U.S. DEPARTMENT OF STATE

DIPLOMACY IN ACTION

Executive Summary

Investors in Iraq face both tremendous opportunities and significant challenges. The Government of Iraq (GOI) has publicly stated its commitment to attract foreign investment and plans to invest $357 billion in energy, building and services, agriculture, education, transportation, and communications sector projects under its five-year National Development Plan. In 2013 the Iraqi economy grew by 4.2% and investment expenditures in oil production reached $20 billion. Inward FDI grossed $2.5 billion in 2012. Real estate is the largest non-oil area of foreign investment in Iraq.

The World Bank ranked Iraq 151 out of 189 economies for “ease of doing business.” Potential investors should prepare to face significant security costs, to navigate cumbersome and confusing bureaucratic procedures, and to expect long payment delays on some GOI contracts. Corruption, delays in customs, unreliable dispute resolution mechanisms, electricity shortages, and lack of access to financing are also common complaints from investors. Internal GOI regulations at times impose unpublicized requirements or procedures that create additional burdens for investors. The GOI currently operates over 192 state-owned enterprises, a legacy of decades of oil-dependent statist economic policy. Insurgent groups, including the Islamic State of Iraq and the Levant, an al-Qa’ida offshoot, are increasingly active throughout Iraq. Sectarian and terrorist violence has increased since the beginning of 2013 in Iraq, most notably in the provinces of Baghdad, Ninewa, Salah ad Din, Anbar, and Diyala.

The 2006 National Investment Law (NIL) provides a baseline for a modern legal structure to protect foreign and domestic investors in addition to providing investment incentives. The NIL allows both domestic and foreign investors to qualify for incentives equally. A 2009 amendment to the NIL, followed by 2010 implementing regulations, allows for limited foreign ownership of land solely for the purpose of developing residential real estate projects. The lack of clear and definitive implementing regulations for the NIL and the 2009 amendment remains a source of delay and confusion in the approval of investment projects. Under the NIL, the National Investment Commission and the Provincial Investment Commissions are designed to be “one-stop shops” to facilitate investment. However, Investment Commissions operate without clear regulations and standard operating procedures. A new amendment to the NIL is currently under consideration by the Shura Council, which vets legislation before it is considered by parliament.

Under the Iraqi Constitution, some competencies relevant to the overall investment climate are either shared by the federal government and the regions or are devolved entirely to the regions. Investment in the Iraqi Kurdistan Region (IKR) operates within the framework of the 2006 Kurdistan Region Investment Law and the Kurdistan Board of Investment. Investors in the IKR face many of the same challenges as investors elsewhere in Iraq, including corruption, red tape, and inefficiencies, but the business-friendly investor law and generally stable security situation continue to attract foreign businesses.

The United States government and the GOI are seeking to address impediments to trade and investment through bilateral economic dialogue mechanisms provided under the U.S.-Iraq Strategic Framework Agreement and the Trade and Investment Framework Agreement. The bilateral Investment Incentive Agreement entered into force in 2013, and numerous programs geared towards creating an enabling environment for investment are ongoing.

1. Openness To, and Restrictions Upon, Foreign Investment

The Government of Iraq has publicly stated its commitment to attract foreign investment and has taken several steps to improve Iraq's investment climate. Owing to increased petroleum exports, Iraq's economy grew by approximately 4.2% in 2013 according to the IMF. The GOI announced a 2013 – 2017 National Development Plan, which calls for spending $357 billion on projects in the energy, building and services, agriculture, education, transportation, and communications sectors. However, the GOI's preference for funding investment entirely from current budget may constrain investment in public infrastructure.

The NIL, originally passed in 2006, provides a baseline for a modern legal structure to protect foreign and domestic investors in addition to providing tax and other incentives. (A copy of the National Investment Law can be obtained from the National Investment Commission website – investpromo.gov.iq.) The GOI has continued to work on revising the investment law to create a better investment climate. A 2009 amendment to the NIL sought to bring greater clarity to investment regulations and the GOI is currently considering further amendments to the 2006 NIL. A new amendment to the NIL is currently under consideration by the Shura Council, which vets legislation before it is considered by the Council of Representatives.

Formed in accordance with the NIL of 2006, the National Investment Commission (NIC) and the Provincial Investment Commissions are designed to be "one-stop shops" that can provide information, sign contracts, and facilitate registration for new foreign and domestic investors. The NIC offers investor facilitation services on transactions including work permit applications, customs procedures, and business registration. Investors can request these services through the NIC website. However, the Investment Commission struggles to operate amidst unclear lines of authority, budget restrictions, and the absence of regulations and standard operating procedures, which are compounded by a lack of staff familiar with prevailing practices in international business. Some investment projects approved by the NIC are waiting to break ground due to an overall lack of legislative clarity regarding the NIL and mechanisms to ensure interagency coordination.

Under the Iraqi Constitution, some competencies relevant to the overall investment climate are either shared by the federal government and the regions or are devolved entirely to the regions. Currently, the Iraqi Kurdistan Region, comprising three northern provinces, is the only area of Iraq with a designation as a region. Investment in the IKR operates within the framework of the Kurdistan Region Investment Law (KRIL) of 2006 and the Kurdistan Board of Investment (KBOI), which is designed to provide incentives to help economic development in areas under the authority of the Kurdistan Regional Government (KRG). In the sections that follow, this statement takes note of important differences between the investment climate in the IKR and rest of Iraq.

In 2008, a “Provincial Powers Law” (Law Number 21) was adopted to decentralize governance by delineating substantial powers for provincial (governorate) councils. Under the 2008 law, the provincial councils enact provincial legislation, regulations, and procedures, and choose the province’s governor and two deputy governors. Governors’ offices draft provincial budgets and implement federal policies. June 2013 amendments to this law include an increase in the “petrodollar” allocations for oil and gas-producing and oil-refining provinces. As a consequence of this law and subsequent amendments, oil and gas-producing and refining provinces administer larger budgets.

The NIL does not apply to investment in the IKR. The KRIL provides specific incentives for companies to develop strategic investment projects, which the KBOI evaluates and licenses based on the project’s perceived economic and environmental impacts. If approved, a company is awarded an investment license that could include free land, a ten-year exemption from corporate taxes, and a five-year exemption from customs duties. (A copy of the IKR Investment Law can be obtained from the KBOI website – http://www.kurdistaninvestment.org/docs/Investment%20Law.pdf). The KBOI has approved over 500 projects since 2006. Investors who do not wish to receive the incentives for their projects under the investment law may invest without applying for the investment license by working directly with the relevant sector’s ministry.

The overall investment climate in Iraq is challenging, especially for small- and medium-sized firms and investors. Prospective investors should be prepared to face significant security costs, cumbersome and confusing procedures, long payment delays on some GOI contracts, and dispute resolution mechanisms that are neither reliable nor transparent. Investors remain concerned about security, regulatory hindrances, difficulties working out financing arrangements, a lack of skilled workers, and other practical barriers to doing business ranging from bureaucratic red tape to electricity shortages and a weak banking system. Long delays at customs are another common complaint of businesses. Corruption is widespread, and the legacy of central planning and inefficient state owned enterprises continues to inhibit economic development. These impediments are a result of decades of oil-driven statist economic policy, followed by years of conflict and instability.

