



Executive Summary

Palestinian businesses have a reputation for professionalism and product quality. Large Palestinian enterprises are internationally connected, with partnerships extending to Asia, Europe, the Gulf, and the Americas. The Palestinian economy is small and relatively open, although several large holding companies dominate some sectors. Because of the small size of the local market, access to foreign markets through trade is essential for private sector growth. However, restrictions on the movement and access of goods and people between the West Bank, the Gaza Strip, and external markets imposed by the Government of Israel (GOI) continue to have a deleterious effect on the private sector and limit economic growth. The *de facto* rule in Gaza since 2007 of Hamas, a designated Foreign Terrorist Organization (FTO), combined with GOI restrictions on some imports and most exports, constrains private sector opportunities in Gaza.

While the West Bank's economy made significant progress since 2007 – primarily due to improved security, economic and legal reforms, international donor support and the easing of GOI restrictions – economic growth slowed drastically during 2013. Gross Domestic Product (GDP) growth in 2013 fell to an estimated 0.4 percent in the West Bank and 4.6 percent in Gaza – down from a combined average 10 percent GDP growth in 2010–2011. The slowdown is a result of the ongoing political conflict with Israel, uncertainty in the Palestinian Authority's (PA) ability to pay salaries, and the accumulation of unprecedented levels of private sector arrears, according to international organizations. In 2013, donor countries provided the PA USD 1.26 billion to support its budget, about USD 127 million short of the amount needed to cover the PA's recurrent deficit. Future economic growth depends on continued easing of Israeli movement and access restrictions, further external trade and private sector growth, improved PA governance in commercial regulation, increased political stability, and the general recovery of global and regional economic growth. Economic sectors that do not depend on traditional infrastructure and freedom of movement, such as information and communications technologies (ICT), are able to grow somewhat independent of these factors and have enjoyed greater success in the Palestinian territories during the past decade.

The unemployment rate in the Palestinian territories is 23.4 percent, with a disproportionate effect on youth: between the ages of 20-24 the unemployment rate is 41 percent. In addition, the workforce is expected to significantly expand in the coming years as 47.1 percent of the population of the West Bank and Gaza is below the age of 18, according to the Palestinian Bureau of Statistics (PCBS). The labor force is relatively well-educated, boasting a high literacy rate, with high technology penetration and familiarity with overseas markets. Wages are low relative to Israel, but higher than neighboring Arab countries. In January 2013, the PA implemented the first Palestinian minimum wage, set at NIS 1,450 (USD 389) per month. A significant number of Palestinians remain dependent on the public sector, which employs 23.1 percent of the workforce and which is, in turn, dependent on Israel to collect a large portion of its taxes and on international donors to make up budget shortfalls.

1. Openness To, and Restrictions Upon, Foreign Investment

Beginning in June 2007, the PA demonstrated a renewed determination to improve the investment climate and to attract foreign investments. Since then, the PA has undertaken a number of significant reforms committed to a set of broad economic policies aimed at stimulating growth through private sector investment and consolidating public finances. During the past three years, the PA's efforts were guided by the National Development Plan (NDP) for 2011-2013, a reform and development framework which highlighted the need for sovereign control over its borders and developing domestic resources to attract investment for sustainable economic development. Through 23 sector strategies contained in the NDP, the PA focused on private sector growth in agriculture and tourism in particular, and committed to continued legal and institutional reform, strategic investments in national infrastructure, and negotiated international trade agreements. The PA is currently finalizing the NDP for 2014-2016 which recognizes the need to create an additional 600,000 jobs during the next decade and maintain at least 10 percent annual growth in GDP. As with the previous NDP, the 2014-2016 version will include strategies for each of several economic and developmental sectors. Within the economic sector, the NDP actively seeks to encourage private sector and foreign investment, improve Palestinian infrastructure, increase the competitiveness of Palestinian companies, and encourage entrepreneurship in the West Bank and Gaza, among other goals. The NDP caveats, however, that any economic progress is inextricably linked to resolution of the political conflict with Israel, as well as overcoming internal divides between the West Bank and Gaza.

Beginning in 2013, the Office of the Quartet Representative (OQR), under the leadership of Quartet Representative and former U.K. Prime Minister Tony Blair, began work on the Initiative for the Palestinian Economy (IPE), a multi-year plan designed to effect transformative change and substantial growth in the Palestinian economy and create hundreds of thousands of new jobs. Unveiled in 2014, the initiative focuses on catalyzing private sector-led growth by leveraging new private-sector financing and investment into the Palestinian economy, continued and significantly expanded Israeli easing measures, and increased institutional capacity within the PA. The IPE centers on eight sectors: (1) agriculture; (2) construction; (3) tourism; (4) information and communication technology (ICT); (5) light manufacturing; (6) building materials; (7) energy; and (8) water. The IPE is intended to both benefit from and support the political negotiations between Israel and the Palestinians, and is not a substitute for it.

The PA has consistently focused on legal reforms as a means of improving the investment environment, and in 2011 passed a public procurement law, amendments to the income tax law, and amendments to the investment promotion law. The amended investment law promotes ICT software and hardware development by basing incentives on human capital instead of fixed assets (if the company has at least five professional employees), and provides additional tiered tax incentives for projects. However, commercial projects, insurance companies, banks, money changers, and real estate (other than real estate development projects) no longer receive tax incentives and the private sector was largely critical of the 2011 amendments to the income tax law, arguing that it discourages business without providing significant revenue to the PA. The amendments also gave additional authority to the Palestinian Investment Promotion Agency (PIPA) to create incentive packages targeted to individual business needs. For example, if any step in the business registration process takes longer than one month, PIPA can intervene and

issue a business license or registration on its own authority. The PIPA board also retains the discretion to discontinue new incentives (but not retroactively), upon approval by the Council of Ministers. In early 2014, the PA drafted new amendments to the investment and tax law, which would extend tax incentives to small and medium companies, exporters and agriculture and tourist businesses, among other provisions. As of April 2014, these new amendments were not yet issued by the PA and have not entered into force.

