares were raised in October 1971 and November 1972.

<sup>5</sup> 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 high sampling error. National Insurance Institute data on the number of employee posts show increases of 2.6 percent in 1972 and 6.4 percent in 1971.

<sup>6</sup> See also the discussion and tables in Chapter V.

## 2. DOMESTIC TRANSPORT

### (a) *Road haulage*<sup>7</sup>

Trucking, which accounts for the bulk of the output in inland transport, posted a 9–10 percent gain in 1972, compared with 8–9 percent the year before.<sup>8</sup> After advancing by an average of 10 percent a year during the period 1969–72 (similar to the expansion of GNP), its share in total inland transport revenue reached 58 percent in 1972. Changes in noncivilian demand and in that of the construction sector were responsible for most of the annual fluctuations during this period.

In 1972 revenue from industrial freight, which accounts for over 70 percent of total ton-kilometers in this subbranch, was up 10 percent in real terms, as against 7 percent the year before.<sup>9</sup>

The fastest increase was recorded in mine and quarry products,<sup>10</sup> including such building inputs as quarried sand. The intensification of construction activity in 1972 led to a greater transport of other industrial commodities, such as cement, cement products, iron pipes, etc. However, incomplete data indicate that the slackening of noncivilian demand for certain products and the stronger civilian demand for these items was accompanied by a considerable shortening of the average distance of the hauls. Consequently, in spite of the much larger volume of freight handled in some of the branches, there was a steep drop in kilometrage, thus offsetting (at least partly) what would otherwise have been a sharp rise in total ton-kilometers.<sup>11</sup>

The uptrend in agricultural produce and agricultural inputs slowed noticeably in 1972—an increase of 5 percent as against 12 percent in 1971. This was mainly due to a fall in citrus shipments, following a strong gain in the previous year. As a result, the growth of agricultural freight, which accounts for some 15 percent of total ton-km. in the trucking industry, declined from 11 percent in 1971 to 8–9 percent in the year reviewed.

<sup>7</sup> Since developments in this subbranch are estimated on the basis of indicators and not direct measurements, all trucks are included, even those owned by enterprises and agricultural settlements. This definition differs from that used in the national accounts. Real output is defined as revenue at constant prices.

<sup>8</sup> According to the Central Bureau of Statistics Survey of Trucks for 1970/71. The data from this source, together with industrial production, agricultural marketing, and other indexes, serve as an indicator for estimating real trucking output. Use has also been made of the preliminary results of a CBS sample of trucks operating in 1972. The data from both sources are subject to sampling errors, which have not yet been measured; the output and revenue data should therefore be treated with caution.

<sup>9</sup> This estimate takes into account ton-km. and the effect of the shortening of the average distance of the hauls, especially for the construction sector.

<sup>10</sup> Mine and quarry products account for more than one-quarter of total freight (in terms of ton-kilometers).

<sup>11</sup> For this reason, in estimating the changes in output we have assumed that in certain freights the setoff was complete, so that despite the increase tonnage carried, ton-kilometers remained constant.

Table XII-1  
**CHANGES IN REAL OUTPUT AND PRICES OF THE TRANSPORTATION  
 AND COMMUNICATIONS SECTOR, BY BRANCH, 1969-72**  
 (percentages)

	Share in total revenue in 1971	Annual increase or decrease (-)							
		Output				Prices			
		1969 <sup>a</sup>	1970 <sup>a</sup>	1971 <sup>a</sup>	1972 <sup>b</sup>	1969 <sup>a</sup>	1970 <sup>a</sup>	1971 <sup>a</sup>	1972 <sup>b</sup>
<b>Domestic services</b>	55.2	14.3	13.5	11.2	12.8	1.1	0.8	11.3	10.0
Land transport	36.5	8.6	8.9	8.3	8.6	1.2	4.6	12.5	13.8
Buses and subway	10.2	6.7	2.6	10.7	8.2	—	5.5	15.7	19.0
Taxis	4.0	4.5	5.0	4.0	5.0	—	4.4	15.2	17.4
Trucks <sup>c</sup>	21.3	10.6	12.9	8.9	9.8	2.0	4.0	10.0	11.0
Railway	1.0	4.4	7.5	-1.1	-0.3	1.4	9.0	14.8	5.3
Other	18.7	28.2	23.1	17.3	20.9	0.9	-6.1	8.9	3.3
Oil and gas pipelines <sup>d</sup>	1.9	4.2	105.7	54.6	43.0	9.8	-55.2	6.4	6.9
Domestic air services	0.7	48.3	7.1	17.7	2.6	1.1	8.9	10.0	18.0
Posts and telecommunications	16.1	30.6	14.2	14.0	19.1	—	3.5	9.2	2.3
<b>International services</b>	44.8	6.5	13.5	26.5	10.1	4.5	3.9	8.9	16.7
Shipping and ports	32.8	6.5	12.8	25.0	8.8	6.6	6.9	5.9	18.6
Shipping <sup>e</sup>	26.8	4.7	13.4	29.1	9.4	7.6	9.0	10.5	20.2
Ports <sup>f</sup>	6.0	12.7	10.8	10.0	6.2	3.3	-0.1	5.4	11.3
Civil aviation and airports	12.0	6.4	15.4	30.8	13.5	-0.7	-3.7	7.4	11.7
International aviation	11.0	6.1	15.0	30.5	14.7	-0.7	-4.2	6.9	10.6
Airports	1.0	11.0	20.9	39.3	12.0	—	3.3	13.2	28.4
Total output at market prices	100.0	11.0	13.5	17.7	11.6	2.5	2.1	10.2	13.0

<sup>a</sup> Revised data.

<sup>b</sup> Estimate.

<sup>c</sup> In estimating the output for 1972 the weights obtained from the Central Bureau of Statistics Truck Survey were used. For previous years the weights were based on the 1970/71 Survey.

<sup>d</sup> The data for 1969-71 presented in this table differ from those given in last year's Report owing to the use of a new, direct method of calculating the price index. The real output index was derived from the revenue and price indexes.

<sup>e</sup> Revenue data include chartering by one Israeli company to another.

<sup>f</sup> The price index for 1969-70 was calculated by the Central Bureau of Statistics, while for 1971-72 it was derived from the changes in revenue and the estimated changes in real output.

As regards supply, 1972 saw a continuation of the decelerated expansion of the truck fleet, overall growth amounting to 9.2 percent compared with 10.3 percent in 1971 and 14.7 percent in 1970. The same was true of carrying capacity,<sup>12</sup> which rose 4 percent as against 7.7 and 17.4 percent in 1971 and 1970 respectively. At the end of 1972 there were 79,500 trucks, of which 14,900 had an authorized load capacity of over 2.5 tons. It should be noted, however, that the authorized tonnage is not a true indication of actual carrying capacity, owing to the widespread practice of overloading.<sup>13</sup> Something about the connection between the changes in the carrying capacity and the output of the trucking industry can be learned from the fluctuations in freight rates. It seems that in the past two years there was excess capacity, due to the sizable expansion of the fleet in earlier years on the one hand and the decline in non-civilian demand on the other.

Road haulage output prices were up by an estimated 11 percent in 1972. The authorized tariff hikes in September 1971 (18 percent) and November 1972 (15 percent) were not fully implemented because of the supply situation, the existence of seasonal contracts, and other factors connected with the structure of this subbranch (discussed in previous *Annual Reports*). The main reason, however, undoubtedly lay in the shrinking requirements of the defense establishment, which caused many carriers to bid on tenders in the civilian market. In highly competitive areas, such as earthmoving in connection with road construction, prices even dipped.<sup>14</sup>

Operating costs rose steeply, as in 1971. Fuel again went up by over 30 percent, while spare parts, repair service, wages, and insurance also showed appreciable increases.

(b) *Buses*<sup>15</sup>

Real output of the bus companies slowed in 1972, after a strong gain the

<sup>12</sup> In terms of authorized tonnage.

<sup>13</sup> Heavy overloading is most common with quarry and mine products, cement, and agricultural produce. This practice shortens the life of the vehicles, has harmful environmental effects, diminishes road safety, and causes greater wear and tear on the roads. It is Government policy to reduce the permitted rate of overloading, but because of the difficulty of enforcing the regulations, overloading in excess of the permitted limits continues unabated. Any change in the situation would lead to an increase in transport costs and a heavier investment in vehicles.

<sup>14</sup> The amendment to the Commodities and Services (Control) Law covers haulage in trucks with an authorized load capacity of over 10 tons. In practice, it also applies to carriers organized in the Truck Owners' Association, who are interested in the continuation of control under existing market conditions so that they can take advantage of the hiking of the tariff for such customers as the Government, National Institutions, etc.

