

# Israel

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RISK AND COMPLIANCE

DATE: December 2018

*JERSEY TRUST COMPANY*

**Executive Summary - Israel**

<b>Sanctions:</b>	Arab League - Financial and Israeli-origin goods and services
<b>FAFT list of AML Deficient Countries</b>	No
<b>Higher Risk Areas:</b>	Not on EU White list equivalent jurisdictions Failed States Index (Political Issues) (Average Score)
<b>Medium Risk Areas:</b>	US Dept of State Money Laundering assessment Non - Compliance with FATF 40 + 9 Recommendations Corruption Index (Transparency International & W.G.I.) World Governance Indicators (Average Score)

**Major Investment Areas:**

**Agriculture - products:**

citrus, vegetables, cotton; beef, poultry, dairy products

**Industries:**

high-technology products (including aviation, communications, computer-aided design and manufactures, medical electronics, fiber optics), wood and paper products, potash and phosphates, food, beverages, and tobacco, caustic soda, cement, construction, metals products, chemical products, plastics, diamond cutting, textiles, footwear

**Exports - commodities:**

machinery and equipment, software, cut diamonds, agricultural products, chemicals, textiles and apparel

**Exports - partners:**

US 27.8%, Hong Kong 7.7%, UK 5.7%, Belgium 4.6%, China 4.3% (2012)

**Imports - commodities:**

raw materials, military equipment, investment goods, rough diamonds, fuels, grain, consumer goods

**Imports - partners:**

US 12.9%, China 7.3%, Germany 6.3%, Switzerland 5.5%, Belgium 4.8% (2012)

**Investment Restrictions:**

Israel is open to foreign investment, and the government actively encourages and supports the inflow of foreign capital. There are few restrictions on foreign investors, except for parts of the defense or other industries that are closed to outside investors on national security grounds. There is no screening of foreign investment and no regulations regarding acquisitions, mergers, and takeovers that differ from those that Israelis must follow. Foreign investors are welcome to participate in Israel's privatization program. Investments in regulated industries (e.g. banking, insurance), however, require prior government approval. Investments in certain sectors may require a government license.

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## Section 1 - Background

Following World War II, the British withdrew from their mandate of Palestine, and the UN partitioned the area into Arab and Jewish states, an arrangement rejected by the Arabs. Subsequently, the Israelis defeated the Arabs in a series of wars without ending the deep tensions between the two sides. (The territories Israel occupied since the 1967 war are not included in the Israel country profile, unless otherwise noted.) On 25 April 1982, Israel withdrew from the Sinai pursuant to the 1979 Israel-Egypt Peace Treaty. In keeping with the framework established at the Madrid Conference in October 1991, bilateral negotiations were conducted between Israel and Palestinian representatives and Syria to achieve a permanent settlement. Israel and Palestinian officials signed on 13 September 1993 a Declaration of Principles (also known as the "Oslo Accords") guiding an interim period of Palestinian self-rule. Outstanding territorial and other disputes with Jordan were resolved in the 26 October 1994 Israel-Jordan Treaty of Peace. Progress toward a permanent status agreement was undermined by Israeli-Palestinian violence between September 2003 and February 2005. Israel in 2005 unilaterally disengaged from the Gaza Strip, evacuating settlers and its military while retaining control over most points of entry into the Gaza Strip. The election of HAMAS to head the Palestinian Legislative Council in 2006 froze relations between Israel and the Palestinian Authority (PA). In 2006 Israel engaged in a 34-day conflict with Hizballah in Lebanon in June-August 2006 and a 23-day conflict with HAMAS in the Gaza Strip during December 2008 and January 2009. Prime Minister Binyamin NETANYAHU formed a coalition in March 2009 following a February 2009 general election. Direct talks with the PA launched in September 2010 collapsed following the expiration of Israel's 10-month partial settlement construction moratorium in the West Bank.



## Section 2 - Anti – Money Laundering / Terrorist Financing

### FATF status

Israel is not currently on the FATF list of Countries that have been identified as having strategic AML deficiencies.

### Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Israel was undertaken by the Financial Action Task Force (FATF) in 2018. According to that Evaluation, Israel was deemed Compliant for 17 and Largely Compliant for 17 of the FATF 40 Recommendations. It was deemed Highly Effective for 3 and Substantially Effective for 5 of the Effectiveness & Technical Compliance ratings.