There have not been general elections since 2006 and the Palestinian Legislative Council (PLC) has not met since April 2007, meaning that any new laws or amendments must be issued by presidential decree. In the absence of a renewed political mandate or the endorsement of a legislative body, the PA has been reluctant to issue any laws that are not viewed as immediately necessary. For amendments and changes to business regulations, the PA normally engages in a series of consultations involving ministry officials, the private sector, donors and other stakeholders, resulting in lengthy delays for many key pieces of legislation. The United States Government (USG), through the U.S. Agency for International Development (USAID) and other agencies, is providing technical assistance to the PA to improve the investment climate and strengthen the trade regime through legislative reforms, improved regulations, and capacity building.

The PA has hosted several large investment conferences, most recently in Bethlehem in June 2010, which attracted over 1,000 potential investors and business representatives. Over 100 projects were presented at the conference, and further information on these and other projects is available at www.pic-palestine.ps.

Since 1995, the PA has taken steps to facilitate and increase foreign trade by signing free trade agreements with the European Union, the European Free Trade Association (EFTA), , Canada, and Turkey. The PA also enjoys the benefit of the Free Trade Agreement signed between the United States and Israel. The PA has finalized other trade agreements with Russia, Jordan, Egypt, the Gulf States, Morocco, Tunisia Mercosur, Vietnam and Germany. On July 31, 2012 Israel and the Palestinian Authority reached an understanding on trade and taxation designed to facilitate the flow of goods between Israel and the PA, reduce smuggling, and increase tax revenues to be shared by both parties. Additionally, the PA is actively preparing itself for eventual observer status in the World Trade Organization (WTO), and participated in the 2005, 2009, 2011 and 2013 WTO Ministerial meetings as an ad hoc observer.

This report focuses on investment issues related to areas under the administrative jurisdiction of the PA, except where explicitly stated. Given the changing circumstances on the ground, potential investors are encouraged to contact the PA Ministry of National Economy (www.mne.gov.ps), Palestinian Investment Promotion Agency (www.pipa.gov.ps), the Palestine Trade Center (www.paltrade.org), and the Palestinian-American Chamber of Commerce (www.pal-am.com), as well as the U.S. Consulate General in Jerusalem (<http://jerusalem.usconsulate.gov/>) and the U.S. Commercial Service (<http://export.gov/westbank/>) for the latest information.

Where applicable, this report addresses issues related to investment in the Gaza Strip, although Hamas's implementation of PA legislation and regulations may differ significantly from the

West Bank. There are few opportunities for meaningful foreign direct investment in Gaza due to Hamas's control and Israeli restrictions on the flow of imports and exports. Numerous consumer goods enter Gaza through Israel, but restrictions remain in place preventing import of a number of "dual-use" items, including construction materials. Only a few hundred truckloads of exports exit every year. The Palestinian Central Bureau of Statistics estimates that Gaza GDP slowed to 2.8 percent in the third quarter 2013, due largely to a decline in the construction sector.

The legal framework for foreign investment in the West Bank and Gaza is based on the Law on the Encouragement of Investment in Palestine Law No. [1] of 1998, as amended by Presidential Decree in 2011 ("Investment Law"). All business entities must be registered with PIPA's registry of investments either in the West Bank or Gaza. According to existing PA company laws, three different types of companies may be incorporated:

- General Partnership: The liability of each partner in a general partnership is unlimited. All partners are personally responsible for the liabilities of the partnership. The name of at least one of the partners must be included in the title of the General Partnership.
- Limited Partnership: This includes two different types of partners: general and limited. A limited partnership must have at least one general partner who is personally responsible for the liabilities of the company. There is also at least one limited partner whose liability is limited to the amount of the capital.
- Local Companies (Limited Liability Company (LLC) and Public Liability): Most investors prefer to use LLCs for the purposes of conducting commercial affairs.

The procedures that have to be followed to register this form of company are as follows:

1. Search for company name and reserve proposed name.
2. Submit company incorporation papers and sign document pledging to deposit initial capital within three months, if applicable (Jordanian Dinars (JD) 250,000 for a public shareholding company, JD 10,000 for a private shareholding company, or JD 10,000 for a nonprofit; other companies are exempt from this requirement). Obtain certificate of registration from the Ministry of National Economy.
3. Register with the Companies Registry and pay registration fee.
4. Register for income tax and value added tax.
5. Register with Chamber of Commerce.
6. Obtain business license from the municipality.
7. Obtain approval from fire department.

Certain investment categories require the Council of Ministers' pre-approval. These include investments involving (1) weapons and ammunition, (2) aviation products and airport construction, (3) electrical power generation/distribution, (4) reprocessing of petroleum and its derivatives, (5) waste and solid waste reprocessing, (6) wired and wireless telecommunication, and (7) radio and television. Purchase of land by foreigners also requires the approval of the Council of Ministers.

