

CHAPTER XIV

TRANSPORTATION, COMMUNICATIONS, AND TOURISM

1. MAIN DEVELOPMENTS

The expansion of the transportation and communications sector's product slowed from 8 percent in 1978 to 4-5 percent this year.¹ In land transport the output² gain was only 2 percent, as against 5 percent in 1978, but international transport, which is also influenced by developments in the world market and in 1978 was hurt by strikes at El Al and in the Israel merchant marine, posted a higher growth rate this year.

The severing of trade relations with Iran, including the cessation of crude oil import for both the domestic and transit markets, was the direct cause of a 1-2 percent decline in the sector's output, as the throughput of the Eilat-Ashkelon pipeline almost dried up. The cutting off of Iranian oil supplies also had important direct effects on the output mix of the shipping industry in 1979, since a large percentage of Israel's merchant shipping capacity is designed to serve the pipeline. After several years of rapid expansion, the share of shipping output originating in transport between foreign ports (including fuel) turned down in 1979.

International aviation output (mostly El Al) rose faster than in 1978. This can be attributed almost entirely to the protracted strike that hit Israel's national carrier in 1978, for total air traffic to and from the country expanded more slowly this year and the growth of air tourist arrivals tapered off (accompanied by an increase in the share of charter flights). In spite of its higher output gain, El Al suffered heavy financial losses in 1979/80, due mainly to the sharply higher fuel prices and to the large share in the company's operations of the North Atlantic route, the most competitive and least profitable of all international routes.

Passenger transport output virtually held steady in 1979. At the same time there was a steep increase in the number of private cars (whose services are not included in the output figures), following the real growth of disposable income in previous years and several years of comparatively sluggish rise in car ownership.

¹ See note 2 to Table XIV-1.

² Total revenue at constant prices.

Table XIV-1

**CHANGES IN REAL OUTPUT, PRODUCT, AND PRICES OF THE
TRANSPORTATION AND COMMUNICATIONS SECTOR, BY BRANCH, 1973-79**
(Percentages)

| | Estimated weight in gross product of sector in 1978 (at 1972/73 prices) | Weight in revenue 1978 | Output | | | Prices | | |
|-------------------------------|----------------------------------------------------------------------------------|---------------------------|--------------------|-------------|------------|------------|-------------|-------------|
| | | | Average 1973-76 | 1977 | 1978 | 1979 | 1978 | 1979 |
| Domestic services | 58.6 | 46.8 | 3.0 | 3.5 | 7.1 | 1.4 | 52.3 | 68.8 |
| Land transport | 38.1 | 26.5 | -0.8 | 2.9 | 4.8 | 2.1 | 48.5 | 77.3 |
| Buses | 12.2 | 7.2 | 0.6 | 1.0 | 3.9 | -1.6 | 32.6 | 83.5 |
| Taxis | 4.6 | 3.0 | -0.9 | 5.0 | 3.0 | 2.0 | 35.3 | 76.2 |
| Trucks | 19.2 | 15.7 | -1.7 | 3.4 | 5.4 | 3.5 | 60.0 | 74.0 |
| Railway | 2.1 | 0.6 | 4.1 | 8.4 | 14.4 | 11.3 | 59.4 | 93.6 |
| Other | 20.5 | 20.3 | 9.3 | 4.3 | 10.5 | 0.3 | 57.6 | 57.4 |
| Oil pipelines | 2.4 | 1.4 | -2.2 | 4.7 | 15.4 | -70.0 | 4.6 | 41.0 |
| Domestic air services | 0.4 | 0.7 | 0.5 | -2.8 | -3.1 | -15.0 | 72.1 | 69.2 |
| Communications | 17.7 | 18.2 | 11.0 | 4.6 | 10.5 | 6.1 | 63.2 | 57.4 |
| International services | 41.4 | 53.2 | 6.1 | 11.5 | 8.1 | 9.3 | 71.2 | 57.0 |
| Shipping and ports | 26.7 | 37.1 | 6.0 | 6.0 | 7.8 | 7.3 | 73.7 | 57.3 |
| Shipping | 19.9 | 31.1 | 7.1 | 7.0 | 6.4 | 5.2 | 75.8 | 57.8 |
| Ports | 6.8 | 6.0 | 0.6 | 0.8 | 15.2 | 18.2 | 63.8 | 55.1 |

| | | | | | | | | |
|---------------------------------------|--------------|--------------|------------|-------------|------------|-------------|-------------|-------------|
| Civil aviation and airports | 14.7 | 16.1 | 6.7 | 26.1 | 8.7 | 13.9 | 65.8 | 56.3 |
| International aviation | 13.1 | 14.4 | 6.6 | 26.3 | 8.3 | 15.1 | 65.6 | 56.2 |
| Airports | 1.6 | 1.7 | 7.5 | 23.6 | 12.2 | 3.3 | 67.1 | 56.6 |
| Total output at market prices | 100.0 | 100.0 | 4.4 | 7.4 | 7.6 | 5.6 | 61.8 | 62.3 |
| Total gross product at 1972/73 prices | | | 3.4 | 6.8 | 7.6 | 4.4 | | |

Note:

1. Output is at market prices, including the defense stamp duty (until April 1978) on bus, railway, and postal services, and excluding bus subsidies, the deficit of the railway, and the air travel tax (until October 1977). Since 1976 the data include VAT collected from the various sub-branches.
2. The change in the sector's product is estimated on the basis of data from the 1972/73 input-output tables: the annual output changes in the sub-branches are used as an indicator of changes in the product at constant prices.
3. The 1977 and 1978 data have been revised. For the bus, domestic air ser-

vices, communications, ports, international aviation, and airport sub-branches the base year has been changed to 1978. This explains the discrepancies between some of the data in this table and those published in previous years.