<sup>15</sup> 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 and miscellaneous services, which rose 6.5 percent in 1972.

year before, the increase being 8.2 percent compared with 10.7 percent in 1971 and 2.6 percent in 1970. Total revenue for the year at current prices amounted to IL 513 million.

The slowdown was due to the much more sluggish expansion of tourism, which resulted in revenue from special trips and excursions (which cater largely to tourists) advancing only 19 percent, as contrasted with 47 percent in 1971. The deceleration was most marked in the third and fourth quarters of the year (compared with the corresponding periods in 1971).

Output on the regular routes, on the other hand, accelerated for the second year in succession: the gain amounted to 5.5 percent on an annual average, as against 3.6 and 1.9 percent in 1971 and 1970 respectively; according to partial data, in the course of 1972 the level moved up 7–8 percent. Changes in output are a function of changes in real income and private expenditure as well as the growth and geographical dispersion of the population on the one hand, and changes in the number of private cars and the use of alternative modes of transport on the other.

On balance, these factors apparently had a stimulative effect on output during the past two years. It should be noted that since the end of 1971 workers from the administered areas employed in Israel have been commuting by regular bus routes, and this undoubtedly contributed to the bigger gain.

The expansion of the bus fleet continued to slow in 1972, with a monthly increase of 4.3 percent as against 9.7 percent in 1971. The average number of persons employed kept pace with the expansion of the bus fleet, rising 4 percent. Output per employee and per bus grew in 1972, thanks *inter alia* to an increase in the commercial speed of the buses (except in the Tel Aviv area).

Production costs were much higher in 1972, following a 21.8 percent increase in input prices, which came on top of an 18.9 percent rise in 1971.<sup>16</sup>

Bus fares were hiked in November 1972,<sup>17</sup> after being raised in October 1971. As a result of this second revision, the price of bus services rose 19 percent on an annual average (15.7 percent in 1971). On regular routes the increase was 19.3 percent (16.5 percent in 1971); for special trips and excursions—17.5 percent (11 percent in 1971); and for other services, including parcel deliveries, it was 16.5 percent (13.8 percent in 1971).

The bus companies received IL 68.8 million in subsidies for the period September 1971–August 1972 (compared with IL 49.5 million in the corresponding period in 1970/71). Of this sum, IL 24 million represented the current subsidy, while the balance was in lieu of a further fare hike and com-

<sup>16</sup> Labor costs (the reference is to hired workers only) were up 24.3 percent, fuel and oil 30.7 percent, and new vehicles 32.3 percent. The average increase in the prices of materials and services was 20.2 percent.

<sup>17</sup> Bus fares on regular routes were upped by 14 percent. The agreement with the companies was based on the recommendations of a special committee set up to study the companies' input basket and increased costs.

compensation for the increase in costs between the two fare revisions. When the last fare revision was authorized in November 1972, the Government also agreed to increase the current subsidy in lieu of an additional 4 percent fare hike.

(c) *Taxis*<sup>18</sup>

Output in this subbranch (special, urban, and interurban services) rose by an estimated 5 percent in 1972. With the addition of some 200 vehicles between the end of 1971 and the end of 1972, the taxi fleet expanded by 6.4 percent<sup>19</sup> to total more than 3,700. Most of the new taxis are employed in urban and special services, where revenue per kilometer is comparatively high and demand is expanding, while only a small proportion is operating on interurban routes. The slackening of tourism, particularly in the summer months, apparently precluded a bigger output gain.

In October 1972 the regulations on the issuance of taxi-operator licenses were modified, with the number of years of experience and continuity of work required of the applicants being reduced. Given the prevailing strong demand for such licenses, these revisions have not materially altered the fact that the expansion of this subbranch is mainly determined by past changes in the manpower structure and is less sensitive to changes in the demand for taxi services. As the regulations stand today, the Government is limited in implementing its declared policy of regulating the subbranch in accordance with profitability considerations. While in the short run the expansion of the subbranch depends on the pace at which the public committee responsible for issuing licenses does its work and on the existing manpower structure, in the long run a larger number of new drivers will probably be admitted. Although the price of a taxi license traded in the free market declined at the end of 1972, it is difficult to say whether this was due to the increased availability of such licenses during the year, combined with the expectations of a further increase, or whether it was the outcome of a drop in profitability due to the steep rise in operating costs in 1971-72.

Taxi fares were raised in the last two years, along with bus fares, and the average increase for all services in 1972 was 17.4 percent. These changes in operations and fares brought total taxi revenue up to an estimated IL 190 million.

(d) *Rail transport*

The output of Israel Railways<sup>20</sup> declined fractionally in 1972, after inching down by slightly more than one percent in 1971. There was a faster gain in the

<sup>18</sup> Excluding those of tour operators and self-drive rented cars.

<sup>19</sup> No data were available on the annual average change in the size of the fleet. In previous years the rise in December levels was as follows: 1971—2.4 percent; 1970—6.6 percent; and 1969—13.3 percent.

<sup>20</sup> Revenue at constant prices.

passenger branch—5.3 percent as against 1.5 percent in both 1970 and 1971; this advance was similar to that achieved on regular bus routes. However, the growth of passenger business (which accounts for 25–30 percent of the railway's total revenue) failed to offset the 3.2 percent slump in freight transport, which came on top of a 4.3 percent drop in 1971.

Freight ton-kilometers fell by a more mild 1.8 percent in 1972. There was a sharp decline in grain haulage, due to bumper local yields and the consequent reduction of imports. Lower figures were also posted in cement (due to the marketing arrangements for imports of this item), refined petroleum products (partly because of the inauguration of the Jerusalem pipeline), and potash for the overseas market. On the other hand, increases were recorded in phosphates, iron and pipes, crude oil, and heavy fuel.

The price of railway services rose by an annual average of 5.3 percent (19.1 percent in passenger fares).<sup>21</sup> The growth of railway revenue<sup>22</sup> sagged even more noticeably in 1972, when the gain came to a mere 2 percent, while operating expenses were up 13.4 percent (compared with 25.3 percent in 1971).<sup>23</sup>

### 3. DOMESTIC AVIATION, POSTAL SERVICES, AND OIL PIPELINES

#### (a) *Domestic air services*<sup>24</sup>

Following the appreciable 18 percent expansion of Arkia Airways' output<sup>25</sup> in 1971, growth slowed to a mere 3 percent in the year reviewed. This is mainly attributable to the laggard gain in tourism and the shrinking demand of the defense establishment, while the closing of the Jerusalem airport to traffic during the year was another contributory factor. The number of passengers carried on the company's scheduled flights was about 352,000—2 percent fewer than in 1971. This decline, particularly insofar as Israelis are concerned, was also due to the hiking of fares in the past two years and to the growing competition of the small airlines. Available seat-km. (excluding charter flights) increased by

<sup>21</sup> Passenger fares were raised by 20 percent in December 1971 and by a further 18 percent in November 1972, while freight charges were upped by 10 percent in September 1971 and 15 percent in December 1972.

<sup>22</sup> 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. Freight revenues in 1972 came to IL 23.7 million, while passenger revenues totalled IL 11.2 million.

<sup>23</sup> Total expenses (including depreciation and interest) came to IL 63.3 million, the operating deficit widened from IL 9.5 million in 1971 to IL 15.1 million, while the overall deficit went up 32 percent to IL 24.5 million.

<sup>24</sup> In the absence of other information, this survey covers Arkia Airways only.

<sup>25</sup> Revenue at constant prices.

16.3 percent during the year,<sup>26</sup> but contrary to the company's expectations, revenue passenger-km. dropped 1.7 percent, depressing the passenger-load factor from 68.3 percent in 1971 to 57.8 percent—the second successive annual decline.

Arkia's tariffs were raised by over 18 percent in 1972; this came on top of a 10 percent increase in 1971. Passenger fares (excluding nongovernmental charter flights) were raised by an average of 21.5 percent in September 1972.<sup>27</sup> The company's annual report shows total revenue (from aviation and other services) of IL 32.8 million for the year, and whereas in 1971 it had a loss of IL 0.8 million, in the year reviewed it broke even.<sup>28</sup>

(b) *Posts and telecommunications*

Revenue from communications<sup>29</sup> was, at IL 766.3 million, up 21.8 percent, compared with 24.4 percent in 1971; in constant prices, the gain was faster in the year reviewed—19.1 as against 14 percent. Prices of postal services increased in 1972 by only 2.3 percent, compared with 9.2 percent in 1971.