TABLE 1:

Measure	Year	Rank or	Website Address
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		value	
TI Corruption Perceptions index	2013	NA	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation's Economic Freedom index	2013	NA	http://www.heritage.org/index/ranking
World Bank's Doing Business Report "Ease of Doing Business"	2013	(138 of 189)	http://doingbusiness.org/rankings
Global Innovation Index	2013	NA	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
World Bank GNI per capita	2012	USD amount	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

2. Conversion and Transfer Policies

Remittance Policies

The Investment Law guarantees investors the free transfer of all financial resources out of the Palestinian territories, including capital, profits, dividends, wages, salaries, and interest and principal payments on debts. No Palestinian currency exists, but the New Israeli Shekel (NIS) is the accepted currency, and U.S. dollars (USD) and Jordanian dinars (JD) are widely used in business transactions. There are no other PA restrictions governing foreign currency accounts and currency transfer policies. Banks operating in the Palestinian territories, however, are subject to Israeli restrictions on correspondent relations with Israeli banks and the ability to transfer shekels into Israel, which occasionally limit services such as wire transfers and foreign exchange transactions.

3. Expropriation and Compensation

The Investment Law, as amended in 2011, prohibits expropriation and nationalization of approved foreign investments, except in exceptional cases for a public purpose with due process of law, which shall be in return for fair compensation based on market prices and for losses suffered because of such expropriation. The PA must secure a court decision before proceeding with expropriation.

PA sources and independent lawyers say that any Palestinian citizen can file a petition or a lawsuit against the PA. In 2011, the PA established independent, specialized courts for labor, chambers, customs, and anti-corruption. These courts are composed of judges and representatives from the Ministry of National Economy and Ministry of Finance. While general confidence in the judicial system is improving and businesses are increasingly using the courts and police to enforce contracts and seek redress, alternative means of arbitration are still used to resolve some disputes.

4. Dispute Settlement

The Investment Law, as amended in 2011, provides for dispute resolution between the investor and official agencies by binding independent arbitration or in Palestinian courts. It has been reported that some contracts contain clauses referring dispute resolutions to the London Court of Arbitration. In 2010, International Chamber of Commerce Palestine began work to establish the Jerusalem Arbitration Center (JAC) to provide a forum to resolve business disputes between Palestinian and Israeli companies; it officially launched in November 2013.

The PA is not a member of the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID Convention) or the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention).

Commercial disputes are resolved by way of conciliation, mediation, or arbitration. Arbitration in the Palestinian territories is governed by Law No. (3) of 2000. International arbitration is permitted. The law sets out the basis for court recognition and enforcement of awards. As a general rule, every dispute may be referred to arbitration by the agreement of the parties, unless prohibited by the law. Article 4 of the law states that certain disputes cannot be referred to arbitration, including those involving marital status, public order issues, and cases where no conciliation is permitted. In the event that parties do not agree on the formation of the arbitration panel, each party may choose an arbitrator and arbitrators shall choose a casting arbitrator unless the parties agree to proceed otherwise. Local legal commentators reported that the Palestinian court system has become less efficient and organized in its handling of civil and administrative (non-criminal) matters during the past two years. Litigants suggested that the decisions at different levels of the courts were less consistent, prompting more appeals and a larger overall caseload.

Judgments made in other countries that need to be enforced in the West Bank/Gaza are honored, according to the prevailing law in the West Bank, mainly Jordanian Law No. (8) of 1952 as amended by the PA in 2005. The law covers many issues in relation to the enforcement of foreign judgments.

5. Performance Requirements and Investment Incentives

The Investment Law currently offers exemptions from value added and income taxes for certain categories of PA-approved domestic and foreign investment. The amendments added in 2011 specifically include incentives to new development on existing projects and small and medium businesses in the information and communication technology sector. To benefit from incentives under this law, investors must apply to PIPA, chaired by the PA Minister of National Economy, and present it with a completed investment application and feasibility study. PIPA is composed of both public and private sector members.

Article 22 of the Investment Law provides that fixed assets are given the following exemptions:

- a. "The project's fixed assets shall be exempted from customs duties and taxes provided that they are brought in within a period specified by the Authority's decision approving the lists of fixed assets of the project ..."
- b. "The spare parts imported for the project shall be exempted from customs duties and taxes, provided that the value of such spare parts does not exceed 15 percent of the value of the fixed assets and that they are brought in or used in the project within a period specified by the Authority ..."

Article 23 of the law provides that the projects approved by the PA and which have obtained the licenses required under the law shall be granted the incentives mentioned in this law in the following manner:

- a. "Any investment whose value is USD 250,000 and less than USD 1 million shall be granted an exemption from income tax on its taxable income for a period of seven years commencing from the beginning of the first fiscal year following the year of commencement of production or from start of its actual activities and will receive an additional term during a project's trial period."
- b. "Any investment whose value is USD 1 million to USD 5 million shall be granted an exemption from income tax on taxable income for a period of nine years commencing from the beginning of the first fiscal year following the year of commencement of production or from start of its actual activity; and the period falling from the start of production or activity to the beginning the first fiscal year shall be regarded a trial period for production or business and accordingly shall be deemed an additional exemption period."
- c. "Any investment whose value exceeds USD 5 million shall be granted an exemption from income tax on taxable income for a period of eleven years commencing from the beginning of the first fiscal year following the year of commencement of production or from start of its actual activity; and the period falling from the start of production or activity to the beginning the first fiscal year shall be regarded a trial period for production or business and accordingly shall be deemed an additional exemption period."

