

AN ANALYSIS OF FACTORS IN THE SUCCESS
OR FAILURE OF LUXURY INTERNATIONAL
HOTELS -- EXEMPLIFIED IN THE
STATE OF ISRAEL

Thesis for the Degree of M. A.
MICHIGAN STATE UNIVERSITY

Richard E. Kann

1962



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ABSTRACT

AN ANALYSIS OF FACTORS IN THE SUCCESS OR FAILURE OF LUXURY INTERNATIONAL HOTELS-- EXEMPLIFIED IN THE STATE OF ISRAEL

by Richard E. Kann

The objective of this study is to analyze some of the factors involved in the success or failure of luxury international hotels. The State of Israel was used as an example.

The methods used consisted of personal visits and interviews in the United States and Israel, field tours in Israel, and semi-structured interviews with management and personnel in Israeli hotels. Data was gathered on economic, cultural, scientific, educational, and tourist aspects of the country. All of these are felt of importance in considering investment in or operation of a luxury international hotel. Consideration was also given to the actual operation of hotels in Israel--their financing, clientele, seasonal fluctuations, effects of food laws, and the obtaining of quality goods necessary for a luxury operation.

The above information was presented to show the general situation and possibilities of luxury international hotels

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Richard E. Kann

in Israel. It also shows the potential investor the type of things to look for in any country in which he is considering such an investment.

It was found that in Israel, if certain changes are made in government policies regarding hotels and tourism and if physical facilities for tourism are improved, developed and promoted, the investment in luxury international hotels could be very sound.

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AN ANALYSIS OF FACTORS IN THE SUCCESS
OR FAILURE OF LUXURY INTERNATIONAL HOTELS--
EXEMPLIFIED IN THE STATE OF ISRAEL

By

Richard E. Kann

A THESIS

Submitted to
Michigan State University
in partial fulfillment of the requirements
for the degree of

MASTER OF ARTS

Department of Hotel, Restaurant, and Institution Management

1962

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This thesis could not have been completed without the help, patience and time of a great many people and agencies.

The author wishes to thank Dr. Robert W. McIntosh of the School of Hotel, Restaurant, and Institutional Management for his advice and many recommendations throughout the planning, research, and final presentation of this thesis.

I would like to extend deep appreciation to Mr. Meir de Shalit and the other members of the Israel Government Tourist Corporation who supplied considerable material and information of importance to this study. Sincere thanks are also due to Mr. John Mickam and Mr. John Gore of the United States Overseas Mission for their time, information and advice.

I am also indebted to the many owners, managers, and other hotel people in Israel whose cooperation constituted a major contribution to my study.

I owe immeasurable gratitude to my parents as it was their patience, advice, and assistance over many years which ultimately permitted this thesis to be written.

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CHAPTER I

INTRODUCTION

Purpose of the Study

In considering establishment of a place of business, a primary concern is usually whether or not such a business will succeed. In order to determine the probabilities of success, certain criteria are usually studied. Based upon any indications which these criteria may give either positive or negative action is then taken.

The purpose of this particular study is to try to determine what the relevant factors are which might indicate the probabilities of success or failure of luxury international hotels in Israel.

It is hoped that the study will be able to provide at least three results. The first would be a better understanding of the criteria which affect the success of the type of hotel under consideration in the area in which this study was made. The second would be the development of methods to relate results to each other and to luxury international hotel accommodations. The third would be

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a method of applying these methods to other areas of the world.

It is very probable that the specific criteria will vary from location to location. However, the methods of determining criteria, and of relating them to the future potential of luxury international hotels, should remain reasonably constant.

Limitations of the Study

This study is limited by (1) the tourists, (2) the hotels, and (3) the area under consideration.

The tourists are limited to those who would normally be considering accommodations of the luxury international type. This study therefore excludes the following groups: regular Jewish tourist business; extension visitors from Europe; Christian tour and F.I.T. business; pilgrim-type tours; European inexpensive vacation travel and youth groups, labor movements, and similar low-cost travel groups. These exclusions leave the following groups which this writer feels will probably influence the demand for luxury international hotel accommodations: round-the-world stopovers, cruise passengers, conventions and incentive sales groups,

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businessmen, and a small percentage of the regular Jewish tourist business.

The hotels are limited to those which would meet luxury international standards.¹ Of those hotels which are now in Israel, the writer feels that, at the most, six meet or come close to meeting these standards. These six contain 1,084 rooms. This is 18.4 per cent of the total accommodations of 5,892 rooms² available in tourist class hotels in Israel.

This study is further limited to the State of Israel. However, it is intended that the methods used in this study would be applicable to other parts of the world.

Methods and Procedures

Background information was first gathered so that the writer could become better acquainted with the State of

¹As at this time, Luxury international hotels in Israel have not yet been formally identified. Criteria were used which will be found later in this report. However, since certain value judgments were made, this figure is still somewhat subjective.

²This figure was arrived at by estimating the number of rooms which may be classified as meeting international luxury standards, as a per cent of the total number of tourist rooms available. The number of rooms was taken from "Tourist Hotel Rates, Israel, 1961."

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Israel. Material included current descriptions of the country and the people, its history, and any economic accounts available. This reading gave the writer an idea of the historical and economic context in which the study of luxury international hotels was to take place.

Current data was then collected and interviews made. Before leaving for Israel, a trip was made to the Israel Government Tourist Office in Chicago. From this source, considerable tourist literature and a number of studies were obtained. The following Chicago offices were also visited: the Israel Airline Office, El Al; the Israel Shipline Office, Zim; the American Express Tourist Office; the French Tourist Office; and the British Tourist Office.

Although little information was available from the Israel ship and airlines offices and the American Express Tourist Office, as the writer had hoped, the French and British Tourist offices furnished material which supplied good examples of the classification systems of hotels in those countries.

The two days before the departure for Israel were spent in New York. During this time a brief interview was held with Mr. Victor Bennahum of the Israel Government Tourist

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Office. Also, the writer was privileged to attend several of the meetings between the executives of Hilton Hotels International and the group which is planning to build a Hilton Hotel in Tel-Aviv. At these meetings, plans for the hotel were discussed and the contracts were signed. Other meetings were attended which were concerned with the financing of the hotel.

In Israel,³ the writer first made a series of background interviews. Contact was made with the main office of the Israel Government Tourist Office. Several interviews were held with members of this office and a considerable amount of material was obtained.

Meetings of the Israel Bond Drive Convention were attended which yielded the opportunity of gaining a further insight into the development of the country of Israel and the opportunity to meet several of the members of the government.

At the same time several meetings between the group building the Hilton Hotel and the Israeli architect who is designing the hotel were attended, and many of the problems of building a hotel in Israel were brought to this writer's attention. Through the architect, several of the other

³The writer spent four weeks in Israel.

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people who may be involved with the Hilton Hotel were met.

Initial research was followed by personal observation tours throughout the country. Visits were made to various cities, harbors, factories, farming communities, and tourist attractions. Interviews were then held with as many hotel personnel as possible. The time of the interviews ranged from ten minutes to two hours with the average being approximately an hour. Hotels covered were: Tel-Aviv; Dan, Ramat-Aviv, Sheraton; Jerusalem; Holyland, King David; Haifa; Zion, Shulamit; Eilat; Eilat, Tropacana; Herziliya; Accadia Grand Hotel, Sharon.⁴

Interviews concentrated mainly on A class hotels as these were felt to relate most closely to the luxury international hotels under consideration. It was impossible to have interviews in many of the hotels in Israel due to lack of time in any one place or the unavailability of the responsible personnel.

Other interviews held were with Mr. John Mickam, Acting

⁴The Dan Hotel, the King David Hotel, and the Accadia Grand Hotel are under one ownership as are the Sharon Hotel and the Eilat Hotel. Interviews held with managers in these hotels were at times relevant to other hotels in the same organization.

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Chief of the Industry Division of the United States Overseas Mission in Israel; Mr. John Gore, Program Assistant of the same organization; and Dr. Kurt J. Licht, Secretary General, Israel Caterers' Association.

Accumulation of data obtained from the four sources itemized above--that is, background information, personal visits and interviews in the United States and Israel, field tours in Israel, and semi-structured interviews⁵ with Israeli hotel personnel--forms the working basis for the study that follows. An attempt will be made to evaluate the international hotel situation in Israel as it is at the present time. A further attempt will be made to project what it could be in the future.

⁵The basic interview questions are found in Appendix C.

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CHAPTER II

A SHORT HISTORY OF ISRAEL

The history of Israel dates from early Biblical times. At the time of the Roman destruction of the Judean State in 135 A.D. the Jews were forced to leave the area which is now Israel. This dispersion lasted for 1900 years. During that time, the Jewish people remained intact and kept their identity because of a common religion and cultural background. Some have returned to the area which is now Israel.

During these centuries Palestine was controlled by a number of countries. At the end of the First World War, it was claimed from Turkish rule by the Allied Powers and in 1922 the League of Nations put the area under the mandate of Great Britain.

Even before this, there had been pressure for the establishment of a Jewish state and in 1917 Great Britain issued the Balfour Declaration which stated that:

His Majesty's Government view with favour the establishment in Palestine of a National Home for the Jewish People: and will use their best endeavours to facilitate the achievement of this object, it being clearly understood that nothing shall be done which may prejudice the civil and religious rights of non-Jewish

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communities in Palestine, or the rights and political status enjoyed by Jews in any other country.

This was the first statement which officially recognized the desire of Jews to return to Palestine.

The document also marked the beginning of Arab and Jewish riots which continued until after the establishment of the state. The Arabs occupying the land felt the area was rightfully theirs and resisted establishment of the Jewish State. As a result of Arab pressure, the British severely restricted immigration to Palestine, a restriction which was protested by Jews throughout the world.

The rise of Hitler and the Nazis created the need for many Jews to leave Europe. Palestine was a logical destination. However, a resulting Arab pressure caused the British to restrict immigration even more severely. The British issued the White Paper in 1939 which stated that the mandate would expire in ten years if a constitution could be drawn up in that length of time. Immigration was restricted to 75,000 Jews in the ensuing five years and there was no guarantee that at the end of the ten year period the mandate would be terminated. Furthermore, the state which was to be established was to be predominately

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Arab. This was inconsistent with the intent of the Balfour Declaration of 1917.

After the Second World War, with the British still denying Jews immigration to Palestine, illegal immigration increased. The Jewish immigrants were brought into Israel by the Hagana, an illegal Jewish military organization which formed the backbone of the Israel army at the outbreak of the War of Independence. During the period of the mandate the population of Palestine trebled to 1,800,000, of which two-thirds were Arabs and one-third were Jews.

Outbreaks of violence between Jews and Arabs, and between Jews and British, and increased illegal Jewish immigration, caused the British to submit the Palestine problem to the United Nations in February of 1947. On November 29, 1947 the United Nations voted for the partition of Palestine into Jewish and Arab sectors which are now Israel and Jordan respectively. The plan provided for the British Civil Government to leave Palestine by June, 1948 and for the armed forces to leave by August of the same year. The British were to withdraw from the area in an organized manner.

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However, instead of an orderly withdrawal, the British disrupted important services upon their leaving--disruption that set up a condition favorable to the outbreak of war. It has been suggested that England would have been pleased had the Arabs, with their superiority in men and machines, quickly defeated the Jews, and so open a way to a resumption by England of her mandate power. Had this occurred, the loss of Palestine, which was a severe blow to British colonial policy, may have been averted.

However, the Israelis not only won the War of Independence but also gained more territory than had been allotted to them in the original grant.

The hostilities, which had begun immediately after the Partition plan was announced, continued until June of 1948 when Count Bernadotte negotiated a cease fire. This lasted for one month and fighting resumed on July 9th. A second truce was negotiated but clashes continued throughout it. Finally, in February of 1949 an armistice agreement was signed by Egypt which was followed by armistices with the other participating Arab countries. However, peace negotiations never formally materialized. Constant border incidents occurred, with the Arabs instigating most of

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them, until October of 1956 when the Israelis invaded the Gaza Strip on the Sinai Peninsula and in a five day campaign wiped out the Arab attack bases. Since that time no *serious* outbreaks have occurred.

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CHAPTER III

ISRAEL AS A NEW STATE

General Economic Considerations and Their Possible Relationships to Tourism

As a new country, many elements now affect the State of Israel which may be expected to change at some time in the future. Most new countries, in fact, have gone through a stage similar to the one Israel is now facing--that is, when imports greatly exceed exports and considerable financial aid is required from outside the country. A growing United States required money and technology from Europe in order to develop her own resources. Indeed, it was not until after the First World War that the United States was recognized as an independently solvent nation in the family of nations.

This is the situation that Israel finds herself in today, for without considerable outside assistance she probably could not survive. Many critics use this fact to argue that she should not exist or is economically unsound. While some of their points may be pertinent it should be

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restated that outside aid is generally necessary for any area's initial development.

In this section of the paper, an attempt will be made to show how Israel has fared economically thus far, how any success has been accomplished, and what implications this may have for tourism.

As the government of Israel has very incomplete travel statistics on the reasons why tourists go to Israel, it is very difficult to determine the number who go as a result of investments and other financial interests. In direct questioning there is often a discrepancy between the real purpose of the tourist's visit and the answer which is given. The Israel government asked this question of tourists who were leaving the country in 1959 instead of on arrival. Those who arrived in 1958 and left in 1959 were not asked at all. Therefore, nearly 31 per cent of the tourists gave no information as to the purpose of their visit. In July, 1960 the question was dropped altogether.¹

As a result of this lack of information, a more practical methodology is needed to investigate the relationship between

¹ Israel, Central Bureau of Statistics, Israel Tourist Statistics (1959), Special Series No. 105, Jerusalem (1961), XIII.

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investment and tourism. A consideration of the various factors involved, of their trends, and of how they move relative to each other would seem appropriate.

Seven Sources. There have been seven basic means through which outside money has arrived in Israel. These are: (1) donations and gifts, (2) purchases of Israel bonds, (3) the financing of enterprises, (4) loans from the Import-Export Bank, (5) loans from other governments, (6) exports, and (7) German reparations.

Some of the sources may be expected to decline in the future as the country matures. These include donations and gifts, loans from the Import-Export Bank, loans from other governments, and German reparations.

Donations, gifts and loans are afforded a new country to enable it to become a functioning, independent economic unit, and will be expected to cease when the need for them is found to no longer exist. German reparations are payments granted citizens of Israel and the Government of Israel for damages done during the Second World War. These are due to be terminated in mid-1963.²

²don: Hedley V. Cooke, Israel--A Blessing and a Curse (London: Stevens & Sons Limited, 1960), p. 65.

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³ Ibid.

⁴ Israel, Development,

⁵ Persona

⁶ Ibid.

The purchase of bonds and the financing of enterprises will possibly continue for some time. At present, many investments may be the result of sentimental and emotional feelings.³ The total sales figures of Israel bonds had reached over three hundred and forty million dollars in 1958 at which time the annual income from them formed one-third of the revenue in the development budget.⁴

One estimate is that probably eighty per cent of the bonds are purchased because of sentimental attachments.⁵ As the government of Israel is acknowledged to have a very active and apparently effective promotional department,⁶ it would appear that these investments could continue for a considerable length of time.

Hedly V. Cooke, an American expert in Middle Eastern affairs, feels that these investments for sentimental purposes are due to decrease however. He also points out that many of the products which are produced in Israel could be

³Ibid.

⁴Israel, Central Office of Information, Partners in Development, Jerusalem, 1961.

⁵Personal interview.

⁶Ibid.

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imported at considerably less expense.⁷ However, it would seem to be the case that most countries prefer economic self-sufficiency and so protect their own industries in order to achieve this goal.

The business columnist, Sylvia Porter, makes the following statement.

The reason Israel is economically alive in this, her 13th birthday year, is because she has been fed continuously and generously by "sentimental money."

From the instant on May 14, 1948, that her independence was proclaimed, the sentimental dollars have flown without interruption into the reclaiming of her arid land, the building of her houses, the development of her agriculture, the creation of her industries.

It has come in the form of United States Government and private loans and contributions, German reparation and restitution payments, tourist expenditures by people all over the world making a pilgrimage to the sacred sites where the Jewish and Christian religions began.

Without this financial help the plain fact is that Israel simply could not have made it. Actually, she still imports twice as much as she exports. Her accounts with other nations would be drowning in red ink were it not for the offsetting black ink provided by this extraordinary cash inflow.⁸

Possibly, sentimental money does not comprise a sound financial basis for the development of a nation. However,

⁷ Cooke, p. 50.

⁸ Sylvia Porter, "Investors Getting Interested in Israel," Detroit Free Press, October 30, 1961, p. 20.

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as will be shown in the following pages, there is evidence in the performance of investments already made that the money may well become sound on its own merits.

This is not to claim that all industry in Israel is without inconsistencies. Alex Rubner gives the following examples of government policies which could be regarded as somewhat questionable.

In 1953 82,000 tons of cement were exported--three-quarters of which went to Turkey. Yet it appears that the export of Israeli cement did not improve Israel's balance of payments, for it can be learned that "large quantities of cement were ordered from Germany . . . and will arrive in about four to six weeks. The decision to order the cement from Germany . . . was arrived at in view of the shortage of cement in the country and the unwillingness of the Government to cut down the amount of cement to be exported."

Those who will one day write the economic history of Israel will probably note with astonishment that, in the Dov Josef period, oranges were at times rationed, maximum price orders on fresh citrus fruit existed and offenders were brought before the courts for operating on a citrus black market. During the harvest a special constabulary of temporary inspectors was enrolled to help the police in the drive to export the maximum quantity of oranges. Press reports tell us: ". . . this week the black market price of grapefruits and tangerines fluctuated between 350-400 Prutoth per kg., whilst the official price is 260 Prutoth. No tangerines are released this week for the home market . . . as the fruit is reserved for export." The Marketing Board published, at its own expense, the following advertisement in the daily press to deter potential offenders in the farming community: "On a path off the main highway, near Ramath Gan, a cart with six sacks of oranges was discovered without the driver being in possession of a movement

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Order. He was arrested and the fruit confiscated. Legal action is being taken against the farmer from whose grove the oranges are said to have come."

The artificial shortage of fresh fruit caused by this coercive policy of "forced citrus exports" was relieved, in part, by the devious IwP of fresh apples, pears, tinned fruit, dried fruit, etc., at rates of 4-7. It has been remarked, with some apparent justice, that if in 1953 \$500,000 of citrus would have been diverted from the export markets to the Israeli domestic market, the diminished demand for alternative luxury fruit would have cut the import bill by more than \$500,000 and there would have been no need to ration "Jaffas" in Israel.

In 1958 the following was reported: "Israel . . . was forced to introduce the rationing of oranges in the home market in order to meet the export requirements of the canning industry."⁹

It is possible that Israel will reach a point where these procedures will no longer be considered necessary. The country must work towards as favorable a balance of trade as possible and develop markets abroad in anticipation of the time when it will be possible to export as much as the market demands and still meet demands of the local market.

An indication of Israel's problems is offered in the following two excerpts from current news stories:

Finance Minister Levi Eshkol said Israel must increase productivity and cut production costs by 25 per cent to meet competition from the European Common Market.¹⁰

⁹Alex Rubner, The Economy of Israel (New York: Frederick A. Praeger, 1960), pp. 200-201.

¹⁰Detroit Free Press, January 24, 1962, p. 11.

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The Agency for International Development announced a 10-million-dollar, 20-year loan to Israel. The funds will be used to purchase United States machinery, other goods and services to develop Israel's economy."¹¹

Finally, the following recent newspaper article seems to summarize some of the economic problems very well.

Israel is working hard to reverse the brush-off recently given her application for participation in the European Common Market. Premier David Ben-Gurion has sent his finance minister, Levy Eshkol, to Europe to play some of the aces he feels Israel has up its sleeve.

The predominant view here is that Israel would face bankruptcy if left totally outside the Euromart framework. But some officials are gloomy for another reason. They fear a revolutionary impact inside Israel if association with Euromart is achieved.

The basic problem is that Israel's economy is simply not competitive with that of the Common Market countries.

Any arrangement with the Euromart would open Israel to invasion by cheaper goods. To compete, this country would have to drop the subsidies, tariffs and other crutches now supporting Israeli agriculture and industry.

The result would be an upheaval in the entire social structure on which the Jewish state is based. Time-honored precepts of Zionism costly showcase projects, etc. would have to give way to cold efficiency, unsentimental logic and clear-cut profit incentives.

For example, many industries and major agricultural projects are subsidized by the government because they employ new immigrants and elderly persons, or for other political, strategic or psychological reasons. These could not compete with Euromart products if present tariff walls were abolished.

Israel's famed Kibbutz settlements (collective villages) are unable to produce inexpensive products because

¹¹Detroit Free Press, February 14, 1962, p. 11.

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their local economies are top-heavy with social benefits for members, including free housing, clothing, food, education, medical care, etc.

"We are Zionist pioneers and intellectual farmers, not peasants," the kibbutzniks explain. But this attitude will hardly enable them to compete against Euromart products once government aid to the kibbutzes is withdrawn.

There are a few villages and factories that are profit making by European standards. The Sabra Auto plant in Haifa is one example. But it is estimated that 90 per cent of Israel's economy would face major dislocations if the country were tied to the Common Market.

But the alternative is even worse. To be left outside the ECE would mean a national disaster, in the view of Israeli authorities. For example, one of Israel's major foreign currency earners is her citrus fruit crop. And her sales of oranges, lemons and grapefruit to Common Market countries have already been cut in half because Italian and Algerian fruits are now cheaper by virtue of the tariff difference.

After Great Britain joins the market, Israel's fruit will have even more trouble finding customers. About 12 per cent of the crop now goes to East Europe but those countries don't pay in negotiable currencies. They barter inferior-quality goods for them.

Comparable problems will exist for Israeli diamonds, plastics, fertilizers, chemicals and textiles.

Premier Ben-Gurion is said to blame his advisors for having missed the portents for Israel in the European Economic Community. These advisors didn't believe ECE would come into being so fast. They told the premier to go slow and avoid the domestic upsets involved.

He accepted their advice, but now that he is trying to repair the damage, he believes that his traveling emissary, Minister Eshkol, has some trumps to lay on Euromat tables.

Israel can guarantee to buy from Common Market countries a billion dollars worth of their products per year starting in 1965. Purchases are running close to \$800 million now.

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This is a rate of external buying far in excess of most countries Israel's size. Israel's economy is such that these goods have to be found some place. Inability to align with ECE would undoubtedly mean some reorientation of trade towards the Soviet bloc.¹²

Here we see certain economic conditions discussed and possibly justified and also indications of some of the criticisms faced by Israel's government. However, before beginning a discussion of the relationships between investment and tourism, it would seem necessary to give more of the country's economic background.

Tables Show Israel Economy. An example of government legislation for the furthering of investments will be found in Appendix A. This legislation has very definite effects upon the construction and operation of hotels in the country.

The sets of figures which appear with the following seven tables have been chosen to give a clearer picture of Israel's economics. Consideration was given to their value as indicators of the economy's movement and also to their apparent intra-group consistency. Figures for factors which did not appear to be consistent or reliable were not used.

¹²Leo Heiman, "Israel Boobytrapped by Common Market," The State Journal (Lansing), March 11, 1962, p. 8.

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In the accompanying text, an attempt will also be made to show how tourism has moved relative to those indicators so tabled. An eighth table relates to tourist expenditures.

Table 1 indicates that a very large amount of government revenue comes from abroad--approximately one-third. It is apparent from this table that revenue from bonds, German reparations, and other foreign loans is decreasing while loans and grants-in-aid from the American government are increasing.

Table 2 shows the development of the gross national product from 1949 through 1960. As noted, there has been an average increase in gross national product of 25.5 per cent per year. As an average this would appear to be very favorable. However, the per cent change per year appears to be decreasing with time.

Table 3 should give some concept of the change in investment with each year. There may be some discrepancy in the table as the "current prices" and the "1957 prices" do not necessarily change relative to each other. Furthermore, the "estimate of net investment in fixed assets at 1957 prices" would appear to be a rather unreliable figure as this is after the deduction of depreciation from gross investment.

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TABLE 1

ESTIMATED GOVERNMENT INCOME AND ACTUAL REVENUE
(in IL. mn.)^a

Item	Actual Revenue 1958/59	Actual Revenue 1960/61	Estimated Revenue 1960/61
Total	1,193	1,361	1,689
A. ORDINARY REVENUE	743	867	1,074
Income-tax	252	280	332
Customs	126	184	240
Customs (fuel)	37	53	58
Excise	77	79	94
Purchase-tax	70	96	122
Interest on loans received	42	58	65
Miscellaneous (including Defense-Levy)	139	117	163
B. EXTRAORDINARY REVENUE			
from foreign sources:	441	484	602
American grants-in-aid and loans	71	73	80
Independence and Devel- opment Bonds and other foreign loans	105	143	102
German reparations	77	77	72
from internal sources:			
Loans from national insurance and other institutions	43	49	65
Collections on account of loans and Government property	45	55	70
Securities issued	50	40	110
Other extraordinary revenue	50	47	103
C. TRANSFERRED REVENUE	9	10	13

^aA. Halpern (ed.), Review of Economic Conditions in Israel, No. 34 (Tel-Aviv: Bank Leumi Le-Israel B.M., July, 1961), p. 9.

TABLE 2

GROSS NATIONAL PRODUCT, 1949-1960^a

Year	Gross National Product (in IL. mn.)	Per Cent Change Per Year
1949	345	0
1950	475	+38
1951	691	+46
1952	1,064	+54
1953	1,349	+27
1954	1,771	+31
1955	2,114	+19
1956	2,543	+20
1957	3,064	+20
1958	3,530	+15
1959	3,637	+03
1960	3,928	+08

^aCompiled from: 1949-1957; Israel, Israel Government Yearbook, 1958 (Israel: The Government Printer, 1959), p. 442. 1958; Israel, Israel Government Yearbook, 1959/60 (Israel: The Government Printer, 1960), p. 437. 1959; Misha Louvish (ed.), Facts about Israel, 1961 (Israel: The Information Department, Ministry for Foreign Affairs, 1961), p. 79. 1960; A. Halpern (ed.), Review of Economic Conditions in Israel, No. 34 (Tel-Aviv: Bank Leumi Le-Israel B.M., July 1961), p. 1.