**Table XII-2**  
**REVENUE FROM POSTAL AND COMMUNICATION SERVICES, 1969-72<sup>a</sup>**  
(IL million)

	1970	1971	1972	Percent annual increase or decrease (-)		
				1970	1971	1972
Telephone services	344.0	437.8	539.9	19.5	27.3	23.3
Installation fees	20.4	22.0	29.4	-13.2	7.8	33.6
Operating revenues	323.6	415.8	510.5	22.4	28.5	22.8
Other postal services <sup>b</sup>	101.6	125.2	148.5	12.1	23.2	18.6
Service charges	59.9	66.0	77.9	21.7	10.2	18.0
Total	505.5	629.0	766.3	18.2	24.4	21.8

<sup>a</sup> Excluding income of the Post Office Bank; including collection of the defense stamp duty on postal and telephone services. Data for 1970-71 have been revised according to Central Bureau of Statistics figures.

<sup>b</sup> Postal, philatelic, and telegraph services.

SOURCE: Central Bureau of Statistics.

<sup>26</sup> Arkia's fleet comprised five Heralds and four Viscounts (of which only three operated throughout the year).

<sup>27</sup> The Government signed an agreement with Arkia in 1972 in which it approved the company's input basket, provided for the periodical revision of the company's tariffs, and spelled out a tariff formula for compensating the airline for an increase in input prices.

<sup>28</sup> At the end of 1972 Arkia purchased a half-interest in Kannaf Ltd., which owns several small planes. The Kannaf-Arkia fleet will operate routes not covered by Arkia or those not worth developing because of light traffic. Although the two companies will operate independently, the merger has greatly reduced the competition faced by Arkia.

<sup>29</sup> Excluding Post Office Bank income and including the defense stamp levy on postal and telephone services (see Table XII-2).

Income from telephone services, which accounted for 70 percent of total revenue in 1972, moved up more sluggishly than in the previous year—23.3 as against 27.3 percent; however, after adjusting for the higher prices, the uptrend accelerated from 18 percent to 22.8 percent.<sup>30</sup> Both installation fees and service charges contributed to the faster rise. The steepest jump was in installation fees, the result of a 14 percent increase in the number of new telephones installed in 1972, after three years of downward drift (this brought it up to the 1968 level). The real output of telephone services in 1972 far outpaced the increase in real private consumption, owing *inter alia* to the decline in the relative price of these services. It should be noted, however, that in telephone services the price effect is smaller than the income effect. Since telephones are in short supply, output could undoubtedly be greatly boosted if the rate of new installations were to match the demand. In 1972 applications for new telephones were up 21 percent, as against 26 percent in 1971 (see Table XII-3).<sup>31</sup>

In other postal services the growth of real output (but not nominal revenue) accelerated slightly in 1972 to reach 9.8 percent.

Given the rise in the general price level during the past two years, the telephone became relatively cheaper (including current service charges) both for the private subscriber and for firms bearing the full cost on his behalf. In this context it should be noted that the Ministry of Communications grants discounts to various groups of subscribers, and it is common practice for employers to pay part of their employees' telephone bill (this doubtless contributed to the stronger demand for telephones during the past two years).<sup>32</sup> According to the Ministry's estimates, only one-quarter to one-third of all telephones belong exclusively to private subscribers, while the remainder are owned by the public sector, businesses, and mixed business and private subscribers.

In 1972 the Ministry apparently planned to install more than the 48,600 telephones actually installed during the year, but work disputes and the growing volume of telephone removals precluded this. There also seemed to be a tendency on the part of the Ministry to install new telephones in places where it was comparatively easy. During the year the shortage of labor required for maintaining and expanding the telephone network became more acute, and the Ministry's efforts to transfer this work to outside contractors met with opposition from the employees. The combination of the larger volume of net installations, limited labor supply, and labor unrest led to a deterioration in the standard of service. This expressed itself in delays in carrying out repairs and

<sup>30</sup> In telecommunication services (telephone and telegrams), there was a surplus in 1971/72 of IL 110 million in operating income over operating expenses, including interest and royalties.

<sup>31</sup> Undue importance should not be attached to the difference between these growth rates, since there is some duplication in the data on current telephone applications and the number of outstanding applications, and the records on cancellations are not completely accurate.

<sup>32</sup> In 1971 and 1972 the public also expected installation fees to be raised.

**Table XII-3**  
**DEMAND FOR TELEPHONES AND NUMBER INSTALLED, 1967-72**  
 (thousands)

End of period	Direct subscriber lines connected <sup>a</sup>	No. of installations	No. of applications	Applications outstanding <sup>b</sup>	Percent annual increase or decrease (-)		
					Installations	Applications	Applications outstanding
1967 <sup>c</sup>	233.1	34.6	28.4	41.9	-6	8	. .
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 <sup>d</sup>	42.8	77.9	87.3 <sup>d</sup>	-2	26	35
1972	444.1	48.6	94.2	139.9	14	21	60

<sup>a</sup> 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.

<sup>b</sup> 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 owing to the lack of data. The Ministry of Communications estimates the number of cancellations at 16-20 percent of the annual number of applications.

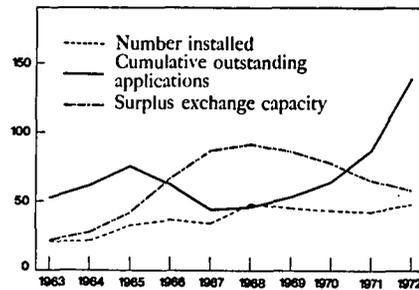
<sup>c</sup> The data include East Jerusalem since June 1967 but exclude the administered areas.

<sup>d</sup> Revised data.

SOURCE: Based on Ministry of Communications data.

removals and in the greater difficulties experienced by subscribers in obtaining their connections, particularly in inter-urban calls. The backlog of telephone applications<sup>33</sup> reached almost 140,000 at the end of 1972—60 percent more than at the end of the previous year. The stepped-up tempo of new installations during the year, together with the failure to expand the telephone infrastructure proportionately, depressed available exchange capacity to below the internationally accepted standard—11.7 percent (compared with 14.1 percent at the end of 1971—see Figure III-1).<sup>34</sup>

**Figure XII-1**  
**NUMBER OF TELEPHONES INSTALLED, OUTSTANDING APPLICATIONS, AND SURPLUS EXCHANGE CAPACITY, 1963-72**  
 (in thousands)



SOURCE: Ministry of Communications.

<sup>33</sup> For a precise definition see note<sup>b</sup> to Table XII-3.

<sup>34</sup> In order to maintain a proper standard of service, a certain amount of capacity must be kept in reserve. International practice sets this at approximately 13 percent of total exchange capacity.

On an annual average, postal service tariffs were up 4.4 percent and telegrams by 14.9 percent; the overall rise in communication prices was 2.3 percent.<sup>35</sup>

(c) *Pipelines*

Output of the pipeline transportation industry continued to expand rapidly in 1972, when a real gain of 43 percent was posted; this followed a strong upswing of 106 and 55 percent respectively in 1970 and 1971, the first two years of operation of the Eilat-Ashkelon pipeline. The 1972 advance reflected a 42 percent increase in the throughput of all types of crude oil to the various destinations. The total quantity pumped was 25.8 million tons, of which 19.5 million tons were in transit (imports-for-exports) through the Eilat-Ashkelon pipeline—more than 60 percent over the 1971 level. Throughput to the Haifa Refineries destined for local consumption rose to a lesser extent—by 17 percent. It should be noted here that the capacity of the Eilat-Ashkelon pipeline is scheduled to be enlarged in 1973 from its present 24 million tons to 40–45 million tons, with the expansion of the tank farm, the Ashkelon jetty, and pumping facilities, together with the increased utilization of existing jetties.

The throughput of refined products was down 9 percent in 1972, with all

**Table XII-4**  
**ISRAELI SHIPPING REVENUE, 1970-72**  
(IL million)

	1970 <sup>a</sup>	1971 <sup>a</sup>	1972 <sup>b</sup>	Percent annual increase or decrease (-) <sup>c</sup>		
				1970	1971	1972
Cargo (incl. fuel)	586	759	1,010	32.0	29.5	33.1
Imports	277	330	384	29.1	19.1	16.6
Exports	87	99	119	16.9	13.6	20.3
Between foreign ports	222	330	507	43.2	48.8	53.5
Passenger	10	13	16	-55.0	22.8	29.9
Charter hire	132	270	332	11.0	104.9	22.8
Thereof: Between						
Israeli companies	68	125	184	21.7	83.2	47.0
Miscellaneous	6	6	20	-25.7	-5.0	223.6
<b>Total revenue</b>	<b>734</b>	<b>1,048</b>	<b>1,378</b>	<b>23.6</b>	<b>42.7</b>	<b>31.5</b>

<sup>a</sup> Revised data.