4. In 1979 the definition of the airport sub-branch was revised, with part of the freight operations being reclassified as storage, which is not included in this chapter.
5. The 1978 and 1979 output data for taxis, trucks, oil pipelines, shipping, and the railway were calculated by the Bank of Israel on the basis of data provided by the Central Bureau of Statistics and internal industry sources.

The carrying capacity of the trucking industry, which accounts for 95 percent of all domestic freight transport (excluding fuel pumped through the pipelines), expanded strongly this year. This is explained by the expectations of a continued rapid upswing in economic activity, the bright prospects arising from the military redeployment in the Negev and the construction of new airfields there, and the availability of cheap subsidized credit for the purchase of trucks. But these rosy expectations failed to materialize, and at year's end there was excess trucking capacity. The slackening of industrial production, a decline in building starts, and a drop in agricultural freights led to a comparative slump in trucking business.

In communications the outstanding development was a large increase in telephone installations, following three years of steady decline. The backlog of outstanding applications nevertheless stood at over 220,000 at the end of the year.

International tourist traffic to Israel in 1979 reached 1,139,000 arrivals—6 percent up on 1978. This gain, while lower than that achieved in 1978, eclipsed the world rate. Income from tourism amounted to about \$790 million (22 percent of total service exports).

The sector's real gross fixed investment (including ships and aircraft) rose by a formidable 40 percent this year, paced by a 58 percent spurt in motor vehicles. The gross capital stock expanded 3.5 percent during 1979, and at the end of the year it accounted for over 30 percent of the national total. The sector's labor force (including storage) rose 3 percent in 1979, compared with 2 percent the year before, but in land transport, where the output gain was smaller this year, the increase was 4 percent as against 6 percent in 1978. The sector's share of the total labor force remained unchanged at 6.8 percent.

2. DOMESTIC TRANSPORT

(a) Passenger Conveyance³

There was no significant change in 1979 in total output from passenger transport. It is difficult to explain the severe slowdown compared with 1978 (and the real decline in bus output) in the light of economic developments; the reason apparently lay in the quality of the statistical data and in the incomplete coverage of special trips and excursions, a field that has attracted many new entrants in recent years. On the other hand, the output data for regular bus routes show a doubling of the growth rate—from 2.5 percent in 1978 to 5 percent.⁴ This is partly attributable to the change in relative price. In 1979 passenger fares on regular routes

³ The transport of passengers by buses, taxis, railway, Arkia domestic airline, and to some extent trucks. For lack of statistical data tour bus companies which are independent of the bus cooperatives, tour operators, and self-drive rented cars are not included.

⁴ Excluding special trips and excursions by bus, passenger transport output (including Arkia, the railway, and taxis) was up 3-4 percent in 1979, as against 3 percent the year before.

(buses and taxis) trailed, on average, behind the 111 percent increase in the consumer price index (76.6 percent on local and 71.3 percent on interurban lines). There were also changes in the relative prices of public transport: in local services, where the buses enjoy an almost monopolistic position, their fares rose faster than those charged by taxis, while in interurban services the opposite was true. On the other hand, maintenance costs for private cars increased faster (80.2 percent) than public transport fares and the consumer price index. Presumably this was one of the reasons for the 3 percent drop in annual mileage per private car in 1979. The price of gasoline went up, on average, by over 10 percent more than the consumer price index (its relative price in 1979 was nevertheless equal to that in 1976).

The number of private cars, which are not included in the measured output of the branch, rose 8 percent. This brought up the degree of motorization from 95 per thousand inhabitants at the end of 1978 to 100 at the end of 1979. Three of the main factors accounting for the faster increase this year were a relative drop in the price of cars (new and second-hand); a decline in the annual growth rate in 1975-77 (which brought up the average age of cars to that of the early 1960s); and an increase in real income at the end of 1977 and in 1978.

In bus transport there were contradictory developments on the supply side: a slacker growth of the fleet (2 percent) and the labor force (5 percent), but an accelerated increase in man-days worked (3.7 percent) and average monthly mileage (over 4 percent).

The index of bus input prices averaged 76 percent higher in 1979. This exceeded the average rise in bus fares on regular lines but was less than the overall increase in operating costs (83.5 percent), including special trips.⁵ As a result, the "terms of trade" of the bus branch improved, on average, in the year reviewed.

Direct subsidies paid to the bus cooperatives in 1979 amounted to over IL3 billion; this represented a nominal increase of 87 percent compared with 1978 and a real increase of 6 percent. This brought up the subsidy rates to 91 percent of total revenue on regular lines, as against 89 percent in 1978, while in relation to total revenue on regular lines at factor cost⁶ it came to 50-51 percent, about the same as in 1978. These rates fell sharply during the year, as fares went up much faster than input prices.