ESTIMATE

	Gross In Fixed
	At Current Prices IL. Million
Last half, 1948	20
1949	80
1950	128
1951	191
1952	296
1953	333
1954	416
1955	551
1956	655
1957	840
1958	924
1959	1,000
1960	1,076
Total	6,510

^aCompiled from
Yearbook, 1958
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TABLE 3

ESTIMATE OF GROSS INVESTMENT IN FIXED ASSETS,
1948-1960^a

	Gross Investment in Fixed Assets		Estimate of Net Investment in Fixed Assets	Per Cent Change Per Year in Gross Investment at Current Prices
	At Current Prices IL. Million	At 1957 Prices IL. Million	at 1957 Prices IL. Million	
Last half, 1948	20	125	100	0
1949	80	440	376	+300
1950	128	591	515	+48
1951	191	649	547	+49
1952	296	565	458	+55
1953	333	474	363	+12.5
1954	416	542	409	+25
1955	551	650	505	+32.5
1956	655	695	538	+19
1957	840	840	664	+28
1958	924			+10
1959	1,000			+08
1960	1,076			+08
Total	6,510	5,571	4,475	Average +50

^aCompiled from: 1948-1957; Israel, Israel Government Yearbook, 1958 (Israel: The Government Printer, 1959), p. 452. 1958; Israel, Israel Government Yearbook, 1959/60 (Israel: The Government Printer, 1960), p. 442. 1959-1960; A. Halpern (ed.), Review of Economic Conditions in Israel, No. 34 (Tel-Aviv: Bank Leumi Le-Israel B.M, July 1961), p. 16.

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This depreciation may be rather difficult to ascertain.

The average per cent increase per year in gross investment in fixed assets from mid-1948 to 1960 is 50 per cent. However, the percentage change per year tends to decrease over the time period and the year 1949, with a 300 per cent increase, would raise the average considerably.

In table 3 it is necessary to remember that the figures for the year 1948 are only for the last half of 1948. Therefore, the 300 per cent increase in gross investment in fixed assets between 1948 and 1949 would be considerably distorted.

Another factor which may indicate a country's progress is the amount of building completed each year. Table 4 shows how building has moved from 1949 through 1960. As noted, the average increase, in terms of total area, is 15.5 per cent.

The number of approved enterprises which have been and are being constructed in Israel may be found to fluctuate relative to the number of incoming tourists. Table 5 shows the activity that has been taking place in this area. As noted the average percentage change per year in total number of approvals is +21 per cent.

Year	Area Square Meters
1949	8
1950	1,
1959	2,
1952	2,
1953	1,
1954	1,
1955	1,
1956	1,
1957	1,
1958	2,
1959	2,
1960	2,
Total	22,

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TABLE 4
BUILDING COMPLETED, 1949-1960^a

Year	Area 1,000 Square Meters	Of Which Residential		Per Cent Change per Year in Total Area
		Area 1,000 Sq. M.	Number of Rooms	
1949	843	749	32,431	0
1950	1,249	1,133	48,005	+48
1951	2,137	1,946	82,279	+71
1952	2,101	1,811	66,667	-01.7
1953	1,158	842	31,667	-45
1954	1,412	1,204	42,441	+22
1955	1,787	1,575	64,824	+26.5
1956	1,963	1,738	69,730	+10
1957	1,911	1,598	68,000	-02.7
1958	2,607	1,976		+36
1959	2,681	2,046		+03
1960	2,774	1,985		+03.5
Total	22,623	18,603	506,044	Average +15.5

^aCompiled from: 1949-1957; Israel, Israel Government Yearbook, 1958 (Israel: The Government Printer, 1959), p. 449. 1958; Misha Louvish (ed.), Facts about Israel, 1961 (Israel: The Information Department, Ministry for Foreign Affairs, 1961), p. 102. 1959-1960; A. Halpern (ed.), Review of Economic Conditions in Israel, No. 34 (Tel-Aviv; Bank Leumi Le-Israel B.M, July 1961), p. 18.

While the figures seem to show apparently erratic fluctuation if the predictions to be discussed in the next chapter are accurate, the year 1960 may be found to be the beginning of investment for economic purposes rather than for sentimental purposes.

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TABLE 5
APPROVED ENTERPRISES, 1950-1960^a

Year	Number of New Approvals	Per Cent Change per Year
1950	328	0
1951	350	+06.7
1952	176	-50
1953	88	-50
1954	78	-11
1955	104	+33
1956	107	+03
1957	118	+10
1958	109	-07
1959	125	+15
1960	450	+260
Total 2,033		Average +21

^aCompiled from: 1950-1958; Israel, Israel Government Yearbook, 1959/60 (Israel: The Government Printer, 1961), p. 165. 1959-1960; Israel, Government of Israel Investment Authority, Israel--A Growth Economy.

Another indicative factor in any country is the balance of trade. This factor as applied to Israel must be considered with a reasonable number of reservations.

First, the use made of the imports influences the impressions. If imports are used for consumption, they are adding little to the country's productive capacity. However, if they consist of capital goods they represent an investment

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These trade figures are given in table 6. It is noted that the "import surplus" tends to stay within a particular range, namely \$224 million and \$356.6 million. For the reasons mentioned above, this may be a rather unreliable statistic. Also, the country is still in its very early stages. The percentage change per year is also noted as erratic, and no doubt varies considerably with world situations and government policy.

It is still early to determine what the outcome of the balance of trade will be. Many years will probably pass before the capital imports begin to seriously affect export revenue. However, increased capital investments should hasten the time when Israel will have a favorable balance of trade.

How the movement of these economic factors affects tourism because of the interest which they generate in themselves is difficult to determine. Many investors and philanthropists do probably go to Israel in order to see

TABLE 6

CURRENT EXTERNAL BALANCE OF TRADE, 1949-1960, AT CURRENT PRICES^a
(\$ millions)

Imports	Exports	Import	Per Cent Change per Year,
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TABLE 6

CURRENT EXTERNAL BALANCE OF TRADE, 1949-1960, AT CURRENT PRICES^a
(\$ millions)

Year	Imports			Exports			Per Cent Change per Year, Import Surplus
	Commod- ities	Serv- ices	Total	Commod- ities	Serv- ices	Total	
1949	266	23	289	31	14	45	0
1950	301	29	330	37	10	47	+16
1951	389	36	425	47	10	57	+30
1952	323.1	70	393.1	44.5	42	86.5	-16.8
1953	281.9	83.3	365.2	56.3	46	102.3	-14.1
1954	292.6	76.2	368.8	87.7	44.9	132.6	-10.1
1955	333.4	93.2	426.6	88.9	55	143.2	+19.7
1956	367.0	167.5	534.5	109.7	68.2	177.9	+26
1957	431.9	128	559.9	139.1	83.4	222.5	-05.4
1958	422	151	573	141	98	239	-01
1959	426.4	167.6	594	179.7	110.3	290	-09
1960	495.8	163.2	659	659	140	350	+01.7

^a Compiled from: 1949-1957; Israel, Israel Government Yearbook, 1958 (Israel: The Government Printer, 1959), p. 454. 1958; Israel, Israel Government Yearbook, 1959/60 (Israel: The Government Printer, 1961), p. 444. 1959; Misha Louvish (ed.), Facts about Israel, 1961 (Israel: The Information Department, Ministry for Foreign Affairs, 1961), p. 108. 1960; A. Halpern (ed.), Review of Economic Conditions in Israel, No. 34 (Tel-Aviv; Bank Leumi Le-Israel B.M, July 1961), pp. 11-12; Levi Eshkol, Investment for the Future, Budget Address by the Minister of Finance to the Knesset, Jerusalem, January 3, 1961 (Jerusalem: The Ministry of Finance, Public Relations Department, 1961), pp. 9-10.

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Table 7 shows

1951 through 1960

Year	Number of Tours
1951	35,8
1952	32,9
1953	35,2
1954	38,6
1955	48,2
1956	42,5
1957	44,5
1958	69,7
1959	83,6
1960	118,6

^aCompiled
the Continued
Prepared by Cr
Forster & Comp
II-3, opposite
Annual Report,
1961), p. 2.

what is being done with their money. Further consideration of this will be found in the following chapters.

Table 7 shows the movement of tourism to Israel from 1951 through 1960.

TABLE 7
TOURISM TO ISRAEL, 1951-1960^a

Year	Number of Tourists	Per Cent Change in Number of Tourists per Year	Tourist Expend- itures (\$ thousands)	Per Cent Change in Tourist Expendi- tures per Year
1951	35,893	0	--	--
1952	32,965	-08.2	2,460	0
1953	35,212	+06.8	3,754	+53
1954	38,661	+09.8	4,811	+28
1955	48,212	+24.7	7,221	+50
1956	42,567	-11.7	6,565	-09
1957	44,562	+04.7	5,470	-17
1958	69,777	+56.7	12,006	+111
1959	83,614	+19.8	15,810	+32
1960	118,000	+41.6	26,999	+72

^aCompiled from: Government of Israel, A Program for the Continued Development of Tourism in Israel, A Report Prepared by Cresap, McCormick and Paget; Harris, Kerr, Forster & Company; Stanton Robbins & Co., Inc., 1960, pp. II-3, opposite II-6. Israel Government Tourist Corporation, Annual Report, 1960 (Jerusalem: The Government Printer, 1961), p. 2.

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TABLE 8
TOURISM AS A PER CENT OF GROSS NATIONAL PRODUCT, 1952-1960

Year	Gross National Product (\$ Millions)	Tourist Expend- itures (\$ Millions)	Tourist Expenditures as a Per Cent of Gross National Product
1952	590	2.5	0.3
1953	750	4.0	0.5
1954	980	5.0	0.5
1955	1,170	7.0	0.6
1956	1,410	6.5	0.5
1957	1,700	5.5	0.3
1958	1,960	12.0	0.6
1959	2,000	16.0	0.8
1960	2,200	27.0	1.2

Table 8 shows tourist expenditures as a per cent of gross national product. It can be seen that tourism relative to gross national product has quadrupled in percentage from 1952 through 1960, making it one of the fastest growing industries in the economy.

Gross national product has grown 273 per cent while tourist expenditures have grown 980 per cent in the same period of 1952 through 1960.

The decline of 1956 and 1957 can be explained by the Sinai Campaign when United States citizens were not permitted to go to Israel. Otherwise, as noted, there has been a consistent increase in tourism.

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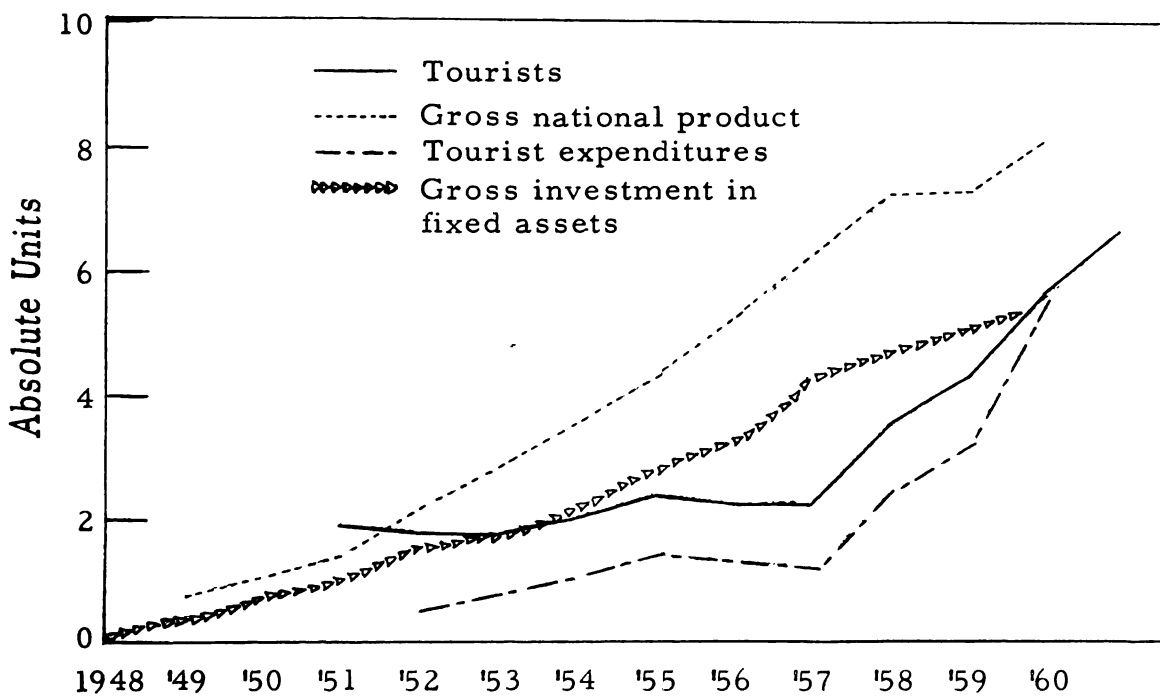
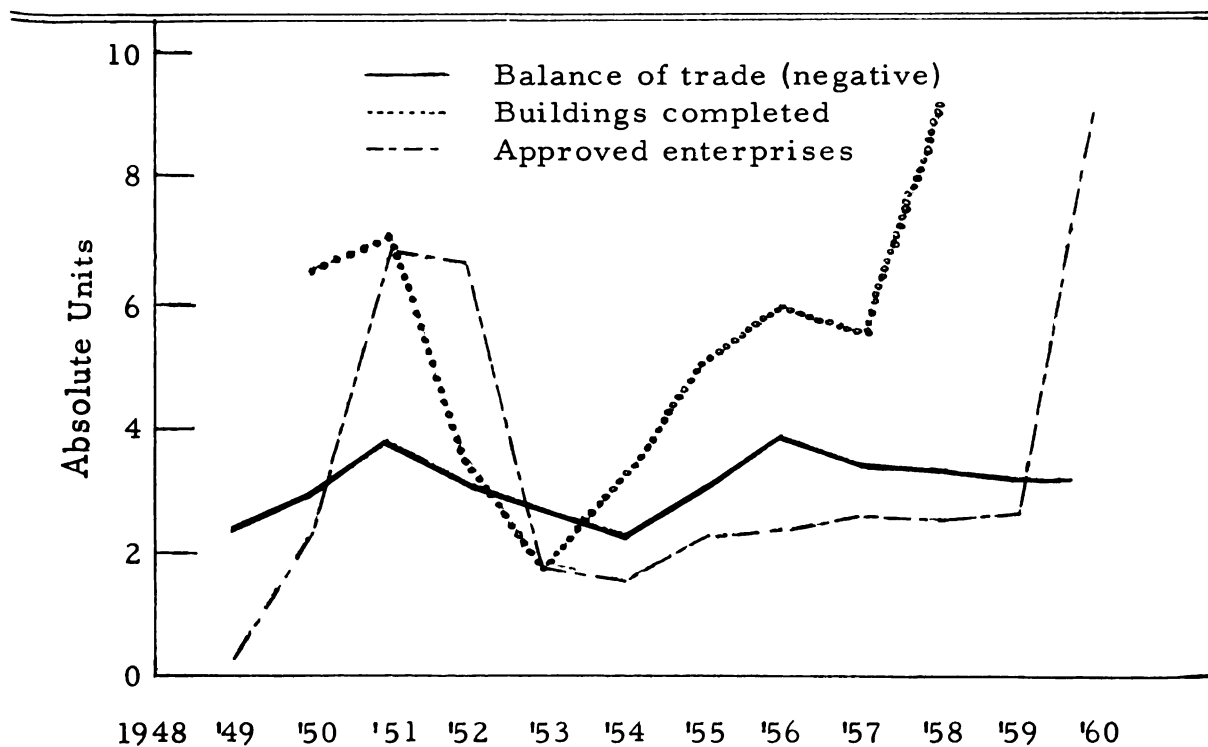
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Graphs Illustrate Relationships. The series of graphs which follow may best serve to illustrate some of the relationships indicated by the foregoing tables and the accompanying discussion in the text. Certain conclusions can be derived from the two graphs in figure 1. As noted, the lines depicting external balance of trade, gross national product, gross investment in fixed assets, tourists, and tourist expenditures would appear to move in consistent progression. As explained, the dip in 1956 and 1957 in tourism and tourist expenditures can be explained by the Sinai Campaign.

The lines which indicate approved enterprises and buildings completed appear to show erratic behavior. However the following explanation is suggested. Enterprises and buildings are things which a growing country usually needs first. Therefore, in its first years there would be a striking increase in these areas to provide work and housing for immigrants. On both lines the years 1952 and 1953 show a striking decline which would compensate for the increase through 1951. From 1953 through 1959, approved enterprises remained relatively constant with a slight upward trend while buildings completed showed a marked upward

Figure 2-- Graphs showing relative movement of buildings completed, approved enterprises, balance of trade, gross national product, tourists, tourist expenditures, and gross investment in fixed assets.



trend from 1953 through 1960. In 1960 approved enterprises show a very sharp increase. As mentioned earlier this could probably be explained by increased investment for economic reasons rather than for sentimental reasons.

With the exception of approved enterprises; it will be noted that lines for the years 1958, 1959, and 1960 all follow very similar patterns.

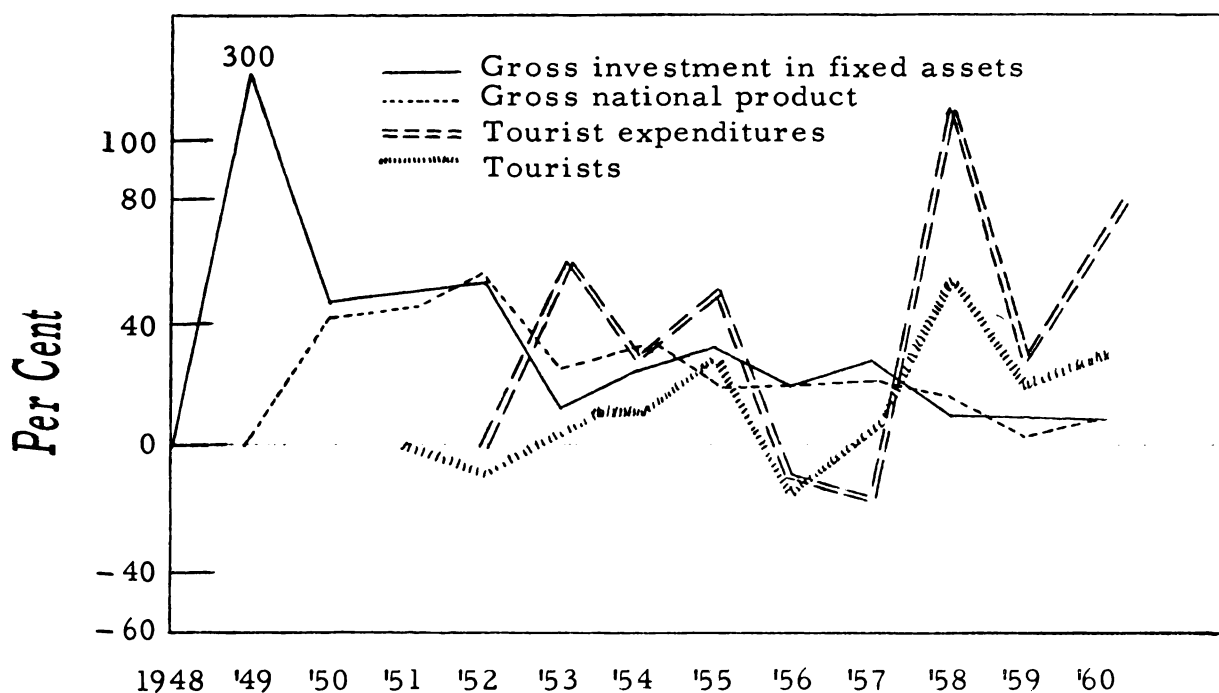
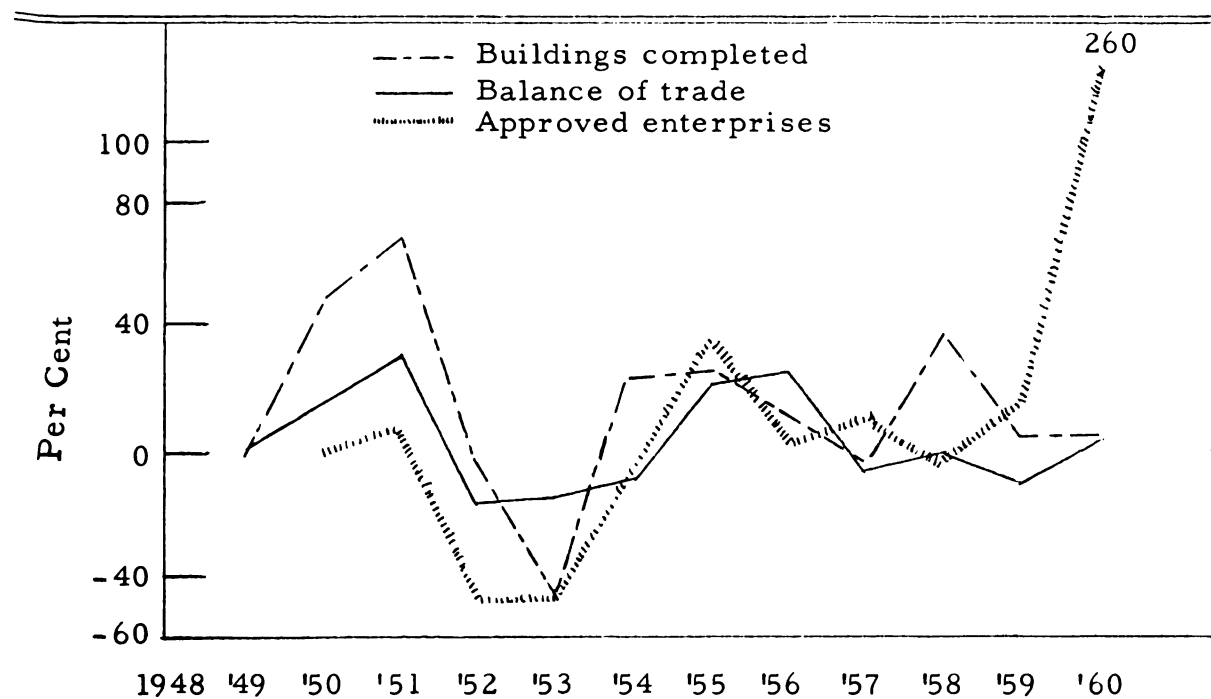
The graphs in figure 2 show changes in the same factors as expressed in per cent change per year. As noted, changes are much more pronounced. As a result, average per-cent-change-per-year would have very little meaning as per cent for some years would be so far out of proportion as to give an unrealistic picture.

The per cent changes show considerable compensation for wide fluctuations of the years 1948 through 1951. They also reflect the historical progress of the country in terms of wars, immigration and stability. It appears that stability does not yet seem to have been reached.

An analysis of the graphs shows that the trends tend to fluctuate together although varying in degree. The changes are more pronounced in some areas than in others.

In sum, the graphs show a general rise in the economy of the country.

Figure 3--Graphs showing relative movement of per cent change per year in buildings completed, approved enterprises, balance of trade, gross national product, tourist expenditures, and gross investment in fixed assets.



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Tourism to Israel as a Result of
Sentimental Attachments

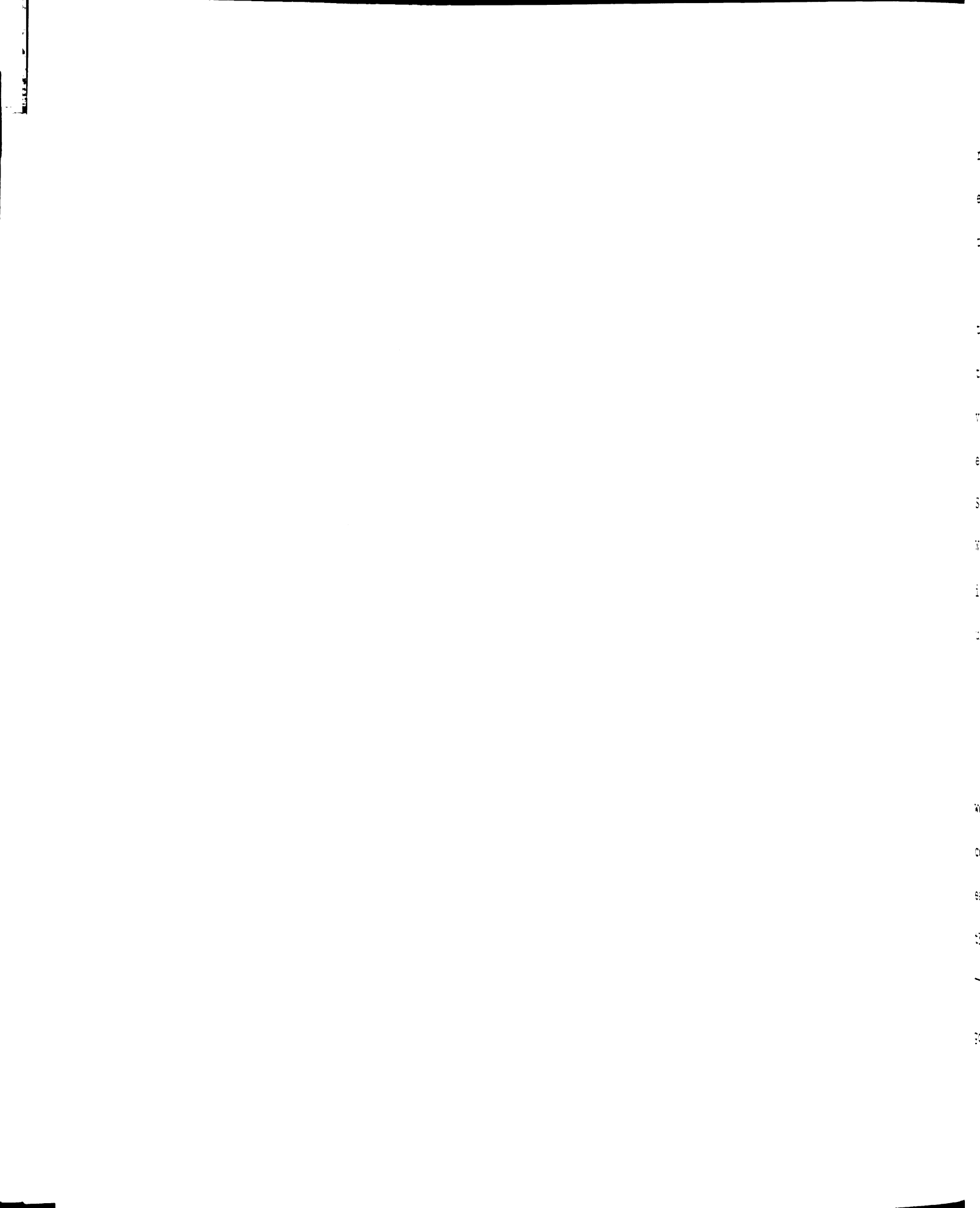
Jews have had an interest in Israel long before it became a state. In the Jewish religious services the desire is expressed to return to Jerusalem, thus identifying that city as the center of the religion and the gathering place for Jews.