<sup>b</sup> Estimate.

<sup>c</sup> Calculated from unrounded figures.

SOURCE: Central Bureau of Statistics.

<sup>35</sup> In 1972 Israel's satellite earth station was inaugurated. Equipped with an antenna 90 feet in diameter and with an initial capacity of 200 channels, it will help to improve and expand the country's international telecommunication and television service. IL 40 million was spent on the construction of the station, while investment in the equipment and network required to integrate the station into the national communications network is estimated at another IL 40 million.

of the decrease being confined to the Haifa-Ashdod line;<sup>36</sup> the throughput of natural gas also declined.

The pipeline industry's prices rose by an average of 7 percent in 1972, compared with 6 percent in the previous year. The increase in 1971-72 was the result not of tariff changes but of the devaluation of the Israeli pound in 1971 and changes in the product mix. Total revenue at current prices came to an estimated IL 115 million in 1972.

#### 4. INTERNATIONAL TRANSPORT SERVICES

##### (a) *Shipping*<sup>37</sup>

The uptrend in shipping output<sup>38</sup> sagged noticeably in 1972 when the gain amounted to only 9.4 percent, compared with 29 percent the year before. The raising of freight rates by over 20 percent (including the influence of the 1971 devaluation of the Israeli pound) helped to boost shipping revenues by 32 percent (compared with 43 percent in 1971) to a total of IL 1,380 million<sup>39</sup> (see Table XII-4). The more sluggish real growth was mainly due to the halving of the increase in the fleet's carrying capacity—20.3 percent as against 40.1 percent in 1971.

The deceleration was most pronounced in tanker tonnage—from 116.3 percent in 1971 to 37 percent in the year reviewed. This in turn explains the slower growth of the Israeli tanker fleet's output and income from charter hire (see Table XII-5 and Figure XII-2).

The slump in world shipping which marked 1971 deepened in the first half

<sup>36</sup> The Ashdod-Jerusalem pipeline was inaugurated in 1972 with an initial capacity of 100,000 tons a year, to be expanded eventually to 300,000 tons.

<sup>37</sup> 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 (35 in 1972). As for Maritime Fruit Carriers, this survey covers only the operations of eight Israeli-flag refrigerated ships, while the data on fleet strength include three of the company's tankers. 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.

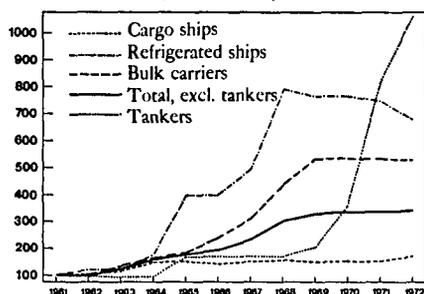
<sup>38</sup> Revenue at constant prices. Since the revenue figures have been adjusted for the estimated change in prices, and owing to the method of calculating price changes, these figures should be accepted with caution. The measurement of shipping output is very sensitive to contractual changes (for example, in chartering whether the shipper or the carrier pays for port services), and therefore care should be exercised in comparing changes in carrying capacity with those in output, productivity, and utilization rates.

<sup>39</sup> This represents gross revenue, including income from charters between Israeli companies; hence the discrepancy between these data and the balance of payments figures.

Figure XII-2

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

(1961=100)



SOURCE: Bank of Israel calculations.

of 1972, as reflected by the slashing of shipping rates and the growing number and tonnage of vessels laid up (mostly small and obsolete conventional vessels). In the second half of the year activity began to pick up, and the uptrend gathered momentum in the final quarter. There were several reasons for the recovery of world shipping in 1972: the physical expansion of waterborne international commerce was, at 8 percent, double the 1971 figure;<sup>40</sup> there was a greater demand for bulk carriers to transport U.S.S.R. purchases of grain from the U.S.A., Canada, and Australia;

and the American fuel shortage and the resulting expansion of imports, along with the heavier fuel consumption in Western Europe and Japan as compared with the previous year, sparked the revival of the fuel transport market—this was strengthened by the cutting back of oil production in Venezuela, Libya, and Iraq (following the nationalization of IPC's installations in June 1972) and the subsequent switch to other, more remote, sources of supply.

However, these developments, like the 1971 slump, had only a limited effect on Israeli shipping. Zim, which engages primarily in the liner trade within the framework of shipping conferences, raised its tariffs steeply (particularly at the beginning of 1972) without any connection with the above-mentioned boom.<sup>41</sup> The tariff increase (in dollar terms) on Zim's lines ranged, like those of the other conference members, from 7.5 percent on the Mediterranean routes to 15 percent on the American routes.<sup>42</sup> In addition to these increases, the conferences several times imposed stiff congestion surcharges and exchange equalization levies. As against this, however, on certain routes the fuel and war risk surcharges were reduced or abolished. In chartering, the rise in rates was very mild (apart from the effects of the 1971 devaluation of the Israeli pound), since most of the vessels are employed on medium or long charters. Nevertheless a number of charters which came up for renewal in July-August 1972 benefited from the rise in international tariffs, particularly as far as bulk carriers are concerned. Passenger fares were also upped by 15 percent (in

<sup>40</sup> There was an increase of 10 percent in crude oil and 11.8 percent in grain cargoes.

<sup>41</sup> The disparate pattern of development of liner and tramp shipping was discussed in the 1971 *Annual Report*. Suffice it to emphasize that with the growing transition to specialized vessels, the degree of substitutability between liner and tramp shipping (whether on time or voyage charter) diminishes, and this makes it easier for the conferences to up their rates without fear of competition from the tramp vessels.

<sup>42</sup> The conferences explained their steep increase in rates on the U.S. routes by their desire to recoup the losses caused by the 1971 U.S. port strikes.

dollar terms) during the year. Fuel tanker rates rose less rapidly than in 1971 (owing to the reallocation of tankers and the reduction of risk surcharges).

Despite the more sluggish expansion of the tanker fleet in 1972, there was, for the first time in several years, a significant (12.4 percent) growth in the carrying capacity of Israeli-owned cargo shipping. This was due to the introduction of four modern container ships into Zim's container service, inaugurated in March 1972.<sup>43</sup> These ships, together with the others that have been com-

Table XII-5

ISRAEL'S MERCHANT FLEET, BY TYPE OF SHIP AND TONNAGE, 1969-72

(End of year)

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 <sup>b</sup>		
	1970 <sup>a</sup>	1971 <sup>a</sup>	1972	1970	1971	1972	1970	1971	1972
Passenger	2	2	2	1,064	1,064	1,064			
Dry cargo	92	90	83	1,385.3	1,379.5	1,398.7	0.1	-0.4	1.4
General cargo	57	57	53	346.8	352.1	393.5	-0.9	1.5	12.4
Refrigerated	13	11	11	101.2	89.7	89.7	—	-2.3	-9.1
Bulk carriers	22	22	19	937.3	937.7	915.5	0.4	—	-1.2
Tankers	13	26	27	743.5 <sup>c</sup>	1,886.9 <sup>c</sup>	2,037.2	76.9	116.3	37.0
Total cargo ships	105	116	110	2,128.8 <sup>c</sup>	3,266.4 <sup>c</sup>	3,435.9	18.1	40.1	20.3
Thereof:									
Under foreign flags									
Number	26	39	42	1,205.0 <sup>c</sup>	2,348.3 <sup>c</sup>	2,548.3			
Percent				56.6	71.9	74.2			

<sup>a</sup> Revised data.

<sup>b</sup> 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.

<sup>c</sup> 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.

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

<sup>43</sup> The introduction of container ships on Zim's international routes has greatly altered its cargo mix, with a shift towards higher-value cargoes previously not handled by conventional vessels; this will produce a higher revenue per ton of cargo.

missioned, will enable Zim to share in the technological revolution in the handling and shipping of freight that has been taking place in recent years. The changeover to container ships was stepped up in 1972 when they were introduced on the European and Mediterranean routes; the U.K. route is now served exclusively by such vessels. With the absorption of the new vessels, Zim has disposed of several of its conventional freighters. El-Yam also embarked on a policy of fleet renewal in 1972. All told, investment in ships (net of sales of old vessels) amounted to \$ 49 million in 1972.