It is generally agreed that the subsidization of public transport (particularly local services) has a progressive effect on income distribution, since the proportion of the family's income spent on public transport declines as income increases due to the substitution of private for public transport. This does not necessarily hold, however, for interurban trips in private cars, which increase with a rise in income.

⁵ These rose by an average of 110 percent, due *inter alia* to the abolition of the subsidy in August 1979.

⁶ Current revenue plus the subsidy and less VAT.

The public transportation subsidies are also designed to influence the allocation of resources, i.e. to encourage a preference for public over private transport. It is doubtful, however, whether this has been achieved. If the total subsidy were given only to local services (instead of to all services as at present), it might be possible to effect a more significant change in the relative fare structure, particularly since local bus fares increased proportionately more than those on interurban lines in 1979. But it is doubtful whether the desired change in resource allocation can be achieved without an improvement in public transport services. So long as the private car owner who regularly drives through the center of town does not bear his full share of the costs (particularly those resulting from traffic congestion which he himself causes, especially at peak hours), there is little likelihood of attaining the desired goals. It is therefore necessary to supplement public transport subsidies by a considerable improvement in the standard of such services, and at the same time to increase the cost of using private cars in congested city centers, particularly at peak hours (by means of parking fees or, in extreme cases, by administrative restrictions such as the regulation of the traffic flow in favor of public transport, or even by prohibiting the parking or entry of private cars).

(b) Freight Transport⁷

Freight transport output declined by an average of 1-2 percent in 1979. This was due predominantly to the drastic contraction of the throughput of the oil pipelines following the Iranian crisis, and had no connection whatsoever with domestic economic developments.⁸ Excluding the pipelines, where the figure plunged 70 percent in real terms, there was an output gain of 4 percent, with the trucking industry showing a 3-4 percent rise as against 5 percent in 1979.⁹ The slackening of the growth rate in the trucking industry reflected the slowdown in those branches of the economy that are comparatively heavy users of trucking services. As a result of the cutback in nonresidential construction and the more modest increase in total building starts this year, freight transport directly connected with the construction industry (which increased 3 percent) contributed 1 percent to the output increment in 1979.

As in 1978, there was a drop in agricultural freights, but haulage of quarried products continued upward at a strong pace. The other industrial branches ac-

⁷ The haulage of freight by trucks, rail, buses, and Arkia and the pumping of crude oil, refined products, and gas through pipelines.

⁸ Until 1979 the volume of crude oil pumped through the Eilat-Ashkelon pipeline for transit was far greater than the quantity destined for the Israeli market, and this ceased completely at the beginning of 1979.

⁹ The change in the output of the trucking industry is measured not directly but by means of indicators, such as the industrial production index, agricultural marketing, the transport of quarried products by truck, cement sales, etc. These estimates should therefore be treated with caution. The definition of the trucking branch includes all trucks, even those which are not used primarily for commercial haulage. This definition differs from that used for the national accounts.

counted for 2 percent of the real output advance.

A subsiding of demand for road haulage services was evident in the last quarter of 1979, particularly in the case of earthwork. After transport in connection with earthwork jobs had been on a high level since the final part of 1977, signs of a slump appeared at the end of 1979. The profitability of the trucking industry was also affected by developments on the supply side. At the end of 1978 and beginning of 1979 truck operators looked forward to a boom as a result of the sustained growth of the economy, and in particular the hope of participating in the projects connected with the military redeployment in the Negev and the construction of new air bases. At the same time the provision of special credit facilities for the purchase of trucks (which were cancelled in the course of 1979) encouraged the placing of orders for a large number of new vehicles for both replacements and the expansion of the existing fleet. A large percentage of these purchases were made when demand for trucking services had already weakened and the hopes of participating in the military redeployment in the Negev had failed to materialize. The truck fleet grew by approximately 5 percent during 1979,¹⁰ compared with a 1 percent decrease the year before; the expansion of haulage capacity was even more pronounced, considering the size and age of the vehicles.

The average annual increase in trucking tariffs for all types of freights was within the limits authorized by the government—74 percent. It should be emphasized that freight tariffs are subject to control, so that when there is spare capacity this control prevents the cutting of tariffs, since many of the major customers are public and government institutions which pay the authorized prices. In contrast, in the case of tenders (mostly for earthmoving jobs), haulage rates declined toward the end of the year.

3. COMMUNICATIONS¹¹

The output of the communications industry was up 6 percent in 1979, as against 10.5 percent the year before. Less the output of services provided to the defense establishment and other external factors, the growth rate slowed from 11 percent in 1978 to 7.1 percent. The number of employees rose about 2 percent in the year reviewed.

On the other hand, the output gain in telephone services (which account for roughly 80 percent of total revenues) was fractionally higher in 1979—a little over 9 percent as against 8 percent the year before. The outstanding feature in 1979 was

¹⁰ For lack of data on the 1979 fleet strength, the analysis here is based on estimates.

¹¹ Excluding the operations of the Post Office Bank. The data for previous years have been revised; those for 1979 are provisional. In calculating output and prices the base year has been changed. The discrepancy between the financial and physical data for the calendar years was discussed in previous Annual Reports.