Further, Article 22 of the law provides that information technology companies will receive the following exemptions:

- a. "Companies and projects that employ five local professional employees shall receive an exemption from income tax for a period of three years beginning from the date of engagement of these employees."
- b. "Companies and projects that employ ten local professional employees shall receive an exemption from income tax for a period of seven years beginning from the date of engagement of these employees."
- c. "Companies and projects that employ twenty local professional employees shall receive an exemption from income tax for a period of nine years beginning from the date of engagement of these employees."
- d. "Companies and projects that employ thirty local professional employees shall receive an exemption from income tax for a period of ten years beginning from the date of engagement of these employees."

Article 24 of the law provides that PIPA may grant additional incentives and exemptions subject to approval by the Council of Ministers. The Board of Directors may also extend the term exemptions for an additional two years if the percentage of the local content of machinery and equipment exceeds 40 percent; however, capital invested in land and buildings shall not be assessed as part of this percentage.

In 2014, following a review of the Palestinian investment regime, the PA drafted new amendments to the Investment Law that would extend tax incentives to agribusinesses, small and medium enterprises, exporters and certain economic sectors. For the 2014 amendments to become law, they must be signed by the President and published in the official gazette – this was expected to occur in early 2014 but the amendments are still being reviewed by the PA and, at the time of this report, there is no timetable as to whether, or when, they will be adopted.

The PA's Income Tax Act No. [17] of 2004, as amended by Presidential Decrees in 2008 and 2011 ("Tax Law") is intended to incorporate both the West Bank and Gaza. The income tax rate on upper income categories was raised from 15 percent to 20 percent in 2012. The corporate tax rate is 20 percent and there is a 3 percent tax on land sales. The Tax Law also imposes a capital gains tax of 15 percent above a threshold of 25 percent of total gains, although this faced significant backlash from the private sector and was reportedly suspended until a new provision could be worked out. Personal income tax is specified according to the following (though additional factors such as dependents and exemptions affect the base rate):

- 5 percent for income up to NIS 40,000;
- 10 percent for income between NIS 40,001 - 80,000; and
- 20 percent for all incomes above NIS 80,001.

Custom duties – The Palestinian territories are in the same customs envelope as Israel, so all customs and tariffs are in line with Israeli rates:

Base: On the value of imports.

Rates: From zero to 340 percent for food, animal and agriculture products; and zero to 22 percent for all other products.

Purchase tax:

Base: Value of imports plus customs fees.

Rates: 5 to 200 percent.

Value added tax:

Base: All imported goods.

Rates: 16 percent sales tax in Palestinian administered areas of the West Bank

A 20 percent tax is withheld at source from dividends distributed in the West Bank/Gaza to shareholders of a foreign company. There are no taxes due on dividends distributed to shareholders of Palestinian companies regardless of where they live or their nationality, and regardless of whether they are an individual or a company. An automatic deduction at the source of 25 percent is withheld from companies, unless they obtain a "Deduction at the Source Certificate," which grants a reduced rate that ranges between zero and five percent.

Applications for these certificates are available from PA district tax offices.

In conjunction with the PA's 2013-2014 review of efforts to promote investment, it has also drafted proposed amendments to the Tax Law that reportedly seek to widen the tax base and create a tax on dividend distributions. The PA is still discussing these provisions with stakeholders and the draft amendments have been suspended with no projected timetable for adoption.

While the PA does not require foreign nationals working in the West Bank to seek work permits, the Government of Israel (GOI) does require foreigners to obtain Israeli visas in order to enter the West Bank and Gaza via Israel. Israel generally grants foreign passport holders of countries that have diplomatic relations with Israel three-month tourist visas upon arrival, but longer business visas may only be obtained by businesses or organizations with an Israeli presence. Israel often requires foreign passport holders of Palestinian descent to apply for a Palestinian ID card. Israeli authorities may consider as Palestinian anyone who has a Palestinian identification number, was born in the West Bank or Gaza, or was born in the United States (or elsewhere) but has parents or grandparents who were born or lived in the West Bank or Gaza. Any such U.S. citizen may be required to enter Israel using a Palestinian Authority (PA) travel document via the Allenby Bridge crossing on the Jordanian border instead of Ben Gurion Airport in Tel Aviv. If they decide not to obtain a PA travel document, such Americans may be barred from entering or exiting Israel, the West Bank or Gaza, face long delays, or be denied entry at the ports of entry. Palestinian-Americans holding Palestinian IDs and PA exit permits may depart via the Allenby Crossing between Jordan and the West Bank, provided they have a valid Jordanian visa in their U.S. passports.

According to the GOI, foreign nationals working in the West Bank should either apply for work visas at Israeli embassies in their country of origin or seek adjustment of status through the Israeli Coordinator of Government Activities in the Territories (COGAT) after their arrival in the West Bank. This process, however, is opaque, time consuming, and may not result in issuance of a work visa. As a result, many foreign passport holders depart and reenter the West Bank every three months in order to receive a new three-month tourist visa upon re-entry. The GOI has placed a stamp reading "Judea & Samaria Only" on the visas of some U.S. citizens working in the West Bank, thereby prohibiting them from entering Israel or Jerusalem from the West Bank. The United States government has pressed the GOI to cease this policy.