Sentimental attachment is further maintained by the history of Jewish persecution. Establishment of the State of Israel guaranteed Jews a refuge should it ever be necessary. Persecution of Jews under the Nazis reinforced the desire for the Jewish state.

Further interest has been raised by the newness of the State of Israel and the excitement of pioneering.

These are broad generalizations. It is difficult, if not impossible, to measure emotional attitudes in tourists going to Israel. However, as with economic aid, much of the sentimental attachment and pioneering excitement is likely to wane as the country matures. The reality of a mature state will take its place.

At present, sentimental attachments would appear to be a major factor in tourism. Observation and discussions with tourists gives evidence that it plays a much more prominent



role than it does with tourists to other countries. An emotional feeling is especially evident in Jewish tourists to Israel.¹³

When a decline in "sentimental" tourism occurs, other types of tourism will have to take its place if tourism is to continue to expand at its present rate and maintain volume. It will probably be up to the government in cooperation with private enterprise to provide the replacements. Specific suggestions will be considered in the next chapter. Workable ideas for tourism would seem important since facilities which are provided in the next few years must be utilized for many years to come.

Tourism to Israel as a Result of Family Bonds

Many of Europe's dislocated Jews went to Israel; others went to other countries. But they did not always move as complete families. Thus, because of this dislocation and earlier forced migrations, Jewish families are scattered throughout the world.

¹³Personal observation and interviews with tourists, government officials and hotel managers.

Many tourists interviewed did have family ties in Israel and stated this as a part of the reason for their going.

The factor of relatives, in fact, poses some problems. While in Israel, some tourists stay with their relatives. This class then would normally not be staying in luxury international type hotels. Of those who do stay in hotels, many are trying to find their relatives, and a certain proportion of these may stay in the luxury international type. A considerable amount of time is spent by hotel administrators and government officials tracing down relatives for their guests.

Again, what influence this factor of visiting relatives has on tourism is hard to ascertain. It probably has less influence currently than the "sentimental" factor but it is likely to prove a more substantial factor in the long run. As a consideration in the establishment of luxury international hotels, one could expect the proportion of such guests to remain reasonably stable although unlikely to prove a very influential factor in the demand for accommodations over time.

Tourism to Israel as a Result of Religious and
Historical Attractions and Attachments

One of Israel's assets which is less likely to change, if anything gain in importance, are her religious and historical sites. These offer attractions to people of many religions, or those interested in history and with proper development, could become world-wide tourist attractions.

Suggestions for improvement of these religious and historical sites are made in a 1960 report to the government by the co-authoring group of Cresap, McCormick and Paget; Harris, Kerr, Forster & Company; Stanton Robbins & Co., Inc. (See Bibliography.)¹⁴ Their suggestions include having the proper hotel, restaurant, and shopping facilities available at the sites. The sites must be clean and enjoyable for the tourist who has usually completed a hot, dusty bus trip. Many sites are poorly marked and sorely in need of repair. Some work is now being done in this direction of site improvement.

Travel to Israel as a result of these attractions would appear to provide a sounder economic base over time than travel for sentimental reasons. Such attractions can be

¹⁴Cressap, McCormick and Paget, et al.

expanded and promoted. More groups can be reached and a **much** wider market approached than has yet been reached.

If this market is not reached, tourism to Israel may **not** reach its predicted future volume.

Religious and Historical Sites. Some of the religious and **historical** attractions, with brief description, are listed **on** the next two pages.

Jerusalem contains the tomb of Theodor Herzl, the Military Cemetery, the Permanent Conquest of the Desert Exhibition, the Hebrew University and Medical School, the Bezalel Museum, synagogues, Christian churches and religious institutions, the reputed tomb of King David, the Coenaculum (Hall of the Last Supper), the Tombs of the Sanhedrin, and Herod's Cave.

Haifa contains the Shrine of the Bab and Bahai Temple and gardens, the World Center of the Bahai faith; and Elizah's Cave on Mt. Carmel.

Nazareth is the childhood home of Jesus, contains the 17th century Basilica of the Annunciation, and many other churches and religious foundations.

Acre was an important port since the days of the Phoenicians, a famous Crusader stronghold. It also contains many historical sites and buildings, an 18th century citadel and fortifications, the restored Jazzar Pasha mosque, and a Municipal Museum.

Tiberias contains the tombs of Rabbi Meir Baal Haness and Maimonides.

Beit She'an contains an important Hellenistic center, interesting mosaics and an ancient Roman Amphitheater.

Meron contains the tomb of Rabbi Shimon Bar Yohai, the founder of Cabbalism; the remains of a second or third century synagogue. It is also the scene of the yearly pilgrimage on Lag Ba'omer.

Atlit was rebuilt by the Crusaders around 1200. It contains a cathedral, Crusader remains, and the ruins of the Round Church.

Capernaum contains an ancient synagogue where Jesus may have preached.

Tabgha is the traditional site of the New Testament miracle of the loaves and fishes and it contains unique mosaics.

Cana is the traditional scene of Jesus' first miracle.

Megiddo contains important excavations and is the site of "Solomon's Stables."

Beit She'arim was at one time the seat of the Sanhedrin. It contains ruins of second century synagogues and third and fourth century catacombs.

Mt. Carmel is where Elijah confounded the priests of Baal and is the site of a Carmelite monastery.

Mt. Tabor is where Deborah defeated Sisera's hosts and is the traditional site of the Transfiguration. It has a Franciscan and a Greek church.

Mt. Gilboa is where Saul and Jonathan met their end.

Safad is an ancient Galilean town.

Lod is the traditional site of the sepulchre of St. George.

Caesarea was the Roman capital of Palestine. It also contains the remains of a Crusaders' cathedral.

Ein Kerem was the birthplace of John the Baptist. It contains a Franciscan Church of St. John with a monastery, the Church of the Visitation, a Russian Church.

Tzora and Eshtaol is the traditional area of the birth of Samson. It has the "Rock of Destruction" which is associated with the legend of the destruction of Jerusalem.

Abu Ghosh is a large Arab village with a Crusader church. It is on the site of the biblical Kiryath Ye'arim where the Holy Ark rested for twenty years.

Modi'in, in the Judean foothills, is the birthplace of the Maccabees.

Beersheba is where Abraham dug his well. It contains prehistoric cave-dwellings.

Ashkelon contains Hellenistic and Roman ruins. It was the birthplace of Herod and a Crusader port.

Eilat was a Red Sea port in Solomon's days.

Yavneh (Jamnia) was a center of Jewish learning in the Roman period. It contains Rabban Gamliel's tomb.

Massada was the last stronghold in the revolt against the Romans.

Twenty kilometers north of Eilat are King Solomon's Mines.

Avdat was an ancient Nabatean city which was recently restored.

Shivta was an ancient Nabatean city which was recently restored.¹⁵

¹⁵Misha Louvish (ed.), Facts about Israel, 1961, pp. 32-38.

The above is a brief listing of some of the religious and historical sites in Israel. Many others are located in the countries immediately adjacent. However, travel to those countries from Israel is today difficult due to the Arab-Israeli disputes. Ending of the turbulence would make the entire area much more attractive to tourists interested in its many religious and historical offerings.

CHAPTER IV

ISRAEL AS A MATURING STATE

Industrial and Investment Potential

As Israel changes from a pioneering state to an established state certain major changes may be expected to take place. One may be increased industrialization and investment in the state.

Until recently, industry has been protected by high tariffs, and investment has been of the "sentimental" nature. However, Israel is now faced with competition from the European Common Market which may force her to change her tariff structure and therefore concentrate on those industries in which she is able to compete on the free market. Investment will probably change from "sentimental" to a stronger economic base, and will probably concentrate on those industries which are competitive by European standards.

The potential for competitive industry in Israel is considerable. At the present time the country produces the following: textiles, rubber, plastics, ceramics, glass,

cement, marble, gravel, gypsum, chalk, timber, sulphuric acid, ammonia, hydrochloric acid, phosphoric acid, sodium disulphate, fluoro-silicate salts, diamond cutting, paper, tanning, shoes, leather goods, metallurgy, electrical equipment, gas, oil, copper, iron, magnesium chloride, freon, bromine, ethylene dibromide, common salt, potash. In addition, it has much of the technical skill which is necessary to maintain these industries and develop new ones.¹

This list is not inclusive and production of each varies considerably in amount and potential.

Constant research is being carried out to determine what industries can be developed to compete, in quality and price, with European products.²

Change in this direction is evidenced by the following statement taken from a 1961 report.

Productivity per worker in 1960 is estimated to have increased by some 5% as compared with a 6% rise in 1959. This increase in the past 2 or 3 years is due not only to improved personal skill and further

¹Israel Government Yearbook, 1958, pp. 100-101. Israel Government Yearbook, 1959/60, pp. 166-169. Israel, Central Office of Information, Partners in Development (Jerusalem, 1961).

²Israel Government Yearbook, 1959/60, p. 164.

capital investment, but also to rationalization of production and improvements in organization.³

Cooke has further made a very interesting comparison between Israel and Switzerland. Switzerland, like Israel, is rather poor in natural resources but compensates for this deficiency in human skills and ambition. As he writes:

Switzerland succeeded mostly through the efficient utilization of its intelligent, dextrous and energetic manpower. By stressing high quality both in production and in the recognition of lucrative possibilities, that country now thrives to an extent equaled by few others.

Israel possesses almost equivalent human resources. Industry and intelligence, coupled with the ambition to acquire new skills and to learn new ways, are at hand in generous measure. For the rest, the geographical situation is conducive to a good foreign trade; and there is no lack of funds for basic development.⁴

Thus far only the industrial aspect of Israel has been considered. Agriculture is an area which cannot be discounted. Considerable advancements have been made in farming technology. Each year more land is put under cultivation. One of Israel's major exports is citrus fruits.

As industry becomes more self-sufficient, it is possible that investment will increase. Investors may come to

³A. Halpern (ed.), Review of Economic Conditions in Israel, No. 34 (Tel-Aviv: Bank Leumi Le-Israel B.M, July 1961, p. 23.

⁴Cooke, pp. 56-57.

realize that industry in that state can succeed on its own merits. Also at the current time industry is well protected by government, and so equally dependent upon the decisions of government. If it is found that industry can flourish without governmental protection and if enough government inducements are provided (which they are), investments in Israel should eventually have a relatively high return.

In February, 1962 the government relaxed many of its protective restrictions and abolished its subsidies for capital transfer.⁵ Sylvia Porter reviews the increased interest in investment expected to ensue.

Now, though, for the first time "non-sentimental money" is starting to come in, and this is occurring in the face of the Arab boycott and the Arab threats to cut the financial throat of any company or country which dares to do business with this brave little nation on the shores of the Mediterranean.

The totals are comparatively puny, far from sufficient--but the investments are rising, and in 1960 foreign investments were the highest in Israel's history to date.

This nonsentimental cash is in the hands of investors seeking to establish new corporations or take over existing ones for the sake of a profit and nothing else.

It's the type of capital Israel desperately needs and wants to attract because only via hard-headed industrial development can Israel successfully make the transition from an heroic pioneering state to a new cycle as a going concern.

⁵The Jerusalem Post, February 11, 1962, p. 3.

"There are 100 potential investors touring Israel today looking for opportunities," said one government official in Jerusalem. "I'd be exaggerating if I said there were 20 here two years ago."

"We date the breakthrough in 1958," added another official, recalling that this was the year the Sinai campaign awakened the whole world to Israel's determination to live and to the fact that she was surviving despite her incredibly uneconomic basis.

The gigantic obstacle to foreign investment is not Israel's economic potentials; they're recognized as intriguing. The obstacle is the Arab hatred, and this no one here underestimates.

A few years ago, for instance, Renault, the French auto company, opened a plant in Haifa and for a while it was doing a thriving business selling the Renault Dauphine. But in late 1959, the threats of Arab reprisals were too much; the company yielded to the pressures.

Israel is closing her fifth pioneer phase, opening another. Industrialization is the prime goal now, the bulldozer is as much the symbol of the nation as any religious mark of ancient or modern times. The informed forecast is half her work force will be in industry before this decade ends.⁶

The effects which this increased investment will have on tourism and luxury international hotels may be many. Tourism to Israel for business purposes was 2,946 in 1957, 3,716 in 1958, and 3,178 in 1959--or 6.6%, 5.3%, and 5.7% respectively of the total tourism to the state.⁷

It would appear reasonable that with increased activity

⁶ Sylvia Porter.

⁷ Israel Tourist Statistics (1959), p. 18.

in industry and investment, the number of business tourists would increase. A considerable per cent of such businessmen would also be expected to desire the efficiency, conference atmosphere, and other conveniences such luxury international hotels afford. With this in mind it may well be found that projected business activity (which in most forecasts looks good) would be one barometer of the future demand for luxury international hotel accommodations.

Potential as a Scientific Center

Israel is making significant progress in science, especially in the areas in which she is deficient. Progress has been pushed at a rapid rate. Cooke, in fact, feels that the country may be much better off if it concentrated on more modest gains rather than on the more dazzling ones,⁸ an opinion that may prove to have a high probability in fact.

The Scientific Research Council works to solve problems connected with the development of the Negev desert to make it habitable for Israel's expanding population. Its operations include large laboratory buildings, a meteorological station, standards section, scientific library, mechanical

⁸Cooke, p. 137.

workshop, electricity station, a carpentry workshop, and a materials store. It also operates a 7 1/2 acre agricultural experiment station and a desert ecological garden. Research is also underway on the desalination of brackish water and on the effects of the Negev climate on humans and animals. Other work is being carried out on solar energy.

In other research being done jointly by the Scientific Research Council and the Physical Chemistry Department of the Hebrew University projects are investigating the production of plastic materials utilizing a crude oil base and production of detergents from sugar. A new method has been found for the manufacture of magnesium hydroxide from magnesium chloride. Magnesium oxides and carbonates are manufactured from magnesium hydroxide. These products are used in the manufacture of insulating and fireproof materials, rubber, pharmaceuticals, and other products.⁹ Israel has also produced an experimental atomic reactor.

From the Hebrew University research teams are studying diseases prevalent in that part of the world, university

⁹Israel Government Yearbook, 1959/60, pp. 122-123.

geologists are locating underground water and mineral deposits, and experimentation is being carried out in solid and nuclear physics.

The Institute of Agriculture deals with soils, field crops and vegetables, plantations, plant protection, livestock, food technology, agricultural experiments, animal husbandry, sea fishing, fish breeding and forestry, and disseminates latest research findings.

The Technion studies the influence of weather on the corrosion of reinforcement in concrete, ventilation systems in housing projects, formation of water drops in sprinklers and the extent of their evaporation, and use of locally mined gypsum in housing. In pure research, it is concerned with mathematical research, cosmic ray studies, and studies in soil mechanics, aerodynamics, and hydraulics.

The Weizmann Institute of Sciences does fundamental and applied research in the exact sciences. This includes nuclear physics, electronics, X-ray, crystallography, isotope research, polymer research, bio-physics, organic chemistry, experimental biology, photochemistry, and plant genetics. The institute has an active exchange with foreign scientists and invites them to lecture and conduct seminars in Israel.

Other scientific institutes are The Israel Institute for Biological Research, which conducts basic and applied research, mainly in preventive medicine, epidemiology and public health; The Geological Institute, which studies the development of natural resources; and The Geophysical Institute which conducts seismographic, gravimetric and other surveys, particularly for oil deposits.

Many archeology teams are busy in the area, with discoveries constantly made.¹⁰ The ruins and remains of thousands of years ago so unearthed are mainly accessible and should prove interesting to the casual tourist.

All of the current scientific work and research should eventually make the area a more pleasant and productive area to live and work in. With such development, tourists will be much more attracted. The growth of science could further attract various scientific conventions which in turn may require the facilities of luxury international hotels. Individual scientists arriving in connection with some of the research may also require the convenience of such accommodations.

¹⁰ Misha Louvish, pp. 137-145.

Potential as a Cultural Center

A factor of lasting attraction to any tourist is a state's cultural climate. The cultural attractions of Israel have existed for many years, and some are now developed enough to gain world acclaim.

One apparent contradiction to a cultural climate is the current emphasis on practicality. Prime Minister Ben-Gurion's concept is that studies should be either of a purely practical nature or recreational, with cultural matters studied as a pastime. Hedley Cooke claims that the younger generation is developing an "anti-egghead" sentiment.¹¹

Be that as it may, Israel boasts a good cultural cross section. The Israel Philharmonic Orchestra is acknowledged to rank with the world's best and performs more frequently than any other group of its type in the world. Its 25,000 subscribers comprise a world record percentage of the population. Israel has a well developed Hebrew-speaking theater, considerable talent in painting and allied arts, and offers public lectures of high quality.¹²

¹¹Cooke, pp. 133-34.

¹²Ibid., p. 133.

According to recent UNESCO figures, the country takes second place in number of titles published in proportion to population. There are 700 public and large private libraries. Bible study is also very much encouraged. Outstanding publications include the Encyclopedia of the Bible, The History of the Israelite Faith by Professor Y. Kaufman, a new Bible Concordance, the New Biblical Dictionary, and Views of the Biblical World.

Besides the Philharmonic Orchestra there is the Kol Israel Orchestra, chamber music groups, about 120 choirs, the Israel National Opera, and the Ein Gev Musical Festival. Many composers also contribute to these groups.

There are three main drama companies--Habimah, Ohel, and the Chamber Theatre. Inbal, a Yemenite folklore troupe, has successfully toured Europe and America.

There are 214 movie theaters, and two locally-produced newsreels. Kol Israel, the State Broadcasting Service, offers a variety of programs in many languages to accommodate the people in Israel with varied origins. The state has 23 morning and 2 afternoon newspapers also printed in many languages, and about 300 periodicals.

Israeli art has been displayed at the Metropolitan

Museum and the Museum of Modern Art in New York, the Arts Council Centre in London, the Stedelyk Museum in Amsterdam, the Palais des Beaux Arts in Brussels, and the Biennales of Venice and Sao Paolo.

Museums and art galleries in Israel are numerous and include the Bezalel Museum in Jerusalem, the Tel Aviv Museum, and the Museum of Modern Art. Others are in Haifa, Caesarea, Degania, Ein Harod, Sha'ar Hagolan, Acre, Beer-sheba, Hazore'a; and the Museum of the Department of Antiquities is in Jerusalem. Other centers are the Helena Rubenstein Pavilion and the Museum of Mediterranean Art in Tel Aviv, and the Japanese Art Pavilion in Haifa, the artist's village of Ein Hod, and an artist's colony in Safad.¹³

Israel's First Music Festival was held from August 28 through September 18 of 1961, one of the concerts being given in the rebuilt Herod's outdoor concert hall at Caesarea. As a New York news story said of the festival:

The programs, scheduled for Jerusalem, Tel Aviv, Haifa and Ein Gev, will punctuate the 1961 summer tourist season with a major exclamation point, adding a large dose of international culture to the

¹³Misha Louvish, pp. 146-55.

already heavily endowed Government tourism program that is now working so successfully.¹⁴

These are some of the cultural attractions of Israel.

As stated they may prove more significant and long lasting for tourism in the long run than sentimental attachment, and should grow in attraction as the country grows. As these aspects of Israel grow in importance and world recognition, the number of tourists to Israel should increase.

More tourists are going to Israel for social and cultural reasons which according to Israel Tourist Statistics (1959) includes science, journalism, art, entertainment and sport. In 1957, 973 tourists gave these reasons, in 1958 the number was 679, and in 1959 it had increased to 2,474. In percentages of total tourism the figures are 2.2 per cent, 1.0 per cent and 4.4 per cent for the respective years.¹⁵ With development and promotion, Israel's cultural attractions should draw many tourists at a rapidly increasing rate. A good proportion of them would be expected to demand luxury international hotel accommodations.

¹⁴Paul J. C. Friedlander, "Tourism in Israel Grows into a Major Economic Force," The New York Times International Edition, August 17, 1961, p. 7.

¹⁵Israel Tourist Statistics (1959), p. 18.

Israel's Potential as an Educational Center

Israel can also make a considerable contribution in education. For children, ages five to fourteen, primary school is free and compulsory. Secondary education may cost about \$200 per year. University education involves fees.

However, education is an area in which Israel may be able to attract considerable monies; and even now, on the university level large direct contributions are attracted from abroad. A strongly developed university system may in time attract even more students, educators and other interested persons as tourists.

At the present time the Hebrew University has about 7,000 students and offers the following faculties: humanities, social science, science, agriculture, law, medicine (including pharmacy, dentistry and bacteriology), graduate library school, school of social work.

The Technion, Haifa, has 2,377 students, not including those in extension courses, and offers the following faculties: civil engineering, architecture, mechanical engineering, electrical engineering, aeronautical engineering, mineral engineering, metallurgy, industrial and management engineering, and general studies.

The Bar-Ilan University has 423 students and offers faculties in Jewish studies, natural sciences, social sciences, and philology.

The Tel Aviv University has 600 students and offers natural science, Jewish studies and humanities.

Other colleges and institutions maintained by various agencies train teachers, hold specialized seminars, and offer advanced studies for adults in various fields. There are 170 Yeshivot (Talmudical colleges) with about 9,000 students which train in Jewish religious studies.¹⁶

Two problems which higher education faces in Israel are faculty salaries, which are exceedingly low, and a correspondingly low salary in the professions generally. Students therefore are faced with a rather unattractive financial future¹⁷ if they consider a faculty or professional career.

How university-connected travel will affect luxury international hotel demands is rather nebulous. These types of travelers may not be inclined to stay in luxury accommodations. However more interest and financial status given

¹⁶Cooke, pp. 133-35. Misha Louvish, pp. 128-35.

¹⁷Cooke, pp. 134-35.

to university endeavors and faculty members may result in increased travel to Israel and more general demand for accommodations. More conventions may also be attracted. Israel has a favorable climate and the convention tourist is more likely to demand luxury international accommodations. However, such tourism could easily develop slowly or not at all if the hotel accommodations were not available.

Potential as a Resort and Convention Center

The discussion so far has centered around reasons other than vacation why tourists go, or could go, to Israel. These have included visiting relatives, seeing how the state is improving,¹⁸ business reasons, attending cultural events and so on.

However, it is easily possible that Israel could develop its hotel and other tourist facilities as prime attractions in themselves.

This type of tourism usually differs in a number of major respects. The resort tourist usually would not have sightseeing as a primary goal. He would enjoy a few trips

¹⁸ Friedlander.

to places of interest, but would rather find most of his activities in one relatively compact area. Shopping, swimming, golf, tennis, nightclubbing and the like, which usually relate to a resort area, would be his choice. In part, this is what Tel Aviv offers at the present time. However, at the same time the city is also a business center, and so lacking in an atmosphere of calm which the resort tourist may desire. Tel Aviv hotels have a faster turnover than the resort tourist may find acceptable. The latter wants to relax while the sightseeing tourist desires to see as much of Israel as possible in as short a time as possible, and so usually embarks on a series of excursions from one central location such as Tel Aviv, often at a pace the resort tourist finds too exhausting.

Personal interviews and the reports of the available surveys and studies seem to indicate that the way to attract the resort tourist is to establish the well developed resort centers he requires in several areas. The areas should be primarily for resorts. Probably the following areas lend themselves well to this type of development: Jerusalem, Herzliya, Eilat, Beersheba and the Galilee. Attributes of each area will be discussed in a later chapter.

Resort tourism may be very well adapted to the luxury international hotel as people who can afford to travel long distances to a resort would be more likely to want and afford luxury accommodations and services. These would probably make up the majority of patrons with only a small proportion of guests there to visit relatives, see sights, or on low cost excursions.

Since trade would tend toward the wealthy tourist, there would probably be more repeat business than the modest priced hotels would get. Interviews indicated that repeat trade in the Class A hotels at present is 20 to 35 per cent of the current business.¹⁹

As survey reports have indicated,²⁰ with the proper development, Israel could very well become the place to go for a winter or summer vacation. Since this type of tourism crosses religious and national boundaries it should reach a wide market.

Sylvia Porter stresses that Israel is, in fact, fast becoming a new vacation area:

¹⁹Personal interviews.

²⁰Cresap, McCormick and Paget, et al.

Figure 4.--A view of the beach from the Sharon Hotel in Herzliya.