Table XIV-2
TELEPHONE SERVICES, 1975-79

| | 1975 | 1976 | 1977 | 1978 | 1979 |
|-----------------------------------------------------------|--------------------------------|---------|---------|---------|---------|
| Direct subscriber lines connected ^a (thousand) | 583.6 | 627.0 | 671.2 | 717.1 | 765.8 |
| Number of installations (thousand) | 54.0 | 52.3 | 50.5 | 47.3 | 59.1 |
| Number of applications (thousand) | 75.6 | 66.5 | 69.7 | 73.6 | 72.2 |
| Applications outstanding ^b (thousand) | 179.6 | 185.1 | 192.7 | 209.1 | 220.5 |
| Meter pulses ^c (million) | 2,200.2 | 2,555.8 | 2,835.7 | 3,414.9 | 3,581.4 |
| Average number of meter pulses per direct subscriber line | 3,770 | 4,076 | 4,225 | 4,762 | 4,677 |
| | Percent annual increase | | | | |
| Installations | 19.2 | -3.1 | -3.3 | -6.3 | 24.9 |
| Applications | 1.1 | -12.0 | 4.8 | 12.8 | -8.1 |
| Applications outstanding | 7.6 | 3.1 | 4.1 | 8.5 | 5.5 |
| Meter pulses | | | | | |
| Total | 13.6 | 16.2 | 11.0 | 20.4 | 4.9 |
| International calls | .. | 49.7 | 122.1 | 63.3 | 16.7 |
| Average per line | .. | 8.1 | 3.7 | 12.7 | -1.8 |

^a A direct subscriber line is defined as a connection from a central exchange to a subscriber (a subscriber may have more than one direct line).

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

^c Excludes international calls placed via the operator.

Source: Ministry of Communications.

the large increase (approximately 25 percent) in the number of new telephones installed. This was in glaring contrast to the falling trend of the previous three years (see Table XIV-2). The upswing was particularly marked in the last quarter of the year, apparently as a consequence of measures taken to improve efficiency and a greater utilization of the available exchange capacity.

The year reviewed witnessed a drop in the number of new applications for telephones,¹² accompanied by a slower growth of the backlog of outstanding applications. However, the unsatisfied demand for telephones still exceeded 220,000 at the end of 1979, and the average waiting time for a telephone was 3-3.5 years. The utilization of telephone services is best measured by the number of meter pulses recorded; in 1979 the rate of increase slackened appreciably for both domestic and international calls. The volume of international calls had expanded rapidly since fiscal 1976/77, and the slowing of the growth rate in 1979 marked the

¹² This trend corresponds in direction, if not in intensity, to the changes in private consumption and real disposable income in 1979, but not to the consumption of durable goods. A comparison of these series is of limited significance, owing to the excess demand and the long waiting list for telephones, as well as to the fact that the demand for telephones by the public sector and businesses is motivated by different considerations than those of households.

end of the additional demand generated by the introduction of direct subscriber dialing that year.

The decline in the average number of meter pulses per telephone line in 1979 is largely explained by the fact that 85 percent of the new telephones installed went to households, while they accounted for only 76-78 percent of the total number of telephones in service.

The average increase in communication tariffs during 1979 lagged behind the rise in the consumer price index, in contrast to the experience of the previous year. A comparison of the price indexes for communication services (included in the consumer price index) with the general index in 1978 and 1979 shows a rise in the relative cost of such services.¹³

4. INTERNATIONAL TRANSPORT

(a) Shipping and Ports

The composition of the Israeli shipping industry's operations underwent a significant change in 1979. The severing of relations with Iran ended the import of crude oil from that country, for both local consumption and the transit trade (oil tankers account for some two-thirds of Israel's shipping capacity). The rapid expansion of Israeli shipping following the Six-Day War (as measured in terms of investment in the merchant fleet and the addition of carrying capacity) was closely related to the Eilat-Ashkelon oil pipeline, and revenues from this source accounted for a respectable share of the total income of the branch during the past few years. These operations were generally carried out on the basis of long-term freight contracts. With the outbreak of the Iranian crisis a large part of the fleet tonnage was diverted to the international oil transport market, where it operated on a voyage charter basis, which is inherently of a short-term nature (see the data on revenue from charter hire in Table XIV-3). That part of the tanker fleet that is not engaged in the transport of oil for the local economy has been laid up.

The situation in which Israeli shipping found itself in 1979 was apparently not of a permanent but of an intermediate, comparatively short-term character, which was made possible without any undue shocks, thanks to the brighter world oil transport picture this year. The data revealing a slight slackening of the industry's overall real output growth (from 6.4 percent in 1978 to 5 percent this year) may mask the transitory nature of this situation.¹⁴

¹³ During 1979 telephone tariffs increased as follows: installation fee—150 percent; monthly rental—170 percent; telephone calls—140 percent.

¹⁴ The change in real shipping output is measured as the change in revenue at constant prices. The estimated change in shipping prices was calculated by weighting the price change for freight transport (calculated by the Central Bureau of Statistics), fuel, and charter hire (calculated by the Bank of Israel). Since the index of freight rates is actually an index of revenue per unit of output, which is only partially adjusted for changes in the cargo mix, one should treat with caution any comparison of these rates with the indexes of world shipping rates.