6. Right to Private Ownership and Establishment

Jordanian law in the West Bank, as amended by PA regulations, guarantees the right to private ownership. Similarly, the right to private ownership in Gaza is guaranteed by British Mandate law, as amended by regulations issued by the PA. Foreigners must obtain permission from the PA before purchasing property in areas under PA civil authority and from the appropriate Israeli authorities before purchasing property in West Bank areas under Israeli control. (Under the terms of Oslo-era agreements, nearly 60 percent of the West Bank is designated "Area C" and remains under Israeli control for security, construction, and planning.) PIPA outlines the following concerning foreign ownership of property:

The Acquisition Law in the West Bank, which regulates foreign acquisition and the rental or lease of immovable properties, classifies foreigners into three categories:

- Foreigners who formerly possessed Palestinian or Jordanian passports shall have the right to own certain properties sufficient to erect buildings and/or for their agricultural projects.
- Foreigners who hold other Arab passports have the right to own certain property that suffices for their living and business needs only.
- Other foreigners, including Jerusalem ID holders, must receive permission from the PA Cabinet to own buildings or purchase land.

The permission process can be lengthy, and includes clearances from the intelligence and preventive security agencies. It is critical that potential purchasers of land or buildings perform a title search to ensure that no outstanding violations or unpaid penalties exist on the property. Under current law, violations and penalties are transferred to the new owner.

Title searches can only be obtained from the PA Land Authority (al-Taboh). Land registration is done through the Land Registries in Hebron, Ramallah, Qalqilya, Tulkarem, Nablus, Bethlehem, Jericho, Jenin, and Gaza City. In order to purchase land in the West Bank or Gaza, an application that includes supporting documents, such as deeds to the property and powers of attorney, should be submitted to the land registry office having jurisdiction over the land. The issue of land registration in the West Bank is complicated by overlapping, and sometimes conflicting, laws and customs derived from the Ottoman, British Mandate and Jordanian periods of rule. In addition, there is no comprehensive registry of land ownership for the West Bank and efforts to complete one are expected to take decades at the current pace. In addition, Israeli administrative control over 61 percent of the West Bank designated as “Area C” adds an additional layer of bureaucracy and restrictions with respect to sale and use of privately held lands in those areas.

7. Protection of Property Rights

The West Bank and Gaza do not have a modern intellectual property rights (IPR) regime in place, and IPR legislation originates from a combination of Ottoman-era, British Mandate, and pre-1967 Jordanian laws. The PA was indirectly committed to the GATT-TRIPS agreement when it signed the 1995 Interim Agreement on West Bank/Gaza according to Annex III (Protocol Concerning Civil Affairs), Appendix 1, Article 23.

Currently, intellectual property is governed by the Civil Claims Law of 1933 and the Palestinian Trademark and Patent Laws of 1938 in Gaza, and the Commercial Law No. (19) of 1953 and the Patent Law No. (22) of 1953 in the West Bank. Registration is very similar, and, despite different authorizing legislation, there are few substantive differences between IPR laws in the West Bank and Gaza Strip.

In order to register a trademark, four copies of the proposed trademark must be attached to the application, one of them in color, along with a copy of the company’s Certificate of Registration. A foreign company is entitled to register its trademark in the Palestinian territories by giving power of attorney in this regard either to a trademark agent or to a lawyer. Trademarks can be registered unless they fall within the recognized prohibition, such as being similar to or identical to an already registered trademark, are likely to lead to deception of the public, or are contrary to public morality. Trademark protection is available for registered trademarks for a period of

seven years, which may be extended for additional periods of 14 years. The proprietor of a trademark in the West Bank/Gaza owns the sole right to the use of the trademark in association with the goods with which the trademark is registered. The trademark is open for opposition after being published in the Gazette for a period of three months. The holder of a trademark retains the right to bring civil action against any perpetrator in addition to criminal proceedings. Trade names are registered in the Palestinian territories according to specific procedures and conditions that are laid out in the Jordanian Trade Names Registration Law No. (30) of 1953, which is still applicable in the West Bank, and Law No. (1) of 1929 in Gaza.

The Patents and Design Law No. (22) of 1953 is applicable in the West Bank and the Patents Design Law No. (64) of 1947 is applicable in Gaza. A foreign company is entitled to have a patent or design registered by giving power of attorney in this regard to a patent agent or to a lawyer, with the requisite documents. Patent protection is provided for a period of 16 years from the date of filing the patent application.

Copyright in the Palestinian territories is governed by the Copyright Laws of 1911 and 1924. The protection lasts for a period of 50 years after the death of the author of the work. The law also deals with infringements, compulsory licenses, and many other procedural issues as well. The law prescribes imprisonment for a maximum period of one year or a fine not exceeding 100 Jordanian dinars for infringement of a registered mark.

There is minimal enforcement of IPR laws for music and movies in the West Bank/Gaza, while the PA has enforced some of these laws to protect the Palestinian pharmaceutical industry. The PA has drafted a modern law that will encompass IPR, including copyright, patents and designs, trademarks, and merchandise branding, but the law has not yet been adopted in the absence of a functioning legislature. The PA is keen to obtain membership in the different organizations and agreements concerned with intellectual property, such as the World Trade Organization (WTO) and the World Intellectual Property Organization; it has held observer status in the latter since 2005.