#### Key Findings

Overall, Israel has a good understanding of its ML risks. Israel's major ML risks are mostly identified and assessed. The understanding of TF risks is generally very good. Israel's major TF risks have been identified and assessed. Activities and policies are in line with the identified ML and TF risks. DNFBP supervisors do not have a strong understanding of the potential ML/TF risks faced by the entities they supervise.

Israel has strong, national AML/CFT co-ordination and includes all relevant competent authorities. Israel's domestic co-ordination is driven by the Executive Steering Committee, its Implementation Committee, and sub-committees of the latter committee, which together comprise the country's main AML/CFT policy development tool. Bilateral and multilateral AML/CFT co-operation at the operational level is strong, particularly among the Israel Money Laundering and Terror Financing Prohibition Authority (IMPA), Shin-Bet, the Israel National Police (INP) and the Israel Tax Authority (ITA), and also between the Israel Companies Authority (ICA) and the ITA.

Israel's highly effective use of financial intelligence largely contributes to the prosecution and investigation of all types of ML, with a large number of cases relating to self-laundering, and cases relating to legal persons. The focus on ML activity deriving from fraud, tax evasion and other organised-crime predicate crimes is in line with the country's ML risk profile. Authorities demonstrated their ability to work together on complex and significant ML cases all the way through conviction and sentencing. The quality of IMPA's financial intelligence and analysis effectively supports the operational needs of LEAs. From 2014-2017, Israel averaged 415 ML investigations, 50 ML prosecutions, and 34 convictions in ML prosecutions per year.

Overall, the competent authorities are confiscating the proceeds and instrumentalities of proceeds of crime successfully. Israel set out confiscation of criminal proceeds and instrumentalities as a high-level priority and a policy objective, and results are in line with the ML risk profile to a very large extent. From 2013-2017, Israel averaged EUR 24.6 million per year in confiscations achieved.

Israel has developed a wide range of effective instruments and mechanisms to combat terrorism and terrorist financing in all its aspects. Different types of TF cases are prosecuted, and offenders convicted. These cases are consistent with Israel's TF risk profile. Shin-Bet's and the other security agencies' proactive efforts are effective in disrupting terrorism at the early stages. Israel effectively deprives terrorists, terrorist organisations, and terrorist financiers of their assets and instrumentalities related to TF activities. A large amount of funds and property have been frozen, seized, and confiscated.

Co-operation and co-ordination of operational matters on NPOs between authorities is strong but the overall jurisdictional response to NPOs is not comprehensively coordinated. Israel has established a registration and supervision framework covering the NPOs most at risk of TF abuse. The ICA is a proactive registrar and supervisor and its approach contains strong elements which mitigate the risk of TF abuse.

Israel has implemented comprehensive and effective counter-proliferation finance targeted financial sanctions (PF-TFS) with regard to Iran, which are implemented without delay. Since the requirements of PF-TFS in relation to DPRK only came into force during the on-site visit, the compliance programmes for FIs, DNFBPs, and supervisors which were in place to ensure implementation of PF-TFS obligations relating to Iran, were not yet applicable with regard to DPRK.

In the financial sector, the application of risk-based supervisory model is ongoing, with Israel Securities Authority being the most advanced, and the Capital Market, Insurance and Savings Authority in relation to money service businesses being less advanced.

Regarding DNFBPs, Israel has not included real estate agents, dealers in precious metals, and trust and company service providers in its AML/CFT system. Diamond dealers, lawyers and accountants were only recently incorporated in the AML/CFT regime. Lawyers and accountants do not have STR requirements. DNFBP supervisors are at an early stage in the development of a risk-based model for supervision and awareness-raising initiatives for AML/CFT obligations.

There is a good level of transparency of basic information on legal persons and arrangements. The high quality of beneficial ownership information available supports a significant number of cases against legal persons by the ITA and by other LEAs and the SAO in light of the adequacy, accuracy, and currency of such information. Though Israel has sought to understand the risks posed by legal persons and arrangements, the assessment and understanding of vulnerabilities and misuse are not comprehensive.

Israel provides constructive and quality information and assistance when requested, but faces occasional challenges in providing this in a timely manner. Israel is successfully receiving responses to its requests for international co-operation. Israel also extensively uses its

informal channels of co-operation and authorities are overall well engaged and committed to execute requests where permitted.