Table XIV-3

ISRAELI SHIPPING REVENUE AND OUTPUT GROWTH, 1977-79
(IL million)

| Revenue by type of shipping | 1977 ^a | 1978 ^a | 1979 | Distribution of revenue (%) | | | Percent annual increase in real output ^b | |
|---------------------------------|-------------------|-------------------|-----------------|-----------------------------|--------------|--------------|-----------------------------------------------------------|------------|
| | | | | 1977 | 1978 | 1979 | 1978 | 1979 |
| Cargo (incl. fuel) ^c | 6,095.0 | 11,413.2 | 16,663.1 | 92.7 | 92.8 | 81.6 | 6.4 | -1.7 |
| Imports | 1,926.0 | 3,514.3 | 6,431.6 | 29.3 | 28.6 | 31.5 | | |
| Exports | 841.2 | 1,481.8 | 2,654.5 | 12.8 | 12.0 | 13.0 | | |
| Between foreign ports | 3,327.8 | 6,417.1 | 2,577.0 | 50.6 | 52.2 | 37.1 | | |
| Charter hire ^d | 413.5 | 688.7 | 3,298.8 | 6.3 | 5.6 | 16.2 | -2.0 | 105.1 |
| Miscellaneous | 68.2 | 197.5 | 448.1 | 1.0 | 1.6 | 2.2 | 56.0 | 51.7 |
| Total revenue | 6,576.7 | 12,299.4 | 20,410.0 | 100.0 | 100.0 | 100.0 | 6.4 | 5.2 |

^a The data for 1977 and 1978 have been revised; the 1979 data are provisional.

^b Calculated by the Bank of Israel and the Central Bureau of Statistics.

^c Includes crude oil in transit.

^d Excludes revenue from the chartering of vessels between Israeli companies.

Source: Central Bureau of Statistics and shipping companies.

Table XIV-4

ISRAEL'S MERCHANT FLEET, BY TYPE OF SHIP AND TONNAGE, 1977-79

| End of year | Number of ships | | | Tonnage (thousand deadweight tons) | | | Percent annual increase in carrying capacity ^a | | |
|--------------------------------------|-----------------|-----------|-----------|---------------------------------------|----------------|----------------|-----------------------------------------------------------------|-------------|-------------|
| | 1977 | 1978 | 1978 | 1977 | 1978 | 1979 | 1977 | 1978 | 1979 |
| General cargo | 57 | 50 | 55 | 594.7 | 578.9 | 670.2 | 5.8 | 2.3 | 6.7 |
| Refrigerated ships | 4 | 3 | 1 | 11.8 | 6.7 | 1.7 | -77.6 | 4.9 | -63.5 |
| Bulk carriers | 21 | 19 | 19 | 986.4 | 868.2 | 868.2 | 1.7 | -4.0 | -6.7 |
| Total dry cargo ^b | 82 | 72 | 75 | 1,592.9 | 1,454.0 | 1,540.3 | 1.0 | -1.1 | -1.2 |
| Tankers | 24 | 25 | 23 | 3,045.1 | 3,069.8 | 2,752.0 | 2.5 | 2.7 | -4.5 |
| Total cargo ships^c | 106 | 97 | 98 | 4,638.9 | 4,523.8 | 4,292.3 | 1.9 | 1.4 | -3.5 |

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

^b Excludes tankers.

^c Excludes fishing vessels.

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

The steep decline in shipping output due to the slump in oil transport was not compensated by a more rapid expansion of other cargoes, with the result that total real output from the transport of cargoes and fuel was down approximately 2 percent. Export tonnage was up by an impressive 17 percent, import tonnage continued to expand strongly (12 percent), with the uptrend sagging toward the end of the year, while the growth of cargo transport between foreign ports slowed significantly.

The cessation of the oil transit trade and the paltry increase in tramp freight rates because of increased competition depressed the share of international maritime trade in Israel's total shipping revenues from the 1978 peak of 58 percent to 53 percent, in spite of the much larger income this year from charter hire.¹⁵

Output prices (averaged over all branches of shipping) were up 7 percent in dollar terms in 1979. The biggest increases were in charter fees and import cargoes, while in export cargoes the rise was more modest. On the international lines, where competition is strong, there was even a decline in freight charges.

Financial data on Zim's operations in 1979 were not available when this chapter was written, but partial data show that the company finished the year in balance (in 1978 it incurred a loss due *inter alia* to the protracted strike in Israel's merchant marine).

The carrying capacity of Israel's fleet, as conventionally measured, declined 4 percent in 1979 (see Table XIV-4), but since the new ships acquired were mostly modern specialized vessels which replaced obsolescent ships that were sold or scrapped, the actual carrying capacity of the fleet did not change significantly. The net investment in the fleet in 1979 (purchases less sales of ships) came to about \$70 million.

Changes in import tonnage affect Israel's port output more than shipping output as a whole.¹⁶ During 1979 the volume of imports passing through Israel's ports was up 20 percent, compared with 13 percent the year before.¹⁷ Export cargoes, however, rose more slowly this year, so that on balance there was no marked change in the share of Israeli shipping in the country's total waterborne commerce (excluding fuel); it stood at 51-52 percent, with the share of imports falling and

¹⁵ There was a steep rise in world freight rates in 1979 (compared with previous years), particularly for tramp shipping and to a lesser extent in liner shipping (in which Zim mainly operates). This is attributable to the increase in operating costs following the rise in fuel prices, the global inflation, and the continued depreciation of the dollar. In addition, world maritime trade rebounded this year (particularly in the case of fuel, coal, and iron ore); the demand for transportation exceeded the additional available carrying capacity, although there is still spare capacity in many branches of world shipping.