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Local lawyers list: http://jerusalem.usconsulate.gov/lists_information.html

8. Transparency of the Regulatory System

The PA has worked to erect a sound legislative framework for business and other economic activity in the areas under its jurisdiction since its creation in 1994; however, implementation and monitoring of implementation needs to be strengthened, according to many observers. The PA Ministry of National Economy, with the assistance of international donors, is in the process of drafting a number of proposed laws related to business and commercial regulation, including licensing, intellectual property rights, business registration regulation of competition, secured lending, bankruptcy, and trademark and copyright. The Ministry of National Economy regularly holds stakeholder meetings for draft commercial legislation, in order to gather input from the private sector, and publishes drafts of the proposed law. Because the Palestinian Legislative Council has not met since 2007, each law must be adopted as a presidential decree, an effort that

often delays reform efforts. The proposed laws will likely need to be approved by the PLC, should it reconvene in the future.

There is a regulatory body that governs the insurance sector, and the PA has adopted a telecom law that calls for establishment of an independent regulator. However, establishment of the telecom regulator has stalled due to disagreement over its proposed members and authorities.

9. Efficient Capital Markets and Portfolio Investment

Major progress was achieved in 2004 with the passage by the PLC of the Capital Markets Authority Law, the Securities Commission Law, and the establishment of the Capital Market Authority, the regulator of the stock exchange, and the insurance, leasing, and mortgage industries. A banking law was adopted in 2010 to bring the Palestinian Monetary Authority's (PMA) regulatory capabilities in line with Basel recommendations and international financial reporting standards. The law provides a legal framework for the establishment of deposit insurance, management of the Real Time Gross Settlement (RTGS) system established in late 2010, and treatment of weak banks in areas such as merger, liquidation, and guardianship. It gives the PMA regulatory authority over the microfinance sector. In 2013, the PA passed a commercial leasing law and the Ministry of National Economy is drafting legislation to create a registry for moveable assets, which should facilitate secured transactions.

The PMA regulates and supervises 17 banks with 240 branches and offices in the Palestinian territories, several of which are foreign banks, mostly Jordanian; the top three banks have assets of more than USD 5.8 billion combined. No Palestinian currency exists, and, as a result, the PA places no restrictions on foreign currency accounts. The PMA is responsible for bank regulation in both the West Bank and Gaza. Palestinian banks are some of the most liquid in the region, with net assets of USD 10.8 billion, total deposits of USD 9.1 billion and gross credit of USD 4.5 billion at the end of January 2014.

The World Bank AHLC report released in September 2012 noted that the PMA is effectively supervising the banking sector:

“The Palestinian banking sector continues to perform well under the supervision of the Palestinian Monetary Authority (PMA). The PMA continues to enhance its institutional capacity and is steadily building the capabilities of a central bank. It provides rigorous supervision and regulation of the banking sector, consistent with international practice. An Anti-Money Laundering law that was prepared in line with international standards with technical assistance from the IMF and USAID has been in force since October 2007. The PMA is currently finalizing a draft law that solidifies its independence and provides the legislative framework for it to become a full fledged central bank.”

In addition, the PA passed the Deposit Insurance Corporation Act in 2013, establishing the Deposit Insurance Corporation to safeguard small depositors and support the stability of the banking system. A director has been appointed for the new institution, which is expected to begin functioning in mid-2014.

Palestinian banks have remained stable despite the global economic crisis, but have suffered from deteriorated relations with Israeli correspondent banks since the Hamas takeover of Gaza in

2007, at which time Israeli banks cut ties with Gaza branches and gradually restricted cash services provided to West Bank branches. All Palestinian banks were required to move their headquarters to Ramallah in 2008. Israeli restrictions on the movement of cash between West Bank and Gaza branches of Palestinian banks have caused intermittent liquidity crises in Gaza and the West Bank for all major currencies: U.S. dollars, Jordanian dinars, but mainly Israeli shekels (NIS).

Credit is limited by concerns over uncertain political and economic conditions and limited availability of real estate collateral due to non-registration of most West Bank land. The PMA has taken steps to improve the sector's loan-to-deposit ratio from 28 percent in 2008 to 55 percent in 2013 by encouraging banks to participate in loan guarantee programs sponsored by the United States and international financial institutions, supporting a national strategy on microfinance, and putting in restrictions on foreign placements. The Ministry of National Economy's draft secured transactions legislation would allow moveable assets, such as equipment, as collateral for loans. Non-performing loans are 2.9 percent of total loans, due to credit bureau assessments of borrowers' credit worthiness and a heavy collateral system.

In early 1997, the Palestinian Securities Exchange (PSE) started operations on a limited scale as a fully virtual exchange. The PSE has grown, and as of April 2014, 49 companies spanning a wide range of sectors, including telecoms, banking, services, and insurance are listed on the "Al Quds" index with a market capitalization of USD 3.34 billion. More are expected to be listed when the Securities Law and the Capital Markets Authority strengthen the legal framework of the PSE.

10. Competition from State-Owned Enterprises

Although there are no state-owned enterprises, some have noted that the Palestine Investment Fund (PIF), an investment fund that essentially acts as a sovereign wealth fund, enjoys a competitive advantage in some sectors, including housing and telecom, due to its close ties with the PA. The import of petroleum products falls solely under the mandate of the Ministry of Finance's General Petroleum Corporation, which then re-sells the products to private distributors at fixed prices.

11. Corporate Social Responsibility

Most large or multinational businesses in the West Bank include corporate social responsibility (CSR) in their business plans, mainly focusing on philanthropy related to education, health, and youth. For example, the PalTel Group Foundation, the CSR arm of one of the largest Palestinian companies, has an annual budget of USD 2 million for programs aimed at youth, women, and developing entrepreneurs. Most companies are small, family run businesses – over 68 percent of Palestinian companies employ one or two people – and many of these do not have the budgetary resources for CSR.