The year reviewed witnessed a continuation of the long-run trend in the development of the Israeli merchant marine, namely the rapid expansion of specialized shipping (modern bulk carriers, tankers, and container ships). Such shipping is distinguished by its high capital-labor ratio as compared with conventional vessels, and its acquisition has enabled the local companies to dispose of their obsolete equipment. A further noteworthy development is the

**Table XII-6**  
**NONFUEL CARGO CARRIED BY ISRAELI SHIPPING,<sup>a</sup> 1970-72**

(thousands of tons)

	1970 <sup>b</sup>	1971 <sup>b</sup>	1972 <sup>c</sup>	Percent annual increase or decrease (-)	
				1971	1972
<b>Imports</b>	3,022	3,381	3,595	11.9	6.3
Israeli-owned shipping	1,452	1,491	1,476	2.7	-1.0
Chartered shipping <sup>d</sup>	1,570	1,890	2,119	20.4	12.1
<b>Exports</b>	1,920	1,946	2,010	1.4	3.3
Israeli-owned shipping	587	587	739	—	25.9
Chartered shipping <sup>d</sup>	1,333	1,359	1,271	2.0	-6.5
<b>Between foreign ports</b>	1,285	857	1,126	-33.3	31.4
Israeli-owned shipping	1,032	613	896	-40.6	46.2
Chartered shipping <sup>d</sup>	253	244	230	-3.6	-5.7
<b>Total</b>	6,227	6,184	6,731	-0.7	8.8
Israeli-owned shipping	3,071	2,691	3,111	-12.4	15.6
Chartered shipping <sup>d</sup>	3,156	3,493	3,620	10.7	3.6

<sup>a</sup> Excluding cargoes carried in Israeli ships chartered to others and cargoes carried by entities not defined as shipping companies (such as the Citrus Marketing Board, Agrexco, etc.). The data for 1971-72 do not include cargoes carried by Maritime Fruit Carriers, all of whose vessels were chartered to a foreign company.

<sup>b</sup> Revised data.

<sup>c</sup> Estimate.

<sup>d</sup> Includes chartering by one Israeli company to another.

growing contribution of operations between foreign ports (including the transport of crude oil in transit) to the expansion of Israeli shipping output. In this connection, mention should be made of the significant increase in the proportion of Israeli ships carrying foreign flags. At the end of 1972 they accounted for over 74 percent of the total capacity of the fleet (excluding tankers, all of which sail under foreign flags, the figure is 36 percent). The use of flags of convenience or flags of other countries confers such advantages as easier financing terms, tax concessions, and economy in operating costs (particularly as regards crews), besides facilitating commercial operations, which are sometimes hampered by political and security conditions. On the other hand, it seems that the value-added component of output is adversely affected. In this connection it should be pointed out that the practice of using flags of convenience is not peculiarly Israeli.

Total revenue from cargo shipping (including fuel) was up 33 percent. In import cargoes the uptrend slackened, while in export cargoes and operations between foreign ports, including the transport of fuel in transit (imports-for-exports), growth was faster than in 1971.

These changes are reflected in the cargo mix (excluding fuel). The expansion of import volume slowed from 11.9 percent in 1971 to 6.3 percent, while exports accelerated from 1.4 to 3.3 percent and tonnage carried between foreign ports, which had fallen steeply in 1971, jumped 31.4 percent in 1972, thanks primarily to Zim's container services (see Table XII-6).<sup>44</sup>

Total nonfuel cargo volume handled by Israeli shipping was up 9 percent in 1972, after inching down 1 percent in the previous year. The share of Israeli shipping (including chartered vessels) in total import tonnage edged up from 72.4 percent in 1971 to 73.4 percent, while its share of the export trade remained unchanged at 57.9 percent.<sup>45</sup>

Zim's profits for 1972 amounted to over IL 23 million, compared with IL 12.4 million in 1971. The company's balance sheet as of December 31, 1971 shows capital and reserves of IL 174.9 million, while long-term liabilities (including those to the Government but excluding current maturities) amounted to IL 439.0 million.

#### (b) *Ports*

The real output growth of Israel's ports slowed from 10 percent in 1971 to 6.2 percent.<sup>46</sup> This was entirely due to the slackening-off in import cargoes.

<sup>44</sup> The container ships each have a 25,000-ton capacity and cost a total of some \$ 60 million. Two more ships of this type will join the fleet in 1973.

<sup>45</sup> The share of Israeli shipping in total cargo volume was 67 percent in 1972, as against 66.3 percent in 1971.

<sup>46</sup> For 1971-72 the change in real output was measured by weighting the quantitative indexes of the various cargo groups by their proportionate share in port revenues. The price index was derived from the revenue and real output indexes, which differ from those calculated by the Central Bureau of Statistics.

Total port revenue amounted to IL 176 million, as against IL 233 million in 1971, while cargo movement amounted to 8.4 million tons—a gain of 4.2 percent, compared with 5.7 percent in 1971 (see Table XII-7).

In import tonnage growth slowed to 4.9 percent. Grain shipments were down 10 percent, owing to Israel's bumper grain yields, while general cargo was up 8.6 percent, following a 10.8 percent rise in 1971.

Export cargo volume accelerated from 0.8 percent in 1971 to 3.2 percent, thanks to larger sales of quarried products,<sup>47</sup> which partly offset the decline in citrus shipments. During the year under review Ashdod's share of cargo traffic rose sharply, at Haifa's expense. Port service prices were upped by an estimated 11.3 percent in 1972. The principal tariff changes were as follows: a new schedule of tariffs was introduced for the handling and storage of containers;<sup>48</sup> storage charges were revised, and portage and stevedoring fees were raised 6.5 percent. At the end of 1972 the Government cancelled the 6 percent levy on revenue from those services which were made dearer after the August 1971 devaluation of the Israeli pound.

In 1972 the Ports Authority continued to invest in the infrastructure required for containerization, and a large part of the IL 67 million development budget for 1972/73 was spent on constructing quays and container terminals and purchasing specialized equipment. The adaptation of Israel's ports to containerization on the European or American pattern not only involves a heavy capital expenditure but creates knotty labor relations problems, since the new technology permits a considerable economy in stevedoring personnel.

### (c) *International aviation*

The more sluggish growth of tourist traffic to Israel<sup>49</sup> in the year reviewed depressed El Al's output growth<sup>50</sup> from 30.5 percent in 1971 to 14.7 percent. The expansion of the company's revenues also slowed down in current-price terms and amounted to IL 547 million for the year. In the passenger branch real output was up 17 percent in 1972, compared with 28.8 percent in 1971.

In 1972 the world air transport industry began to rebound from the slump of the two preceding years. Provisional data show that the scheduled carriers belonging to the ICAO enjoyed a 13.3 percent increase in passenger traffic (in terms of passenger-km.) and an 18 percent increase in cargo traffic (measured in ton-km.). The IATA carriers operating on the North Atlantic route registered a 25 percent gain in passenger-km. on their scheduled flight service, as

<sup>47</sup> The volume of phosphates exported via Israel's ports rose 12 percent (approximately 642,000 tons), while potash was down 3 percent (806,000 tons). Containerized traffic expanded in 1972, with 59,000 containers being handled compared with 40,000 in 1971.

<sup>48</sup> In order to encourage the changeover to containers, cheaper tariffs were introduced in October 1972 based on a fixed price per standard container.

<sup>49</sup> World tourist traffic and that to Israel are discussed on pp. 300 ff.

<sup>50</sup> Revenue at constant prices.

Tayle XII-7

CARGO TRAFFIC THROUGH ISRAEL'S PORTS, 1971-72

(thousands of tons)

	Share in port revenue in 1971/72 <sup>a</sup> (%)	1971				1972				Percent annual increase or decrease (-) in total	
		Haifa	Ashdod	Eilat	Total	Haifa	Ashdod	Eilat	Total	1971	1972
<b>Import cargo</b>											
Grain (bulk)	11.6	1,606	—	1	1,607	1,447	—	—	1,447	3.2	-10.0
Minerals (bulk)	0.9	118	44	41	203	174	150	34	358	95.2	76.4
Chemicals and edible oils (liquid)	0.7	137	1	—	138	139	—	1	140	-3.6	1.4
General cargo	63.7	1,453	1,012	256	2,721	1,555	1,125	275	2,955	10.8	8.6
Total import cargo	76.9	3,314	1,057	298	4,669	3,315	1,275	310	4,900	9.6	4.9
<b>Export cargo</b>											
Citrus	9.1	587	475	16	1,078	458	559	17	1,034	11.1	-4.1
Minerals (bulk)	2.7	117	1,097	255	1,469	55	1,175	268	1,498	-11.9	2.0
Chemicals and edible oils (liquid)	—	18	—	—	18	32	4	—	36	-10.0	100.0
General cargo, incl. bulk grain and cement	11.3	410	271	117	798	441	341	122	904	17.4	13.3
Total export cargo	23.1	1,132	1,843	388	3,363	986	2,079	407	3,472	0.8	3.2
Total cargo volume	100.0	4,446	2,900	686	8,032	4,301	3,354	717	8,372	5.7	4.2

<sup>a</sup> Excluding revenue from fuel and passenger transport.  
SOURCE: Israel Ports Authority.

compared with only 5 percent in 1971. These airlines also succeeded in boosting their passenger-load factor from 50 to 60 percent. In the past few years the scheduled carriers had been hit by ebbing demand, rising operating costs due to worldwide inflation, and excess capacity (particularly since the introduction of the jumbo jets). To stimulate business, the IATA carriers have been trying to make their fares and other terms more competitive with those of the non-scheduled carriers operating charter flights, and have even expanded their own charter operations in order to squeeze the nonscheduled carriers and at the same time find employment for their surplus equipment. In 1972 an attempt was made to draw up a revised fare structure for the North Atlantic route (the most important route in the world), but the conflict of interests between the European and American airlines prevented an agreement.