Investors in the IKR face many of the same challenges as investors elsewhere in Iraq, including corruption, red tape, difficulty securing land title, and inefficiency, but the KRIL’s progressive aspects and a more stable security situation continue to attract foreign investors. Each province within the IKR has its own specific investment requirements, and prospective investors should not assume that the particular province’s requirements are identical to those of the IKR as a whole. Foreign and domestic investment in the IKR has been rising annually for the last six years, with over 662 major projects valued at almost $38 billion awarded under the KRIL since 2006 and $12.4 billion in investment projects awarded in 2013 alone. The KRIL applies only to projects outside the oil and gas sectors.

Measure	Year	Rank or value	Website Address
TI Corruption Perceptions index	2013	(171of 177)	://cpi.transparency.org/cpi2013/results/

Heritage Foundation's Economic Freedom index	2013	(N/A of 177) Iraq is not ranked	http://www.heritage.org/index/ranking
World Bank's Doing Business Report "Ease of Doing Business"	2014	(151 of 189)	http//doingbusiness.org/rankings
Global Innovation Index	2013	(NA of 142) Iraq is not ranked	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
World Bank GNI per capita	2012	USD 5,870	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

The United States government and the GOI are seeking to address impediments to trade and investment through the bilateral dialogue mechanism provided under the U.S.-Iraq Strategic Framework Agreement, which established Joint Coordination Committees (JCCs) in a number of areas of mutual interest. The economic-related JCCs are 1) Energy; 2) Services, Technology, Environment and Transportation; and 3) Trade and Finance. The Energy JCC last met in February 2014; the Services, Technology, Environment and Transportation JCC last met in September 2013; and the Trade and Finance JCC met for the first time in March 2013. In addition, the USG and the GOI held the inaugural Trade and Investment Framework Agreement Council meeting in March 2014. The USG continues to assist the GOI through many capacity-building programs intended to strengthen private sector development and create an enabling environment for investment. Other governments and international organizations also manage numerous programs in support of private sector development in Iraq, which cumulatively are laying a foundation for future growth.

Most investment in Iraq has gone to energy related projects. Article 111 of the Constitution states that Iraq's oil belongs to the people of Iraq, therefore most foreign companies operate through technical services contracts rather than production sharing agreements. Iraq has 143 billion barrels of proven oil reserves, the second-largest in OPEC, and oil exports in February 2014 reached the highest level in 34 years. Oil sector investors observe that, despite growing production, significant infrastructure deficiencies in storage and pumping capacity limit export potential, though the GOI is trying to address these restraints.

The GOI has held four oil and gas licensing ("bid") rounds since 2009, in which foreign firms were allowed to bid for contracts to develop a significant portion of Iraq's oil and gas resources. A planned fifth bid round (for gas exploration fields only) is expected in late 2014. Iraqi production of crude oil should increase dramatically over the next ten years, although internal infrastructure constraints, security challenges, and other factors may limit the full realization of Iraq's potential. Iraq's first and second oil and gas licensing rounds in 2009 and 2010 were widely regarded as transparent and competitive. The third and fourth rounds in 2011 and 2012, however, attracted fewer bidders, and the government has publicly recognized the need to offer better terms in future rounds but has not specified those revised terms. The oil and gas contracts awarded to date are expected to bring in billions of dollars of investment in oil and gas-related industries and spur growth in the foreign and domestic private sector in Iraq.

Since passing its own Kurdistan Oil and Gas Law of 2007, the KRG has directly signed 86 contracts to develop IKR energy reserves within 57 different oil exploration blocks. The federal government has disputed the legal authority of the KRG to conclude most of these contracts, some of which are in locations with administrative boundaries in dispute between the federal and regional government. The federal government has been unable to agree on comprehensive hydrocarbons legislation to address these issues. Signing contracts for oil exploration or production with any region of Iraq, without approval from federal Iraqi authorities, exposes companies to potential legal and financial risks.

2. Conversion and Transfer Policies

The currency of Iraq is the Dinar (IQD - sometimes referred to as the New Iraqi Dinar). Iraqi authorities confirm that in practice there are no restrictions on current and capital transactions involving currency exchange as long as underlying transactions are supported by valid documentation. The International Monetary Fund's annual publication on Exchange Arrangements and Restrictions states "restrictions on capital transactions are not enforced; however, documentation and reporting requirements apply." The NIL also contains provisions that allow investors to maintain accounts at banks licensed to operate in Iraq and transfer capital inside or outside of the country.

The Government of Iraq's monetary policy since 2003 has focused on maintaining price stability primarily by maintaining a de facto fixed exchange rate for the IQD against the U.S. dollar. Banks may engage in spot transactions in any currency but are not allowed to engage in forward transactions in Iraqi Dinar for speculative purposes. There are no taxes or subsidies on purchases or sales of foreign exchange. Improved security has allowed for an increased supply of goods and services which, along with the Central Bank of Iraq's (CBI) monetary and exchange rate policies, have continued to help temper inflation. The CBI has brought inflation down from a peak of more than 70 percent in 2006 to five percent in 2013, primarily through appreciating the currency. The CBI has held the official exchange rate at close to 1,166 IQD/1.00 USD since January 2012.

3. Expropriation and Compensation

Article 23 of the Iraqi Constitution prohibits expropriation in Iraq, unless it is "for the purpose of public benefit in return for just compensation." The constitutional provision further stipulates that this provision shall be regulated by law, but specific legislation has yet to be considered. Article 12 of the NIL also guarantees "non-seizure or nationalization of the investment project covered by the provisions of this law in whole or in part, except for a project on which a final judicial judgment was issued."

4. Dispute Settlement

During decades of war and sanctions, Iraqi courts became isolated from developments in international commercial transactions. In recent years, however, trade with foreign parties has played a more significant role in Iraq’s economic growth, and Iraqi courts are beginning to see a significant increase in complex commercial transactions.

Iraq is a signatory to the League of Arab States Convention on Commercial Arbitration (1987) and the Riyadh Convention on Judicial Cooperation (1983). Iraq passed enacting legislation to join the International Center for Settlement of Investment Dispute (ICSID) Convention in July 2013. If Iraq signs the Convention and deposits the ratification document, ICSID will provide a dispute resolution mechanism for foreign investors with an enforcement process shielded from review by domestic courts. Iraq is considering, but has not yet signed or adopted, the two most important legal instruments for international commercial arbitration: The United Nations New York Convention on Recognition and Enforcement of Foreign Arbitral Awards (commonly called the New York Convention) and the attendant rules and procedures established by the UN Commission on International Trade Law (UNCITRAL).

The Iraqi judiciary has specifically requested specialized training for its trial and appellate court judges in the area of international sales contracts, commercial court procedure and litigation, international arbitration, intellectual property, and documentary credit to ensure consistency and predictability for foreign companies in the Iraqi legal environment. The U.S. Department of Commerce’s Commercial Law Development Program (CLDP) is conducting a multi-phase judicial development effort to support Iraq’s commercial courts, which has featured ten in-depth workshops for nearly 100 judges from across Iraq’s different provinces in all of the requested program areas. CLDP’s workshops are also used as the Iraqi judiciary’s primary tool to select and prepare judges for the country’s new commercial courts. CLDP will continue to develop and implement workshops on similar topics and new topics that are identified based on the needs of the Iraqi courts.