Figure 5.--Swimming facilities of the Ramat-Aviv Hotel in Tel Aviv.



Figure 6.--A view of the swimming facilities of the Accadia
Grand Hotel in Herzliya.

Figure 7.--A view of the Accadia Grand Hotel in Herzliya.



"Am I right in stressing that the percentage of non-Jewish tourists here has been skyrocketing and that, while Jews come to marvel at the survival of the new state Christians were coming in swelling numbers to visit the sacred sites of Nazareth, Jerusalem, Mount Tabor, the Sea of Galilee, Capernaum, etc.?" I asked Teddy Kollek, Director-General of the Prime Minister's Office.

"Yes, it is a little-known point of immense importance to us," Kollek answered, and he added, "we wish we could stress to non-Jews everywhere our eagerness to welcome them as visitors and friends."

When we arrived in Israel--a 13-year-old nation, in size smaller than Massachusetts and surrounded by the hostile Arab countries of Jordan, Egypt, Lebanon--we were prepared to be impressed by what these people have achieved against overwhelming odds.²¹

If vacation tourism were developed in a number of places in Israel, the demand for luxury international hotels would be likely to increase very sharply. Based upon three of the vacation areas being developed, it may be that in the short run, say, five years, approximately 928 luxury international rooms would be needed, and this may prove to be a modest estimate.

With the proper planning and facilities Israel could also be developed into a major convention center. Facilities would include convenient guest rooms, restaurants, auditoriums, meeting and conference rooms and public spaces,

²¹Sylvia Porter, "Israel Prepares World's 'Latest' Vacation Area," Detroit Free Press, October 28, 1961, p. 20.

all offered in various sizes to accommodate a variety of groups.²² Like resort facilities, convention facilities should also be in one compact area. In fact, since convention centers and resort centers usually require similar facilities they might well be in the same areas.

The government of Israel apparently recognizes this potential. As evidenced by the following excerpt from a government report, progress is already underway.

The Corporation²³ is of the opinion that Israel can play an important role as venue for international conventions and congresses and for various music festivals. Their importance from an economic and tourist viewpoint alike are considerable, inasmuch as the per capita foreign income from these events exceeds the income from regular tourists. In this connection we refer to the "B'nai Brith" Congress, which took place in Jerusalem in 1959. Tel Aviv was the site in 1960 for the Union of Local Authorities Congress, in which 670 delegates from 33 countries participated. The publicity surrounding the Congress redounded to Israel's benefit, particularly in showing the tourist aspects of the country.

In the period under review,²⁴ the Special Events Department of the corporation organized a number of events²⁵ and international meetings of a professional

²²Cresap, McCormick and Paget, et al., pp. IV-10.

²³The Israel Government Tourist Corporation.

²⁴The year 1960.

²⁵See Table 9.

and scientific nature,²⁶ the combined impact of which engraved Israel's name on the world scene.

In 1961 Israel will be host to the World Congress of Pentecostalists with some 2,500 delegates from all over the world. This will be the largest number of visitors to come for one specific event.

Besides its activity in the field of congresses, the Tourist Corporation organized music festivals on an international scale.²⁷ The Harp Contest of 1959 was instrumental in turning Israel into a Music Centre. The year 1961 will witness the First Israel Music Festival and the Cello Competition under the patronage of Pablo Casals.

The Special Events Department will also continue, in 1961 as in previous years, to look after visitors arriving on cruise ships, and to arrange for evening entertainment for visitors. Also, the department will organize the fourth Zimriza (with participation of choirs from Italy, Greece, Turkey, England, France, Belgium, Holland, Denmark and Switzerland).

Other international meetings on the 1961 calendar are those of the International Press Institute and the International Hotel Association.²⁸

Potential for vacation tourism applies to the more modest hotels as well as the luxury international hotels. However, the luxury hotels could well be the nucleus for such centers.

A resort and convention center should include everything a vacationing tourist could desire: swimming

²⁶ See Table 10.

²⁷ Pertinent to the discussion on p. 57.

²⁸ Israel Government Tourist Corporation, Annual Report, 1960 (Jerusalem: The Government Printer, 1961), pp. 9-10.

TABLE 9

LIST OF EVENTS 1960/61 WITH NUMBER OF PARTICIPANTS^a

Event	Frequency	Number of Participants
Folklore evenings	78	12,255
Tourist forums	41	1,932
Oneg Shabbat	52	10,843
Tours to the Arab village Abu Ghosh	7	192
Picnic evenings	3	630
Visits to army camps	5	131
Visit to the Hadassim Children's Village for First Fruits Festival	1	56
Sea of Galilee festival	2	136
Home visits of the "Meet the Israeli" programme		1,591
Visit to Haifa Steel Town	12	299
Visits to Druse village Issifiya	12	419
Maritime Day	1	350
Christmas in Nazareth	1	800

Events as follows were arranged for 188 organized groups with a total participation of 5,127 tourists: receptions to the President of Israel and the Chief Rabbi, visits to kibbutzim, tourist forums, performances of Israeli films, visits to army camps, tree plantings in tourist forests, receptions of mayors and other personalities.

^aIsrael Government Tourist Corporation, Annual Report, 1960 (Jerusalem: The Government Printer, 1961), Appendix No. 5, quoting Government Tourist Corporation.

TABLE 10

PRINCIPAL INTERNATIONAL CONFERENCES AND EVENTS BETWEEN
APRIL 1960 AND MARCH 1961 ORGANIZED BY THE
ISRAEL GOVERNMENT TOURIST CORPORATION^a

Event	Participation by Tourist Corporation
1. Army parade on Independence Day	Building special stands for tourists; transportation of 10,000 tourists to parade. 220 scouts and 180 girl soldiers were called up to accompany the tourists.
2. Chamber Music Seminar at Zichron Ya'akov	The Seminar was held for the fourth time with 45 participants.
3. International Congress of Surgeons	Financial and organizational participation.
4. International Congress for Vocational Guidance for the Handicapped	Financial and organizational participation.
5. Congress on "The Role of Science in Underdeveloped Countries"	Organizational participation.
6. Hadassah Pilgrimage	Folklore evenings, visits to the Druse village of Issifiya and the northern region.
7. Sea of Galilee	Financial and organizational participation.
8. Simchat Torah	Assistance with fireworks.
9. I.U.L.A. Congress	Organization.
10. Congress of Jewish Journalists	Financial participation.
11. Congress of Polish Immigrants	Financial participation and advice.

^aIsrael Government Tourist Corporation, Annual Report, 1960 (Jerusalem: The Government Printer, 1961), Appendix No. 6.

facilities, both lake or sea and man-made, movie theaters, concerts, cultural events, barber shops and beauty salons, shops, nightclubs, golf course, tennis courts, stenographic services, and many of the other amenities usually associated with hotels of luxury international standards.

First, shops should receive special attention. Shopping means spending money which is a form of export which is of very great value to the state's balance of trade. Shopping should thus be made as easy and convenient for the tourist as possible in the several areas.

The easiest places for the resort or convention tourist to shop would of course be right in the hotel. He can purchase gifts for friends and also things for himself.

Very few of the major hotels in Israel however appear to offer very extensive shopping facilities.²⁹ Some observed had only display cases. Other services offered by the hotels were given inadequate display and promotion. It may be advisable that hotels place in each room a neat and attractive listing of shops and services available, where located, the extent of services, and how to contact

²⁹ This point is also mentioned by Cresap, McCormick and Paget, et al., pp. VII-15.

the services. The guest will know what is immediately available and will feel cordially invited to make use of them.

Emphasis should be placed on those items with a high "value added" in Israel and yet with a price advantage the tourist would not get elsewhere. Such items favored to Israel might include furs, particularly broadtail, diamonds, art goods, women's fashions, men's custom tailoring, and Israel wines. Promotion, with government cooperation, could make Israel known as the place to buy these items.³⁰ Routine souvenirs should also not be neglected.

In 1960 the Israel Government recognized potential for such a market by reducing prices. Tourists are now able to purchase certain items, mainly knitwear, at a 40 per cent reduction. The items purchased are picked up at the airport as the tourist leaves the country. Duty free shops have been set up at certain points and the government plans³¹ to establish sales points for duty free liquor. Tourists are also now able to purchase duty free diamonds. However,

³⁰ Ibid., pp. VII-4-7.

³¹ Taken from a 1961 publication.

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The following statement is made in regard to furs.

The fur trade was also more active in 1960 than in previous years. After a period of neglect, new inducements brought about considerable demand in furs. The price of furs in Israel is well below world market prices, and their quality has been praised by international experts and tourists alike.³³

More shops and services in the major hotels, which would include the luxury international hotels, would stimulate hotel business; stimulate shopping, provide added revenue to the hotels from rental of space; improve the balance of trade; and better accommodate the tourist.

The luxury-accommodation type of tourist is also most likely to buy the "big ticket" items of high unit value.

Secondly, social directors are a major, often a decisive factor, in the success of a resort hotel. This person can make a very great difference in the individual's stay in a resort area. The director is the person who makes the guest's stay pleasant, makes it easier for guests to get to know each other, and insures that there is always something interesting to do.³⁴ At this time this important post

³²Israel Government Tourist Corporation, Annual Report, 1960, p. 19.

³³Ibid.

³⁴Cresap, McCormick and Paget, pp. III-6.

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appears to be completely neglected in major hotels in Israel.

Third, the factor of gambling may become pertinent. In several interviews the subject was brought up, with two basic schools of thought apparently differentiated.

Some persons interviewed felt that gambling has absolutely no place in Israel. They feel it would be against the concept of "Israel--The Land of the Bible" which the government is trying to create.

Others felt that gambling would be a major tourist attraction; that the scientific, historical, and cultural attractions of Israel are enough to offset any negative connotation which gambling may give. Suggestion was also made that part of any gambling revenue could go toward hospitals, schools, and other state institutions.³⁵

On the other hand, it would appear that tourism will grow as rapidly as the country can accommodate the tourists, regardless of whether or not there is gambling.

Finally, the importance of Israel's climate should become a major consideration. Israel can be promoted as the ideal place for a health vacation. It seems feasible

³⁵Personal interviews.

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that a number of places could be set up as health resorts, staffed with doctors and having other necessary facilities. They could possibly be located as added attractions in the resort and convention centers.

Luxury international hotels have their own place in the convention and resort area. They do a number of things. They raise the general hotel standards throughout the country. Other hotels have to meet the competition which the luxury hotels set. Also, luxury hotels should create some of their own business.³⁶ Therefore, they take little if any of the current business away from the existing hotels.

With the above considerations in mind, there should be a great potential for luxury international hotels as the nucleus of a convention and resort trade in Israel.

³⁶ Personal interviews.

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CHAPTER V

THE CLASSIFICATION OF HOTELS IN ISRAEL

The Current System of Classification

At the present time there are three classes of hotels in Israel which are recommended for tourists by the Israel Government Tourist Corporation--class A, B, and C. This classification system presents a problem for tourists and also for the discussion of luxury international hotels.

There is considerable variance within the classes. Therefore, both luxury hotels and hotels one grade more modest fall in the same class. As a result, the difference between the "best" and the most modest hotel in any one class is great. Furthermore, the variance is apparent within each city and throughout the country.

The results are that the tourist cannot easily determine what facilities and standards a hotel offers or what specific criteria are met by a luxury international hotel.

In one interview it was indicated that the grading was often on a relative basis.¹ The "best" hotels in an area

¹Personal interview.

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would be classified as A, the "next best" as B and the most modest as C. When the tourist does not know what the standard or base criterion for the classification system is, it would seem that this type of classification has considerable disadvantages. Also, there is no separate class for luxury international hotels.

Apparently these facts have been recognized as at least two studies have mentioned the problem and given recommendations for its solution. One, a report by Dr. Paul Risch, was specifically devoted to the problem.²

Possible New Systems of Classification

The system of classification recommended by the Cresap, McCormick and Paget survey team³ is a four class system based on a system of stars (four-star, three-star, two-star, and one-star). This would be somewhat similar to the French system. It would add one class, thus reducing the variance between classes, and would put the luxury hotels in a class

²Dr. Paul Risch, Classification of Hotels in Israel, Prepared for the Israel Government, January 5, 1961.

³Cresap, McCormick and Paget, et al., pp. IV, 5-6.

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by themselves so they may be readily identified.

Identification of the luxury international hotels as given by the survey team is exemplified by the following:

Four-star hotels would be those having all rooms with private bath and shower, and offering top-grade facilities and services. They would have extensive dining and public rooms, and such other facilities as swimming pools, beach area, or gardens. These would represent approximately the "de lux" group of hotels included in the present Class A.⁴

See Appendix B for the team's complete system of classification.

Dr. Paul Risch,⁵ the other writer on hotel classification, also feels that the present system is inadequate. His report gives a very complete and detailed account of the present classification system and its shortcomings, and presents his own system--how it should be implemented, its advantages and disadvantages.

Under the Risch plan the hotels would be divided into at least five categories, to be denoted by their price ranges, with the price range determined by specified criteria.

The criteria which Dr. Risch advocates for luxury international hotels are as follows:

⁴Ibid., pp. IV-5.

⁵Risch.

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1. PRICE CLASS 1

Hotels with more than 150 beds of International De Luxe Class.

Apart from special shops for guests, and beauty parlours, the whole building must be reserved for hotel exploitation.

- a. Public space--generous entrance with large lobby and an up-to-date reception desk.

Reception desk personnel dressed in a unified way.

Several smaller conference rooms for meetings and smaller parties.

One large room for balls and conventions.

- b. Restaurant

Large dining-room with a seating capacity of at least 50 percent of the number of beds.

A four-course menu served for lunch and dinner, with the choice of at least three different main dishes.

Possibility of eating "à-la-carte" with a large choice of different specialties.

Large choice of domestic and foreign wines and liqueurs.

First-class service for both food and beverages. Modernly equipped kitchen.

- c. Accommodation

Large rooms of which 20 percent for single occupancy only.

All rooms with bath and W.C.

Modern and tasteful furniture, carpets and decorations, ample lighting.

Daily changed bath towel and 2-3 wash towels per guest.

All rooms air-conditioned and centrally heated.

Telephone in each room, with the possibility of having radio installed if customer so desires.

Room service provided.

- d. General Equipment

Sufficient number of elevators.

Special elevator for service use (luggage transport).

Sufficient storage space for all the material.

Room for floor attendant on each floor.

Dining-room for employees.

Clean uniforms for the service personnel on the floors.

Special wash-rooms for the personnel with showers and cloakrooms.

Possibility for deposit of valuables.

Parking space or parking service for guests' cars.

Management with adequate experience in other hotels.

Well-trained personnel to ensure first-class service.⁶

Dr. Risch's criteria for all classes of hotels will also be found in Appendix B.

Dr. Risch feels that there are three basic reasons why his method improves on the "star method" of classification. The first is that no hotel likes to be downgraded. By determining price ranges, according to what the hotel offers and in cooperation with the Hotel Association, the government is not grading hotels so much as developing a classificatory system whereby a hotel may charge according to what it can offer.

Second, by fixing the price range which hotels of specified standards may charge, the hotel management will have incentive to improve its hotel and service so that it may qualify for a higher price range and therefore be able to charge higher prices.

⁶Ibid., Appendix I.

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Third, tourists have trouble finding what various labeling methods mean. However, if one hotel is priced higher than another, they usually imply that it should have higher standards. A wealthy tourist desiring the best in hotel facilities would most likely choose the highest priced hotel in the area. Similarly, more modest service and facilities are usually expected by tourists to be consistent with more modest prices. An American, for instance, would probably grasp a classification by price range more easily since hotels in the United States are not graded and the tourist chooses largely by price.

As for implementation of the system, Dr. Risch recognizes that existing hotels must be given time to adjust to it and to improve their facilities accordingly. Therefore, he feels that considerable tolerance should be given to the criteria at first, with interpretation becoming stricter as the program progresses and hotels adapt.⁷

The writer feels that Dr. Risch offers a rational and detailed presentation. His criteria has therefore been used, as closely as possible, as the criteria for luxury international hotels in this thesis.

⁷Ibid.

CHAPTER VI

THE ECONOMICS OF THE HOTEL INDUSTRY IN ISRAEL

Government Aid in the Consideration of "Approved Investments"

The Government of Israel is very instrumental in the attraction of investment capital to Israel. At the present time, the government is encouraging primarily those investments which will produce exports for Israel or substitute for imports.¹ In this way they hope to improve the balance of trade.

In general, the priority of an investment is based upon the contribution it can make to the economy of the country. Once it is established that one investment will benefit the country more than another the investment may gain the status of an "approved investment" and will receive certain benefits. It can import those capital goods which are not manufactured in the country duty free. It has five years from the time that it starts showing a profit in which it has to pay no income taxes. It may receive certain

¹Israel Government Yearbook, 1958, p. 453.

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²Ibid.

types of government loans. Additional benefits are discussed later in the chapter.

Those investments not approved are subject to extremely high duties on capital goods, must pay high taxes, and may have considerable difficulties in finding financing. Such an enterprise must therefore be extremely profitable in order to produce an adequate return on invested capital.

The government's part in financing hotel enterprises is discussed in detail in the next section. However, aspects of government financing in general are explained below.

Government participation in financing and determining the benefits an enterprise receives means the government can greatly influence investment channeling.² It can influence the location, type, and many other aspects of the investment. In short, it can direct the use of the economic and natural resources into what it feels the country needs.

Government aids investments in other ways. Through research and planning it informs the potential investor

²Ibid.

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of advantages and disadvantages of locating in a certain area. It conducts research on adaptation of various industries and operation methods to Israel. It helps to coordinate the application of potential investors' capital to a particular enterprise.³ Once the government feels an investment is in Israel's best interests, it will do all in its power to assure the investment's success.

What applies to industry and investment in Israel applies equally to hotels. Tourism is recognized as one of the country's greatest export commodities. This is reflected in the following statement by economist Alex Rubner:

Israel's tourist industry is rightly regarded as one of the natural export "commodities" of the country and, during the first six years of the state, the Ministry of Finance gave extensive credit facilities and subsidies to the hotel industry. Today the Holy Land can boast of 630 hotels, with 17,500⁴ rooms, of which some are modern buildings with air-conditioning and other amenities. In 1958, 70,000 tourists visited the country.⁵

³Israel Government Yearbook, 1959/60, pp. 163-65.

⁴The figure 17,500 rooms is apparently erroneous. The Cresap, McCormick and Paget, et al. report gives a figure for 1960 of 4,328 rooms, the Third Annual Report and Review, 1960 of the Tourist Industry Development Corporation gives a figure of 6,000 rooms, and the figure supplied by the Israel Government Tourist Office is 3,250 rooms.

⁵Rubner, p. 84.

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In recognition of the importance of tourism to the economy in 1957 the government established the Tourist Industry Development Corporation, Ltd. (hereafter referred to as TIDC), with primary objectives expressed as follows:

The Corporation makes loans available to help build new hotels, to enlarge and/or renovate existing hotel facilities, to build or improve restaurants and tourist souvenir shops, to help transport companies in acquiring additional vehicles and to develop seaside amenities.⁶

The Government Tourist Corporation approves hotel investments, analyzes the potential of various types of enterprises and represents the government in the tourist area. In a survey made in 1955⁷ the Cresap, McCormick and Paget, et al. survey team recommended that the government carefully analyze the situation before it approves a hotel, as once the decision is made it is rather irrevocable. The Corporation also acts to attract potential hotel capital by information disseminated to potential investors.

The Government Tourist Corporation and the TIDC have been

⁶First Annual Report and Review, 1958 of the Tourist Industry Development Corporation, Ltd., Israel (Israel: 1958).

⁷Israel Caterers Association, Study of Tourism in Israel (Israel: Israel Caterers Association), pp. 40-41 quoting a report prepared by Cresap, McCormick and Paget and Harris, Kerr, Forster & Company, 1955.

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instrumental in affecting certain changes whereby tourists do not have to pay certain local taxes and hotels may more easily obtain capital for needed improvements and modernization, a type of capital previously almost impossible to obtain.

The agency appears to have been relatively faithful in following recommendations made in various reports,⁸ and as a result appears to have made progress and good success in its operation.

The government's program to develop investment, which includes hotels, stems from the Law for the Encouragement of Capital Investment, 1959. Some important aspects of the law follow.

1. An investment project, which in the view of the Investment Centre, contributes to the development of Israel's industrial potential, the exploitation of its resources, the creation of new sources of employment--particularly in the development areas--and the absorption of new immigrants, may be granted the status of an "approved project."

2. A project may be approved as an "investment," an "enterprise," a "loan" or a "property." However, the same project may fall into more than one category. For example, an investment in the equity of a company owning an "approved enterprise" is classified as an "approved investment," in which event the investor benefits from the provisions of the law relating to "approved enterprises" in addition to those relating to "approved investments."

⁸ Ibid., pp. 46-47.

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3. Among the benefits accruing to approved projects, are:

REMITTANCE OF PROFITS: A non-resident who has made an approved investment in foreign currency, is entitled to withdraw all profits from Israel, in the currency in which the investment was made.

WITHDRAWAL OF CAPITAL: A non-resident may, upon realisation in Israel currency of the whole or a part of his approved investment in foreign currency, withdraw the proceeds of realisation in the currency in which the investment was made. If the investment had been made not more than 5 years prior to realisation, the capital may be withdrawn in 5 equal annual instalments. If it had been made from 5 to 10 years previously, it can be withdrawn in equal annual instalments during the period remaining until 10 years from the date of investment. Investments held for 10 or more years may be withdrawn immediately, without limit.

TAX BENEFIT: A non-resident is permanently exempt from the payment of any taxes on dividends received from a company (which has paid all the taxes due on its chargeable income), in respect of his approved investment in foreign currency.

The provisions of the law in regard to approved investments, apply, with minor variations, to approved loans.

TAX BENEFIT: The company owning an approved enterprise, will be liable to a maximum of 28% company profits tax on its income derived from the enterprise, and will be exempt from any other tax thereon. This applies for a period of 5 years from the year in which the enterprise first shows a chargeable income.

TAX BENEFIT: Depreciation may be deducted by approved enterprises at double normal rates during the first five years.

TAX BENEFIT: The equipment, machinery and building materials required by an approved enterprise for the erection of its plant, and the raw materials necessary for the purpose of running-in, may be imported or purchased locally, free of customs duty and other indirect taxes, provided that the purchase of such goods is financed with foreign currency. This exemption does not apply to passenger cars and certain categories of office equipment.

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An approved property is entitled to all the benefits granted to approved enterprises, other than those in the preceding paragraph.

GENERAL: Other provisions in regard to approved projects, relate to exemptions from property rates and taxes, and to deferment of fees payable in connection with the registration of a company, the increase of its capital and the transfer of real estate.

EXEMPTIONS FROM ESTATE DUTIES: All approved investments in foreign currency, will generally be free of estate duty.⁹

As noted, the law would offer interest and challenging possibilities for potential investors.

Financing of the Hotel in Israel

The generally accepted methods of financing a hotel are by cash, the sale of stocks or bonds, loans, or a combination of these.

In the event that the hotel is financed by cash and/or stocks and bonds, the financial backing of course would already have been found. However, if total or partial loans will have to be made, the potential investor may experience difficulty. Low rate loans--those which would allow a fair return on equity capital--are sometimes hard to get.

The government, primarily through the TIDC, makes it as

⁹ Israel, Government of Israel Investment Authority, Israel--A Growth Economy.

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easy as possible to obtain loans for hotels. In 1958, this corporation granted an average of 1/4 to 1/3 of the total hotel investment per room and 1/2 to 3/4 of the total investments in renovations. This amounted to a total of IL. 3,065,846¹⁰ in loans to hotels.¹¹

In 1959 TIDC issued IL. 1,022,650 to hotels which brought the total loans issued to IL. 4,088,496 and loans to hotels outstanding at the end of the year to IL. 3,456,072.¹²

In 1960 TIDC issued IL. 6,104,500 in loans to hotels which brought total loans issued to IL. 10,192,996 and loans outstanding to hotels at the end of the year to IL. 9,168,835.

In the three years of the corporation's operation these loans have permitted the improvement of 43 existing hotels with a total of 1,380 rooms and have allowed the addition of 2,260 rooms in new or extended hotels. Of these 2,260

¹⁰Israeli currency is the Israel Pound which is denoted by the symbol IL.

¹¹First Annual Report and Review, 1958 of the Tourist Industry Development Corporation Ltd., Israel (Israel: 1958).

¹²Second Annual Report and Review, 1959 of the Tourist Industry Development Corporation Ltd., Israel (Israel: 1959).

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rooms, 1,715 have been completed and 545 are under construction.¹³

Capital for TIDC is obtained from stock issue, government advances, and various bank arrangements.

The study by Cresap, McCormick and Paget feels that improvements could be made in the current loan situation. TIDC loans currently bear 8 per cent interest and are paid back in 10 years. The study team¹⁴ feels that an interest rate of 6 per cent over a longer term of 20 years would be more consistent with the expected life of the building, which is usually 35 years but may be extended to over 50 years.

TIDC will also loan only up to 50 per cent of the total investment while the team feels that loans up to 70 per cent of the total investment would be more reasonable and consistent with terms offered by other countries.

The survey shows that at the present time an investor may expect an average return on his equity capital of about 2.8 per cent. Under the system proposed by the team the

¹³Third Annual Report and Review, 1960 of the Tourist Industry Development Corporation Ltd., Israel (Israel: 1960).

¹⁴Cresap, McCormick and Paget, et al., pp. IV-15-19.

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investor would realize an average return on his equity capital of about 10 per cent. Since the minimum return on equity capital in a hotel is usually considered to be about 8 per cent, it would appear that the changes the team suggests would make investment in a hotel in Israel much more attractive than it is now. A report prepared for the Office of the Prime Minister by the Industrial Advisory Group¹⁵ substantiates the figure of 2.8 per cent return on equity capital used by the survey team.