¹⁶ A large percentage of port revenue comes from wharfage fees, which are levied on the c.i.f. value of imports, whereas exports are exempt. This discriminatory policy results in the subsidization of exports by imports.

¹⁷ The increase in general container cargoes was over 29 percent.

that of exports rising.¹⁸

(b) International Aviation and Airports

The output gain¹⁹ in international aviation and airports came to a respectable 14 percent in 1979, due mainly to the effects of the prolonged strike at El Al in the previous year. The rate of increase in total passenger movement to and from Israel nevertheless receded from 13 percent in 1978 to 9 percent.²⁰

The real advance in El Al's passenger output was 12 percent, as against less than 5 percent in 1978. Stronger gains were also posted in cargo output handled by El Al and CAL. All told, the output of Israel's airlines expanded by more than 15 percent in 1979, compared with 8.5 percent in the previous year.

The accelerated expansion of output is even more striking when measured in terms of passenger-kilometers and ton-kilometers (see Table XIV-5). It is noteworthy that in the world air transport industry (scheduled carriers) output growth slackened in 1979, when an 11 percent increase was posted in passenger-kilometers, as against 14 percent in 1978, but over the past two years El Al lagged behind the growth rate for the industry as a whole.

On the all-important North Atlantic route, El Al carried 17 percent more passengers in 1979, as compared with the 13 percent gain recorded for all scheduled carriers (excluding their charter flights).

Passenger and freight rates averaged 56 percent higher this year, equivalent to an 8 percent rise in dollar terms.

World airline profits declined in 1979 and many companies even suffered losses.²¹ This is explained by the soaring of fuel prices (particularly in the second half of 1979),²² the lag in adjusting fares for increased fuel costs, the weakening of IATA's effectiveness, and the decline in passenger traffic during the year. The international aviation industry is highly vulnerable to changes in the world economy, and comparatively minor changes in costs or demand result in heavy financial losses.

In spite of the positive developments (in real terms) in El Al's operations in 1979

¹⁸ In 1979 the share of the Israeli fleet (Israel-owned or chartered vessels) in the country's imports was 53.9 percent and in exports 48.5 percent.

¹⁹ The change in output, as stated, is measured as the change in revenue at constant prices. On airport output see note 4 to Table XIV-1.

²⁰ El Al handled 9 percent more traffic in 1979, compared with a 5.1 percent gain the year before. The company's share of passenger traffic at Ben-Gurion airport remained practically unchanged in 1979. The termination of air links with Iran hit the company's share of movement at Ben-Gurion airport particularly hard, since it handled 90 percent of the traffic on this route.

²¹ Operating profits (less interest payments) of all IATA airlines are estimated at 1 percent of turnover in 1979, compared with 2.4 percent in 1978.

²² For the scheduled international carriers fuel accounted for 17 percent of operating costs in 1978; it jumped to 22 percent in 1979 and is expected to reach 30 percent in 1980.

Table XIV-5
OUTPUT OF EL AL AIRCRAFT, 1977-79
 (Owned and chartered aircraft)

| | 1977 | 1978 | 1979 | Percent annual increase | | |
|-----------------------------------------------------------------------|-------|-------|-------|-------------------------|------|------|
| | | | | 1977 | 1978 | 1979 |
| 1. Available seat-km. (million) | 7,064 | 7,183 | 8,050 | 8.1 | 1.7 | 12.1 |
| 2. Revenue passenger-km. (million) | 4,890 | 5,001 | 5,674 | 12.7 | 2.3 | 13.5 |
| 3. Passenger load factor (2/1) (percent) | 69.2 | 69.6 | 70.5 | | | |
| 4. Available ton-km., freight (million) | 540 | 586 | 684 | 55.2 | 8.5 | 16.7 |
| 5. Revenue ton-km. (million) | 335 | 398 | 448 | 87.8 | 12.1 | 12.6 |
| 6. Ton-km. load factor (4/3) (percent) | 65.7 | 67.9 | 65.5 | | | |
| 7. Available ton-km., passenger and freight (million) ^a | 1,176 | 1,232 | 1,408 | 25.9 | 4.8 | 14.3 |
| 8. Total revenue ton-km., passenger and freight (million) | 795 | 842 | 959 | 37.0 | 5.9 | 13.9 |
| 9. Overall load factor (8/7) (percent) | 67.6 | 68.3 | 68.1 | | | |

^a Includes equipment chartered to CAL; excludes mail. For passengers, based on an average passenger weight (including baggage) of 90 kg.; includes scheduled flights, transport of new immigrants, and charter flights.

Source: El Al Airlines.

(and to a lesser degree in international aviation as a whole), the partial financial data available show a serious deterioration in El Al's profitability in 1979/80—an operating loss of \$55-60 million on a turnover of over \$400 million.