In November 2010, Iraq’s Supreme Judicial Council established the First Commercial Court of Iraq, a court of specialized jurisdiction for disputes involving foreign investors as part of a national strategy to improve Iraq’s investment climate. This court began hearing cases in January 2011. It has jurisdiction only over cases involving a foreign party in Baghdad province. The court has received over 500 cases since its establishment. Over 350 of these cases have been adjudicated, many in as few as 30 days since the judges are able to give their full attention to these cases. This record stands in stark contrast to general jurisdiction trial courts that receive up to 30 cases per day and do not give priority to commercial cases, thereby causing commercial cases to be delayed for months or years before a resolution is achieved. Iraqi judicial officials have since created two additional commercial courts in Najaf and Basrah. Given that all of Iraq’s ministries are located in the capital, and the vast majority of commercial cases involve a foreign party and an Iraqi government agency, the Baghdad Commercial Court reviews far more commercial cases than the general jurisdiction courts in the surrounding provinces. Please see also discussion of the Westinghouse Case decided in 2012 under Protection of Intellectual Property Rights and the Fincantieri case discussed below. In the IKR, commercial disputes are handled through the civil court system.

Iraq's domestic law on arbitration is outdated. However, with support from State Department and CLDP, the Iraqi government interagency is working to develop a domestic law based on the UNCITRAL model law. If enacted, the law would modernize Iraq's domestic law provisions on international arbitration and provide assurances to companies and investors that arbitration agreements and awards would be enforced in Iraqi courts. Domestic arbitration is currently provided for in Articles 251-276 of the Iraqi Civil Procedure Code, which govern the enforcement of arbitration agreements and awards. However, it was applied only to domestic arbitration until a 2012 decision in the *Ministry of Finance v. Fincantieri* case, which was issued by the Baghdad Commercial Court and affirmed by the Court of Cassation. The ruling allows courts to apply the Civil Procedure Code to international arbitration agreements and awards instead of forcing parties to waive their contractual rights to resolve their disputes outside of Iraqi courts by not recognizing international arbitration. The Baghdad Commercial Court incorporated international principles embodied in the New York Convention and the UNCITRAL model law to determine the existence of an arbitration agreement, due to ambiguity in Iraq's Civil Procedure Code. However, as a civil law jurisdiction, Iraqi courts are still limited to the provisions of the Civil Procedure Code which, for example, permit judges to review the merits of an arbitrated case, unlike modern arbitration regimes. Therefore, these court decisions serve only as temporary measures until such time as Iraq passes the necessary domestic law and accedes to the New York Convention.

Article 27 of the NIL, which details the rights of Iraqis and foreigners with respect to Iraqi law, refers to dispute resolution. However, the absence of implementing regulation makes application of the law uncertain in practice. In the IKR, if the KBOI determines that investors are using land awarded under investment licenses for purposes other than those outlined in the license, it can impose fines and potentially confiscate the land. Article 17 of the region's investment law outlines an investor's arbitration rights.

5. Performance Requirements and Investment Incentives

The NIL allows both domestic and foreign investors to qualify for incentives equally. It also allows for investors to repatriate capital brought into Iraq, along with its proceeds, in accordance with the law. Foreign investors are able to trade in shares and securities listed on the Iraqi Stock Exchange. In principle, the law also allows investors who have obtained an investment license to enjoy exemptions from taxes and fees for a period of ten years. Hotels, tourist institutions, hospitals, health institutions, rehabilitation centers, and scientific organizations also are granted additional exemptions from duties and taxes on their imports of furniture and other furnishings. The exemption increases to fifteen years if Iraqi investors own more than 50 percent of the project.

Companies pay a profit tax in the amount of 15%. The Ministry of Finance General Commission for Taxes can exempt foreign and domestic companies from paying profit tax if they have contracts with the GOI to execute projects within the National Investment Plan that is prepared annually by the Ministry of Planning. The GOI ministries overseeing investment projects are responsible for providing updates for a list of investment contracts that the Tax Commission maintains. Companies (foreign and domestic) that have registered businesses in order to execute contracts outside the National Investment Plan do not receive tax exemptions. However, in some exceptions GOI entities have negotiated partial or short-term tax exemption for companies as part of a project contract. It is highly recommended that any entity seeking Government of Iraq tax exemptions should discuss and document those discussions prior to any contract commitments.

Petroleum contracts signed by the Ministry of Oil are not included on this list. A profit tax rate of 35% is included in GOI petroleum contracts and applies to each consortium and its partners. Contract language was ratified by Council of Representatives and supersedes the Tax Code. Secondary contracts issued by consortiums holding primary petroleum contracts are treated differently. A consortium is required to withhold 7% from secondary contracts and remit to the GOI. Defining what activities constitute 'petroleum activities' (and thus subject to 35% vs. 15% tax rate) is a gray area subject to interpretation. Any business or individual considering doing business in Iraq should obtain competent Iraq tax advice from an accountant or tax attorney. Tax treatment by the GOI for petroleum contracts issued by the Kurdistan Regional Government is unknown since those contracts have not been ratified by the Council of Representatives.

Under the IKR's investment law, foreign and national investors are treated equally and are eligible for the same benefits. Foreign investors may choose to invest in the IKR with or without local partners, and full repatriation of profits is allowed. While investors have the right to employ foreign employees in their projects, priority is given to awarding projects that employ a high share of local staff and ensure a high degree of knowledge transfer. Additionally, the law allows an investor to transfer his investment totally or partially to another foreign investor with the approval of the KBOI.

6. Right to Private Ownership and Establishment

Foreign investors in Iraq are able to own enterprises as well as investment portfolios in shares and securities, and in specified circumstances they can obtain or lease land. Prior to the 2009 amendment, the NIL did not allow foreigners to own land. The amendment allows foreign interests to own land in Iraq for the express purpose of developing residential real estate projects. Additionally, the amendment sought to clarify the land use aspect of the NIL, in which foreign investors are permitted to rent or lease land for up to fifty years (renewable).

In December 2010, the GOI approved implementing regulations to this amendment, in the form of a prime ministerial decree (regulation seven). The regulations allow investors to obtain land for residential housing projects free of charge on the condition that land value is excluded from the sales price. The decree requires the Department of Real Estate to revoke the land registration from domestic or foreign investors who do not carry out the obligations of their agreement.

For non-residential, commercial investment projects – including agriculture, services, tourism, commercial, and industrial projects – the decree allows for leasing and allocation of government land, but not ownership. The terms and duration of these leases will vary, depending on the type of project and negotiations between the parties. Land for non-residential projects will be leased without an initial down payment, and compensation will be either a percentage of pre-tax revenue or a specified percentage of the "rent allowance" for the land – a figure determined by a formula specified in an earlier law. These smaller percentages of the "rent allowance" rate range from one to 25 percent and amount to significant rent reductions for leased land, as specified by type of investment project in the decree. Iraqi authorities are still in the process of interpreting these regulations and applying them to specific licensees.