The Industrial Advisory Group¹⁶ feels that one way the government could make investments more attractive would be to increase the government premiums to hotels. These premiums are based on receipts by tourists. As a sample, the advisory group chose three A class hotels which, according to criteria used in their study, from the fact that they were the three largest hotels in the A class, and from personal observation by the writer, may be safely said to meet or come close to meeting luxury international

¹⁵Emil Erdreich and L. J. Weber, Some Economic Aspects of the Hotel Industry in Israel in 1958, a report prepared for the Office of the Prime Minister by the Industrial Advisory Group (Jerusalem: Ministry of Commerce and Industry, 1960), pp. 133-34.

¹⁶Ibid.

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standards. The following three tables show some figures relating to the sample.

In 1958 the premiums received by A class hotels were 52%-75% of net operating profits.¹⁷ Table 11 shows what bed occupancy would be necessary to obtain various yields on invested capital relative to various government premiums.

Since the bed occupancy for the Group I hotels was 52.7 per cent in 1958¹⁸ none of the hotels would have reached an 8 per cent yield on invested capital. Table 11 shows what would have happened if no premiums were issued or if double premiums were issued.

It is possible that increasing the premiums to hotels may cost the government more than relaxing financial terms. Furthermore, since the February, 1962 devaluation of the Israel pound; at which time customs duties, subsidies to various enterprises, and other changes were made; premiums would be inconsistent with government policy.

¹⁷Ibid., p. 15.

¹⁸Ibid., p. 5.

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TABLE 11

RELATIONSHIP BETWEEN BED OCCUPANCY AND YIELD ON INVESTED
CAPITAL IN SIX SELECTED HOTELS, IN 1958^a
(in per cent of bed occupancy)

Line	Bed Occupancy Re- quired To Attain a Specified Yield on Invested Capital	Hotel					
		Group I Type			Group II Type		
		"K"	"L"	"M"	"N"	"O"	"P"
	WITHOUT PREMIUM						
1	Break-even point	53.6	51.3	50.7	34.3	41.9	61.3
2	8% yield	74.0	70.9	78.9	58.7	73.6	79.4
3	12% yield	84.2	80.7	93.1	70.9	89.4	88.4
4	Each 1% yield above break-even point	2.6	2.5	3.5	3.1	4.0	2.3
	WITH PREMIUM						
5	Break-even point	42.7	44.3	42.6	29.4	33.8	51.8
6	8% yield	59.1	61.3	66.0	50.3	59.2	67.2
7	12% yield	67.3	69.9	77.8	60.7	72.0	74.8
8	Each 1% yield above break-even point	2.1	2.1	2.9	2.6	3.2	1.9
	WITH PREMIUMS DOUBLE THOSE PAID IN 1958						
9	Break-even point	35.9	39.2	36.3	25.8	28.5	45.4
10	8% yield	49.7	54.3	56.3	44.1	49.7	58.8
11	12% yield	56.5	61.9	66.3	53.3	60.3	65.4
12	Each 1% yield above break-even point	1.7	1.9	2.5	2.3	2.7	1.7
13	AVERAGE ANNUAL BED OCCUPANCY IN 1958, %	58.0	58.3	36.2	39.8	43.5	63.8

^aEmil Erdreich and L. J. Weber, Some Economic Aspects of the Hotel Industry in Israel in 1958, a report prepared for the Office of the Prime Minister by the Industrial Advisory Group (Jerusalem: Ministry of Commerce and Industry, 1960), p. 107.

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Hotel Profits in Israel

To the potential investor, hotel profits are important only as they affect yield on his invested capital. He is usually naturally interested in a general breakdown of income and expenses. Tables 12 and 13 give this breakdown.

Figuring from gross receipts and operating expenses (Tables 12 and 13), the net profits of the six A class hotels were IL. 387,700 (IL. 8,282,400 - IL. 7,894,700). This would average IL. 64,600 per hotel, or \$29,907 American as based on an exchange rate of IL. 2.16 per dollar.

Net profit reflects food and labor, and all other costs met in operating the hotel. The figure would indicate, as would yield on invested capital, that some adjustments are necessary in order to make hotel investment in Israel attractive.

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TABLE 12

GROSS RECEIPTS FROM SALES, RENT OR SERVICES RENDERED
OF SIX A CLASS HOTELS, 1958^a
(in IL. '000 and in per cent of total)

Line	Source of Income	Amount	Per Cent of Total
1	Rooms	3,234.3	39.1
2	Food	3,300.4	39.9
3	Beverages	673.6	8.1
4	Guests' laundry	93.1	1.1
5	Telephones and telegrams	168.9	2.0
6	Rental of public rooms and halls	12.0	0.1
7	Store, stand or restaurant concessions	27.0	0.3
8	Premiums on receipts from tourists for room and board	736.0	8.9
9	All other	37.1	0.5
10	Total (lines 1 to 9)	8,282.4	100.0

^aEmil Erdreich and L. J. Weber, Some Economic Aspects of the Hotel Industry in Israel in 1958, a report prepared for the Office of the Prime Minister by the Industrial Advisory Group (Jerusalem: Ministry of Commerce and Industry, 1960), pp. 118-19.

TABLE 13
 OPERATING EXPENSES AND FIXED AND FINANCIAL CHARGES
 OF SIX A CLASS HOTELS^a
 (in IL. '000 and in per cent of total)

Line	Expense Items	Amount	Per Cent of Total
ROOM DEPARTMENT			
1	Salaries and wages	681.4	9.8
2	Laundry	81.2	1.2
3	Linen (replacement)	42.3	0.6
4	All other	<u>18.5</u>	<u>0.3</u>
5	Sub-total lines 1-4)	823.4	11.9
FOOD & BEVERAGE DEPARTMENT			
6	Salaries and wages	1,356.9	19.6
7	Cost of food sold	1,751.4	25.4
8	Cost of beverages sold	192.9	2.8
9	Laundry	15.7	0.2
10	Linen (replacement)	26.6	0.4
11	Porcelain, glass and tableware (replacement)	48.2	0.7
12	Music and entertainment	97.6	1.4
13	Kitchen fuel	29.6	0.4
14	All other	<u>13.7</u>	<u>0.2</u>
15	Sub-total (lines 6-14)	3,532.6	51.1

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TABLE 13--Continued

Line	Expense Items	Amount	Per Cent of Total
	GENERAL & ADMINISTRATIVE EXPENSES		
16	Salaries and wages ^b	838.2	12.1
17	Repair and maintenance	229.4	3.3
18	Fuel, light, power and water	384.4	5.6
19	Telephones, telegrams and postage	181.1	2.6
20	Cleaning materials	50.4	0.7
21	Printing, stationery & office supplies	44.8	0.7
22	Transportation & travel	103.7	1.5
23	Legal & accounting fees	42.6	0.6
24	Publicity & advertising	66.9	1.0
25	Commissions to travel agents	195.5	2.8
26	Insurance, including Arnona	78.6	1.1
27	Social welfare tax	75.9	1.1
28	Real estate and municipal tax	146.4	2.1
29	All other	<u>120.9</u>	<u>1.8</u>
30	Sub-total (lines 16-29)	<u>2,558.8</u>	<u>37.0</u>
31	Total (lines 5, 15 and 30)	6,914.8	100.0
	FIXED & FINANCIAL CHARGES		
32	Rent	300.0	4.3
33	Depreciation of buildings	274.4	4.0
34	Depreciation of all other property	200.7	2.9
35	Interest paid or due for the current year	<u>204.8</u>	<u>3.0</u>
36	Sub-total (lines 32-35)	<u>979.9</u>	<u>14.2</u>
37	Grand total (lines 31-36)	<u>7,894.7</u>	<u>114.2</u>

^aEmil Erdreich and L. J. Weber, Some Economic Aspects of the Hotel Industry in Israel in 1958, a report prepared for the Office of the Prime Minister by the Industrial Advisory Group (Jerusalem: Ministry of Commerce and Industry, 1960), pp. 120-23.

^bIncludes salaries drawn by owners working in the hotels.

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CHAPTER VII

THE DISTRIBUTION OF HOTELS AND TOURISM

A major problem is that of the distribution of tourism throughout Israel. Statistics, reports, and personal interviews show that most tourists stay in Jerusalem, Haifa, and Tel Aviv, with Tel Aviv having the greatest concentration. Many areas with as much or more tourist potential are therefore neglected. The necessary facilities must be developed in these now relatively underdeveloped areas and tourists attracted there. In a sense it becomes a cyclical process. Tourists attract more tourists. Development is necessary to attract the tourists, and tourists are necessary to warrant the development.

The following two tables illustrate some of the distribution. The breakdown of rooms by areas in 1955 and in 1960 is shown in table 14.

The distribution of tourist-nights by major cities as a per cent of the total for the country is shown in table 15. The percentages as noted remain somewhat constant. Also, the concentration in the Tel Aviv and Herzliya area becomes noticeable. While it can be seen that the percentage of

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TABLE 14
GEOGRAPHICAL DISTRIBUTION AND GRADING
OF AVAILABLE HOTEL ACCOMMODATIONS^a
(Comparison of 1960 with 1955)

Area	Class	Number of Rooms		
		1955	1960	Change
Tel Aviv	Class A Hotels	230	340	+110
	Class B Hotels	516	319	-197
	Class C Hotels	<u>259</u>	<u>345</u>	<u>+ 86</u>
	Total	1,005	1,004	- 1
Jerusalem	Class A Hotels	260	413	+153
	Class B Hotels	261	351	+ 90
	Class C Hotels	<u>167</u>	<u>79</u>	<u>- 88</u>
	Total	688	843	+155
Haifa	Class A Hotels	216	190	- 26
	Class B Hotels	402	439	+ 37
	Class C Hotels	<u>288</u>	<u>375</u>	<u>+ 87</u>
	Total	906	1,004	+ 98
Galilee	Class A Hotels	42	69	+ 27
	Class B Hotels	153	208	+ 55
	Class C Hotels	<u>262</u>	<u>272</u>	<u>+ 10</u>
	Total	457	549	+ 92
Negev	Class A Hotels	-	28	+ 28
	Class B Hotels	-	14	+ 14
	Class C Hotels	<u>-</u>	<u>64</u>	<u>+ 64</u>
	Total	-	106	+106
Herzliya-Netanya-Caesarea	Class A Hotels	280	301	+ 21
	Class B Hotels	54	304	+250
	Class C Hotels	<u>37</u>	<u>217</u>	<u>+180</u>
	Total	371	822	+451
Totals for Israel	Class A Hotels	1,028	1,341	+313
	Class B Hotels	1,386	1,635	+249
	Class C Hotels	<u>1,013</u>	<u>1,352</u>	<u>+339</u>
	Total	3,427	4,382	+901

^a

Government of Israel, A Program for the Continued Development of Tourism in Israel, a report prepared by Cresap, McCormick and Paget; Harris, Kerr, Forster & Co.; Stanton Robbins & Co., Inc., 1960, opposite p. IV-2.

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TABLE 15

DISTRIBUTION OF TOURIST-NIGHTS BY MAJOR CITIES,
1955, 1957, 1958 AND THE PEAK QUARTER 1958^a
(in per cent of country total)

Geographic Area	1955	1957	1958 First 10 Months	April- June 1958
Entire country	100.0	100.0	100.0	100.0
Three major cities	94.8	95.2	92.9	90.2
Jerusalem	20.2	19.7	20.7	21.3
Tel Aviv & Herzlia	57.4	61.3	55.4	52.0
Haifa	17.2	14.2	16.8	16.9
All other	5.2	4.8	7.1	9.8

^aEmil Erdreich and L. J. Weber, Some Economic Aspects of the Hotel Industry in Israel in 1958, a report prepared for the Office of the Prime Minister by the Industrial Advisory Group (Jerusalem: Ministry of Commerce and Industry, 1960), p. 86.

the tourists staying in other areas is increasing it should be possible to increase this number considerably. A variety of methods applicable for attraction has been discussed in an earlier chapter.

It is doubtful if there is more than one hotel outside of the Jerusalem, Tel Aviv, Haifa and Herzliya-Netanya-Caesarea areas which would meet luxury international

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standards.¹ With this the case, certain steps should be taken and proper planning done to create at least two more centers which would in time be able to accommodate tourists seeking luxury international accommodations. This has been discussed in part under the section on resort and convention tourism.

Following is a brief general description of some of the major areas.

Tel Aviv is Israel's major metropolitan city. It contains many of the foreign consulates, major stores, and much of the state's commercial activity. It contains night-clubs, parks, museums and other sources of entertainment. With a fairly central location, the city and surrounding areas attract most of the tourist traffic. It may be desirable to let Tel Aviv rest on its own reputation and allow tourism in the city to grow naturally while concentrating effort on those more neglected tourist areas. In this way pressure will also be taken off Tel Aviv.

As the capital city, Jerusalem is the seat of most government offices. It is usually pleasantly cool in summer in contrast to other areas. It is also the country's

¹Following the Risch criteria as noted.

Figure 8--The Sheraton-Tel Aviv Hotel in Tel Aviv.

Figure 9--The swimming facilities of the Sheraton-Tel Aviv
Hotel in Tel Aviv.



Figure 10--The King David Hotel in Jerusalem.

Figure 11--A view of the garden of the King David Hotel
in Jerusalem.



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religious center and houses the Hebrew University. However, it lacks the metropolitan atmosphere of Tel Aviv. As a result, tourists usually stay in Tel Aviv and visit Jerusalem one or more days to sightsee. Such sporadicity is nonconducive to the development of luxury international hotels. At the same time the outskirts of Jerusalem offer great potential for resort hotel development, as one such hotel already in existence examples. With proper cultivation, the demand could be increased. While the area lacks natural water, such as lakes and seas, it has the advantage of views of the Judean Hills and a lower summer temperature. The cooler climate further permits sports activities, which are usually too demanding in the warmer areas. Such a resort center, located within easy reach of the historical city of Jerusalem but without the rapid pace of Tel Aviv and open to development of services and facilities, would be an example of the resort and convention center possibilities that were discussed in an earlier chapter.

Haifa is very possibly one of the most beautiful cities in the world. At the present time it has only one A class hotel. A hotel of the luxury international type is scheduled to open this year.

Figure 12--A view of Haifa from Mt. Carmel.

Figure 13--A view of new Dan Carmel Hotel at the top of
Mt. Carmel overlooking Haifa.



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Figure 14--The Eilat Hotel in Eilat.

Figure 15--The Tropicana Motel in Eilat.



Unfortunately, at present Haifa is more or less only a stopping point for people who arrive or depart from Israel by ship. From Haifa they go on to Tel Aviv or Jerusalem.

Perhaps a possible success of the new hotel will indicate a demand for luxury international accommodations in the city. With the Technion and its other attractions, Haifa would make a suitable convention and resort center, and also further relieve the tourist pressure on Tel Aviv.

The Galilee is another area with great tourist potential. With the proper development, this region, with its many tourist attractions and hot mineral baths, particularly around the Tiberias area, may well be turned into a major resort and health center.

This area would be very dependent on the development of tourist facilities. These would include entertainment, sports, shopping, restaurants, hotels and other tourist amenities. Depending on the development which occurs in the following years and the general facilities which are offered, a luxury international resort hotel seems feasible in the future, and if it could find and meet existing tourist demands it may be feasible sooner.

The Negev has considerable tourist potential.

Beersheba, in its more northern part, is closer to the more populated part of Israel. Eilat on the Red Sea, is fairly isolated. Both cities, however, have the space and potentials for growth.

Eilat contains historical sites and its location on the Red Sea, which is a fine body of water, makes it ideal for a wide variety of water sports. It is just starting to build up and to date has only a few hotels, although the area bears watching as a favorable site for future luxury international hotels. Such a resort center would also draw more tourists.

Beersheba, while lacking the benefit of the Red Sea, also has favorable potentials. Its location is good and would still allow for increased resort tourism if facilities were available. As stated, it seems to be true that facilities must be there before the tourists can and will come.

The above discussion shows the wheres and whys of tourist concentration. It has tried to indicate the results of concentration and why a decentralization of tourist trade is desirable; further how this may be accomplished.

Decentralization means time, money, promotion, and speculation on the part of both private investors and government. However, the future of tourism would appear worth the effort and, with such help, tourism may grow far ahead of present predictions.

CHAPTER VIII

DISTRIBUTION OF TOURISM BY GROUPS

Tourism by Israelis

In general, Israelis make up the lesser portion of hotel business. The country is so small that the Israeli who has to travel between cities on business can usually go home at night. When he is obliged to stay over he generally stays at the more modest hotels. Most business traffic appears to be between Tel Aviv and Jerusalem, which is only about 44 miles, not too great a distance to travel.

The Israeli's use of hotel accommodations is usually limited to the dining room, dance floor, swimming pool, meeting rooms, and related facilities--although this is not to negate the importance of these revenue sources to the hotel.

The Israeli on vacation tends to go to places like Tiberias and Eilat which the foreign tourist does not usually frequent, and then he stays at the more modest hotels.¹ Thus Israeli business as it is now should add

¹Personal interviews.

little profit to luxury international hotel operations. Furthermore, the hotel does not receive a premium from the government on receipts from Israelis.

Table 16 gives a breakdown of receipts from tourists and Israelis in the 22 hotels studied by the Industrial Advisory Group. In terms of per cent of total it can readily be seen that Israeli receipts are inversely proportional to the hotel's classification. The more modest the hotel the higher the proportion of Israelis and the lower the proportion of other tourists.

Distribution of Tourism by
Country of Origin

Table 17 shows tourist arrival by country of residence. It can be seen that almost 50 per cent of tourists to Israel are from the United States. Europe provides the next largest market with 35 per cent, followed by Asia and Africa with 5.3 and 4.6 per cent respectively. The percentage from Asia, Africa, and Europe appears to be on the decrease while that from America, particularly the United States, is increasing. As a result of Israel's increasingly closer relationship with some of Africa's new states, tourism from that area may possibly increase.

TABLE 16

RECEIPTS FROM TOURISTS AND ISRAELIS DURING 1958
BY HOTEL GROUPS^a

Line	Item	Hotel Group			Total
		I	II	III	
1	Gross hotel receipts	8,282.4	2,344.8	875.6	11,502.8
2	Premiums on receipts from tourists for room and board, IL. '000 ^b	736.0	185.9	48.7	907.6
3	Receipts from tourists and Israelis, IL. '000 ^c	<u>7,158.1</u>	<u>2,034.0</u>	<u>791.5</u>	<u>9,983.6</u>
4	Receipts from tourists, IL. '000 ^c	5,978.0	1,425.8	424.2	7,828.0
5	Receipts from Israelis, IL. '000 ^c	1,180.1	608.2	367.3	2,155.6
6	Receipts from tourists, % ^d	83.5	70.1	53.7	78.5
7	Receipts from Israelis, % ^e	<u>16.5</u>	<u>29.9</u>	<u>46.3</u>	<u>21.5</u>
8	Receipts from other sources, IL. '000 ^f	388.3	124.9	35.4	548.6
9	Allocated to tourists, IL. '000 ^g	324.2	87.6	19.0	430.8
10	Allocated to Israelis, IL. '000 ^h	<u>64.1</u>	<u>37.3</u>	<u>16.4</u>	<u>117.8</u>
11	Total receipts from tourists, IL. '000 ⁱ	6,302.2	1,513.4	443.2	8,258.8

TABLE 16--Continued

Line	Item	Hotel Group			Total
		I	II	III	
12	Total receipts from Israelis, IL. '000 ^j	1,244.2	645.5	383.7	2,273.4
13	Total receipts from tourists in % of gross hotel receipts ^k	76.1	64.6	50.6	71.9
14	Total receipts from Israelis in % of total hotel receipts ^l	15.0	27.5	43.8	19.7

^aEmil Erdreich and L. J. Weber, Some Economic Aspects of the Hotel Industry in Israel in 1958, a report prepared for the Office of the Prime Minister of the Industrial Advisory Group (Jerusalem: Ministry of Commerce and Industry, 1960), pp. 136-37.

^bFrom Table III.

^cFrom the individual reports of 22 hotels. Does not include premiums.

^dLine 4 as per cent of line 3.

^eLine 5 as per cent of line 3.

^fLine 1 minus lines 2 and 3.

^gLine 8 multiplied by line 6.

^hLine 8 multiplied by line 7.

ⁱLine 4 plus line 9.

^jLine 5 plus line 10.

^kLine 11 as per cent of line 1.

^lLine 12 as per cent of line 1.

Because of shorter distances and the fact that travel by Europeans is expected to increase between 40 and 45 per cent in the near future while travel by United States citizens is predicted to increase by only 20 to 25 per cent,² a greater portion of the new market should be found in Europe. Therefore, it seems reasonable to concentrate further promotional effort in Europe.³

Another recommendation made by the Cresap, McCormick and Paget et al. survey team is expansion of promotion in Latin America, which they feel is a very significant market.⁴

Distribution of Tourism by Religion

There are indications that travel to Israel by Christians is increasing.⁵ The number of Christians touring Israel in 1959 was about 33 per cent and according to Cresap et al. survey team figures, had remained at about that level since

²Cresap, McCormick and Paget, et al., p. II-1.

³Ibid., p. VIII-3.

⁴Ibid., p. VIII-4.

⁵Friedlander. Sylvia Porter, "Israel Prepares World's 'Latest' Vacation Area."

TABLE 17

TOURISTS ARRIVING, BY COUNTRY OF RESIDENCE^a
(1957 - September, 1960)

Country	Percentages				Absolute Numbers			
	Jan.- Sept. 1960	1959	1958	1957	Jan.- Sept. 1960	1959	1958	1957
<u>ALL COUNTRIES</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>90,657</u>	<u>83,614</u>	<u>69,777</u>	<u>44,562</u>
<u>ASIA</u>	<u>5.3</u>	<u>6.2</u>	<u>8.8</u>	<u>10.1</u>	<u>4,763</u>	<u>5,182</u>	<u>6,094</u>	<u>4,475</u>
Turkey	1.1	2.2	4.5	6.4	1,040	1,792	3,096	2,847
Iran	1.9	2.0	2.0	1.9	1,692	1,678	1,415	827
Cyprus	0.5	0.6	0.8	0.7	465	513	552	310
Other countries	1.8	1.4	1.5	1.1	1,566	1,199	1,031	491
<u>AFRICA</u>	<u>4.6</u>	<u>4.0</u>	<u>5.4</u>	<u>7.2</u>	<u>4,197</u>	<u>3,274</u>	<u>3,719</u>	<u>3,184</u>
Tunisia, Algeria, Morocco	0.8	0.8	1.6	2.6	744	622	1,095	1,151
South Africa	3.5	4.0	5.4	7.2	3,174	3,274	3,719	3,184
Other countries	1.8	0.3	0.3	0.4	279	268	214	165
<u>EUROPE</u>	<u>35.1</u>	<u>38.2</u>	<u>38.1</u>	<u>47.5</u>	<u>31,808</u>	<u>31,668</u>	<u>26,437</u>	<u>20,988</u>
Rumania	0.1	0.1	0.1	0.2	62	92	96	79
Yugoslavia	0.2	0.3	0.5	0.3	176	291	359	124
Greece	0.7	0.8	1.1	1.6	635	660	753	705
Germany	3.2	3.6	2.2	2.2	2,944	2,959	1,516	986
Austria	0.8	1.0	1.1	1.2	721	843	777	521
Czechoslovakia, Hungary	0.3	0.2	0.2	0.4	230	136	116	166
United Kingdom	9.5	10.7	11.1	11.2	8,579	8,901	7,673	4,947
Scandinavia	1.6	1.8	2.1	2.4	1,481	1,467	1,488	1,066
Belgium	1.7	1.7	1.6	2.5	1,588	1,414	1,132	1,099

TABLE 17--Continued

Country	Percentages				Absolute Numbers			
	Jan.- Sept. 1960	1959	1958	1957	Jan.- Sept. 1960	1959	1958	1957
France	9.4	9.3	9.7	12.8	8,497	7,697	6,726	5,665
Switzerland	2.1	2.3	2.1	2.4	1,914	1,875	1,457	1,064
Italy	2.0	2.8	2.6	2.9	1,835	2,313	1,797	1,270
Other countries	1.5	0.5	0.4	0.6	1,368	414	306	261
<u>AMERICA</u>	<u>53.7</u>	<u>50.9</u>	<u>46.6</u>	<u>34.1</u>	<u>48,679</u>	<u>42,221</u>	<u>32,319</u>	<u>15,072</u>
U.S.A.	45.1	43.4	37.0	26.4	40,841	35,972	25,664	11,671
Canada	3.0	3.6	3.4	2.6	2,747	2,976	2,380	1,138
Brazil	1.1	0.8	1.4	1.4	1,000	683	968	599
Argentina	1.9	1.1	1.7	1.6	1,744	955	1,194	716
Other countries	2.6	2.0	3.1	2.1	2,347	1,635	2,113	948
<u>OCEANIA</u>	<u>1.1</u>	<u>0.7</u>	<u>1.1</u>	<u>1.1</u>	<u>1,026</u>	<u>569</u>	<u>766</u>	<u>497</u>
<u>NOT KNOWN</u>	<u>0.2</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>184</u>	<u>700</u>	<u>442</u>	<u>346</u>

^aCompiled from: 1957-1959; Israel, Central Bureau of Statistics, Israel Tourist Statistics (1959), Special Series No. 105, Jerusalem (1961), pp. 10-11. Israel Government Tourist Corporation, Annual Report, 1960 (Jerusalem: The Government Printer, 1961), Appendix No. 8.

1954.⁶ Personal interviews by the author indicated that occupancy by Christians was between 18 and 33 per cent. However, since only a selected group of hotels were visited, and percentages in these varied widely, it is difficult to determine validity of the figures or to project to the overall situation. One opinion was met consistently in interviews both in and out of the hotel field. That was that travel to Israel by Christians is increasing, it is necessary, and it is wanted.

Interviewees generally pointed out that since there are more Christians in the world tourist market than Jews, that the market would have much appeal to Israel.