### **Risks and General Situation**

The main ML risks Israel faces include: ML derived from fraud and tax offences, and organised crime. The Money Service Businesses (MSBs) sector and the use of cash were also identified as high ML risk areas. Predicate criminality also includes false invoicing and the misuse of complex corporate structures, including through offshore centres. Public sector corruption is recognised as an ongoing issue, and has been identified as a moderate-high ML threat in the NRA.

Inherent to its geographic location, Israel faces a high TF threat emanating from sources outside Israel. Some of the specific TF sources and channels identified are through funding from other jurisdictions, supposedly legitimate business activities, donations, foreign non-profit organisations (NPOs), smuggling of goods, valuables and funds through border crossings, including through trade, and the use of money transfer mechanisms that include correspondent activity, currency service providers, pre-paid cards, and foreign credit cards.

### **Overall Level of Compliance and Effectiveness**

Israel has implemented an AML/CFT system that is effective in many areas. Particularly good results are being achieved in the areas of ML/TF risk assessment and risk understanding, investigation and prosecution of ML and TF, including the use of financial intelligence, targeted financial sanctions related to terrorism financing, preventing misuse of legal structures, and co-operating domestically and internationally. However, major improvements are needed to strengthen supervision and implementation of preventive measures.

With regard to technical compliance, the legal framework is particularly strong, with only some areas in need of significant improvement: measures related to wire transfers, internal controls and FI's foreign branches and subsidiaries, and the full range of preventive measures and supervision for several DNFBPs.

## **Key Findings from Progress report and written analysis by the Secretariat of Core Recommendations - 14 December 2011**

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The report on the Core recommendations shows that numerous developments have occurred which address major issues raised by the evaluators. The AML Law has been amended in order to fully cover the offences listed in the Glossary to the FATF Recommendations (environmental crimes and piracy are now expressly mentioned as predicates).

The Customer Due Diligence system was improved by imposing stricter obligations on the financial institutions CDD requirements. Currently all financial institutions have the legal obligation to perform know your customer (KYC) procedures for all account owners without threshold limits, and on-going due diligence with reference to the KYC process. However, the



thresholds for the insurance sector remain in place and not all provisions relating to CDD measures are in force yet.

The effectiveness of the reporting system has been improved and it appears that the FIU is actively involved in awareness-raising and training activities.

Regarding SRIV, progress had been made in relation to the tipping off provisions and now the orders for Stock Exchange Members, for Portfolio Managers and for the Postal Bank have been amended to include a tipping off provision that covers all related information. Orders dedicated to a series of non-banking financial institutions include a tipping off provision on all related information, but are still in draft form.

There is a welcome progress on the obligation to report the attempted transactions, which is now explicitly mentioned in the orders for Stock Exchange Members, for Portfolio Managers and for the Postal Bank. Similar obligation is included in the draft orders for banking corporations, money service businesses, insurers and insurance agents, provident funds and companies managing a provident fund.

Overall there is a clear process in train to address most of the recommendations in the 3rd round report. The thresholds in the criminal legislation should still be removed in a timely fashion. The inconsistent thresholds in the preventive measures are being addressed.

As a result of the discussions held in the context of the examination of the second progress report, the Plenary was satisfied with the information provided and the progress being undertaken and thus approved the progress report and the analysis of the progress on the core Recommendations. Pursuant to Rule 41 of the Rules of procedure, the progress report will be subject of an update every two years between evaluation visits, though the Plenary may decide to fix an earlier date at which an update should be presented.

### **US Department of State Money Laundering assessment (INCSR)**

**No longer categorised a Jurisdiction of Primary Concern however the 2017 Report has not yet been published and, therefore, below is the 2016 report.**

Israel was deemed a Jurisdiction of Primary Concern by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

#### **Perceived Risks:**

Israel is not regarded as a regional financial center. It primarily conducts financial activity with the markets of the United States and Europe, and, to an increasing extent, with Asia. Criminal groups in Israel, either home-grown or with ties to the former Soviet Union, United States, or EU, often utilize a maze of offshore shell companies and bearer shares to obscure ownership. Israel's illicit drug trade is regionally focused, with Israel being more a market destination for narcotics than a transit country. The majority of money laundered originates

from criminal activities abroad, including “carousel fraud,” which takes advantage of international value-added tax loopholes. Proceeds from domestic criminal activity also continue to contribute to money laundering activity. Electronic goods; liquor; cigarettes; cell phones; and pharmaceuticals, especially Viagra and Cialis, have all been seized in recent smuggling operations. Officials continue to be concerned about money laundering in the diamond industry, illegal online gaming rings, retail businesses suspected as money laundering enterprises, and public corruption. The government adopted the recommendations of the committee established by the Director General of the Prime Minister’s Office to explore the possibility of reducing the overall supply of Israeli currency in circulation, as part of an effort to combat both counterfeiting and money laundering activity.