In the IKR, foreign land ownership is allowed under Law Number 4 of 2006. The KBOI initially awarded more than half of all investment licenses to housing projects, though the lack of a clear sector strategy and speculation in housing properties prompted the board to freeze all new investment licenses issued in the sector in mid-2012. Investment licenses that include land ownership are now more likely to be issued in the KBOI's priority sector development areas of agriculture, industry and tourism. However, issues regarding timely transfer of land title have sometimes slowed projects.

The Companies Law (Law Number 21) of 1997 and regulation Number 5 of 1989 provide the legal framework for foreign investors to establish or participate in Iraqi companies. However, prior approvals from competent Iraqi government entities are required in advance for certain sectors, such as oil, defense, insurance, and banking. For example, the establishment of a company engaged in oil services will require the prior approval of the Ministry of Oil. The NIC has an office dedicated to facilitating and expediting permits and licenses for foreign invested businesses. The Companies Law applies in the Iraqi Kurdistan Region, although company registration procedures may differ.

Foreign limited liability companies (LLC), branch, and representatives offices are currently considered the most attractive legal forms for foreign investors to set up a presence in Iraq. The timeline to receive the Ministry of Interior's approval to establish an LLC is estimated at three to six months for most foreign investors, although in certain cases it takes longer. Additional clearances are required to appoint foreign nationals as managers of LLCs. The Ministry of Trade's (MOT's) Company Registration Office issues the registration certificate following this approval. In the IKR, registering an LLC is estimated to take two to four weeks.

Branch offices may only be opened by companies that have a government contract or a contract with a prime contractor of the Iraqi government, except in the IKR, where the Kurdistan Regional Government Company Registration Office does not require a government contract for the registration of a branch company. Representative offices may engage in business development and marketing, but they cannot engage in other business activities in Iraq. If a representative office is awarded a contract, the entity can then register as a branch office. It takes approximately one to two months to register a branch or representative office.

With support from USAID's Iraq Administrative Reform Project (also known as Tarabot), the Prime Minister's Advisory Council's Iraqi Solutions for Regulatory and Administrative Reform (ISRAR) program shortened the registration process for domestic businesses by at least 15 days in 2013. Some examples of reforms carried out during this process include eliminating site visits and verification of lease agreements from the registration process; and opening a bank branch in MOT's Company Registration Office to facilitate payment and deposits of initial capital. In August 2013, MOT also announced the launch of a "one stop shop" for company registration in cooperation with the Federation of Chambers of Commerce. USAID's Tarabot project worked with the MOT and the Federation to allow businesses to reserve a company name at a single location. They also published an online database (http://Iraq-trade-names.com) to allow businesses to check if a given company name is already in use. Identifying and reserving a trade name was previously a long and arduous process. ISRAR and Tarabot are now planning to speed up international company registration in response to a request by the GOI.

7. Protection of Property Rights

Legal structures that protect intellectual property (IP) rights in Iraq are inadequate, and infringements are common. There is a significant presence of counterfeit products in the Iraqi marketplace. According to a 2012 study by the Business Software Alliance on self-reported piracy, 86% of Iraq's software was unlicensed in 2011. Both private and state-owned-enterprises have reported losing tenders to competitors who stole their blueprints. These complaints pertained to tenders in the oil, housing, and construction sectors.

The GOI's ability to enforce IP protections remains weak and IP responsibilities are currently spread across several ministries. The Ministry of Culture handles copyrights and the Ministry of Industry and Minerals houses the office that registers trademarks. The Central Organization on Standards and Quality Control (COSQC), an agency within the Ministry of Planning, handles patent registry and the industrial design registry. The Ministry of Planning's Patent Registry Office has occasionally included Arab League Boycott questionnaires in the patent registry application. U.S. companies are prohibited by U.S. law from completing Arab League Boycott questionnaires.

A draft IP law to comply with the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) has been stalled in the legislative review process since mid-2007. The draft law covers patents, trademarks, and copyrights, would help consolidate IP protection functions into a "one-stop" IP office, and would offer adequate statutory IP protections if enacted and accompanied by strong implementing regulations.

The United States is continuing efforts to bolster understanding of IP rights and build GOI capacity to protect them. In June 2012, the Federal Court of Cassation, the highest civil court in Iraq, upheld a finding by the Baghdad Commercial Court that ruled in favor of U.S. firm Westinghouse in a trademark dispute, setting a positive precedent for IP protection in Iraq. The Commercial Court has jurisdiction over commercial disputes that involve at least one foreign party and disputes over various commerce-related issues including trade, real estate, banking, trademarks and intellectual property, transportation, and other areas. It was established in November 2010 under the Higher Judicial Council (HJC) with the assistance of the Commercial Law Development Program, which provided technical assistance and training to Iraqi judges who serve on the court.

Iraq is a signatory to several international intellectual property conventions and to regional or bilateral arrangements, which include: 1) the Paris Convention for the Protection of Industrial Property (1967 Act), ratified by Law Number 212 of 1975; 2) the World Intellectual Property Organizations (WIPO) Convention, ratified by Law Number 212 of 1975. Iraq became a member of the WIPO in January 1976; 3) the Arab Agreement for the Protection of Copyrights, ratified by Law No. 41 of 1985; and 4) the Arab Intellectual Property Rights Treaty (Law Number 41) of 1985.

A copy of a list of local lawyers can be obtained by emailing BaghdadACS@state.gov. Other questions regarding property rights can be sent to:

- IraqInvestmentClimate@state.gov
- Office: +1-301-985-8841 x2134 *from the United States*
- Office: 0760-030-2134 *from Iraq*

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at http://www.wipo.int/directory/en/.

8. Transparency of the Regulatory System

The lack of clear and definitive implementing regulations for NIL and its amendment remains a source of delay and confusion in the approval of investment projects. Once fully implemented, the law would establish a legal framework for investment. Potential investors, however, would likely still face laws, regulations, and administrative procedures that continue to make Iraq's overall regulatory environment relatively opaque. PICs have also been active in assisting regional investors. However, the NIC, PICs, and their staff often lack training and expertise and are still building their operations to serve as effective "one-stop shops" to ease investors' entrance into the Iraqi market.

The absence of other laws in areas of interest to foreign investors also creates ambiguity. Iraq's Legislative Action Plan for the Implementation of WTO Agreements – the legislative "road map" for Iraq's eventual WTO accession – requires the implementation of competition and consumer protection laws that are critical for leveling the business playing field. The Council of Representatives passed a Competition Law and a Consumer Protection Law in 2010; however, the Competition and Consumer Protection Commissions authorized by these laws have yet to be formed. Without these Commissions, investors do not have recourse against unfair business practices such as price-fixing by competitors, bid rigging, or abuse of dominant position in the market. In the IKR, the KRG adopted a Consumer Protection Law through its passage of Law Number 9 of 2010.

The way in which the Iraqi government promulgates regulations can be opaque and lend itself to arbitrary use. Regulations imposing duties on citizens or private businesses are required to be published in the official government gazette. However, there is no corresponding requirement for the publication of internal ministerial regulations. This loophole allows bureaucrats to create internal requirements, procedures, or other "turnstiles" with little or no oversight, which can result in additional burdens for investors and other businesspersons.