The same tourist attractions discussed earlier would be expected to apply equally to Christians as to Jews. This wider market would benefit luxury international hotels as well as the entire Israel hotel industry.

⁶Cresap, McCormick and Paget, et al., p. II-5.

CHAPTER IX

SEASONAL VARIATIONS IN TOURISM

Seasonal Variations at the Present Time

Like many vacation areas, one of the problems Israel faces is uneven distribution of tourist trade throughout the year. In general, summer is the peak and winter is the off-season, resulting in an unequal utilization of facilities.

This becomes important in the operation of luxury international hotels. With its higher overhead and greater investment, the luxury hotel has to maintain as steady an occupancy as possible in order to make a reasonable return on invested capital. Variations in occupancy also cause variations in staff needs which often cause higher turnover of staff, which is both expensive and undesirable.

Table 18 shows the incoming tourist traffic from January through December of 1960. As illustrated, November through January are extremely poor months, with March through October relatively active. One explanation for the drop in June is that this is the month when people are

planning for their summer vacations and therefore are at home.

Figures 16 and 17 show the distribution by month and quarter in 1960 as a per cent of the total traffic. The 1952-1954 average is given for comparative purposes. As the graphs show, there has been little change in seasonal distribution throughout the eight year period.

The government has recently been playing a strong role in the promotion of Israel for winter tourism, a suggestion that was recommended by the Cresap et al. survey team.¹

In interviews with hotel managers, the increase in winter occupancy reported was between 15 and 20 per cent. This brought room occupancy up to about 50 per cent which was a considerable improvement towards a steadier rate.²

Since most Israel hotels offer reduced off-season rates, usually about 25 per cent lower,³ it may be probable that as winter tourism becomes more popular, the luxury international hotels would gain a greater percentage of the increased trade. Those who would normally stay in the more

¹Cresap, McCormick and Paget, et al., p. II-11.

²Personal interviews.

³Ibid.

TABLE 18

INCOMING TOURIST TRAFFIC--JANUARY/DECEMBER 1960^a

Month	1958	1959	1960	1960 Compared with 1959	
				Percen- tage	Number
Jan.	2,096	2,428	3,314	+36.5	+ 886
Feb.	3,852	4,486	6,497	+44.8	+ 2,011
March	6,884	8,715	10,818	+24.1	+ 2,103
April	12,971	10,104	16,045	+58.8	+ 5,941
May	6,334	9,450	11,158	+18.1	+ 1,708
June	5,989	6,327	8,379	+32.4	+ 2,052
July	9,338	11,380	15,884	+39.6	+ 4,504
Aug.	6,301	7,935	12,512	+57.7	+ 4,577
Sept.	4,380	7,257	8,893	+22.5	+ 1,636
Oct.	3,856	7,998	10,395	+30.0	+ 2,397
Nov.	2,942	4,301	6,281	+46.0	+ 1,980
Dec.	3,157	4,723	7,485	+58.5	+ 2,762
Total for year	68,100	85,104	117,661	+38.3	+32,557

^aIsrael Government Tourist Corporation, Annual Report, 1960 (Jerusalem: The Government Printer, 1961), Appendix No. 2.

Figure 16--Distribution of visitor traffic to Israel by month.^a

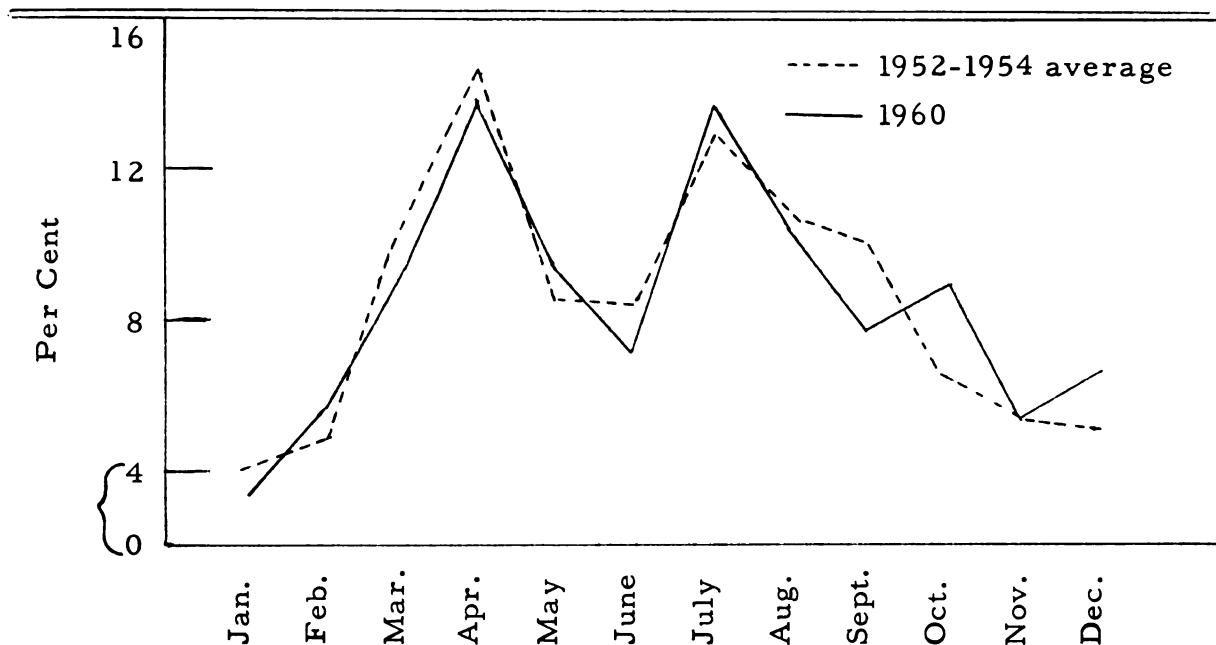
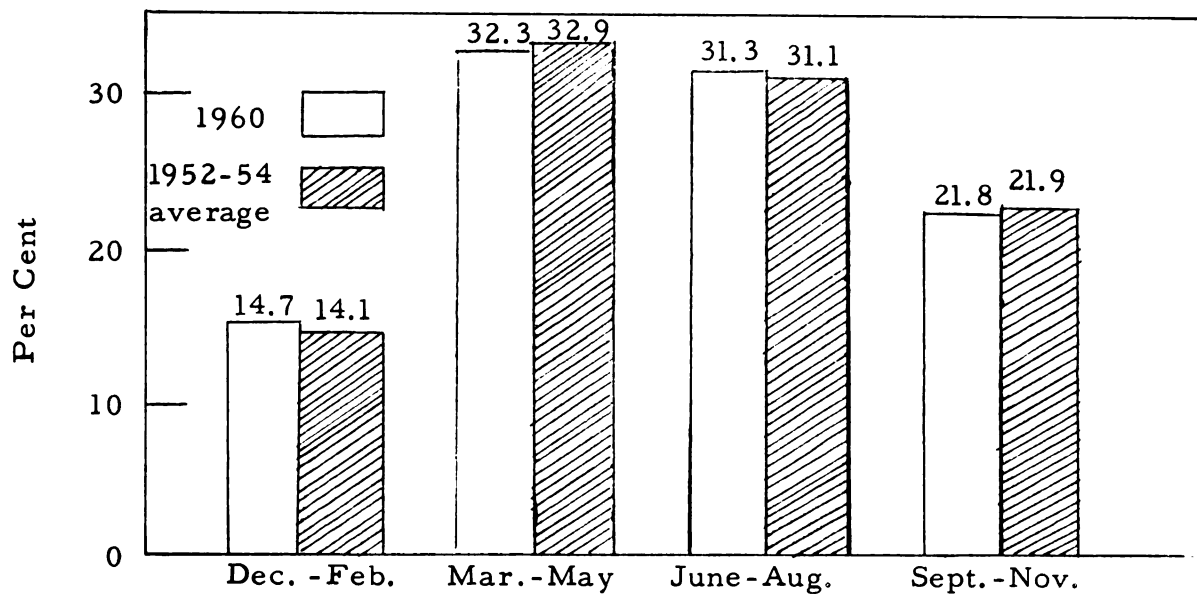


Figure 17--Distribution of visitor traffic to Israel by quarter.^a



^aCresap, McCormick and Paget, *et al.*, opposite p. II-5. Israel Government Tourist Corporation, Annual Report, 1960, Appendix No. 7.

modest hotels would now be able to afford the luxury international hotels.

Figure 18 shows Israel's tourism performance by season compared with that of other European countries. As noted, Israel appears to compare favorably with the other countries.

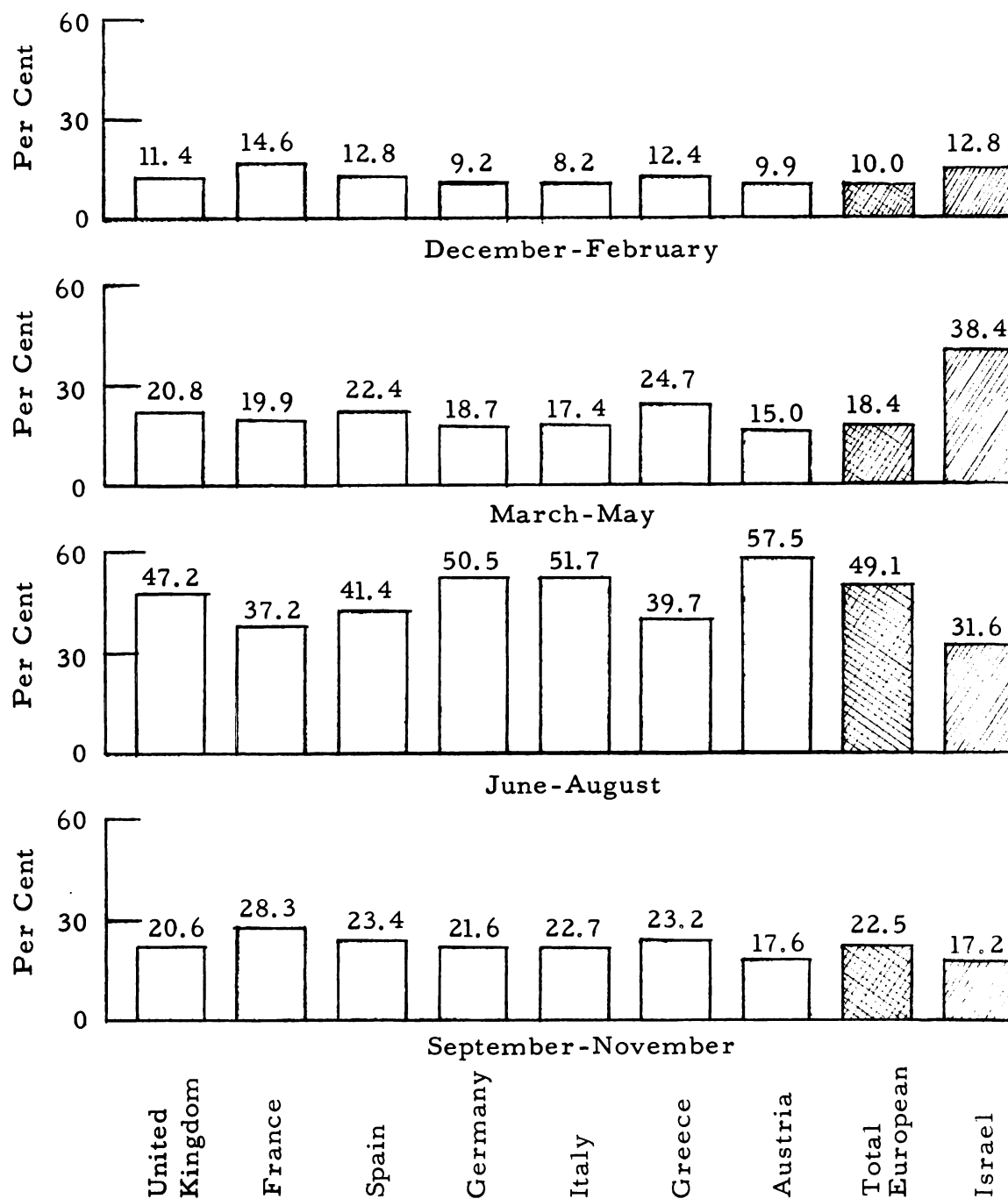
Possible Shift in the Future

As tourism grows it will become even harder to accommodate tourists. It is felt that many tourists do not go to Israel because they cannot get the accommodations they desire.

One solution would be the shift in seasons. If more tourists can be induced to visit in the off season when rates are lower they can be easily accommodated, leaving more room in the crowded regular season. In this way the same facilities could accommodate considerably more tourists, with more profit to the luxury international hotels.

Israel has good potential for winter tourism because of its climate. The country is rather hot in summer, particularly in the Negev and Galilee areas. Jerusalem, being in the hills, usually is rather pleasant. The result is that the summer months comprise the tourist season, except for Eilat and Tiberias, which have their season in the winter.

Figure 18--Seasonal distribution of tourist traffic, comparison of Israel and selected European countries, 1958. ^a



^aCresap, McCormick and Paget, et al., opposite p. VIII-6.

Israel has virtually no rain for four months of the year.

The winter climate is usually reasonably warm and sunny. Heavy downpours will occur, with the sun coming out almost immediately afterward. The temperature ranges for various parts of the country from December through March of 1961-1962 are given in table 19.

The Negev has been compared with Arizona, Miami and the Riveria in climate, and it has been advocated that Arizona be studied for ideas on how to make Israel into a similar resort area.⁴

Most areas of Israel have possibilities as year-around centers and their resorts could adapt with minor alterations such as installing proper heating and other cool weather facilities in areas such as Tel Aviv and Jerusalem for winter tourists, and air conditioning in places like Eilat and Tiberias for summer tourists. When tourists know that areas are comfortable in the off-seasons, they should be more easily induced to go then instead of going to the greatly overworked areas in the rush season. Luxury international hotels would become much more used as resort, health, and convention centers.

⁴Cresap, McCormick and Paget, et al., p. III-12.

TABLE 19
TEMPERATURE RANGES FOR SELECTED AREAS IN ISRAEL^a

City	Month	Temperature Range (°F.)	Average Low (°F.)	Average High (°F.)
Jerusalem	Dec. ^b	43 - 68	48	63
	Jan.	43 - 63	45	55
	Feb.	32 - 66	43	55
	Mar. ^b	43 - 59	45	55
Tel Aviv	Dec. ^b	46 - 75	54	70
	Jan.	46 - 73	50	64
	Feb.	45 - 72	50	63
	Mar. ^b	50 - 64	55	63
Haifa	Dec. ^b	50 - 77	55	70
	Jan.	45 - 68	50	64
	Feb.	39 - 70	50	63
	Mar. ^b	45 - 64	50	63
Tiberias	Dec. ^b	48 - 82	52	73
	Jan.	45 - 73	50	64
	Feb.	41 - 73	48	66
	Mar. ^b	46 - 70	50	68
Beersheba	Dec. ^b	39 - 79	46	72
	Jan.	39 - 73	45	64
	Feb.	39 - 75	45	63
	Mar. ^b	41 - 66	46	68
Eilat	Dec. ^b	48 - 84	55	77
	Jan.	48 - 79	52	73
	Feb.	41 - 79	52	72
	Mar. ^b	43 - 77	50	75

^aCompiled from: The Jerusalem Post; Dec. 4, 26, 31, 1961; Jan. 4, 8, 10, 12, 16, 17, 21, 24, 25, 26, 1962; Feb. 1, 11, 12, 13, 14, 15, 16, 18, 19, 20, 21, 22, 23, 26, 27, 28, 1962; March 1, 2, 11, 12, 1962, p. 3.

^bFor December only three days were computed and for March only four days were computed. However, the results appear to be consistent relative to January and February.

Table 20 shows a recommended shift in seasonality of tourism. These figures are what the Cresap survey team felt would be a good start toward redistribution of tourism by seasons.

TABLE 20

RECOMMENDED SHIFTS IN SEASONALITY OF TOURISM^a

Season	1959 Actual	1965 - Suggested Goal
Winter (December-February)	13.3%	16%
Spring (March-May)	33.6	31
Summer (June-August)	30.6	29
Fall (September-November)	22.5	24
	<u>100.0%</u>	<u>100%</u>

^aCresap, McCormick and Paget, et al., p. II-11.

CHAPTER X

OPERATION OF HOTELS IN ISRAEL

Obtaining, Training, and Managing Employees

In hotel planning a most important consideration is obtaining an adequate staff. It becomes even more important for a luxury international hotel. Staff must be consistent with the hotel's overall standards and in this type of hotel the standards must be the highest by world standards.

Most managers interviewed felt that staff was one of their greatest problems.¹ Many reasons were given. One was that laws require the hotel has to keep unskilled help who have been on the job for two weeks and skilled help after they have been working for four weeks. Therefore, if an employee becomes undesirable for any number of reasons it is difficult to fire him after this period. One manager felt that a system of financial penalties might solve the problem. The Hotel Association would set up a

¹The responses and personal opinions which follow on the next two pages were expressed by hotel managers interviewed.

listing of misdemeanors and cash penalties for each, the penalties to be deducted from the employee's pay and donated to charity, schools, hospitals, or similar institutions.

Another reason was that employees with good experience and training come from the ship and airlines. They are tired of traveling but still do not care for hotel work, simply taking the hotel jobs until something better comes along. Under these circumstances they generally do not do their best work.

A lack of desire to work in the service industries is frequently given to account for inadequate help. Work in the service industries appears to be regarded by Israelis as a lower type of occupation. In order to improve the calibre of service industries employees it is suggested that a program of public education be initiated to raise the status of the service industries to that of a very respectable profession, much as it is regarded in Switzerland.

Most managers interviewed felt they would rather train employees themselves. They can then acquire people not yet exposed to what they may regard as undesirable practices.

One employee quality considered desirable or necessary by the managers is proficiency in languages. One manager felt that employees should know at least four languages, to include English and Hebrew. Another felt they should be better trained in public relations, particularly in tourist psychology.

Some reports have recognized the need for further education in the hotel and restaurant field, both for management and service staff.² Recently such a training school has been started in Israel with the aid of the United States Overseas Mission and Michigan State University. One of the problems faced by the school will be to overcome attitudes created by some unfortunate attempts previously made in this direction and gain confidence of Israel's hotel industry.

To further attract quality personnel which the industry needs, wages must be adjusted. In 1958 the average hotel salaries and wages per employee month was IL. 273³ which is \$126.39 at an exchange rate of IL. 2.16 per dollar. This appears scarcely consistent with Israel's cost of living.

²Cresap, McCormick and Paget, et al., pp. IV-26-28.
Risch.

³Erdreich, p. 125.

The staff problem varies by area. For example, it has been reported difficult to keep staff in Eilat, the employees quickly moving to other parts of the country.⁴ Also, managers reported it takes an employee from 1 to 1 1/2 hours to clean a room, a much longer time than is usually required in the United States. Reasons given were the nature of the Eilat area, people bringing in sand from the beach, and the general climatic conditions.⁵ Such problems have to be considered if building and maintaining a hotel in that area.

The examples being set by the luxury international hotels now in operation in Israel and the new training program underway may considerably alleviate the problems of adequately staffing a luxury international hotel. However, the shortage of competent manpower may still exist for some time, and will raise the expenses of hotel operation. This shortage should be anticipated and planned for before construction begins. Planning would be helped by a study of the experiences of those hotels now in operation.

⁴Personal interviews.

⁵Ibid.

Kosher Laws⁶

Any particularity of the area must be considered. How can the hotel meet the unusual situation and how will it affect the cost-price structure?

Israel, for instance, has the kosher laws. These affect costs, equipment used, number of staff and other things and must be considered in planning.

By law a restaurant is not required to be kosher. However, a hotel must be to obtain an A class rating. Luxury international hotels, as the top hotel class, would probably also have to be kosher. Furthermore, much trade, particularly of the convention type, may be lost if the hotel serves non-kosher food.

Conflicting responses from managers were obtained on those questions by the author about kosher laws.⁷ Some claimed that the public does not mind the kosher laws, others felt that the people do not like to be told what to eat. Still others felt that the gentiles complained less about the laws than did the Jewish clientele.

⁶Kosher laws are Jewish dietary laws. In this thesis gentiles refers to persons not of the Jewish faith.

⁷The responses and opinions here and following were expressed by managers interviewed.

Kosher laws do restrict a hotel's food operation. Since meats and milk products must be kept separate, substitute ingredients must be found for certain products, some products cannot be on the menu, and others have to be created. Separate dining rooms for meat dishes and milk dishes are required. Separate sets of dishes and silverware, separate ranges, ovens, refrigerators, and other kitchen equipment, must be used, and the utensils must be washed separately. The staff which handles meat dishes cannot handle milk dishes and vice versa. Meat cannot be aged. If it is kept for more than three days it must be salted and watered down every three days. Much more storage space is necessary.

As a result the cost of serving kosher food is 25 to 40 per cent greater. This fact must be recognized by any investor or builder and proper arrangements made.

Management had various views on the laws. Some reported the laws were not prohibitive to a fine cuisine and were easy to maintain. Others felt they were very restricting, difficult to maintain, and considerably limited the food service.

For large hotels, one answer may be to maintain both a kosher and a non-kosher dining room. At present this is not permitted.

It would appear that the kosher laws are as much a part of Israel as anything else. Therefore, they should be recognized as such. With the proper planning and creativity, they should be able to be adhered to with a minimum of added expense, and the food served made comparable with that served anywhere in the world. Some of the ideas expressed in the Willetta Bar-Illan report⁸ could aid considerably in this respect. She gives a number of ideas on development of recipes which would be consistent with Israeli culture.

Procurement of Equipment and Commodities

The procurement of goods and equipment also has its problems. Complaints on the quantity and quality of meats appear to be numerous. However, it would seem that good management can find many attractive ways to use a variety of meat cuts. It was reported that fresh vegetables are not always available although carrots, eggplant and squash are available year-round.⁹

⁸ Willetta Bar-Illan, "1960 Study of Restaurants in Israel and Their Role in Tourism," a report to the government of Israel, June 13, 1960.

⁹ Personal interviews and observation, here and following page.

As to actual food purchasing, interviewees reported that Israel has a good market. However, they also said purchasing is very difficult. All the purveyors want all the business and the manager has a difficult time getting them to come to him. Therefore, it is difficult to split the business between a number of purveyors, a policy generally considered desirable elsewhere.

Most soft goods and small hard goods can be obtained in Israel. Much heavy equipment is also produced there. "Approved" hotels and restaurants can import those items which are needed and not produced in Israel of an acceptable quality.

Some hotel managers felt they could get better goods by importing although claimed it was very difficult to persuade the government to allow them to import them duty free.¹⁰

To maintain hotels of the luxury international class, the government will have to realistically evaluate these requests for imports and allow most of those necessary to be imported at a reasonable rate. Since the recent devaluation of the Israel pound in February, 1962, a tariff

¹⁰Personal interviews.

policy which is less protective of local industry has been introduced to enable Israel to compete with the European Common Market. This should greatly reduce the problem of imports.

It must be noted that when a tourist stays in a luxury international hotel, he expects and pays for a specified quality of accommodation and is usually little interested in a government problem of protection of local industry or balance of trade.

Quantity and Quality of
Goods Available

Many goods which Israel produces are of excellent quality, and variety within certain lines seems to be increasing.¹¹ It seems likely that a good portion of the operating equipment of a luxury international hotel can be furnished and maintained with Israeli produced products.

However, some, particularly heavy equipment, appears to be somewhat lacking in refinements and quality.

The author observed equipment in the hotels visited, taking special notice of ease of operation, versatility,

¹¹ Personal interviews and observation.

ease of maintenance, and sanitation features. He feels that while it is true that Israel can and will produce most equipment needed for hotel operation, much of this equipment today is custom made, which in itself is rather uneconomical. Also, in certain lines, Israel does not offer the variety needed to adequately satisfy all demands of a full scale individual hotel operation.

Until the time when the country can produce certain equipment economically, using competitive engineering methods and latest refinements, and in sufficient variety to fulfill a variety of needs, it may be a much sounder policy to import where needed. Hotels, including luxury international hotels, would thus be equipped to efficiently satisfy the needs and expectations of the tourist who, in turn, brings more money into the local economy.

CHAPTER XI

THE ARAB BOYCOTT

A major problem which can hardly be overlooked by anyone planning to invest money in Israel is the Arab boycott. This is an attempt to prevent other countries and companies from doing business with Israel and although it does not succeed completely, it does put economic pressure on Israel.

Good relations with neighboring states are important for any country, especially if interested in tourism. Israel does not have these relations. As a result, it is difficult to travel between Israel and the surrounding Arab countries. This means that most travel between Israel and other parts of the world is by air or sea. Shipping cannot be done over land. This makes travel and shipping to Israel both expensive and indirect.

This problem was created at the time of the War of Independence which also created the present problem of the Arab refugees--ever since a point of bitter contention.

Israel claims that these people who now number about one million deserted their homes during the war and went

to the neighboring Arab countries, intending to return when the Arabs won the war. Israel further claims that they were asked to remain in Israel and the country was prepared to treat them as equal citizens.

The Arabs claim that the refugees were forced to flee their homes and now should be allowed to go back, which Israel feels is impossible. She fears the Arabs would represent a fifth column; besides, many of the Arab homes are now used by Jewish immigrants. Israel is willing to make payment for their loss to the Arabs.

As publications from both sides indicate, neither side is likely to back down or compromise. Feelings are too strong on each side.

It is probable that there will be no war in that area, and if there is, that it would probably be quickly stopped by intervention of outside countries. However, it is not likely that the problem will be resolved in the near future.