There are a number of reasons for this poorer performance. El Al normally operates under several constraints: its passenger clientele consists mainly of tourists, who pay discount fares, and to a lesser extent of business passengers, who pay full fare; it has high security outlays which are only partly recouped; and the company is overmanned in relation to the scope of its operations. All these factors make their impact felt particularly at a time when the company has ceased to expand and is still suffering from the cumulative effect of the strikes on its share of the international market and on its ability to compete successfully. In 1979 several additional factors affected El Al's financial results:

(a) Increased fuel prices. This brought up the share of fuel in total operating expenses to over one-quarter. El Al's fleet includes a number of Boeing 707s which are inefficient from the standpoint of fuel consumption.

(b) The change in government aviation policy. In 1978 the government lifted most of its protection of El Al and compelled it to face competition from the charter companies before it had a chance to fully adapt to the new situation. The year reviewed saw an increase of 31 percent in the number of tourists arriving in Israel on charter flights, while scheduled air traffic rose only 2-3 percent.²³

(c) In the existing market conditions following the signing of the Israel-U.S. aviation pact in the middle of 1978, which resulted in a real reduction of fares on this route, El Al's North Atlantic route has become a burden on the company. Approximately 30 percent of the company's scheduled flight passengers fly the transatlantic route, the least profitable and most competitive of all routes. Income per passenger-kilometer is well below that on other El Al routes, with the result that the share of the transatlantic route in the company's revenue is way below its share of output (in terms of passenger-kilometers) and expenditures.

On the other hand, at the beginning of 1979 El Al ceased its flights to Iran, which was one of its most profitable routes.

To cut down its losses the company will presumably have to modify the scope and nature of its operations on the transatlantic route, in addition to taking steps to increase efficiency and effect economies.

5. TOURISM²⁴

The slowing of the growth of international tourist traffic to Israel, which began in 1978, continued this year, when 1,139,000 visitors,²⁵ over one million of them tourists, came to the country.

The rate of increase in the number of visitors (and tourists) to Israel slightly eclipsed the rate for world tourism—4 percent this year, as against 8 percent in 1978.²⁶ Inflation and the general economic slowdown in the West were apparently responsible for the slacker growth this year.

Examination of the data on the average length of stay of tourists in Israel reveals a 5.4 percent increase in the number of tourist-days in 1979, compared with in-

²³ In the year reviewed 172,500 passengers arrived in Israel on charter flights (about 20 percent with El Al). It is estimated that of this total, 149,000 were tourists (24,000 of whom flew direct to Eilat). They accounted for 16 percent of total air tourist arrivals in 1979, compared with 13 percent the year before.

²⁴ The survey deals with international tourism to Israel, and not with internal tourism or imports of tourist services. International tourist traffic to Israel comprises tourists and visitors from cruise ships. It does not include one-day visitors from Lebanon.

²⁵ Of these, 81.3 percent arrived by air, 5.9 percent overland, and 11.3 percent on cruise ships. The 129,000 visitors from Arab countries to the administered areas are not included here.

²⁶ According to data on tourist arrivals. Income from tourism (excluding travel expenses) rose 15 percent in 1979, as against 18 percent in 1978.

creases of 1.4 and 18.1 percent in 1978 and 1977 respectively.²⁷

Income from tourism in 1979 reached an estimated \$790 million, equivalent to 22 percent of total service exports and over 9 percent of total exports of goods and services for the year; the contribution of the tourist industry to total export value added was even higher. Total revenue from this source rose 33 percent in 1979, or about 25 percent per tourist-day. In the absence of a direct measurement of the price increase for the total "basket" of tourist expenses, we have to rely on a number of indicators: official hotel prices rose 14-15 percent in dollar terms, but revenue per tourist bed-night, in dollars, was up only 7.4 percent.²⁸ The discrepancy between the two apparently lay in a change in the consumption "basket" sold to tourists by the hotels.²⁹ An estimate based on the services and commodities supplied to tourists shows that on an average the basket was 15 percent dearer in dollar terms in 1979. The real increase in tourist revenue, over and above that stemming from the increase in the number of tourist-days, was probably connected with the increased share of those coming to Israel as part of a package tour. Notwithstanding the high rate of domestic inflation, this country apparently did not become more expensive for the average western European tourist in 1979.

The number of bed-nights in hotels recommended for tourists was up 5.4 percent in 1979 (the number of bed-nights by Israelis rose to a similar extent); this exceeded the increase in the number of hotel rooms (4.4 percent), so that the hotel occupancy rate also rose. The supply of rooms in hotels of the top two grades continued to expand at a comparatively rapid rate, but since the number of bed-nights in such hotels generally rose faster than for the industry as a whole, their occupancy rate went up. In the past investors tended to prefer establishing such hotels (often contrary to declared government policy). Apparently the alternative price of the land and the availability of subsidized financing were mainly responsible for encouraging this, rather than purely tourist market considerations. The new policy of indexing nondwelling investment loans, including those to the hotel trade, is likely to change this picture in the coming years.³⁰

The proportion of tourists coming to Israel from Europe continued upward in 1979, and they accounted for 58.8 percent of the total (excluding cruise travelers). The number of such tourists, who make up the majority of those arriving on

²⁷ In 1977-79 the average stay in Israel was 5.8-5.9 tourist-days, similar to the figure for Greece and higher than that for Spain (1978 data).