In the IKR, investors sometimes find it challenging to de-conflict seemingly opposing regulations from relevant stakeholder ministries and investment entities. The emergence of new regulations with little advance notice, as well as requirements related to the amount of investment guarantees, has also slowed projects. While the KRIL does not stipulate that a local partner is necessary to acquire an investment license, government officials sometimes encourage this practice.

9. Efficient Capital Markets and Portfolio Investment

The Central Bank of Iraq (CBI) is responsible for conducting monetary policy in Iraq. The CBI was reorganized by Order Number 56 as a legal public entity possessing financial and administrative independence. The Iraqi banking system includes seven state-owned banks, with the three largest (Rafidain Bank, Rasheed Bank, and Trade Bank of Iraq) accounting for about 96 percent of banking sector assets. There are also 34 privately owned banks licensed by the CBI (see CBI's website http://www.cbi.iq/index.php?pid=IraqFinancialInst). Over 20 foreign banks either have licensed branches in Iraq or have strategic investments in Iraqi banks. Citibank and JP Morgan provide letters of credit through the Trade Bank of Iraq.

Although the volume of lending by privately-owned banks is growing, many privately-owned banks do more business providing wire transfers and other fee-based transaction services than lending. Businesses therefore largely self-finance or obtain credit from individuals in private transactions. Financial transfers from the government to provincial authorities or individuals, rather than business loans, represent the major activity of the state-owned banks. Iraq's economy remains primarily cash-based. USAID is seeking to finalize two agreements in order to support bank lending in the private health care delivery sector and provide venture capital for small and medium enterprises.

The Trade Bank of Iraq (TBI) was established as an independent government entity under Order Number 20 in 2003. The TBI's main purpose is to provide financial and related services to facilitate import trade, particularly through letters of credit (LCs). In 2009, the ministry of Finance opened the government LC market by granting private banks permission to issue LCs below $4 million in size. The ceiling was later raised to $5 million. All government LCs are processed by the TBI which has stated that it transfers a number of LCs under $5 million to private banks.

The NIL allows for foreign investors to exchange shares and securities listed in the Iraqi Stock Exchange (ISX). The NIL also allows foreign investors to form investment portfolios. According to press reports, foreign investors held $5.6 billion in equities listed on Iraq's stock exchange as of early 2014. Automation of the ISX was completed in 2009, and by the end of 2010 all companies listed on the ISX were being traded electronically. In addition, a new securities law has largely completed the constitutional review process but has not yet been passed by the Iraqi government. Until the new law passes, an extension of previous regulations will secure the status of the Iraqi Securities Commission. The Erbil Stock Exchange announced its establishment in February 2010, but has delayed its opening until late 2014. The Erbil Stock Exchange plans to list companies from all regions of Iraq.

10. Competition from State-Owned Enterprises

GOI ministries currently own and operate over 192 state-owned enterprises (SOEs), a legacy of the state planning system of Iraq's former regime. These firms employ over 800,000 Iraqis, many of whom are underemployed. As a result of years of sanctions and war, most of these SOEs suffer from underinvestment or actual physical damage. Many of them are not commercially viable due to bloated payrolls and obsolete equipment, although some have adapted and are producing goods for the domestic market. Because of their low productivity, Iraqi SOEs that work in sectors where there is significant foreign competition are losing market share. The degree to which SOEs compete with private companies varies by sector; SOEs face the most competition in consumer goods.

Law Number 22 of 1997 and the NIL provide the regulatory framework for the operations of SOEs and joint ventures between foreign companies and SOEs. Law 22 is complex, and several articles are ambiguous as to what SOEs may and may not do. Article 15.3 of Law 22 allows Iraqi SOEs to engage in partnership agreements or joint ventures with foreign companies; however, the lack of clarifying regulations has created difficulty in implementation. Ministries have faced challenges in reviewing partnership agreements without sufficient criteria to determine if the agreements would be effective or successful. When parent ministries wish to initiate a joint partnership for an SOE under their purview, they generally advertise the tender on their ministry's website. Joint partnerships are negotiated on a case by case basis and the minister's approval is required. The Ministry of Industry and Minerals (MIM), which oversees 80% of Iraq's SOEs, received approval from the Council of Ministers in 2013 to institute the following requirements for joint partnerships: 1) change the required minimum duration to three years; 2) add a requirement that the foreign company register a company office in Iraq; and 3) add a requirement that the foreign company participate in the production of goods.

According to the Prime Minister's Advisory Council, foreign companies have faced challenges in joint partnerships in cases when the GOI cut off subsidies to the SOE after partnerships were formed, the employment policies and salary decisions were dictated by the parent ministry, and gaps between the GOI's official policy and practices affected their bottom line. In addition, MIM has often required that the foreign investor pay all SOE employees' salary regardless of whether they are working on the agreed project.

GOI entities are required to give preferential treatment to SOEs under multiple GOI laws. A 2009 Council of Minister decision requires all Iraqi government agencies to procure goods from SOEs unless the SOE cannot fulfill the quality and quantity requirements of the tender. A Board of Supreme Audit decision requires government agencies to award SOEs tenders if the SOE's bid is no more than 10% higher than other bids. Furthermore, some GOI entities, including MIM, have also issued their own internal regulations requiring tenders to select Iraqi SOEs unless the SOE states that it cannot fulfill the order. Under Article 16 of the 2008 Regulations for Implementing Government Contracts (Law Number 1), SOEs and are exempt from bid bond and performance bond requirements. State-owned banks have provided SOEs with approximately $11 billion in loans in order to finance salaries since 2003, although many SOEs that received these loans are unable to repay. SOEs also receive research and development subsidies. According to the Baghdad Commercial Court, more than 30% of cases are decided against Iraqi sovereign agencies.

Articles 20-25 of Law 22 specify the selection process of an SOE's board of directors. The law includes provisions to introduce a degree of autonomy. For example, it requires that the minister's sole appointment from outside the SOE receive the approval of an "Opinion Board." Nevertheless, in practice the majority of board members have close personal and political connections to the parent ministry's leadership. Article 25 of Law 22 also grants limited autonomy to SOE board of directors. SOEs are required to seek their parent ministry's approval for three categories of financial decisions and operation expansions, however in practice SOEs defer to the parent ministry for the vast majority of decisions. SOEs submit financial reports to their parent ministry's audit departments and the Board of Supreme Audit; however, the reports are not published and at times exclude salary expenses.

In 2010, the Prime Minister approved a national policy of corporatization of SOEs based on a "Road Map" derived from international best practices, but implementation has been slow. In 2012, the Ministry of Finance established an Asset Valuation Unit which was later expanded to become the Asset Valuation Department. However, the Department is still in development and is struggling to build its operational capacity. Approximately a dozen SOEs have been paired with private foreign consultants to make them commercially viable. Under this pilot project, SOEs are obligated to introduce the consultants' recommended changes. While the ultimate goal of this reform process is to partially or completely privatize SOEs, their fate will be decided on a case-by-case basis. The pilot project group includes SOEs in the construction, housing, and water resources sectors, and the SOEs were selected for their potential to become viable based on indicators such as payrolls that were less bloated than average. Approximately three public-private-partnerships have formed between MIM SOEs and foreign private companies, and negotiations are ongoing for three additional partnerships.