That the problem results in constant rivalry is found in frequent news paragraphs like the following:

The Arab League has "warned" the Soviet Union against agreeing to purchase Israel citrus, the Arab News Agency reported from Cairo yesterday. The League's Assistant Political Secretary, commenting on the

report that an Israel delegation has left for Moscow to conduct talks on this subject, said such a Russian move "would be tantamount to supporting aggression against the Palestine peoples."¹

Further evidence of Arab-Jew hostility which is particularly relevant to operation of luxury international hotels will be found in Appendix D.

¹The Jerusalem Post, February 13, 1962, p. 1.

CHAPTER XII

FORECAST OF TOURISM TO ISRAEL

Any forecast of Israel tourism is difficult. It must be based on past experiences and expectations for the future. Any change in Israel's situation could nullify it. Tourism itself could be affected by a war between Israel and the Arab states, an economic recession or depression in Europe or America, a change in people's touring habits, or any number of things.

In 1960, the Cresap et al. survey team¹ drew its own forecast for tourism through 1965, and in 1961 the Israel Government Tourist Office added its own revised figures based on later returns. The combined and updated forecast is given in table 21.

Based on this forecast and using 18.4 per cent as the figure of total hotel rooms which should be of the luxury international classification, the writer feels that by 1965 there should be a total of 928 new rooms in the luxury international class. If tourism is developed along lines

¹Cresap, McCormick and Paget, et al., p. II-7.

suggested in the preceding chapters, the demand for accommodations could no doubt be increased.

TABLE 21
A FORECAST OF TOURISM TO ISRAEL^a

Year	Forecast of Tourists by Survey Team	Forecast of Tourists by Israel Government	Total Number of New Rooms Required	Number of New Luxury Rooms Needed
1961	135,000	155,000	1,375	253
1962	160,000	185,000	850	156
1963	190,000	225,000	725	133
1964	210,000	270,000	1,000	184
1965	240,000	320,000	1,100	202

^aCompiled from Cresap, McCormick and Paget, et al.,
p. II-7. The Israel Government Tourist Corporation.

CHAPTER XIII

CONCLUSIONS

This thesis was designed to present those factors which the writer feels will affect tourism, particularly of the luxury international type, to Israel.

It was indicated that sentimental attachments, family bonds and certain cultural affinities, which are today present, are not necessarily a sound basis for an expanding tourist trade. It was suggested that sound investment opportunities, scientific developments, educational endeavors, and development of resort and convention attractions would elicit increased tourist activity, perhaps far beyond that which is presently predicted.

Other factors considered were the need for a new classification system for hotels which would more adequately serve the public and the hotel industry, the redistribution of hotels and tourism throughout the country to better serve the tourist and relieve currently congested tourist areas, the identification of tourists by religion and nationality to better determine the market which is sought;

and the seasonality of tourism which affects a hotel's use of its full capacities.

Consideration was given to the financing of hotels, the effect of financing on the yield on investment and the possibility of more attractive terms being presented to the potential investor. Hotel operation was discussed in terms of what to expect of staff, local and national laws, and availability of goods, and the difficulties presented by the Arab boycott were defined. Finally, predictions of future tourism to Israel were given and discussion made on how it may effect demands for luxury international hotel accommodations.

These are factors the writer feels should be weighed by the potential investor to determine probability of success or failure of any Israel luxury international hotel. He should consider not only the probable occupancy of the hotel but the yield on investment which must be obtained for reasonable profit. Investment in Israel is no longer a matter of sentimental attachment intended to help a young country to develop. It now resolves to the probability of the investment yielding a predetermined satisfactory rate of return.

As this report has shown, Israel is growing very rapidly. It has one of the fastest growing tourist industries in the world. By proper promotion and commensurate development of facilities, Israel could well become one of the tourist centers of the world.

While Israel is exemplified in this thesis, many of the same factors must be analyzed in the consideration of luxury international hotels, or other hotel and resort enterprises, in other parts of the world. Certain factors may be relevant to the area under consideration. However, by studying the situation in the manner presented in this thesis, identifying the relevant factors, and making a thorough analysis of these factors, the potential investor should be able to make an intelligent decision.

APPENDIXES

APPENDIX A

ENCOURAGEMENT OF CAPITAL INVESTMENTS LAW, 5719-1959^a

Chapter One: Introduction

Object

1. The object of this Law is to attract capital to Israel and to encourage economic initiative and investments of foreign and local capital with a view to--
 - (1) the development of the productive capacity of the national economy, the efficient utilisation of its resources and economic potential and the full utilisation of the productive capacity of existing enterprises;
 - (2) the improvement of the balance of payments of the State, the reduction of imports and the increase of exports;
 - (3) the absorption of immigration, the planned distribution of the population over the area of the State and the creation of new sources of employment.

Means of Attainment

2. For the purpose of attaining the object of this Law, the exemptions, reductions, facilities and permits mentioned therein (hereinafter referred to as "benefits") shall be granted either generally or in relation to a project, as set out in the following chapters.

Project

3. A project for the purposes of this Law is a project for one or several of the following:

^aIsrael Government Yearbook, 1959/60, pp. 454-69.

- (1) the creation or enlargement of an enterprise or of a part of an enterprise;
- (2) the creation, enlargement or acquisition of a property or of a part of a property, by means of foreign currency, by a non-resident;
- (3) an investment in the capital of an enterprise or an investment in a property;
- (4) a loan in foreign currency repayable within not less than seven years, or in Israel currency repayable within not less than ten years.

Implementation

4. The Minister of Finance and the Minister of Trade and Industry jointly (hereinafter referred to as "the Ministers") are charged with the implementation of this Law.

Chapter Two: Investment Centre

Establishment of Centre

5. There is hereby established an Investment Centre (hereinafter referred to as "the Centre"), which shall work for the attainment of the object of this Law.

Authorities

6. The authorities of the Centre are--
 - (1) the Director of the Centre (hereinafter referred to as "the Director");
 - (2) the Board of the Centre (hereinafter referred to as "the Board");
 - (3) the Council of the Centre (hereinafter referred to as "the Council").

Appointment of Director

7. The Government shall appoint the Director, who shall ex officio be a member of the Board and the Council and the chairman of both.

Functions of Director

8. (a) The Director is charged with the implementation of the Board and the Council, shall act in their name and shall carry out any other function assigned to him under any enactment.

(b) Anything to be submitted to the Board, the Council or the Ministers shall be submitted through the Director, and any communication on their behalf shall be made by him.

Appointment of Board

9. The Government shall appoint to the Board, in addition to the Director, six members, who shall ex officio be also members of the Council.

Functions of the Board

10. The functions of the Board shall be--
 - (1) to initiate and organize activities for the encouragement of investments of foreign and local capital and for the immigration and absorption of capital investors, and to provide for the creation of the conditions required therefor.
 - (2) to grant approval to projects (hereinafter referred to as "approval");
 - (3) to maintain liaison between investors and Government offices and other authorities concerned, to give and disseminate information in matters of capital investments in Israel, and to assist investors in the implementation of their projects;

- (4) to recommend to any competent authority to grant, within the scope of the enactments which apply to its sphere of competence or with the implementation of which it is charged, any exemption, reduction, facility or licence in respect of any enterprise, property, investment or loan likely to assist in the attainment of the object of this Law.

Procedure for Activities of Board

11. The Board shall determine its procedure and order of business in so far as they have not been prescribed by regulations.

Appointment of Council

12. The Government shall, after consultation with local authorities and with economic, public, scientific and professional organisations and institutions concerned with branches of the economy which are of national importance, appoint to the Council ten members of the public in addition to the members of the Board.

Functions of Council

13. The functions of the Council shall be--
 - (1) to advise the Government on any matter relating to the attainment of the object of this Law and, in particular, on the basic policy for the encouragement of capital investments, on ways for the implementation thereof and on legislation for the encouragement of capital investments;
 - (2) to consider, as provided in section 25, objections lodged under that section and to give an opinion thereon to the Ministers.

Procedure for Activities of Council

14. The Council shall determine its procedure and order of business in so far as they have not been prescribed by regulations.

Payments to Members of Council

15. A public member of the Council is entitled to be reimbursed by the Treasury for expenses, including loss of wages, incurred by him, through his participation in the meetings of the Council.

Secrecy

16. No part of the proceedings of the Board or the Council, nor any data supplied to them, shall be disclosed except by the Director or the Government or with his or its consent.

Chapter Three: Approvals and Objections

Application for Approval

17. A person applying for approval shall submit to the Board a project containing a detailed description of the operation he intends to carry out, and he shall also supply any additional particular or document required for the examination of the project.

Approval of Project

18. The Board may, at its discretion, approve the project submitted to it or a part thereof if it considers that the implementation thereof is likely to assist in the attainment of the object of this Law and that it is desirable to encourage the implementation of the project by the grant of approval; a project or part of a project, approved as aforesaid shall become an "approved project."

Conditions of Approval

19. The Board may, at its discretion, make the coming into force of the approval conditional on the fulfillment of prior conditions prescribed in the instrument of approval and lay down in such instrument conditions in respect of the implementation of the project and subsequent operations.

Approval To Be in Writing

20. The approval shall be in writing; the instrument of approval shall be signed by the Director.

Proviation as to Approved Project

21. Any such enterprise or property--including an enlargement of an enterprise or property--or any such investment or loan, or any such part of an enterprise, property, investment or loan, as is the subject of an approved project shall, in so far as specified in the instrument of approval, become an approved enterprise, property, investment or loan, as the case may be.

Approved Enterprise To Be
Owned By Company

22. An enterprise shall not be recognized as an approved enterprise unless it is owned by a company registered in Israel, including a company registered in Israel as a foreign company and a cooperative society registered in Israel, except where the Board agrees to a different form of ownership.

Provision as to Approved Property

23. The provisions of this Law concerning an approved enterprise, except the provisions of sections 22 and 62, shall apply also to an approved property.

Provision as to Approved Loan

24. The provisions of this Law concerning an approved investment, except the provisions of section 66, shall apply also to an approved loan.

Objections to Decisions of Board

25. (a) A person who disputes the decision of the Board concerning an application submitted by him under section 17, or its decision under section 75, or a decision of the Director under section 85, may,

within sixty days from the day on which notice of the decision was delivered to him, object to it before the Ministers. The objection shall be in writing and shall specify the reasons on which it is based.

- (b) The objection shall be submitted to the Council and shall be considered by a permanent subcommittee of seven members, four of whom shall not be members of the Board. The subcommittee shall state to the Ministers its opinion on the objection.
- (c) The Ministers may confirm, cancel or vary the decision of the Board.

Chapter Four: Deferment of Payment of Fees

Registration Fee and Capital Fee

- 26. Where the establishment of a company having a share capital, or an increase of the capital of such a company, is included in an approved project, the Director shall notify such fact to the Registrar of Companies, and upon his doing so, the payment of the registration fee and capital fee payable under the Companies Ordinance (hereinafter in this chapter referred to as "the Ordinance"), or of such part of those fees as is payable on the capital amount included in the approved project, shall be deferred for five years.

Deferment Pending Grant of Approval

- 27. Where an application for the approval of a project has been submitted to the Board, and it is stated in the project that for the purpose of the implementation thereof an application will be submitted for the registration of a company having a share capital or for the registration of an increase of the capital of such a company, and it is important, in the opinion of the Director, that the registration take place before the Board decides on the approval, then, upon the

recommendation of the Director, the payment of the registration fee and capital fee payable under the Ordinance, or of such part of those fees as is payable on the capital amount in respect of which the recommendation is given, shall be deferred for four months from the day of the registration or for such longer period, not exceeding eight months from the day of the registration, as the Director may fix; if the project is meanwhile approved, the provisions of section 26 shall apply.

**Striking-off of Company Which Has
Not Paid Fees the Payment of Which
Was Deferred**

28 Where a company does not pay at the deferred date a fee the payment of which has been deferred under section 27, the Registrar of Companies may strike its name off the register provided that before the striking off he has published in Reshumot a notice summoning creditors of the company to appear before him within thirty days from the day of the publication of the notice and to show cause why the name of the company should not be struck off. If no reasonable grounds are brought before the Registrar, the name of the company shall be struck off the register, and the Court shall not order its restoration to the register under section 242(6) of the Companies Ordinance, unless--

- (1) the fees, plus interest, at the maximum legal rate prescribed under the Interest Law, 5717--1957, or under section 56 of the Bank of Israel Law, 5714--1954 whichever is the higher rate, from the day of the registration of the company or the registration of the increase of its capital to the day of the actual payment, have been paid;
- (2) the application for restoration has been submitted within six months from the day as from which the company is regarded as struck off.

Land Transfer Fee

29. Where a transfer of any immovable property is included in an approved project, the Director shall notify such fact to the Director of the Department of Land Registration and Land Settlement, and upon his doing so, the payment of the fee payable under the Land Transfer Ordinance on the transfer or on such part thereof as is included in the approved project shall be deferred for five years.

Chapter Five: Exemption from Property Taxes

Definitions

30. In this chapter--

- (1) "five years" means five years from the beginning of the financial year 1950/51 or from the beginning of the financial year following the completion of construction, whichever is the later date;
- (2) "completion of construction" has the same meaning as in the Urban Property Tax Ordinance, 1940;
- (3) "building" means a building or an addition to a building, as the case may be.

Exemption from Urban Property Tax

31. The owner--within the meaning of the Rural Property Tax Ordinance, 1942 (in sections 33 to 35 hereof referred to as "the Ordinance")--of the tax imposed under that Ordinance on that building if the completion of construction took place after the 6th Iyar, 5708 (15th May, 1948).

Exemption from Rural Property
Tax of Owners of Buildings

32. The owner--within the meaning of the Rural Property Tax Ordinance, 1942 (in sections 33 to 35 hereof referred to as "the Ordinance")--of a building or of land on which a building has been erected shall be exempt for five years from the payment of the tax imposed under that Ordinance on the building if it is an industrial building, or on the area of land on which the building has been erected if it is not an industrial building, if the completion of construction took place after the 6th Iyar, 5708 (15th May, 1948).

Exemption from Rural Property
Tax of Owners of Plantations

33. The owner of citrus trees planted after the 19th Nisan, 5710 (6th April, 1950) shall be exempt for ten years, from the beginning of the financial year following the year of planting, from the payment of the tax imposed under the Ordinance on the area of land on which the trees have been planted, and the owner of vines or other fruit trees, except banana trees, planted as aforesaid shall be exempt for fourteen years from the payment of the tax as aforesaid.

Exemption from Rural Property Tax
of Owners of Plantations Being
Industrial Crops

34. The owner of a plantation planted after the 9th Nisan, 5715 (1st April, 1955) for the purpose of cultivating industrial crops shall be exempt for ten years, from the beginning of the financial year following the year of planting, from the payment of the tax imposed under the Ordinance on the area of land on which the plantations have been planted if the Board has approved the planting for the purpose of this Law and so long as the area is planted as aforesaid.

Exemption from Rural Property Tax of
Owners of Seeds Being Industrial Crops

35. The owner of seeds sown in any year after the 9th Nisan, 5715 (1st April, 1955) for the purpose of cultivating industrial crops of kinds approved for the purpose of this Law, in respect of that year, by the Minister of Agriculture shall be exempt from the payment of the tax imposed under the Ordinance on the area of land on which the seeds were sown.

Additional Exemption of
Approved Enterprise

36. Where a building has been constructed or acquired by an approved enterprise, and the completion of construction, or the acquisition, took place after the 9th Nisan, 5715 (1st April, 1955), and the building is used by the enterprise directly for its own purposes, the enterprise shall be exempt from the payment of property tax, as specified in section 31 and 32, for five additional years after the expiration of the five years of exemption under these sections, or for five years after the commencement of use as aforesaid, whichever is the later event.

Exemption of Buildings from
Local Property Rate

37. A local authority may, by bye-law, exempt, for a period of five years and on such conditions as it may prescribe, any building the completion of construction of which took place after the 6th Iyar, 5708 (15th May, 1948) from the payment of the whole or a part of any property rate imposed on the building under the Municipal Corporations Ordinance, 1934, the Local Council Ordinance, 1941, or any other enactment.

Exemption of Approved Enterprise
from Local Property Rate

38. Where a building has been constructed or acquired by an approved enterprise, and the completion of construction,

or the acquisition, took place after the 9th Nisan, 5715 (1st April, 1955), and the building is used by the enterprise directly for its own purposes, the enterprise shall be exempt, for five years from the completion of construction or from the commencement of use as aforesaid, whichever is the later event, from the payment of property rate imposed on the building under any of the enactments mentioned in section 37.

Exemption after Notice

39. A person entitled to exemption under the provisions of this chapter shall give notice of such fact, in the prescribed form, to the authority in charge of the collection of the tax or the rate, as the case may be.

Exemption Conditional Upon Receipt of License

40. A person who, being under a legal duty to obtain a license for the construction of a building or for the planting of trees, has not obtained it or, having obtained it, has not fulfilled any of the conditions thereof shall not enjoy exemption under the provisions of this chapter unless the Director or another authority empowered in that behalf of the Government certifies that there was a reasonable cause for the non-obtainment of the licence or the non-fulfillment of the condition.

Chapter Six: Income Tax Benefits

Definitions

41. In this chapter--

- (1) every term shall have the same meaning as it has in the Income Tax Ordinance, 1947 (hereinafter in this chapter referred to as "the Ordinance");
- (2) "tax" means income tax, company profits tax and any other tax imposed on income.

Accelerated Depreciation

42. In calculating the income of an approved enterprise entitled to a depreciation allowance under section 11 (1)(i) of the Ordinance in respect of machinery or equipment used for the purposes of the enterprise and first used in Israel after the 6th Iyar, 5708 (15th May, 1948) or in respect of buildings used for the purposes of the enterprise, the said machinery, equipment or buildings being included in the approved project, there shall be granted, on the application of the enterprise, in respect of each of the first five tax years in which that machinery or equipment, or those buildings, is or are used, a depreciation allowance under section 11(1)(i) of the Ordinance at a rate equal to 200 per cent of the rate fixed by the Income Tax (Depreciation) Rules, 1941.

Depreciation Allowance in Case of Unusual Wear and Tear

43. If it has been proved to the Assessing Officer that in any approved enterprise there has been unusual wear and tear of such machinery or equipment as specified in section 42 owing to its having been operated in additional shifts or under extremely difficult conditions, the Assessing Officer may instead of the rate fixed under section 42, grant a depreciation allowance under section 11(1)(i) of the Ordinance at a rate equal to 250 per cent of the rate fixed by the Income Tax (Depreciation) Rules, 1941.

Deductions for Scientific Research

44. (a) In determining the chargeable income of a person who has income capital expenditure on scientific research for the purpose of the development or advancement of his enterprise, there shall be deducted from that income every year for five years, beginning with the year in which he incurred the said expenditure, an amount equal to 20 per cent of such expenditure; there shall not be permitted

under this section the deduction of an expenditure invested in property on which depreciation allowances under section 11(1) (i) of the Ordinance are granted.

- (b) Section 11(1) (ii) of the Ordinance is hereby repealed.

Period of Benefits

45. Benefits under sections 46 and 47 shall be granted--

- (1) on income derived during the five years beginning with the year in which there was for the first time a chargeable income, so long as not twelve years have passed since the year in which the approval was granted and ten years since the year in which--according to the determination of the Director--the enterprise was put into operation or in which production was begun or in which the citrus plantation, vines or fruit trees first bore fruit; but the Board may remove the twelve-year and ten-year time limits in respect of pioneering enterprises;
- (2) on dividend payable out of income derived during the five years referred to in paragraph (1), even if such dividend accrues to the asset only within the five years following the expiration of the said five years.

Tax on Income from Approved Investment During Period of Benefits

46. (a) Where an individual has received a chargeable income the source of which is an approved investment, he shall not be liable to tax thereon at a rate exceeding 25 per cent of such income, and such income shall, for the purposes of the tax, be regarded as the highest portion of his chargeable income.
- (b) Where a company has received a chargeable income the source of which is an approved investment, it

shall be liable to income tax thereon at a rate of 25 per cent of such income and shall be exempt from any other tax thereon.

- (c) Proceeds of an investment which are paid by a company out of income as specified in subsection (b) shall be deemed to be income the source of which is an approved investment.

Tax on Income from Approved Enterprise During Period of Benefits

- 47. (a) A company which owns an approved enterprise shall be liable, on its chargeable income derived from such enterprise, to company profits tax at a rate not exceeding 28 per cent of such income, and shall be exempt from any other tax thereon.
- (b) Where a person has received any dividend paid out of income as specified in subsection (a), he shall be exempt from any tax thereon additional to the tax paid by the company.
- (c) Notwithstanding anything provided in this section, section 19A of the Ordinance and section 46(a) of this Law shall apply to the income of a Kibbutz from an approved enterprise owned by it.

Special Exemption for Non-resident

- 48. Where a company has paid the tax due from it on its chargeable income, a non-resident who received from such company, out of such income, dividend on his approved investment in foreign currency shall be exempt from any tax thereon additional to the tax paid by the company.

Government Loan

- 49. (a) In this section--

- (1) "Government loan" means a loan, repayable within not less than four years, for the purpose of the implementation of an approved project and given out of State funds, either directly or through a financial institution with which those funds were deposited or in the capital of which they were invested, or given with the assistance or approval of the Government, and includes a loan designated by the Minister of Finance as a Government loan;
 - (2) "total investment" means the approved investments in an approved enterprise, plus all the other moneys expended towards its creation in accordance with the approved project;
 - (3) "total income" means the chargeable income of the approved enterprise in a particular tax year, plus those amounts of interest on the total investment which are allowed to be deducted in respect of that year.
- (b) Where an approved enterprise which has received a Government loan is not situated in an area which, on the day of the grant of the approval, was an area designated by regulations as a priority area, the benefits under section 46 or 47 shall not apply to such part of the chargeable income of the enterprise for a particular tax year as arises out of the Government loan; such part shall, together with that amount of interest on the Government loan which is allowed to be deducted in that year, be taken to bear to the total income for that year the same proportion as the Government loan bears to the total investment.
- (c) The calculation of the proportion referred to in subsection (b) shall be made twice, the first time upon the implementation of the project, for a period of three tax years beginning with the year in which the enterprise first had a chargeable income, and the second time at the beginning of the tax year following the said three years, for the entire remaining period.

- (d) The restriction imposed by this section shall not apply to benefits granted in respect of interest, or dividend, on an approved investment.

Income of Approved Specialist

- 50. The rate of tax imposed on the income of an approved specialist which has its source in the work--within the meaning of section 5(1) (b)--for which he was engaged shall not exceed 25 per cent of such income, which shall be regarded as the highest portion of his chargeable income; this reduction shall be granted for three tax years from the beginning of the year in which the specialist first becomes liable to tax on his said income; but the Board may extend the period of the reduction by up to two additional years.
"Approved specialist" means a person who, while being a non-resident, was engaged by an enterprise, with the consent of the Director, to work in the enterprise as a specialist whose work is likely to assist the attainment of the object of this Law.

Refund of Tax

- 51. The Minister of Finance may direct that the whole or part of any tax be refunded to a person being a resident if the amount of tax paid by him in Israel exceeds the amount which, by reason of such payment, is credited to him in his country of permanent residence against the tax leviable in that country on his income derived or accrued in Israel.

Income from Abroad of Individual

- 52. Where any individual, having become a resident, receives an income due or accrued outside Israel, the Minister of Finance may, upon his application exempt him from tax thereon for seven years from the day on which is that it be exempt from tax.

Income of Company Whose Business
Is Controlled from Outside Israel

53. Where any company the business and management of which are controlled from outside Israel receives in Israel any income derived or accrued outside Israel the Minister of Finance may, on its application, direct that it pay tax at a rate not exceeding 15 per cent of such income or, in special cases that it be exempt from tax.

Chapter Seven: Exemption
from Estate Duty

Definitions

54. In this chapter, every term shall have the same meaning as it has in the Estate Duty Law, 5709--1949.

Exemption from Estate Duty

55. Where a person has died after the coming into force of this Law, whether he was, at the time of his death, a resident or a non-resident, there shall not be included in the value of his estate any property which was owned by him at the time of his death and in respect of which it has been proved to the Director of Estate Duty--
- (1) that it is an approved investment in foreign currency, made by that person while he was a non-resident, or after he became a resident and while the exemption under section 70 applied to that currency;
 - (2) that it is foreign currency legally transferred to Israel by that person while he was a non-resident or after he became a resident and while the exemption under section 70 applied to that currency, or that it is property acquired with foreign currency transferred as aforesaid.

- (3) that it is the property of a person who became a resident after the 6th Iyar, 5708 (1st May, 1948) and that it was outside the area of the State of Israel at the time of his death, if it was owned by him immediately before he became a resident or if it was legally acquired thereafter in exchange for property which was owned by him as aforesaid, or with the profits of such property;
- (4) that it is property acquired with foreign currency and that the Board has decided to grant exemption in respect thereof under this section; the property shall in that case not be included in the value of the estate to the extent that the Board has granted exemption as aforesaid.

Chapter Eight: Transfer of Capital

Definitions

56. In this chapter--

- (1) every term shall have the same meaning as it has in the Defense (Finance) Regulation, 1941.
- (2) "approved investment in foreign currency" means an approved investment made in capital transferred to Israel in foreign currency, or in goods as referred to in section 58, or in rights, benefits or property recognized in the instrument of approval; the value of such capital, goods, rights, benefits or property shall be taken to be as determined in or under the instrument of approval or as proved to the Director.

Approved Investment Through Company

57. For the purposes of this chapter, a person shall be deemed to have made an approved investment in foreign currency in a company, and the company has invested it, directly or indirectly, as an approved investment.

Transfer of Capital to
Israel in Goods

58. For the purpose of the transfer of capital from abroad as an approved investment--

- (1) the Board shall permit the import, or the acquisition in Israel with foreign currency--in accordance with the approved project--of building materials, machinery and equipment required for the creation of the enterprise, and of any material required for the manufacture of assembly of any such materials, machinery and equipment; provided that the Board shall not permit the import of goods of a kind which can be acquired from Israel production unless the Minister of Trade and Industry has notified the Board that the quality, price or time of supply of the Israel-produced goods, or their unsuitability for the purposes of the enterprise, justifies the grant of a permit for import from abroad;
- (2) the Board may permit the import, or the acquisition in Israel with foreign currency,--in accordance with the approved project--of raw materials and machinery intended for the use of the enterprise.