**Do financial institutions engage in currency transactions related to international narcotics trafficking that include significant amounts of US currency; currency derived from illegal sales in the U.S.; or illegal drug sales that otherwise significantly affect the U.S.:** NO

**Criminalization of money laundering:**

**“All serious crimes” approach or “list” approach to predicate crimes:** List approach

**Are legal persons covered: criminally:** YES **civilly:** YES

**Know-your-customer (KYC) rules:**

**Enhanced due diligence procedures for PEPs: Foreign:** YES **Domestic:** NO

**KYC covered entities:** Banking corporations, credit card companies, trust companies, stock exchange members, portfolio managers, the Postal Bank, money service businesses (MSBs), dealers in precious stones, lawyers and accountants, and trading floors (foreign exchange dealers)

**REPORTING REQUIREMENTS:**

**Number of STRs received and time frame:** 48,116: January 1 – October 25, 2015

**Number of CTRs received and time frame:** 1,271,180: January 1 – October 25, 2015

**STR covered entities:** Banking corporations, credit card companies, trust companies, members of the stock exchange, portfolio managers, insurers and insurance agents, provident funds and the companies who manage them, providers of currency services, MSBs, the Postal Bank, dealers in precious stones, and trading floors

**money laundering criminal Prosecutions/convictions:**

**Prosecutions:** 121: January 1 – October 31, 2015

**Convictions:** 27: January 1 - October 31, 2015

**Records exchange mechanism:**

**With U.S.: MLAT:** YES **Other mechanism:** YES

**With other governments/jurisdictions:** YES

Israel is a member of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a FATF-style regional body.

**Enforcement and implementation issues and comments:**

MSBs became required to implement customer due diligence (CDD) requirements as of March 30, 2015. As of September 15, 2015, dealers in precious stones became subject to CDD and as of September 15, 2016 will become subject to suspicious transaction reporting (STR) requirements. Lawyers and accountants became subject to CDD requirements as of September 2, 2015. Additionally, on November 4, 2015, the AML/CFT regime was applied to trading floors. While there is no legislative requirement for enhanced due diligence for domestic politically exposed persons (PEPs), banking corporations and the Postal Bank apply such procedures.

On July 27, 2015, the Knesset (parliament) approved in its first reading a bill for the reduction of the use of cash. On August 26, 2015, a governmental draft bill for the supervision of "financial service businesses" was published, establishing a new regulator that will supervise the different financial services provided by MSBs, including non-bank loans.

On October 10, 2015, the Knesset approved in its first reading a bill which lists serious tax crimes as predicate offenses for money laundering. This also will enable dissemination of information from the Israel Money Laundering Prohibition Authority (IMPA), under the Ministry of Justice, to the Israel Tax Authority.

On October 20, 2015, the Minister of Justice authorized for publication a draft bill to amend the Prohibition on Money Laundering Law that includes changes to money laundering offenses regarding property and instrumentalities involved in money laundering and related penalties. The bill also extends the definition of beneficial owners to cover legal persons and to clarify the definition of a controlling person.

Israel's "right of return" citizenship laws mean that criminal figures find it easy to obtain an Israeli passport without meeting long residence requirements. It is not uncommon for criminal figures suspected of money laundering to hold passports in a home country, a third country for business, and Israel.

The Financial Intelligence Unit, under the IMPA, cooperates closely with the two bodies responsible for enforcement: the Israel Tax Authority's Anti-Drug and Money Laundering Unit, and the Israel National Police. Israel cooperates on legal assistance and on extradition requests.

**Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):**

According to the US State Department, Israel conforms with regard to all government legislation required to combat money laundering

**EU White list of Equivalent Jurisdictions**

Israel is not currently on the EU White list of Equivalent Jurisdictions

### **World Governance indicators**

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

### **Failed States Index**

[To view Failed States Index Ctrl + Click here](#)

### **Offshore Financial Centre**

Israel is not considered to be an Offshore Financial Centre

## Key Findings from other US State Department Reports:

### Narcotics

Israel is not a major narcotics producing or trafficking country, but has a significant domestic market for illegal drugs. The Israel Anti-Drug Authority, which falls under the auspices of the Prime Minister's Office, but under administrative control of the Ministry of Public Security, states that demand for conventional drugs (cocaine, heroin, methamphetamine, etc.) remained steady in 2012. Use of cannabis and synthetic cannabinoids, however, is on the rise. The Anti-Drug Authority regularly adds new synthetic drugs to Israel's Dangerous Drugs Ordinance, which provides the legislative basis for drug definition, penalties, and related enforcement authorities.

Law enforcement continues to link drug offenses to a number of other crimes, including human trafficking, illegal labour, and money laundering. The U.S. Drug Enforcement Administration (DEA) has seen an increase in drug-related money laundering cases involving Israelis working in both the United States and Israel. The majority of drugs enter Israel via its borders with Jordan, Lebanon, and Egypt, as well as by sea shipment and through the mail.

Excellent bilateral cooperation on illicit drug enforcement and interdiction continues between U.S. and Israeli authorities, with efforts shared between the DEA country office in Cyprus and the Department of Homeland Security's Immigration and Customs Enforcement office (DHS/ICE) in Tel Aviv. Recent joint U.S. and Israeli actions have included joint investigation of drug couriers on flights from South America into Ben Gurion airport, investigations of trafficking of mephedrone from Israel to the United States, and the May 2012 conviction of a prominent Israeli drug trafficker and organized crime leader in Los Angeles. DHS/ICE cooperated with the Israel Tax Authority and Israel National Police to investigate counterfeit pharmaceutical distribution operations based in Israel, which led to guilty pleas for two Israelis in a U.S. district court in April 2012. DEA Cyprus continues to work closely with the Israeli Ministry of Health's Pharmaceutical Crimes Unit on a wide range of issues pertaining to drug identification as well as the identification of new trends in drug production. Multiple bilateral projects, training programs, and joint investigations are currently in various planning stages.

### Trafficking in Persons

Israel is classified a Tier 1 Country - a country whose government fully complies with the Trafficking Victims Protection Act's (TVPA) minimum standards

Israel is a destination country for men and women subjected to forced labor and, to a much lesser extent, a source country for men and women subjected to sex trafficking. Migrant workers primarily from Asia, Eastern Europe, and West Africa migrate to Israel for temporary contract labor in construction, agriculture, caregiving, and fishing; some of these workers are subjected to forced labor. An international organization reported in 2015 that some Thai men

and women are subjected to forced labor in Israel's agricultural sector, where their passports are withheld, and they experience long working hours, no breaks or rest days, and difficulty changing employers. In 2013, men from the Philippines, Sri Lanka, and India worked on fishing boats under harsh conditions, some of which constitute human trafficking, distinguished by isolation, long working hours, and withheld salaries. Caregivers are highly vulnerable to forced labor due to their isolation inside private residences, high recruitment fees, and their lack of protection under the labor law. The Philippine Embassy reports that Philippine workers are paying recruiters in the Philippines fees of \$12,000 to go to Israel for work and that the requirement to repay this amount results in significant hardship for the workers. Foreign caregivers are legally limited to employment in a geographic area and type of work, though the government reports foreign caregivers are free to change employers without special permission from their current employers; nevertheless, NGOs continue to raise concerns that these regulations bind caregivers to their employers and increase their vulnerability to exploitation. Persons with disabilities, particularly foreigners, are vulnerable to forced labor, such as street begging. Women from Eastern Europe, Uzbekistan, China, and Ghana, as well as Eritrean men and women, are subjected to sex trafficking in Israel; some women arrive on tourist visas to work willingly in prostitution, but are subsequently exploited by sex traffickers. NGOs report some Palestinian LGBTI persons are vulnerable to abuse and exploitation, due to their legal status and restrictions on work eligibility for Palestinian nationals in Israel. Some Israeli women and girls may be victims of sex trafficking in Israel. Since 2007, thousands of African migrants have entered Israel from Egypt's Sinai Peninsula. Many of these migrants were kidnapped along the Eritrea-Sudan border or within Sudan and subjected to severe abuse, including forced labor and sex trafficking, at the hands of criminal groups in the Sinai before reaching Israel. Although the flow of these migrants arriving in Israel has dramatically decreased from more than 10,000 in 2012, the Israeli government reported the arrival of 168 irregular migrants in 2015, an increase from the 21 migrants who arrived in 2014. The remaining 43,000 Eritrean and Sudanese male and female migrants and asylum-seekers are highly vulnerable to sex and labor trafficking.