11. Corporate Social Responsibility

The international oil companies active in Iraq are required to observe international best practices in corporate social responsibility as part of their contracts with the GOI. As conditions improve, awareness of this area of concern is likely to increase beyond the oil sector.

In the IKR, oil companies are mandated in their production sharing contracts with the Kurdistan Regional Government to give back to the communities in which they work. Agreements require yearly payments, from which the KRG Ministry of Natural Resources then allocates funds for capacity-building projects.

12. Political Violence

Violence and threats against U.S. citizens persist. U.S. citizens in Iraq remain at risk for kidnapping. Methods of attack in the past have included roadside improvised explosive devices (IEDs), including Explosively Formed Penetrators (EFPs), magnetic IEDs placed on vehicles, human and vehicle-borne IEDs, mines placed on or concealed near roads, mortars and rockets, and shootings using various direct-fire weapons. Baghdad International Airport has been struck by mortar rounds and rocket attacks. Numerous insurgent groups, including the Islamic State of Iraq and the Levant, an al-Qa'ida offshoot, are increasingly active throughout Iraq. Although Iraqi Security Forces (ISF) operations against these groups continue, terrorist activity persists in many areas of the country. Sectarian and terrorist violence has increased since the beginning of 2013 in Iraq, most notably in the provinces of Baghdad, Ninewa, Salah adDin, Anbar, and Diyala.

The U.S. government considers the potential threat to U.S. government personnel in Iraq to be serious enough to require them to live and work under strict security guidelines. All U.S. government employees under the authority of the U.S. Chief of Mission must follow strict safety and security procedures when traveling outside the Embassy. State Department guidance to U.S. businesses in Iraq advises the use of protective security details. Detailed security information is available at the U.S. Embassy website (http://iraq.usembassy.gov).

Some regions within Iraq have experienced fewer violent incidents than others in recent years, in particular the IKR. The security situation in the IKR, which includes the provinces of Sulymaniyah, Erbil, and Dohuk, has been more stable relative to the rest of Iraq in recent years, but threats remain. U.S. government personnel in northern Iraq are required to be accompanied by a protective security detail when traveling outside secure facilities.

U.S. citizens should avoid areas near the Syrian, Turkish, and Iranian borders in northern Iraq, which are especially dangerous and not always clearly defined. The Governments of Turkey and Iran continue to carry out military operations against insurgent groups in the mountain regions bordering Iraq. These operations have included troop movements and both aerial and artillery bombardments. Extensive unmarked minefields also remain along these borders. Border skirmishes with smugglers have become commonplace. The unrest in Syria has resulted in large numbers of people seeking refuge in the area. In 2009, three U.S. citizens were detained by Iranian authorities while hiking in the vicinity of the Iranian border in the IKR. The resources available to the U.S. Embassy to assist U.S. citizens who venture close to or cross the border with Iran are extremely limited. The Department of State discourages travel in close proximity to the Iranian border.

The Ministry of Interior stood up the General Department of Investment Protection in early 2014 to provide courtesy security services to investors. The department offers secure transportation from the airport and perimeter security services for companies that are pursuing or have obtained investment licenses through the National Investment Commission. Companies can contact the National Investment Commission through their website to request these services.

13. Corruption

While large-scale investment opportunities exist in Iraq, particularly for sophisticated investors, corruption remains a significant impediment to conducting business, and investors can expect to contend with it in many forms. While the GOI has moved toward greater effectiveness in reducing opportunities for procurement corruption, credible reports of corruption in government procurement are widespread, with examples ranging from bribery and kickbacks to awards involving companies connected to political leaders. Investors may come under pressure to take on well-connected local partners to avoid systemic bureaucratic hurdles to doing business. Similarly, there are widespread reports of corruption involving government payrolls, ranging from “ghost” employees and salary skimming to nepotism and patronage in personnel decisions. Moving goods into and out of the country continues to be difficult and bribery of port officials is reportedly common; Iraq ranks 179th out of 185 countries in “trading across borders” in the World Bank’s *2014 Doing Business* report. Iraq ranked seven places from the bottom in Transparency International’s 2013 Corruption Perceptions Index, slipping down one position from 2012. Iraq also ranked in the eighth percentile of the World Bank's 2012 Control of Corruption Index. In view of the conflict and sanctions Iraq has endured over recent decades, the resulting breakdown in institutional effectiveness that might curb high levels of corruption is not surprising. The United States continues to implement several programs to address corruption at the institutional level, with some positive impact.

The Commission of Integrity, the Federal Board of Supreme Audit, and the Office of the Inspector General are the three principal institutions specifically designated to address the problem of corruption in Iraq. Order Number 57 established Inspectors General (IGs) for each of Iraq's ministries. Similar to the role of IGs in the U.S. Government, these offices are responsible for inspections, audits, and investigations within their ministries. The Commission of Integrity (COI) is an independent government agency responsible for pursuing anti-corruption investigations, upholding enforcement of laws and preventing crime. The COI investigates government corruption allegations and refers completed cases to the Iraqi judiciary. COI Law Number 30, passed in 2011, updated provisions by granting the COI broader responsibilities and jurisdiction through three newly created Directorates: Asset recovery, Research and Studies, and the Anti- Corruption Academy.

The Board of Supreme Audit (BSA), established in 1927, is an analogue to the U.S. Government's General Accountability Office. It is a financially and administratively independent body that derives its authority from Law 31 of 2011 – The Law of the Board of Supreme Audit. It is charged with fiscal and regulatory oversight of all publicly funded bodies in Iraq. In October 2012, several amendments to the BSA's authorizing legislation, including a name change to the "Federal Board of Supreme Audit" (FBSA), gave it jurisdiction over audits of all federal revenues, including any revenues received from the IKR. Neither the COI nor the IGs have effective jurisdiction within the IKR. Regional revenues are audited by the Kurdistan Board of Supreme Audit with Iraqi Kurdistan Parliament (IKP) oversight. The IKP passed the Commission on Public Integrity (Law Number 3) of 2011, which established a regional Commission of Integrity that began its work in late 2013. The Commission launched an initiative in early 2014 to collect financial declaration forms from public officials. The Commission's office, located in Erbil, is divided into four sections – prevention and transparency, legal and investigative affairs, finance and administration, as well as the Office of the Commissioner.

Coordination among the three Iraqi Government institutions is currently overseen by the Joint Anti-Corruption Council (JACC), which reports to the Council of Ministers, and a small office that advises the Prime Minister on anticorruption issues. Within the Council of Representatives, corruption issues are the primary responsibility of the Integrity Committee. The JACC coordinated the GOI's National Anti-Corruption Strategy for 2010-2014 with input from Iraqi ministries to guide all three anti-corruption institutions in preventing, deterring, and counteracting corruption at all levels. Because the GOI has not completed all the action items in the current plan, an implementing committee formed under the 2010-2014 plan is developing an updated 2014-2018 strategy. The national strategy is part of Iraq's response as a signatory to the UN Convention Against Corruption (UNCAC), to which Iraq acceded in March 2008.