12. Political Violence

In June 2007, Hamas, a designated Foreign Terrorist Organization (FTO), violently seized control of the Gaza Strip, effectively removing the PA from government facilities. Following the Hamas takeover, the GOI implemented a closure policy that restricted imports to limited humanitarian and commercial shipments and cut off exports. The economic situation and investment outlook in Gaza further deteriorated following Israeli combat operations there during December 2008 and January 2009 (“Operation Cast Lead”). Even before the substantial physical damage sustained by the private sector during the military operation, the World Bank estimated as many as 90 percent of private sector businesses had closed. The GOI eased its closure policy in June 2010 by lifting some restrictions on goods imported into Gaza, which boosted economic growth and lowered unemployment. The GOI allows limited exports to overseas markets. The State Department, at the time of this writing, has in place a travel warning that urges American citizens to avoid all travel in the Gaza Strip and to exercise caution when traveling in the West Bank.

13. Corruption

The Anti-Graft Law (AGL) of 2005 criminalizes corruption, and the State Audit and Administrative Control Law and Civil Service Law both aim to prevent favoritism, conflict of interest, or exploitation of position for personal gain. The AGL was amended in 2010 to establish a specialized anti-graft court and the Palestinian Anti-Corruption Commission tasked with collecting, investigating, and prosecuting allegations of public corruption. The Anti-Corruption Commission, appointed in 2010, has indicted several high profile PA officials; these cases are now pending before the courts. However, the PLC, which is the legislative body responsible for oversight of the PA’s executive branch, has not met since April 2007. In May 2011, the World Bank reported that the PA had made significant progress in establishing a strong governance environment in many critical areas, but highlighted continuing areas of concern, including management of state land assets, transparency in licensing and business rights, and public access to government information. Palestinian civil society and media are active advocates of anti-corruption measures, and there are also international and Palestinian non-governmental organizations that work to raise public awareness and promote anti-corruption initiatives. The most active of these is as the AMAN Coalition for Integrity and Accountability, the Palestinian chapter of Transparency International. In May 2011, the World Bank reported that relatively few Palestinians have actually experienced bribery (less than 2 percent of those surveyed), and Palestinians do not consider corruption to be one of the most serious problems they face. Please see <http://www.aman-palestine.org/eng/index.htm> for further information. When compared to other countries in the region, Palestinians’ experience of bribery in the public sector is very low. There are no reliable means of determining where or to what extent this kind of activity occurs.

Businesses and investors observed that perceived widespread corruption involving political figures and institutions has largely disappeared during the past decade. Private sector businesses agree that the PA has been successful in reducing institutional corruption and local perceptions of line ministries and PA agencies are generally favorable in this regard. PA officials, businesses and representatives of service sectors note, however, that the largely discretionary authority given to Israeli military, police, and civilian officials in administering economic policy in the West Bank – touching on imports, checkpoint crossings, labor permits, and building licenses,

among other things – create regular opportunities for low-level corruption on a range of daily decisions.

14. Bilateral Investment Agreements

The Palestine Liberation Organization (PLO), on behalf of the PA, has signed international trade agreements, which refer implicitly or explicitly to WTO rules. These include:

- 1) Paris Protocol Agreement with Israel (1994) – free trade in products between Israel and Palestinian markets
- 2) Technical and Economic Cooperation Accord with Egypt (1994)
- 3) Trade Agreement between the PA and Jordan (1995)
- 3) Duty Free Arrangements with the United States (1996)
- 4) The EuroMed Interim Association Agreement on Trade and Co-operation (1997)
- 5) Interim Agreement between European Free Trade Area (EFTA) states and the PLO (1997)
- 6) Joint Canadian-Palestinian Framework for Economic Cooperation and Trade (1999)
- 7) Agreement on Commercial Cooperation with Russia – extends MFN status
- 8) Greater Arab Free Trade Area, to which PA is a party (2001)
- 9) Free Trade Agreement with Turkey (2004)
- 10) Trade Agreement with the EU – duty free access for Palestinian agricultural and fishery goods (2011)
- 11) Free Trade Agreement with Mercosur (2011)
- 12) Unilateral acts by other Arab trade partners extending preferential treatment to trade with Palestine.

Since 1996, duty-free treatment has been available to all goods exported from the West Bank/Gaza to the United States, provided they meet qualifying criteria as spelled out in the U.S.-Israel Free Trade Area (FTA) Implementation Act of 1985, as amended. The duty-free benefits accorded under the FTA exceed those benefits which would be provided under the Generalized System of Preferences (GSP). It is worth noting that the benefits for imports provided in all of the trade agreements listed above are subject to application by the GOI, since all goods destined for the West Bank or Gaza must enter through Israeli-controlled crossings or ports. The GOI generally applies duties and tariffs consistent with its trade agreements, not with the PA's trade agreements.

15. OPIC and Other Investment Insurance Programs

The Overseas Private Investment Corporation (OPIC) provides a variety of services to qualified U.S. investors in emerging economies and developing nations. During the early stages of investment planning, U.S. investors may contact OPIC for insurance against political violence, inconvertibility of currency, and expropriation in the form of an insurance registration letter. OPIC insurance is not available after the investment has been irrevocably committed. OPIC has initiated a number of programs in the West Bank and Gaza to support private sector development, including a loan guarantee facility.