These developments in international aviation affected El Al Israel Airlines very little compared with the effect of the slowdown in tourism to Israel (particularly from the U.S.A.) following the terrorist attacks on Israel's air communications in May and in the second half of 1972. The number of passengers carried on scheduled and special flights (including the transport of immigrants) totalled 742,200 in 1972—a 12.6 percent increase, compared with 31.3 percent in 1971. While the gain in El Al's flights to and from Lod amounted to 14.6 percent, that on the transatlantic route was much more modest—5.1 percent (9 percent in scheduled flights alone). According to preliminary estimates, El Al's share in available seat-km. on routes to and from Lod remained more or less unchanged at 38.1 percent, while its share in passenger traffic declined fractionally, from 45 percent in 1971 and 49 percent in 1970 to 44.5 percent. One reason for this was undoubtedly the labor disputes from which the company suffered in 1972, which resulted in a financial loss as well as a loss in traffic. El Al's total available seat-km. (including chartered flying equipment) was up 21.8 percent in 1972, compared with 18.6 percent in 1971. The faster increase is mainly attributable to the fact that the company had two jumbo jets in service throughout 1972 and that it enlarged the seating capacity of its Boeing 707's by eliminating the first class. The latter explains why available ton-km. (passenger and freight) increased by a milder 10.3 percent. Available capacity outstripped the expansion of traffic, thereby depressing the passenger load factor from 70.5 percent in 1971 to 63.6 percent and the overall load factor (passenger and freight)<sup>51</sup> from 60.8 to 57.7 percent (see Table XII-8).

The price index of El Al's output<sup>52</sup> went up 10.6 percent during 1972,<sup>53</sup> and for passenger traffic alone by 12.2 percent. Freight prices averaged only 4.9 percent higher owing to the increased proportion of agricultural exports.

<sup>51</sup> Available ton-km. is a function of the number of planes, their capacity, and the frequency and length of flights.

<sup>52</sup> The price index is derived from the index of revenue at current prices and the index of revenue at constant prices.

<sup>53</sup> Including the influence of the devaluation of the Israeli pound.

Table XII-8

## OUTPUT AND UTILIZATION OF EL AL AIRCRAFT, 1970-72

	Unit	1970		1971 <sup>a</sup>		1972		Percent annual increase or decrease (-)		
		Total	Thereof in chartered planes	Total	Thereof in chartered planes	Total	Thereof in chartered planes	1970	1971	1972
1. Available seat-km.	'000	3,865,063	110,924	4,584,440	162,358	5,585,137	112,247	5.5	18.6	21.8
2. Revenue passenger-km.	'000	2,533,218	82,583	3,231,986	121,283	3,550,058	78,315	13.6	27.6	9.8
3. Passenger load factor (2 ÷ 1)	%	65.5	74.5	70.5	74.7	63.6	70.0	—	—	—
4. Available ton-km. (passenger and freight)	'000	557,053	23,832	667,136	34,025	736,013	22,468	16.4	19.8	10.3
5. Revenue ton-km.	'000	331,008	14,913	405,419	21,474	424,699	13,608	15.8	22.5	4.8
6. Ton-km. load factor (5 ÷ 4)	%	59.4	62.6	60.8	63.1	57.7	60.6	—	—	—

<sup>a</sup> Revised data.

SOURCE: El Al Israel Airlines.

The fact that, despite the devaluation and the 6.5 percent upward revision of certain fares in April 1972, the rise in the passenger branch was fairly modest may be attributed to several factors: the increase in Europe's share of the traffic at America's expense (the latter yields a higher revenue per passenger-km.); a relative decline in summer traffic (when fares are at their peak); and the long-run tendency for passengers to look for cheaper flights.<sup>54</sup> In this connection it should be noted that in 1972 the advantage previously enjoyed by Israel in the fare structure, which was largely based on cheap group fares, disappeared with the introduction of similar fares for flights to other Mediterranean Basin countries. In addition, 1972 saw the introduction of individual fares from the U.S.A. to Europe, which are a close substitute for the group fares. El Al finds it difficult to compete with individual fares from the U.S.A., since it operates from only one point—New York—while its regular scheduled competitors operate from numerous cities.

In spite of the slower growth of revenue, higher operating costs, and the losses caused by the strikes of both company and airport workers during 1972, El Al wound up the year 1972/73 with a net profit of IL 1.0 million, compared with IL 100,000 in 1971/72.

The company's equity capital and reserves totalled IL 157 million on December 31, 1972, while long-term liabilities (excluding current maturities) amounted to IL 255.9 million.

#### (d) *Airports*

The slacker expansion of tourist traffic to Israel in general and in the number arriving by air in particular dampened the real output<sup>55</sup> growth of Israel's airports from 39 percent in 1971 to 12 percent. The decline was particularly pronounced in passenger services and milder in cargo and aviation services.

Airport service charges rose by an average of 13.4 percent during the year (including the effects of the devaluation of the Israeli pound).<sup>56</sup>

In the year under review 1,829,000 passengers passed through Lod (incoming, outgoing, and transit)—16.7 percent more than in 1971. The uptrend sagged in the second half of the year, when traffic was only 4.6 percent over the figure for the corresponding period in 1971.<sup>57</sup> Freight volume expanded a little more slowly in 1972—15.4 percent as against 17.5 percent in 1971.

Airport revenues were, at IL 45.1 million, up 27 percent from 1971.<sup>58</sup>

<sup>54</sup> In 1972 there was also a change in the dates on which winter fares went into effect and terminated.

<sup>55</sup> Revenue at constant prices.

<sup>56</sup> Including the estimated change in the price of concessions, rents, etc.

<sup>57</sup> Passenger traffic through the country's domestic airports fell by 4.2 percent in 1972 and freight volume by 16.6 percent.

<sup>58</sup> 21 percent of total airport revenue derived from rents, concessions, and other sources not directly connected with aviation services.

**Table XII-9**  
**ANNUAL CHANGES IN PASSENGER TRAFFIC TO AND FROM ISRAEL, 1969-72**  
 (percentages)

	By sea				By air			By land			Total		
	Arriv-als	Depar-tures	Total	Thereof: one-day visits	Arriv-als	Depar-tures	Total	Arriv-als	Depar-tures	Total	Arriv-als	Depar-tures	Total
<b>Tourists<sup>a</sup></b>													
1969	-16.0	-16.0	-16.0	-13.3	-3.7	-4.4	-4.0	20.7	4.0	11.8	-5.3	-5.9	-5.6
1970	-10.6	-13.2	-11.8	-7.4	8.1	6.0	7.1	315.1	325.0	320.0	7.9	5.9	6.9
1971	45.5	51.7	48.5	76.5	48.3	49.8	49.1	77.9	76.6	77.3	48.8	50.8	49.8
1972													
Percent change	7.1	10.2	8.6	21.7	10.7	14.0	12.4	23.8	15.5	19.7	10.8	13.7	12.2
Absolute total	73,776	71,509	145,285	47,703	627,113	630,761	1,257,874	26,643	24,377	51,020	727,532	726,647	1,454,179
<b>Total passen-gers<sup>b</sup></b>													
1969	-13.6	-15.0	-14.3	-13.3	2.8	0.5	1.6	29.8	16.7	22.8	0.3	-1.7	-0.7
1970	-8.3	-14.8	-11.3	-7.4	6.3	6.9	6.6	289.1	280.9	285.0	5.9	5.8	5.8
1971	23.9	37.6	30.0	76.5	43.1	42.3	42.7	137.4	133.8	135.6	42.7	43.7	43.2
1972													
Percent change	3.1	8.3	5.6	21.7	14.1	14.6	14.3	42.4	50.4	46.4	13.9	15.2	14.6
Absolute total	93,236	88,156	181,392	47,703	871,124	842,080	1,713,204	41,939	43,721	85,660	1,006,299	973,957	1,980,256

<sup>a</sup> Excluding one-day visits by plane.