The Government of Israel fully meets the minimum standards for the elimination of trafficking. The government continued to demonstrate strong efforts to identify and provide protective services to victims of all forms of trafficking. It continued to operate shelters and other facilities that provided victims a wide variety of immediate and long-term care and rehabilitative services. The government sustained law enforcement actions against sex and labor trafficking, though prosecution and convictions decreased slightly from the previous year. In 2015, fourteen traffickers received sentences that included serving time in prison commensurate with the severity of the crime. Though the government continued to identify and provide some care to trafficking victims among the detained irregular African migrant population, unidentified victims continued to be susceptible to long-term detention for committing immigration violations. The government continued to implement strong anti-trafficking prevention measures.

### **Terrorist Financing 2016:**

**Overview:** Israel was a committed counterterrorism partner in 2016. Israel again faced terrorist threats from Iranian-support groups such as Hizballah in Lebanon. Other threats included

Palestinian terrorist groups such as Hamas, the Popular Resistance Committees, and Palestinian Islamic Jihad (PIJ), particularly from Gaza but also from the West Bank; al-Qa'ida (AQ) and its affiliates, and ISIS and its affiliates along its borders, such as ISIL-Sinai Province (ISIL-SP) and the Jaysh Khalid ibn al-Waleed group (JKW, formerly the al-Yarmouk Martyrs Brigade) in the Syrian Golan Heights. In addition, since 2015, Israel has faced numerous incidents of terrorist attacks committed by individuals with no clear affiliation to terrorist organizations, termed "lone offender" attacks.

Israeli security officials and politicians remained concerned about the terrorist threat posed to Israel from Hizballah and Iran, highlighting that Iran, primarily through the efforts of its Islamic Revolutionary Guard Corps-Qods Force, continued to fund and supply Hizballah. Israeli experts believed that Iran has transferred to Hizballah advanced weapons systems such as anti-aircraft and anti-ship cruise missile systems, and was continuing to transfer long-range rockets into Lebanon. Also, Israeli officials were concerned about the proliferation of conventional and non-conventional weapons from Syria to terrorist organizations. According to the Government of Israel, Hizballah has stockpiled more than 130,000 rockets and missiles in Lebanon since the 2006 Lebanon War.

Israeli counterterrorism officials said Hamas and other Gaza terrorists made quantitative and qualitative advances in their military capabilities. Israel assessed that Hamas and PIJ have regained most of the military capabilities that were severely damaged during operation "Protective Edge" (July 7 to August 26, 2014), and have, in some cases, expanded their capabilities, including by constructing new offensive tunnels and acquiring other advanced capabilities such as an arsenal of medium-to-long range rockets and unmanned aerial vehicles. Gaza-based Palestinian terrorist organizations continued rocket and mortar attacks into Israeli territory, although no Israeli fatalities were reported.

While Israel was not involved in the Global Coalition to Defeat ISIS, it shared information to help track and stem the flow of foreign terrorist fighters through information exchanges on counterterrorism issues with numerous governments. In support of the UN Security Council (UNSC) ISIL (Da'esh) and al-Qa'ida sanctions regime, Israel regularly updated its list of foreign terrorist organizations and individuals involved in terrorism to better align with UNSC sanctions lists.

In 2016, Israel and the United States held numerous interagency counterterrorism dialogues to discuss the broad range of threats in the region and to determine areas of collaboration to address these challenges.

**Legislation, Law Enforcement, and Border Security:** Israel has a robust legal framework to counter terrorism and promote international legal assistance in the investigation and prosecution of terrorists.

The Israeli Knesset passed new counterterrorism legislation in 2016 that broadened the range of activities subject to enhanced criminal sentencing. These activities include tunnel-digging, stone throwing, incitement, and planning intended to assist terrorist organizations and individuals. The Combatting Terrorism Law was designed to empower law enforcement authorities to preempt the establishment of terrorist cells and attack planning. The new provisions contained in the law codified numerous military and emergency orders issued under general emergency powers in place since the founding of the State of Israel. They

include: the Anti-Terrorism Ordinance of 1948, the Anti-Terrorist finance Law of 2005, and various regulations issued under pre-statehood emergency defense authorities of 1945.