Import Permit Deemed
To Be Licence

59. An import permit under section 58 shall be given in consultation with the competent authority in charge of the licensing of the import of the goods for which the permit is requested, and upon such a permit being given, it shall serve in lieu of any licence, approval, permit or the like required, under any law, for the import of the goods in question.

Conditions of Permit

60. A permit under section 58 may be conditional.

Powers Ordinance To Apply

61. The Import, Export and Customs Powers (Defense) Ordinance, 1939, shall apply to a transfer of capital under section 58.

Exemption from Indirect
Taxes and Charges

62. Goods intended for an approved enterprise--except passenger cars and office equipment other than punching machines, electronic computers or similar heavy office equipment, and except raw materials in excess of the quantity required, according to the determination of the Board, for the running-in of the machinery and equipment of the enterprise--shall be exempt from the payment of--

- (1) customs duty under the Customs Tariff and Exemption Ordinance, 1937, purchase tax under the Purchase Tax Law, 5712--1952, and charges under the Emergency Regulations (Compulsory Payments), 5718--1958, or any law replacing them if they were imported under an import permit granted under section 58;
- (2) purchase tax under the Purchase Tax Law, 5712--1952, excise duty under the Cement Ordinance, 1944, and charges under the Emergency Regulations (Compulsory Payments), 5718--1958, or any law replacing them, if they were acquired in Israel with foreign currency under an acquisition permit under section 58.

Exemption After Guarantee
Has Been Given

63. Exemption under section 62 shall be granted after guarantee has been given to the satisfaction of the Director of Customs and Excise, that the exempted goods will be used in accordance with the approved project.

Use of Goods Otherwise Than for
Assigned Purpose, Requiring Consent

64. Goods imported or acquired under section 58 shall not be used otherwise than in accordance with the approved

project, except with the consent of the Director of Customs and Excise given after consultation with the Director and after the taxes, duties and charges due thereon have been paid as if they were goods to which section 141 of the Customs Ordinance applies.

Unauthorised Use of Goods

65. (a) Where it appears that goods imported or acquired under section 58 are not used in accordance with the approved project, and the consent of the Director of Customs and Excise has not been given, the taxes, duties and charges due on those goods shall be paid twice over.
- (b) Subsection (a) shall add to, and not derogate from, the provisions of the Import, Export and Customs Powers (Defence) Ordinance, 1939.

Transfer Abroad of Profits from Approved Investment

66. (a) A non-resident who has made an approved investment in foreign currency is entitled to receive from the Minister of Finance a permit to acquire in, and take out of, Israel foreign currency, of the kind used for depreciation--derived from that investment after the coming into force of this Law and not yet taken out of Israel under this section or under section 67.
- (b) If in any year the amount of profits referred to in subsection (a) is less than 10 per cent of the amount of the investment referred to in that subsection, the Minister of Finance may permit the acquisition in, and taking out of, Israel of an additional amount of foreign currency, which, together with the amount referred to in subsection (a), shall not exceed 10 per cent of the amount of the said investment.

Repayment of Foreign Loans

67. (a) A non-resident who has made an approved loan in foreign currency is entitled to receive from the Minister of Finance a permit to acquire in, and take out of, Israel foreign currency to the amount of the payments of capital and interest in accordance with the approved conditions of the loan.
- (b) The Minister of Finance may permit the acceleration of the loan beyond the rate of repayment permitted under subsection (a) if the profits of the enterprise not yet taken out of Israel make such acceleration possible.

Transfer of Approved Investment

68. (a) Where a non-resident has received Israel currency in consideration of all or any of his rights in an approved investment in foreign currency, whether he has received such currency upon the transfer to another person, or upon the winding-up of the enterprise in which it was invested, he shall be entitled--
- (1) to invest or lend in Israel the whole or any part of the said Israel currency, and the Board shall, if requested to approve a project in respect thereof, regard the investment or loan as an investment or loan in foreign currency of the kind used for the original approved investment;
- (2) to receive from the Minister of Finance a permit to acquire in Israel, with the whole or a part of the amount received, foreign currency of the same kind and to take it out of Israel--
- (i) if he held his investment up to five years--in five equal annual instalments within five years;
- (ii) if he held his investment for over five years--in equal annual instalment within the

- period remaining until the expiration of ten years from the time that he began to hold the said investment or, if he held it for not less than ten years, immediately;
- (iii) in some other manner permitted by the Minister of Finance;

provided that all the foregoing provisions shall not apply to an amount exceeding, in the aggregate, the amount of the approved investment made by him in foreign currency, plus his share of the profits accrued therefrom and not yet transferred by him abroad even though he had the right so to transfer them, and, in the case of an approved loan, less such part thereof as has already been repaid.

- (b) The provision of subsection (a) shall not derogate from any right conferred, under the Defence (Finance) Regulations, 1941, or under the conditions of an approved loan, upon a person to whom that subsection applies.

Renewal of Approval

69. Where a non-resident has transferred to another person his rights in the whole or a part of an approved investment in foreign currency, as specified in section 68, any approval relating to that part of the project for the implementation of which the investment was made shall require renewal to the extent that it relates to that part; but the applicability of the benefits under the new approval shall expire on the date fixed under the expired approval.

Offer of Currency for Sale

70. Where a non-resident who has made an approved investment settles in Israel, he shall, for seven years from the day on which he becomes a resident, be entitled to take foreign currency out of Israel under sections 66 to 68, and shall during the said period be exempt from the duty of offering foreign currency to the Minister

of Finance for sale; this exemption shall not apply to foreign currency derived from other business in Israel.

Deposits in Foreign Currency

71. The Minister of Finance may, by general or restricted order, permit a bank authorised to deal in foreign currency to accept from non-residents deposits in foreign currency, and upon such a deposit having been made, the depositor shall be allowed to take the whole or any part of the deposit out of Israel without obtaining a licence.

Chapter Nine: General Provisions Concerning Application of Benefits

Duty To Furnish Information

72. A person to whom an approval has been granted shall furnish the Director, upon his demand, with any information, documents and other evidence relevant to the implementation of the approved project, the fulfillment of the conditions of the approval and the conditions of any permits, and the determination of the extent of the benefits.

Compliance with Provisions--A Condition for the Application of Benefits

73. The provisions of this Law shall apply notwithstanding anything provided in any other enactment; but no benefit shall be granted unless the provisions of this Law and of the regulations made thereunder have been complied with and, in the case of an approved enterprise or investment, unless the approved project and the conditions of the approval have also been complied with.

Mixed Enterprise

74. (a) An enterprise part of which is an approved enterprise and part of which is not an approved enterprise,

whether the unapproved part was established before the grant of the approval or thereafter but outside the scope of the approved project, shall be entitled to the benefits provided for by this Law in respect of the approved part only.

- (b) In the case of such an enterprise as referred to in subsection (a) there shall be regarded as the capital and chargeable income of the part which is an approved enterprise such part of the capital and chargeable income of the whole enterprise as bears to the whole of such capital and chargeable income the same proportion as the value of the fixed assets in the part which is an approved enterprise; provided that the Board may, with the consent of the enterprise, lay down another method of calculation.
- (c) Where a doubt arises as to the value of the said fixed assets, such value shall be fixed at the amount which those assets would fetch on sale by a willing seller to a willing purchaser or shall be determined in such manner as the Board may prescribe.

Suspension and Cancellation

- 75. (a) The Board may suspend, or prospectively or retrospectively cancel, an approval after the holder of the approval has been given advance notice of its intention to do so if notwithstanding the notice any of the provisions of this Law or of the regulations made thereunder, or the approved project, or any of the conditions of the approval, is not complied with, and upon its doing so, it may decide that all or any of the fees, taxes, duties and other charges in respect of which benefits were granted shall be paid at such times as it may prescribe.
- (b) Where the Board is satisfied that an approval has been obtained on the basis of false or knowingly misleading statements, it shall cancel it retroactively as from the day on which it was granted, and all the fees, taxes, duties and other charges specified in sub-section (a) shall thereupon be

paid upon the expiration of thirty days from the date of the notice of cancellation.

Investments in Securities

76. The Minister of Finance may, with the approval of the Finance Committee of the Knesset, by regulations--

- (1) apply benefits to investments in securities and to loans secured by mortgage, attach conditions to such application and prescribe for such application periods different from those specified in this Law.
- (2) exempt from stamp duty or other similar tax a series of bonds issued on such conditions and in such manner as the Minister of Finance shall prescribe.

Chapter Ten: General Provisions as to Appointments and Powers

Publication of Appointments

77. Notice of appointments under this Law shall be published in Reshumot.

Saving of Powers

78. The powers conferred by this Law shall not derogate from the powers conferred by any other enactment.

Delegation Power of Board

79. The Board may delegate any of its powers under section 58.

Delegation of Powers of Ministers

80. Each of the Ministers may delegate any of the powers vested in him severally, except the power conferred by section 49(a)(1).

Regulations

81. The Ministers may make regulations as to any matter relating to the implementation of this Law.

Chapter Eleven: Transitional Provisions

Definitions

82. In this chapter--

- (1) "the original Law" means the Encouragement of Capital Investments Law, 5710--1950, as published in Sefer Ha-Chukkim No. 41;
- (2) "the amending Law" (Amendment) means the Encouragement of Capital Investments Law, 5715--1955;
- (3) "the consolidated Law" means the original Law as amended by the amending Law.

Approvals Granted Before the Coming into Force of This Law

83. (a) Any enterprise or investment approved under the original Law shall, if the conditions of the approval have been fulfilled, be entitled to the exemptions, reductions and facilities to which it was entitled under that Law.
- (b) Any enterprise, investment or building approved after the coming into force of the amending Law, or any enterprise approved as an approved enterprise under the original Law and granted a certificate under section 25 of the amending Law, shall, if the conditions of the approval and the certificate have been fulfilled, be entitled to the exemptions, reductions and facilities to which it was entitled under the consolidated Law or under the certificate.

Extension of Rights Conferred by the
Amending Law to Enterprises Approved
Under the Original Law

84. Where an enterprise approved before the coming into force of the amending Law has not applied for a certificate under section 25 of that Law, the Director may, on the application of the enterprise submitted within six months from the day on which this Law comes into force, issue to it such a certificate as aforesaid and impose therein such restrictions and conditions as he may deem necessary; where a certificate under this section has been granted to any enterprise, section 83 (b) shall apply.

Application of This Law to Enterprises
Approved Before Its Coming into Force

85. Notwithstanding the provisions of sections 83 and 84, the Director may, if requested so to do within six months from the day on which this Law comes into force, apply the provisions of this Law, by written notice, to any enterprise, investment or building approved before the coming into force thereof but after the coming into force of the amending Law, or to an enterprise approved under the original Law and having received a certificate under section 25 of the amending Law and to an investment in such an enterprise, and in the case of any of these, the approval originally granted shall be regarded as including, with such variations as the Director may prescribe, the approval of the project which served as basis for its approval as an approved project under this Law. Where an enterprise has received a Government loan, the Director shall, in the said notice, determine whether section 49 is to apply.

Commencement of Tax Benefits

86. The owner of any enterprise, investment or building to which the provisions of this Law have been applied under section 85 shall be entitled to the benefits provided for by sections 45 to 49 from the tax year

1958 onwards, and the period of application of those benefits shall be reckoned in accordance with the provisions of section 88. The owner of an enterprise to which the provisions of this Law have been applied as aforesaid shall be entitled to the benefits provided for by paragraph (2) of section 62 from the 22nd Adar Bet, 5719 (1st April, 1959).

Application of This Law Voids Earlier Laws

87. Where the provisions of this Law have been applied to any enterprise, investment or building by notice of the Director under section 85, the provisions of the original Law and the amending Law shall not apply to it from the day on which this Law comes into force.

Calculation of Period of Benefits

88. Where this Law provides for the grant of a benefit during a period beginning on the date of the approval or on some other date, then, in the case of a person to whom this Law has been applied under section 85, such period shall be deemed to run from the date of the approval under the original Law or the consolidated Law, or from the other date, as the case may be, and the benefit shall be granted only during the time from the coming into force of this Law to the end of such period.

Earlier Conditions and Restrictions

89. Conditions and restrictions imposed by approvals granted to any enterprise, investment or building before the coming into force of this Law, or by a certificate granted to any enterprise under section 25 of the amending Law; or by any other document, shall remain in force unless the notice of the Director under section 85 contains a provision to the contrary, and any such provision to the contrary shall take the place of the condition or restriction from the date prescribed in the said notice.

Retroactive Approval

90. Where any enterprise or property has been in existence, or where the creation or enlargement of any enterprise or property has been begun, or where any investment or loan has been effectuated, or where the effectuation of any investment or loan has been begun, before the coming into force, the Board shall not entertain an application for approval unless there have been reasonable grounds for the delay in making it and it is made within six months from the day on which this Law comes into force; and if the Board decides to grant the approval, it shall be granted in accordance with this Law.

Exemption from Property Taxes Under Earlier Laws

91. A person entitled to exemption from property taxes under section 3, 4 or 5 of the consolidated Law shall be entitled thereto as from the 11th Nisan, 5718 (1st April, 1958) even if he has not made notification of exemption imposed by section 40.

Continuity of Appointments

92. The Director, any member of the Investment Centre, and any member of the Advisory Council, appointed under the consolidated Law shall be deemed to have been appointed under this Law to be the Director, a member of the board and a member of the Council, respectively, and from the day of the coming into force of this Law onwards a Director, a member of the Board, and a member of the Council, appointed under this Law shall be deemed to have also been appointed to be a Director, a member of the Investment Centre and a member of the Advisory Council, respectively, under the consolidated Law, and the decisions of the Director, the Board and the Council shall be deemed to be decisions of the Director, the Investment Centre and the Advisory Council under the consolidated Law, as the case may be; applications for approval submitted to the Investment Centre before the coming into force of this Law and not yet

decided upon shall be dealt with in accordance with this Law, and section 90 shall apply to them.

Application of Laws

93. Save as provided by this chapter, approvals and benefits shall no longer be granted otherwise than under this Law; however--save as provided by this chapter--the original Law or the consolidated Law, as the case may be, shall apply to any enterprise, investment or building approved before the coming into force of the Law, as if this Law had not been adopted.

APPENDIX B

CRITERIA FOR THE CLASSIFICATION OF HOTELS

Dr. Paul Risch's Criteria^a

1. PRICE CLASS 1

Hotels with more than 150 beds of International De Luxe Class.

Apart from special shops for guests, and beauty parlours, the whole building must be reserved for hotel exploitation.

- a. Public space--generous entrance with large lobby and an up-to-date reception desk.
Reception desk personnel dressed in a unified way.
Several smaller conference rooms for meetings and smaller parties.
One large room for balls and conventions.
 - b. Restaurant
Large dining-room with a seating capacity of at least 50 per cent of the number of beds.
A four-course menu served for lunch and dinner, with the choice of at least three different main dishes.
Possibility of eating "à-la-carte" with a large choice of different specialties.
Large choice of domestic and foreign wines and liqueurs.
First-class service for both food and beverages.
Modernly equipped kitchen.
 - c. Accommodation
Large rooms of which 20 per cent for single occupancy only.
All rooms with bath and W.C.
Modern and tasteful furniture, carpets and decorations, ample lighting.
-

^aRisch, Appendix I.

Daily changed bath towel and 2 - 3 wash towels per guest.
All rooms air-conditioned and centrally heated.
Telephone in each room, with the possibility of having
radio installed if customer so desires.
Room service provided.

d. General Equipment

Sufficient number of elevators.
Special elevator for service use (luggage transport).
Sufficient storage space for all the material.
Room for floor attendant on each floor.
Dining-room for employees.
Clean uniforms for the service personnel on the floors.
Special wash-rooms for the personnel with showers and
cloakrooms.
Possibility for deposit of valuables.
Parking space or parking service for guest's cars.
Management with adequate experience in other hotels.
Well-trained personnel to ensure first-class service.

2. PRICE CLASS 2

First class hotels, but not of luxurious type, with at
least 100 beds.

Whole building reserved for hotel use and special shops
if possible.

a. Public Space

Pleasant entrance, lobby and reception.
Uniforms for reception personnel.
At least one conference room for smaller meetings or
receptions.

b. Restaurant

Dining-room with a seating capacity of at least 50 per
cent of the number of beds.
A four-course menu served for lunch and dinner, with the
possibility of replacing the main course, if desired.
Possibility of eating à-la-carte with a number of
specialties.
Choice of domestic and foreign wines and liqueurs.
Excellent service for food and beverages.

Modernly equipped kitchen.
Bar.

c. Accommodation

Large rooms, 20 per cent for single occupancy only.
All rooms with bath and W.C. or shower and W.C.
Modern furniture, carpets and decorations and ample lighting.
1 bath towel and 2 wash towels per guest, daily changed.
60 per cent of the rooms air-conditioned, all with central heating.
Telephone in each room.
Room service provided.

d. General Equipment

Sufficient number of elevators.
Special elevator for service use (luggage transport).
Sufficient storage space for all the material.
Room for floor attendant on each floor.
Dining-room for employees.
Clean uniforms for the service personnel on the floors.
Special wash-rooms for the personnel with showers and cloakrooms.
Possibility for deposit of valuables.
Parking space.
Management with adequate experience in hotel-trade.

3. PRICE CLASS 3

Smaller hotels in buildings, primarily for hotel use (no apartment-hotels) with modern facilities and equipment, with at least 20 rooms.

a. Public Space

Special hotel entrance with sufficiently large lobby and adequate reception-desk.
A guest's living room, according to the size of the hotel.

b. Restaurant

Dining room with a seating capacity of at least 66% of the number of beds if main meals are to be served. (Smaller dining-room, if breakfast only is served.)

Small à-la-carte service.

Good service, with table cloth and usual facilities of a good, but smaller hotel.

c. Accommodation

Sufficiently large rooms, of which 20% for single occupancy only.

60% of rooms with bath or shower.

Modernly furnished, ample lighting.

1 bath towel and 2 wash towels per guest.

30% of rooms air-conditioned.

Telephone in each room (in the 3 major cities only).

Room service provided.

d. General Equipment

If more than 2 floors, elevator.

Sufficient storage space.

Dining-room for employees.

Wash rooms for personnel.

Qualified management.

Possibility to deposit valuables.

4. PRICE CLASS 4

Smaller hotels in buildings primarily for hotel use (no apartment hotels) with adequate facilities and equipment (minimum 15 rooms).

a. Public Space

Special hotel entrance, small lobby and reception-desk.

Small sitting room for guests.

b. Restaurant

Dining-room with a seating capacity of at least 66% of the number of beds if main meals are to be served.

(Smaller dining-room, if breakfast only is served).

A three-course menu served for lunch and dinner.

No à-la-carte service compulsory.

Modest but clean service.

Clean kitchen.

Possibility to serve beverages besides eating hours.

c. Accommodation

Sufficiently large rooms, of which 20% for single occupancy only.

40% of rooms with bath or shower.

Modestly furnished rooms, with at least one arm-chair, a table, a closet, a small carpet beside each bed.

1 bath towel (in rooms with showers) and 2 towels per person.

1 telephone on each floor.

Room service provided.

d. General Equipment

Elevator, if more than 3 floors.

Sufficient storage space.

Possibility to deposit valuables.

5. PRICE CLASS 5

Small hotels, not necessarily occupying a complete building (rented apartments used as accommodations).

Minimum of 6 rooms.

a. Public Space

No special entrance required, but entrance leading to hotel accommodation must be marked clearly and give a clean impression.

Small sitting room.

b. Restaurant

Small dining-room, in which rather modest meals can be served.

No à-la-carte service required.

Clean impression of the dining-room.

c. Accommodation

Smaller, but sufficiently large rooms, of which 20% for single occupancy only.

Each room with hot and cold water.

20% of the rooms with showers.

At least 1 shower for 6 rooms.

At least one toilet for 8 rooms.

Modestly furnished rooms, with at least one chair per bed and one table per room, 1 closet.

2 towels per person.

Survey Team's Criteria^b

It is recommended that four classes of hotels be established; four-star, three-star, two-star, and one-star.

Four-star hotels would be those having all rooms with private bath and shower, and offering top-grade facilities and services. They would have extensive dining and public rooms, and such other facilities as swimming pools, beach area, or gardens. These would represent approximately the "de luxe" group of hotels included in the present Class A.

Three-star hotels would have all rooms with private bath or shower. They would offer good facilities and standards of service, and have adequate dining and public rooms. Generally speaking, they would include the "first-class" hotels in Class A.

Two-star hotels (the hotels now included in Class B) would meet the requirements of international tourism, but would offer fewer amenities and possess less elaborate facilities than the three- and four-star hotels described above. Not all the rooms would necessarily have private bath or shower and W.C., although every effort should be made to achieve this objective as soon as possible.

One-star hotels would correspond to the present Class C accommodations, and include well-furnished family hotels, pensions or lodging houses, with hot and cold running water in the rooms.

^bCresap, McCormick and Paget, et al., pp. IV-5-6.

APPENDIX C

INTERVIEW QUESTIONS

1. Is any record kept of the number of people per year, or in any period of time, refused accommodations in your hotel due to lack of accommodations?
2. On what basis and on what criteria does your organization determine the feasibility of expanding any/or renovating a present hotel, or constructing a new hotel?
3. What problems have you found in the obtaining, training, and managing of help?
4. What are some of the peculiarities relating to salaries in this country?
5. What are your expectations for future tourism to this country?
6. Do Israelis travel and use hotel accommodations locally?
7. What are the percentages of Americans, English, French, etc., and Israelis who use your accommodations?
8. What percentage of tourists who use your accommodations are gentile?
9. When are your high seasons, and could tourism be equalized throughout the year?
10. How do you feel about maintaining a kosher hotel?
11. Can you maintain a kosher hotel as adequately and economically as a non-kosher hotel?

12. How adequate are the facilities for the procurement of the items which are necessary for the running of the hotel?
 - (a) Can you obtain foods?
 - (b) Can you obtain manufactured goods?
 - (c) Can those items not obtainable in this country either/or in quantity or quality be imported?
13. How do you feel about the current classification system for hotels?
14. Are you familiar with the plans under consideration for the reclassification of hotels?
 - (a) If so, how do you feel about this plan?
15. Are you familiar with the plans for a new hotel and restaurant school in this country?
 - (a) If so, how do you feel about these plans?

APPENDIX D

MATERIAL REGARDING THE ARAB BOYCOTT

Alfred M. Lilienthal^a Letter to Conrad N. Hilton^b

November 14, 1961

Mr. Conrad N. Hilton, President
Hilton Hotels
9990 Santa Monica Boulevard
Beverly Hills, California

Dear Mr. Hilton:

I have just returned from a tour of the Arab World and a meeting with the Chairman of the Arab Boycott Committee in Damascus. It was there that I learned for the first time of the precarious position in which Hilton has placed itself by entering into a contract for constructing a hotel in Tel Aviv.

Perhaps you are not aware of the full details regarding the activities of the Boycott Committee and hence, as a member company of this Association, it is our duty to bring the facts as they were told to me to your attention.

Should Hilton Hotels persist in going ahead with its contract in Israel it will mean the loss of your holdings in Cairo and the end of any plans you might have for Tunis, Baghdad, Jerusalem or anywhere else in all Arab countries.

It is important for me to put you on notice that the Arab visitors, including the Saudi Royal Family, Egyptian businessmen and the general flow of persons from the Arab World that have frequented your major hotels in New York City and elsewhere throughout the country, will unfortunately come to an end. And it may well adversely affect the ability of American companies who work closely with and service the

Arab states from continuing to bring important business to your well-known establishments.

I did what could be done to delay any action that the Boycott Committee will take. They have promised that no action to invoke the Boycott will be taken prior to the end of January 1962, and I am writing to Colonel el-Aidi to remind him of this. This will give you and the members of your Board of Directors an opportunity to review the decisions which have been made and to redress this serious situation.

As a friend to the Hilton Hotels and a long time political observer as well as the Counsel to this Association, I should personally add my own voice by asking you to consider whether your plan to enter into an economic relationship in Israel could possibly be worth the grave loss that you will be committing yourself to throughout the Arab World and in the United States.

I should welcome the opportunity to discuss this with you personally during a forthcoming trip to the West Coast. I have lecture engagements planned in San Francisco on Tuesday, December 5th and Wednesday, December 6th and it would be possible for me to come to Los Angeles following that visit.

With all best wishes.

Cordially,

Alfred M. Lilienthal

^aSecretary-counsel to the American-Arab Association of Commerce and Industry.

^bPresident of Hilton Hotels.

A Response to Alfred M. Lilienthal's Letter of
November 14, 1961 to Conrad N. Hilton

In a memo to the State Department, television's top man, Ed Sullivan, suggests that the agency investigate the American-Arab Association for Commerce and Industry's blunt boycott threat to Conrad Hilton, if he opens a hotel in Israel. This organization, with headquarters at 420 Lexington Avenue in Manhattan, notes through secretary-counsel Alfred M. Lilienthal, that if Hilton builds a hotel in Israel, it will mean the loss of Hilton holdings in Cairo and the end of any plans to erect Hilton hotels in Tunis, Baghdad, Jerusalem or any Arab country. Also, all Arab diplomats will be told to stay out of Hilton hotels in America or any part of the world. Conrad Hilton replied, "As Americans, we consider Arabs and Jews our friends and hope that, ultimately, we can all live in peace. There was no threat from Israel when we opened our Cairo hotel. Does your committee also propose to boycott the United States government because it maintains diplomatic relations with Israel?" . . .^c

^cSamuel Schreig, "Inside Report," The Jewish Criterion, January 12, 1962, 16.

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