<sup>b</sup> Excluding transit passengers, who numbered 116,168 in 1972. The percentage of passengers travelling to and from Israel in 1972 under the Israeli flag was as follows: by sea—23-24; by air—45.

SOURCE: Central Bureau of Statistics and Department of Civil Aviation.

## 5. TOURISM<sup>59</sup>

Tourism is very sensitive to exogenous economic developments, and even more so to changes in the security and political situation. This is illustrated by what happened in 1972 when, after an exceptional 48.8 percent upsurge in tourist traffic to Israel the year before, the growth rate sank to 10.8 percent—similar to the long-run average (see Figure XII-3). The number of arrivals was 727,500, and they yielded the economy \$ 213 million in foreign currency—19.3 percent more than in 1971.<sup>60</sup>

Tourism accounted for 20 percent of total service exports in 1972 and 10 percent of aggregate proceeds from goods and services. It should be noted, however, that the relative importance of tourism to the Israeli economy is even greater than indicated by these figures, since its value-added component (in foreign currency) is estimated at 80 percent.

World tourist traffic expanded by 9 percent in 1972, compared with 8 per-

**Table**  
**TOURIST ARRIVALS, BY COUNTRY**  
(thou-

	Average			1971	1972	Percent annual	
	1961-63	1964-67	1968-70			Average	
						1961-63	1964-67
<b>Total, incl.</b>							
cruise travellers <sup>a</sup>	187.3	291.9	427.4	656.8	727.5	17.0	5.8
<b>Total, excl.</b>							
cruise travellers	169.8	262.0	401.3	617.6	679.8	16.7	5.8
U.S. and Canada	65.8	92.4	171.0	277.2	298.4	10.7	8.8
Europe	76.4	134.8	173.1	245.8	281.6	23.6	5.1
United Kingdom	19.8	24.1	40.7	47.7	51.1	28.1	7.5
France	20.7	34.3	44.5	65.3	62.1	20.8	1.2
W. Germany	7.0	11.3	15.3	28.4	39.0	16.2	4.9
Scandinavia	5.8	. .	19.3	29.2	37.7	43.8	. .
Other European countries	23.1	. .	53.3	75.2	91.7	20.7	. .
Other countries	27.6	34.8	57.2	94.6	99.8	12.7	2.4
<b>Percent in</b>							
June-August	34.0	32.4	37.2	36.9	32.3		

<sup>a</sup> The distribution of tourist arrivals in 1972, including cruise travelers, was as follows (in 43.7; Scandinavia—38.4; other European countries—104.5; other countries—102.5  
SOURCE: Central Bureau of Statistics and Ministry of Tourism.

<sup>59</sup> This section surveys foreign but not domestic tourism.

<sup>60</sup> 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.

cent the year before.<sup>61</sup> The figure for Europe was up 10 percent, but that for the Middle East (excluding Israel) rose by only 3 percent, after a 24 percent gain in 1971 (however, this was due to the weakening of tourism within the region itself, while that between the rest of the world and the Middle East continued to expand vigorously).

Israel has enjoyed a boom in tourism (compared with the long-run average) since the Six Day War, with interruptions due to the war of attrition and the attacks on civil aircraft. The curve ascended sharply from the end of 1970 through November 1971; in 1972 it continued upward, although less steeply, through March. An examination of the seasonally adjusted data for 1972 shows an increase in January and February, and in the case of air travellers, also in March. In April the curve turned downward, but it again rose sharply in May. In the wake of the attack at Lod Airport in June, traffic declined steeply in that month and July; the slight pickup in August did not materially alter the

## II-10

### OF RESIDENCE, 1961-72

(in thousands)

Increase or decrease (-)					Percent of total				
1968	1969	1970	1971	1972	Average			1971	1972
					1961-63	1964-67	1968-70		
48.4	-5.3	7.9	48.8	10.8					
50.5	-4.8	7.7	48.9	10.1	100.0	100.0	100.0	100.0	100.0
70.7	-3.9	13.2	51.5	7.7	38.7	35.3	42.6	44.9	43.9
36.3	-6.1	-2.4	47.5	14.6	45.0	51.5	43.1	39.8	41.4
34.6	-14.7	-7.8	31.0	7.1	11.7	9.2	10.1	7.7	7.5
22.7	17.2	2.6	37.2	-4.9	12.2	13.1	11.1	10.6	9.1
28.5	6.7	25.0	57.8	37.3	4.1	4.3	3.8	4.6	5.7
..	-17.8	6.8	55.3	29.1	3.4	..	4.8	4.7	5.6
..	-13.4	-13.2	63.8	21.9	13.6	..	13.3	12.2	13.5
47.9	-3.1	23.8	45.5	5.5	16.3	13.2	14.3	15.3	14.7

(thousands): U.S. and Canada—305.6; United Kingdom—67.2; France—65.6; Germany—

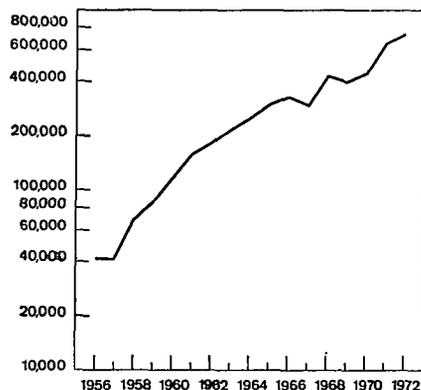
<sup>61</sup> A provisional estimate (based on data for nine months and covering the majority of countries) published by the International Union of Official Tourist Organizations (IUOTO) in February 1973.

results for the 1972 summer season. September and October saw a marked improvement (apparently the traffic included some tourists who had delayed their trips in the summer). In November the curve again turned downward, and it descended even more steeply in December. But in January and February it again reversed direction (according to deseasonalized figures). During the period January-April 1973 the level, before adjusting for seasonality, was down by more than 3 percent from the corresponding period in 1972. The number flying to Israel fell 8 percent (see Figure XII-4), but the number coming by sea (particularly cruise travellers) and overland rose.

A combination of factors explains the sharply lower growth of tourism to Israel in 1972, particularly in the second half. However, it is difficult to quantify the effect of each of the influences, and it is not even easy to determine their precise timing. The accelerated growth and the exceptionally high level reached in 1971, which was a comparatively calm year securitywise, may be partly attributed to the fact that many who had cancelled their trips in 1970 decided to make them in 1971. During that year, and particularly in the peak season, the tourist industry's accommodation and manpower resources were stretched to the

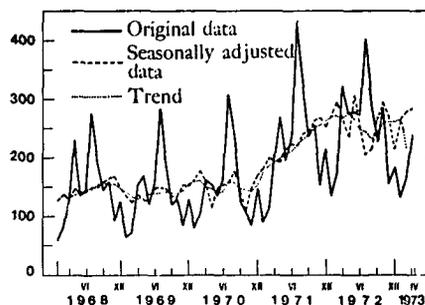
limit, and it was not reasonable to expect such a strong growth to be sustained year after year—especially as there was a decline in the standard of services in 1971, which contributed to the slowdown in 1972. The attacks on Israeli aviation, including the terrorist acts committed in Europe, had a pronounced effect. The monetary upheavals—the devaluation of the dollar at the end of 1971 and the upward revaluation of several European currencies—should have adversely affected tourist traffic from the U.S.A. to Europe and the rest of the world, including Israel. In those countries which devalued their currency (the U.S.A. and Canada) there was undoubtedly a tendency to seek alternatives to compensate for the reduced purchasing power of the dollar, such as cheaper and less remote countries, visits to fewer countries, shorter stays abroad, the

**Figure XII-3**  
**TOURIST ARRIVALS, 1956-72**  
(thousands)



SOURCE: Central Bureau of Statistics.

**Figure XII-4**  
**INDEX OF MONTHLY TOURIST ARRIVALS, 1968-72**  
(1967=100)



SOURCE: Central Bureau of Statistics.

acceptance of a lower off-season standard of services, and even the cancellation of trips. On the European continent, tourism might have been expected to develop in the opposite direction. However, from preliminary data on American tourism abroad, particularly to Europe, it seems that there was actually a sizable increase in such traffic (this is strengthened by the data for the transatlantic air route). Apparently in the U.S.A. the income effect outweighed the effect of the exchange rate changes and the inflationary price rises in the European tourist centers. Israeli tourist services also became much dearer: hotel prices went up 12–15 percent, service charges not included in the basic hotel tariff also rose, as did transportation and restaurant prices. From the available data it is difficult to compare the price rises in Israel with those in Europe. Furthermore, as already mentioned in the section on international aviation, Americans travelling to Europe were offered cheaper flights in 1972 than in the previous year, while comparable terms were not available for flights to Israel.