The World Bank, via a USD 26 million fund administered by its Multilateral Investment Guarantee Agency (MIGA), provides guarantees in the form of insurance against political risk

for private investments in the West Bank and Gaza. Under the terms of the Fund, investors who are nationals of companies incorporated in a MIGA member country, or who are Palestinian residents of the West Bank or Gaza, are eligible to obtain guarantees for up to 15 years. The Fund currently has the capacity to issue guarantees for up to USD 5 million per project.

16. Labor

With its growing youth population, the Palestinian territories have an abundant labor supply with a high level of education and skills. According to PCBS, the total population of the Palestinian territories in December 2013 was about 4.5 million, 2.8 million in the West Bank, and 1.7 million in the Gaza Strip. PCBS estimates 1.2 million people or 44.5 percent of the population over age 15 participated in the labor force as of the end of 2013. Since 2001 when the GOI began restricting the number of labor permits available to Palestinians, areas adjacent to the “Green Line” boundary between Israel and the West Bank, such as Jenin, Tulkarem, and Qalqilya have seen their unemployment rates increase substantially above the West Bank average.

The most recent PCBS labor statistics estimate 2013 unemployment in 18.6 percent in the West Bank and 32.6 percent in Gaza. Unemployment disproportionately affects youth: when broken down, the highest unemployment rate in 2013 was 41 percent among youth ages 20-24 years. According to PCBS, the public sector employed 23.1 percent of the workforce as of the end of 2013 (16.4 percent in the West Bank and 39.5 percent in Gaza Strip). The average daily wage during the fourth quarter of 2013 in the West Bank was 90.2 NIS (USD 25.77) compared with 64.4 (USD 18.40) NIS in the Gaza Strip. The average daily wage for persons employed in Israel and Israeli settlements was NIS 182.9 (USD 52.25).

Labor force distribution by sector is as follows. (Source: PCBS labor force survey for the Fourth Quarter of 2013):

- 35.7 percent - Services and other
- 19.6 percent - Commerce, Hotels, Restaurants
- 15.6 percent - Construction
- 12.2 percent - Mining, Quarrying, Manufacturing
- 10.5 percent - Agriculture, Forestry, Fishing, Hunting
- 6.4 percent - Transportation, Storage, Communication

17. Foreign Trade Zones/Free Ports

There are no foreign trade zones or free ports in the West Bank or Gaza.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

A PCBS study of foreign investment showed the stock of foreign investment in the Palestinian territories equaled USD 2.625 billion at the end of 2012, a 14 percent increase over 2011 figures. This includes foreign direct investment, portfolio investments, and other investments.

A list of foreign investments in the Palestinian territories is not publically available. The largest foreign company in the West Bank/Gaza is the Palestine Development and Investment Company (PADICO), which has invested over USD 250 million in the economy. Key PADICO investors include diaspora Palestinians from Jordan, the United Kingdom, and the Gulf. PADICO has made significant investments in telecommunications, housing, and the establishment of the Palestinian Securities Exchange. The Arab Palestinian Investment Company (APIC), headquartered in Ramallah, is a large foreign investment group with authorized capital of over USD 100 million. Three new private equity funds, largely comprised of foreign investors, launched in 2010 and 2011: Riyadh, Siraj, and Sadara. Other significant potential foreign investments include Qatari mobile operator QTel's projected USD 600 million investment in Wataniya Mobile over a 10-year period, and Qatari Diar's projected USD 1 billion investment in Rawabi, a mixed use/affordable housing real estate development. The largest U.S. investment is Coca Cola's 15 percent stake in the local bottler, National Beverage Company, a company valued at USD 70 million.

Despite the regulatory and political challenges, there are opportunities for potential investors in the West Bank and Gaza. For example, the information and communications technology (ICT) sector is one of the fastest growing sectors in the Palestinian territories, with an average growth rate of 25-30 percent since 2000, according to PA statistics. Software development and outsourcing are particularly attractive sectors with a growing number of high tech-focused Palestinian college graduates, one of the highest Internet penetration rates in the Middle East, and competitive salaries. Multinational companies working with Palestinian companies enjoy lower costs and lower attrition rates than operations in similar markets, and several U.S. and multinational firms actively outsource software development to Palestinian companies

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

	PCBS estimates for 2012 (nominal GDP)		IMF estimates for 2012 (nominal GDP)		USG or international Source of data (Source of Data: BEA; IMF; Eurostat; UNCTAD, Other)
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (<i>Millions U.S. Dollars</i>)	2012	USD 10.26 billion	2012	USD 10.26 billion	http://www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other

U.S. FDI in partner country (<i>Millions U.S. Dollars, stock positions</i>)	N/A	N/A	N/A	N/A	(BEA) click selections to reach. <ul style="list-style-type: none"> • 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 FDI in the United States (<i>Millions U.S. Dollars, stock positions</i>)	N/A	N/A	N/A	N/A	(BEA) click selections to reach <ul style="list-style-type: none"> • Balance of Payments and Direct Investment Position Data • Foreign Direct Investment Position in the United States on a Historical-Cost Basis • By Country only (all countries) (Millions of Dollars)
Total inbound stock of FDI as % host GDP (<i>calculate</i>)	2012	26%	N/A	N/A	

* Provide sources of host country statistical data used.

TABLE 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data (2011)						
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)						
Inward Direct Investment				Outward Direct Investment		
Total Inward		1,505	100%			
Jordan		1,194	79%			
Qatar		161	11%			
Egypt		59	4%			
Saudi Arabia		18	1%			
Cyprus		15	1%			

"0" reflects amounts rounded to +/- USD 500,000.

19. Contact Point at Post for Public Inquiries

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