²⁸ Based on hotel income, which is exempt from VAT; this is not necessarily the most appropriate measurement.

²⁹ In 1979 the index of hotel input prices rose on an annual average to the same extent as the consumer price index, and in dollar terms by 22 percent. As a result, there was a deterioration in the "terms of trade" of hotel tourist services over the year.

³⁰ Investment in the tourism infrastructure amounted to about IL1.5 billion in 1979, of which IL900 million was in hotels. This represents an increase of approximately 40 percent in real terms, compared with 8 percent in 1978.

Table XIV-6

TOURIST TRADE: BED-NIGHTS, LENGTH OF STAY, AND INCOME, 1976-79

| | 1976 | 1977 | 1978 | 1979 | Percent annual increase | | | |
|--------------------------------------------------------------|---------|---------|---------|------------------|-------------------------|------|------|------|
| | | | | | 1976 | 1977 | 1978 | 1979 |
| International tourist arrivals ^a (thousands) | 796.6 | 986.5 | 1,070.8 | 1,138.6 | 28.6 | 23.8 | 8.5 | 6.3 |
| Thereof: cruise travelers ^a (thousands) | 63.9 | 92.7 | 112.1 | 129.2 | 5.6 | 45.0 | 21.0 | 15.3 |
| Bed-nights in hotels recommended for tourists (thousands) | 5,347.0 | 6,509.7 | 6,727.1 | 7,088.1 | 35.5 | 21.7 | 3.3 | 5.4 |
| Thereof: In 4-5 star hotels (thousands) | 3,389.7 | 4,133.5 | 4,270.1 | 4,598.7 | 38.3 | 21.9 | 3.3 | 7.7 |
| Average stay of tourists (number of nights) | | | | | | | | |
| Up to one month | 12 | 12 | 11 | 12 | | | | |
| Up to three months | 16 | 16 | 15 | 16 | | | | |
| Median stay | 12 | 13 | 11 | 12 | | | | |
| Income in foreign currency | | | | | | | | |
| Total (\$ million) | 425 | 559 | 592 | 787 ^b | 45.5 | 31.5 | 5.9 | 32.9 |
| Average per tourist (\$) | 534 | 567 | 553 | 691 | 13.4 | 6.2 | -2.5 | 24.9 |

^a Excluding visitors and UN personnel entering from Lebanon.

^b Provisional estimate. In 1979 tourists exchanged \$794.2 million, as against \$617.7 million in 1978.

Source: Central Bureau of Statistics.

charter flights, increased 12.2 percent in 1979, practically the same rate as in the previous year. The number arriving by air from France rose 8 percent, with practically all of the increment on charter flights. Germany tourist traffic was up 18 percent, with scheduled flight passengers rising 22 percent and those on charter flights by 12 percent. For Britain the increases were 21 percent all told, 64 percent for charter flights, and only 6 percent for scheduled flights. The number of charter flight passengers from Scandinavia hardly changed in 1979, and almost the entire 6 percent increase was on scheduled flights.

Tourist traffic from the U.S. fell 2 percent this year. (Last year's Annual Report dealt with the reasons for the slowdown in American tourism to Israel; the number coming by air from the U.S. declined in 1978 as well.) In 1979 scheduled flight tourist traffic from the U.S. was down 4 percent and the increase in charter flight tourists was insufficient to offset this. According to statistics on American airborne tourists, traffic to European countries dropped 2 percent in 1979, while that to other destinations was up 6 percent. The American tourist apparently regards Israel as a European country from the point of view of the cost of stay and the comparatively high travel expenses involved.

Table XIV-7

HOTEL ROOMS, OCCUPANCY, AND EMPLOYMENT, 1976-79

| | 1976 | 1977 | 1978 | 1979 ^a | Percent annual increase ^b | | | |
|--------------------------------------------------------------------------|------|------|------|-------------------|--------------------------------------|------|------|------|
| | | | | | 1976 | 1977 | 1978 | 1979 |
| Number of hotel rooms (annual average, in thousands) | 24.2 | 24.9 | 26.3 | 27.4 | 2.5 | 3.0 | 5.6 | 4.2 |
| In hotels recommended for tourists (thousands) | 21.5 | 22.4 | 23.6 | 24.6 | 4.0 | 4.2 | 5.3 | 4.4 |
| In hotels of the two highest ratings (thousands) | 11.6 | 12.2 | 13.0 | 13.8 | 3.4 | 5.1 | 7.3 | 6.2 |
| Occupancy ratio in hotels recommended for tourists (local and foreign) | 51.2 | 55.0 | 53.5 | 54.7 | 15.8 | 7.4 | -2.7 | 2.2 |
| In hotels of the two highest ratings | 54.1 | 58.7 | 56.7 | 58.2 | 19.7 | 8.5 | -3.4 | 2.6 |
| Number of employees in recommended hotels (annual average, in thousands) | 13.6 | 15.0 | 16.8 | 17.4 | 9.8 | 10.7 | 11.8 | 3.5 |

^a At the end of 1979 there were 24,700 rooms in tourist hotels, of which 13,800 (55.9 percent) were in the highest rated hotels.

^b Calculated from unrounded figures.

Source: Central Bureau of Statistics.