Non-governmental human rights organizations protested the Law's broad definition of terrorism, arguing it serves to codify counterterrorism powers that critics compared to martial law. Additional concerns regarding the scope of Israeli counterterrorism legislation were directed towards the criminalization of activities related to freedom of expression, association, and peaceful assembly that could affect the Arab population of Israel.

The ISA and Israel National Police (INP) continued to cooperate with U.S. law enforcement agencies on cases involving U.S. citizens killed in terrorist attacks. Elite Israeli units engaged in counterterrorism operations included Yamam (Israeli Border Police) and IDF special operations units, such as Sayaret Matkal and Duvdevan (Urban Warfare Counterterrorism Operations).

Israeli Border police have a "hot return" policy for visitors suspected of ties to terrorist or criminal organizations. The border fence constructed along the border with Egypt, and fences along the West Bank and Gaza, assisted Israeli security forces in preventing migrant inflows and mitigating security threats. The West Bank and Gaza barriers were augmented by cameras, sensors, and active patrols by Israeli Border Police and the IDF.

Israel's airport security was considered robust by international security experts, particularly with regard to its security screening and inspections program. The Israeli Ministry of Interior maintained a voluntary biometric passport control system at Tel Aviv's Ben Gurion International Airport, which was available for Israeli passport holders over the age of 18 years. This system facilitated both entry into and exit from Israel via an automatic kiosk for Israeli citizens who successfully passed a background check and provided a scan of their hand.

**Countering the Financing of Terrorism:** The Israeli financial intelligence unit, the Israeli Money Laundering and Terror Finance Prohibition Authority (IMPA), is a member of the Egmont Group of Financial Intelligence Units. Israel was also welcomed as an observer to the Financial Action Task Force (FATF) at the organization's plenary meeting in February 2016, and Israeli anti-money laundering (AML) experts have begun to participate in FATF peer reviews of other countries' anti-money laundering/countering the financing of terrorism regimes.

Israel's counterterrorist finance regime continued to be enhanced through enforcement operations and the inclusion of new groups under national terrorist finance laws. The well-regulated Israeli banking industry worked to address suspected terrorist activity. Israeli experts and officials continued to raise concerns about the issue of state-sponsored funding of Hamas, and said that Hamas funded terrorists in the West Bank preparing to perpetrate terrorist attacks against Israel, Israelis, or Israeli interests.

Financing of Hamas through charitable organizations remained a concern for Israeli authorities, as did the funding of Hizballah through charities and illicit activity. In one high-profile case in August, Israeli police charged Mohammad al-Halabi – the Director of the NGO World Vision in Gaza – with diverting material and financial assistance to Hamas; the charity itself was not implicated in the case.



Israel regularly updates the list of foreign terrorist organizations and individuals involved in terrorism, to implement the UNSC ISIL (Da'esh) and al-Qa'ida sanctions regime. Israel also has a domestic sanctions regime in place with the Anti-Terrorist finance Law of 2005, which allows the Israeli Security Cabinet to declare a foreign organization to be classified as a foreign terrorist organization in coordination with findings presented by a foreign country or by the UNSC.

The new counterterrorism law that entered into force on November 1 significantly reduced the time it takes to adopt international designations. The UN sanctions lists were registered in the formal government registry. Every domestic and UN designation was published in three languages (Hebrew, Arabic, English), and run in three different newspapers, as required by law. In addition, designations were published on the website of the IMPA and distributed by email to the IMPA's mailing list, which included banks, lawyers, and finance professionals.

## International Sanctions

There are restrictions by Israel of movement within the Palestinian territories and of goods moving in and out.

The Arab League (comprising 22 Arab member states) has boycotted Israel in a systematic effort to isolate Israel economically in support of the Palestinians.

There are three tiers to the boycott. The primary boycott prohibits the importation of Israeli-origin goods and services into boycotting countries. The secondary boycott prohibits individuals, as well as private and public sector firms and organizations, in member countries from engaging in business with any entity that does business in Israel. The Arab League maintains a blacklist of such firms. The tertiary boycott prohibits any entity in a member country from doing business with a company or individual that has business dealings with U.S. or other firms on the Arab League blacklist.