The UN Office of Drugs and Crime (UNODC) continues to provide United States-funded capacity building assistance to further Iraq's efforts to comply with UNCAC requirements. As of

December 12, 2012, the country was accepted as a member of the Extractive Industry Transparency Initiative (EITI), having been found compliant with EITI requirements. The Board did, however, stipulate that the GOI should include data on oil and gas production in the IKR as well as oil and gas sales revenue to the KRG. GOI officials reported to EITI that they attempted to obtain KRG data for the 2011 and 2012 reports, but were unsuccessful.

Failure of the GOI to seek Council of Representatives confirmation of key anti-corruption appointments, however, has undermined the independence of Iraq’s principal institutions to combat corruption. The result has been that many high-level officials operate in an acting capacity and are thus subject to removal at any time by the Prime Minister. While the GOI has made progress in some areas, it remains to be seen how vigorously the Government will move to address the problem of corruption system-wide. Article 136(b) of Iraq’s 1971 Criminal Procedures Code, which allowed ministers to shield ministry employees from work-related prosecution for official acts, was abolished on November 14, 2011. While such a provision could serve as a legitimate shield against politically-driven prosecution, the provision had increasingly been used to block corruption investigations at higher levels within the GOI. Hundreds of cases of corruption brought before the courts are still pending, hung up due to political pressure and threats against the judiciary.

Iraq’s existing anti-money laundering/counter terrorism financing (AML/CTF) regime is inadequate, and international financial institutions frequently cite this as a major impediment to increasing their operations in Iraq. The country’s financial system needs a major overhaul of its anti-money laundering regime to meet the Middle East North Africa Financial Action Task Force (MENAFATF) standards. Iraq joined MENAFATF in 2005 and underwent its first ever Mutual Evaluation (ME) in 2012. The ME team was led by World Bank experts early in 2012 to determine if the GOI conformed to the international standards stated in the 40-plus-9 recommendations issued by Financial Action Task Force (FATF); the Mutual Evaluation Report (MER) on Iraq was published in November 2012. According to a February 2014 International Cooperative Review Group (ICRG) statement, Iraq has made a high-level political commitment to work with the FATF and MENAFATF to address its remaining strategic AML/CTF deficiencies. According to the ICRG, Iraq should continue to work on implementing its action plan to address these deficiencies, including by: (1) adequately criminalizing money laundering and terrorist financing; (2) establishing and implementing an adequate legal framework for identifying, tracing and freezing terrorist assets; (3) establishing effective customer due diligence measures; (4) establishing a fully operational and effectively functioning financial intelligence unit; (5) establishing suspicious transaction reporting requirements; and (6) establishing and implementing an adequate AML/CFT supervisory and oversight program for all financial sectors.

Resources to report corruption:

Dr. Sabah H. Al-Husseini, Director General
Office of Inspectors General
Council of Ministers Secretariat
07809177016
alhussaini97@gmail.com

Mr. Mohammed Ali Miftin Al-Lammi, Director General
Department of Asset Recovery
Commission of Integrity
7901669199
m.mften@Yahoo.com

Dr. Abdul Basit Turki Saeed al Hadithi, Chairman
Federal Board of Supreme Audit
07901934638
bsairaq@yahoo.com

Mohammad Rafiq
Iraq Coordinator
Revenue Watch International
Kirkuk
07505601753
Mohammed_kirkukly@Yahoo.com
Mohammed.h.rafiq@outlook.com

Musheer Rasheed Ibrahim
DG Legal & Investigation Affairs
IKR Commission on Public Integrity
Erbil
07504461396
msherbotany@yahoo.com

Fareeq Sulaiman Ramadan
Director General
IKR Board of Supreme Audit
Erbil
07504453080
Feriq72@yahoo.com

14. Bilateral Investment Agreements

The United States does not have a bilateral investment treaty (BIT) with Iraq. Iraq is a signatory to some form of investor protection agreement or memorandum of understanding with 35 bilateral partners and nine multilateral groupings. However, none of these agreements is as all-encompassing as a U.S. BIT. The agreements include arrangements on investments promotion and protection within the Arab League, as well as arrangements with Afghanistan, Bangladesh, India, Iran, Japan, Jordan, Kuwait, Germany, Mauritania, Republic of Korea, Sri Lanka, Syria, Tunisia, Turkey, the United Kingdom, Vietnam, and Yemen. In 2010, Iraq concluded BITs with France, Germany, and Italy; the bilateral investment treaties with France and Germany were ratified by the Iraqi Council of Representatives in 2012, while the BIT with Italy has yet to be ratified. In 2012 the GOI concluded a bilateral investment agreement with Armenia, and in 2013 it concluded new investment agreements with Jordan and Kuwait. The Council of Ministers approved the agreements with Jordan and Kuwait in March 2014, and forwarded them to the Council of Representatives for ratification. Iraq's investment agreements include general provisions on promoting and protecting investments, including clauses on profit repatriation, access to arbitration and dispute settlements, fair expropriation rules and compensation for losses. However, the Iraqi government's ability and willingness to enforce such provisions remains untested.

In addition, Iraq has bilateral free trade agreements with the following 11 countries: Algeria, Egypt, Jordan, Lebanon, Oman, Qatar, Sudan, Syria, Tunisia, Yemen, and the United Arab Emirates. Iraq is also a signatory to several multilateral agreements, including the 1982 "Taysir" trade agreement with Arab countries.

The U.S.-Iraq Strategic Framework Agreement provides forums to address impediments to investment and trade through Joint Coordination Committees on 1) trade and finance; 2) energy; and 3) services, technology, environment and transportation. On May 31, 2013, the Trade and Investment Framework Agreement (TIFA) between the Governments of Iraq and the United States entered into force and the inaugural TIFA Council meeting took place in March 2014 in Washington D.C. The TIFA provides a framework for dialogue toward increasing trade and investment cooperation between the two countries.

15. OPIC and Other Investment Insurance Programs

On June 24, 2013, the Investment Incentive Agreement (IIA) between the U.S. and the Government of Iraq entered into force, thereby formally establishing the necessary conditions for the Overseas Private Investment Corporation (OPIC) to provide financing and political risk insurance in Iraq. Previously, OPIC offered its programs in Iraq on a temporary basis through a Congressional waiver of OPIC's statutory IIA requirement. The IIA provides long-term certainty to the availability of the full range of OPIC investment support programs, which can facilitate increased U.S. investment in Iraq. OPIC is currently financing two projects in the IKR, as well as providing funding for a microcredit organization.