Altogether, Israel's share in American tourism fell, even though the dollar parity of the Israeli pound remained stable in 1972, in contrast to its fate in Europe.

Over 86 percent of the tourists arrived by air, about the same proportion as in 1971 and slightly smaller than in 1970. The number of tourists flying to Israel was up 10.7 percent, while arrivals by sea (excluding cruise travellers) declined 12.1 percent. There was a 21.7 percent increase in cruise passengers, while the number coming overland (including summer visitors from Jordan and other Arab countries) was up 23.8 percent (see Table XII-9). The terrorist attacks in 1972 hit Israeli tourism most during the peak season: whereas in 1968–71 the percentage of tourists who came during the June–August period was 37, in 1972 it dropped to 32.

The decline in the growth of tourism from the U.S.A. and Canada (excluding cruise travellers) from 51.5 percent in 1971 to 7.7 percent depressed North America's share in total tourist traffic to 43.9 percent, but this was still above the average for the 1960s (see Table XII-10). The decline in North America's share was accompanied by a rise in Europe's; there was an especially strong gain in traffic from West Germany and Scandinavia, whose increase was above the general average, although it was less rapid than in 1971. Tourism from the U.K. moved up at a below-average rate, while the number coming from France fell off in absolute terms.<sup>62</sup> Presumably the declining share of the U.S.A. and France depressed the proportion of Jewish travellers. These changes, together with the drop in the percentage of youngsters, apparently resulted in the reduction of the average length of stay and hence average per capita spending in Israel.

The uptrend in the number of tourist nights in recommended hotels slowed even more perceptibly than total tourist traffic—from 41 percent in 1971 to only 5

<sup>62</sup> Excluding cruise travellers in each case.

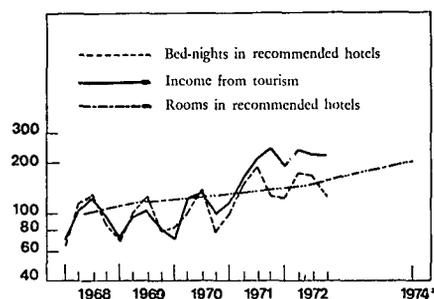
percent. Of a total of 5.1 million tourist nights, 2.9 million were in four- and five-star hotels. The number of tourist nights is, of course, a function of the number of tourists and their average stay, and in 1972 the average stay of those remaining in the country for up to three months fell to 17 days, as against 19 in 1971 and 18 for 1969–70. In Israel the average length of stay is longer than in other tourist countries owing to its comparative remoteness, which makes the journey relatively expensive. The average amount spent per tourist in 1972 was \$ 292—7.7 percent more than in 1971 (see Table XII–11).

The number of rooms available for tourists in recommended hotels increased by 9 percent on an annual average, compared with 7 percent in 1970 and 1971. This, however, was a slower rate than in 1968 and 1969 (see Table XII–12 and Figure XII–5). For hotels in the two highest categories the rate was greater—17.5 percent; this was in line with the long-run rising trend in the proportion of top-rated accommodations, and at the end of 1972 nearly 7,700 out of a total of 17,900 rooms in tourist-recommended hotels were in four- and five-star establishments.

According to present information, by the end of 1973 the number of rooms will increase by about 25 percent (compared with the end of 1972), bringing the total number of rooms in recommended hotels over the 22,000 mark. In addition, there were more than 10,000 rooms in various stages of construction at the beginning of 1973.

The rapid expansion of hotel accommodations expected in the next few years is explained by both the bright outlook for the tourist industry and the favorable investment conditions. As an approved enterprise, a hotel project is entitled to a 13-year Government loan, covering from 35 to 60 percent of the total investment and bearing interest of between 6.5 and 9.0 percent, in both cases depending on the geographical location and grade of the hotel; this is in addition to grants and direct and indirect rebates.<sup>63</sup> The risk assumed by the investor, even if the

**Figure XII–5**  
**QUARTERLY INDEX OF TOURIST**  
**BED-NIGHTS AND INCOME FROM**  
**TOURISM AND ANNUAL INDEX OF**  
**ROOMS IN RECOMMENDED**  
**HOTELS**  
 (1968=100)



<sup>a</sup> Average.  
 Semilogarithmic scale.  
 SOURCE: Central Bureau of Statistics and  
 Ministry of Tourism.

<sup>63</sup> Hotels under construction in 1972 and completed by March 31, 1973 (September 9, 1973 in the case of Eilat) were eligible for a special grant of IL 2,000–3,000 per room, which was to be deducted from the total sum invested for the purpose of calculating the amount of regular loan capital. This was intended to speed up completions in time for Israel's 25th anniversary year. In addition, where a hotel is erected on publicly owned land, in many cases the plot is sold below the market price.

Table XII-11

## TOURIST TRADE: BED-NIGHTS, LENGTH OF STAY, AND INCOME, 1961-72

	Average		1968	1969	1970	1971	1972	Percent annual increase or decrease (-)			
	1961-63	1964-67						1969	1970	1971	1972
Bed-nights in hotels recommended for tourists (in thousands)	..	..	3,400.4	3,214.1	3,431.6	4,842.5	5,084.5	-5.5	6.8	41.1	5.0
Thereof: In 4- and 5-star hotels (in thousands)	..	..	1,854.6	1,784.6	1,904.6	2,644.3	2,862.1	-3.8	6.7	38.8	8.2
Average length of stay of tourists (in days)											
Up to one month	11	11	13	13	13	14	12				
Up to three months	..	..	17	18	19	19	17				
Up to one year	..	..	22	25	25	24	24				
Median stay	15	14	15	16	16	16	13				
Income in foreign currency											
Total (\$ million)	39.8	54.9	96.0	85.8	103.9	178.3	212.7	-10.6	21.1	71.6	19.3
Average per tourist (\$)	209.3	187.8	222.0	214.5	235.4	271.5	292.4	-3.4	9.7	15.3	7.7

SOURCE: Central Bureau of Statistics and Ministry of Tourism.

Table XII-12

## HOTEL ROOMS, OCCUPANCY, AND EMPLOYEES, 1964-72

	Average 1964-67	1968	1969	1970	1971	1972	Percent annual increase or decrease (-)					
							Average 1964-67	1968	1969	1970	1971	1972
Number of hotel rooms (annual average)	..	17,091 <sup>a</sup>	17,846	18,717	19,683	20,624	..	..	..	4.9	5.2	4.8
In hotels recommended for tourists	9,796 <sup>a</sup>	12,486	13,730	14,685	15,719	17,124	12.2	16.0	10.0	7.0	7.0	8.9
In hotels of the two highest ratings	3,358	4,401	4,958	5,419	6,020	7,071	15.5	14.0	12.7	9.3	11.1	17.5
Occupancy ratio in hotels recommended for tourists (local and foreign)	51.3	55.7	50.8	50.1	60.4	59.3						
Number of employees in recommended hotels (annual average)	..	..	8,411	9,254	10,611	11,275	..	..	..	10.0	14.7	6.3

NOTE: The data include East Jerusalem since the end of 1967.

<sup>a</sup> At the end of the year.

SOURCE: Central Bureau of Statistics and Ministry of Tourism.

hotel has a low occupancy rate in its early years, is therefore slight in comparison with the capital gain expected because of the prevailing inflation. The result is a tendency to build more hotels than required in the light of the forecast growth of tourism.

Employment in recommended hotels (calculated on a monthly average basis) rose 6.3 percent in 1972. This was proportionately less than the increase in the number of rooms (the number of workers required per room in the top-rated hotels is greater than for the lower categories), but the average number of workers per room also depends *inter alia* on the number of tourist nights and the seasonal factor. The occupancy rate (including bed-nights by Israelis) in recommended hotels of all categories edged down from 60.4 percent in 1971 to 59.3 percent, a comparatively high rate compared with previous years. The decline was more pronounced in the higher-category hotels, where the number of rooms also increased more rapidly, and was particularly steep in Tel Aviv, where it fell from an average of 75.8 percent in 1971 to 69 percent (here the number of rooms increased by more than the general average and the proportion of four- and five-star hotels is also above average).<sup>64</sup> A comparison of occupancy rates for August (for all locations and all categories of hotels) shows a drop from 85.2 percent in 1971 to 76.2 percent in 1972.

<sup>64</sup> In Jerusalem the occupancy rate went up from 61.2 to 63.5 percent, with a marked rise in East Jerusalem and a decline in West Jerusalem. In Tel Aviv there was an absolute drop in the number of bed-nights.