16. Labor

Iraqi labor law remains weak. While it provides for workers' rights, including freedom of association and the right to collective bargaining in the private sector, these rights are not respected in practice. State Owned Enterprises are public entities and therefore restricted from union organization, although some State Owned Enterprises such as the Southern Oil Company have employee associations which advocate for worker rights. The law also regulates working conditions and prohibits all forms of forced or compulsory labor, but the GOI has not effectively monitored or enforced the law, which has resulted in unacceptable working conditions for many workers. Iraq continues to face a high level of violence and insecurity, high unemployment, a large informal sector, and lack of satisfactory work standards. The existing Saddam-era labor law, which also applies to the IKR, addresses working conditions for foreign expatriate workers and establishes rules governing working hours. A law more consistent with current international standards was drafted with the assistance of the International Labor Organization (ILO) and approved by the Shura Council in 2010 and in 2014 by the Council of Representative Committee on Labor and Social Affairs, but it has yet to be enacted as it awaits approval by the full Council of Representatives.

Iraq is a party to both ILO conventions related to youth employment, including child labor. The Ministry of Labor and Social Affairs sets a minimum monthly wage for unskilled workers. In addition, according to Iraqi law, all employers must provide some level of transport, accommodation, and food allowances for each employee. The law does not fix these allowance amounts.

The NIL states that priority in employment and recruitment shall be given to Iraqis. However, international companies have noted that Iraq lacks a skilled labor force, and the country has a need for human resource development. With a lack of skilled technically-qualified workers, foreign investors often must rely on foreign workers. However, there are labor-related requirements for foreign companies employing Iraqi or third-country nationals. Furthermore, foreign investors are expected to help train Iraqi employees to increase their efficiency, skills, and technical capabilities. In the IKR, hiring locally is encouraged but not mandated by either the KRIL or the 2011 Employment Policy of the KRG Ministry of Labor and Social Affairs. In the IKR, foreign employees can legally perform their duties based on their residency permits; no work permit is required. Some companies have reported prolonged delays in obtaining necessary residency permits for foreign workers.

17. Foreign Trade Zones/Free Ports

The Free Zone Authority Law (Law Number 3) of 1998 permitted investment in free zones (FZ; similar to a U.S. foreign trade zone) through industrial, commercial, and service projects. This law is implemented through the Instructions for Free Zone Management and the Regulation of Investors' Business No. 4/1999 and is administered by the Free Zones Commission in the Ministry of Finance.

Under the law, capital, profits, and investment income from projects in an FZ are exempt from all taxes and fees throughout the life of the project, including in the foundation and construction phases. Goods entering into Iraqi commerce from FZs are subject to normal import tariffs; no duty is leveled on exports from FZs.

Activities permitted in FZs include: (a) industrial activities such as assembly, installation, sorting, and refilling processes; (b) storage, re-export and trading operations; (c) service and storage projects and transport of all kinds; (d) banking, insurance and reinsurance activities; and (e) supplementary and auxiliary professional and service activities. Prohibited activities include actions disallowed by other laws in force, such as weapons manufacture, environmentally polluting industries and those banned because of place of origin.

Four geographic areas are currently designated as Free Zones. The Basrah/Khor al-Zubair Free Zone is located 40 miles southwest of Basrah on the Arab Gulf at the Khor al-Zubair seaport. This area has been operational since June 2004. The Ninewa/Falafel Free Zone is located in the north, near roads and railways that reach Turkey, Syria, Jordan, and the Basrah ports. The Al-

Qa'im Free Zone is on the Iraqi–Syrian border. Although it is not currently operational, there is a project to rehabilitate it to its pre-2003 state. An undeveloped zone in Fallujah is in the planning stages. However, none of these areas is operating as a significant focal point for investment or trade, and only the Ninewa/Falafel zone has businesses operating in it. The Free Zone Commission lacks capacity and is further inhibited by its being placed under the Ministry of Finance, which lacks a specific mandate to develop the FZs. In the IKR, there are currently no free zones, although a zone proposed for Dahuk is under consideration for approval by the Kurdistan Regional Government.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy

	Host Country Statistical source: Ministry of Planning Central Statistical Organization		USG or international statistical source		USG or international Source of data
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (*Billions U.S. Dollars)*	2012	$192.9	2012	$215.8	http://www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source: Not Available		USG or international statistical source		USG or international Source of data

U.S. FDI in partner country (*Millions U.S. Dollars, stock positions)*			2012	$1,235	Bureau of Economic Analysis Balance of Payments and Direct Investment Position Data U.S. Direct Investment Position Abroad on a Historical-Cost Basis By Country only (all countries) (Millions of Dollars)
Host country's Outbound FDI (*Millions U.S. Dollars, stock positions)*			2012	$549	UNCTAD (BEA has no data for host country's FDI in the United States)
Total inbound stock of FDI as % host GDP			2012	0.006%	

TABLE 3: FDI Flows

FDI (USD million)	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
FDI Inflow	515	383	972	1,856	1,598	1,396	2,082	2,549
FDI Outflow	89	305	8	34	72	125	366	549

Source: UNCTAD.

TABLE 4: FDI Stock

Trade (USD million)	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
FDI Stock Inward	1,779	2,162	3,134	4,990	6,588	7,984	10,067	12,616
FDI Stock	89	394	402	435	507	632	998	1,547

Outward								

Source: UNCTAD.

According to the United Nations Conference on Trade and Development (UNCTAD), FDI flows into Iraq reached $2.5 billion in 2012, up from $2.0 billion in 2011. According to an analysis by Investment Consulting Associates in "The New Iraq – 2013 Discovering Business," from 2003 to 2011 the country attracted almost US$70 billion in FDI, with a sharp increase in FDI projects after 2008. Although 2011 showed an increase in the number of jobs created and capital attracted, the total number of FDI project declined for the first time since 2007. The GOI publishes limited statistics with which to compare international and U.S. investment data.

The NIC and Provincial Investment Commissions (PICs) granted 25 licenses in 2013 with a total potential value of $2.6 billion. These licenses were for projects in Baghdad in addition to Basrah, Muthanna, Dhi Qar, Najaf, and Babil provinces. Approximately half of these licenses were for housing development projects, a third were for industrial projects, and the remainder was for service and agricultural projects. However, the granting of a license by the NIC or a PIC does not guarantee that the proposed investment will be implemented. The total potential value of all licenses granted by the NIC and PICs is approximately $50 billion.

In the IKR, the KBOI granted 128 licenses in 2013, with a total potential value of $12.4 billion. While the granting of a license by the KBOI does not guarantee that the proposed investment will be implemented, the potential value of the projects increased 104 percent over the licenses issued in 2012. Most of the investment licenses issued by the KBOI in 2013 (46 percent) were for projects in the province of Erbil. The total potential value of all KBOI licenses granted from 2006 through March 2014 is $38.1 billion. The KBOI granted the most licenses to housing development projects (35%), followed by industrial projects (31%), and tourism industry projects (16.6%).

The Ministry of Oil confirmed investment expenditures in oil production reached $20 billion in 2013; since the Iraqi government is contractually obligated to reimburse oil companies for these expenditures and therefore is the owner of the equipment, it is considered government investment rather than FDI. Real estate remains the largest non-oil area of foreign participation in Iraq's economy.

19. Contact Point at Post for Public Inquiries

- Trade and Investment Officer
- Embassy of the USA, Al-Kindi Street, International Zone, Baghdad
- Office: +1-301-985-8841 x2134 *from the United States*
- Office: 0760-030-2134 *from Iraq*
- IraqInvestmentClimate@state.gov