The implementation of the boycott has varied over time among member states.

## Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	62
World Governance Indicator – Control of Corruption	82

Corruption is not an obstacle for businesses operating or planning to invest in Israel. Businesses may encounter demands for bribes or gifts particularly when dealing with public procurement, yet, corruption is not institutionalized in any of the country's sectors. The government has put in place a comprehensive legal framework to combat corruption and enforcement has been effective. The Penal Code addresses corruption offences including, bribery, extortion, embezzlement and abuse of office. Government corruption has come under the spotlight in several instances, however, impunity is not a problem. Several corruption cases have been tried and high-ranking government officials have received prison sentences. Both gifts and facilitation payments are criminalized in Israel. **Information provided by GAN Integrity.**

### US State Department

Bribery and other forms of corruption are illegal under several Israeli laws and Civil Service regulations. Israel became a signatory to the OECD Bribery convention in November 2008 and became a full member of the OECD in May 2010. Israel is ranked 25<sup>th</sup> out of the 34 OECD members. There are several NGOs that focus on public sector ethics. Transparency International has a local chapter in Israel. Israel was ranked 36<sup>th</sup> in Transparency International's 2013 Corruption Perceptions Index, and was also ranked 36<sup>th</sup> in 2011.

### **OECD Follow- Report On The Implementation Of The Phase 2 Recommendations Application Of The Convention On Combating Bribery Of Foreign Public Officials In International Business Transactions And The 2009 Recommendation For Further Combating Bribery Of Foreign Public Officials In International Business Transactions**

#### **Summary of findings:**

In March 2012, Israel presented its Written Follow-Up Report, outlining its responses to the recommendations and follow-up issues identified by the Working Group on Bribery at the time of Israel's Phase 2 examination in December 2009. Since Phase 2, Israel has neither prosecuted nor adjudicated any case of bribery of a foreign public official, therefore the follow-up issues remain open.

The Working Group welcomed the extensive information provided by the Israeli authorities in the course of this follow-up evaluation and recognised Israel's efforts to implement the Phase 2 recommendations. Following Israel's submission of its Written Follow-Up Report, the Lead Examiners sent a list of additional questions to Israel. The supplementary information received in response to these questions is included in Annex I. As concerns the Phase 2 examination, the Working Group considers that Israel has satisfactorily implemented 16 out of the 22 recommendations, while 4 recommendations have been partially implemented and 2 recommendations have not been implemented. In addition, 4 recommendations were considered to be satisfactorily implemented but converted to follow-up issues for evaluation once there are examples of application in practice.

With respect to raising awareness of the foreign bribery offence in the public and private sectors, the Working Group acknowledged significant efforts on the part of the Israeli government, including numerous seminars for public officials on the operation of the foreign bribery offence, as well as engagement of Israeli businesses operating abroad by Israeli overseas missions (Recommendations 1 and 2(a)). Relevant official documents had also been made available in three languages: Hebrew, Arabic, and English (Recommendation 2(b)). While Israel had taken steps to raise awareness of public sector whistleblower protection mechanisms (Recommendation 3(b)), there had been no attempt since Phase 2 to enhance protection for whistleblowers in the private sector (Recommendation 3(a)).

In relation to the detection and reporting of foreign bribery, the Deputy Attorney General (Criminal Affairs) has decided to propose an amendment of the Civil Service (Discipline) Law 5723-1963 to enact a reporting obligation for Israeli public officials (Recommendation 4(a)). Subject to the approval of the relevant government officials, a draft bill will be issued in this regard. In addition, the Deputy State Attorney issued a binding instruction requiring the Military Censor to forward any suppressed information raising suspicions of foreign bribery (Recommendation 4(b)). Given that no information had been forwarded to date, it was decided to follow-up the application of this instruction in practice. With regard to Israel's export credit agency, the Working Group heard that Ashra undertook training of its agents in relation to the foreign bribery offence, as required, and will engage with the OECD Export Credit Group in 2012 on the issue of requiring clients to incorporate anti-bribery clauses when engaging sub-contractors (Recommendation 5). In terms of detection within the defence industry, Israel had called upon defence exporters to adopt and implement anti-corruption compliance measures and to participate in anti-corruption seminars and conferences. The Ministry of Defence introduced a compulsory anti-corruption declaration by companies prior to granting defence export licenses and in one case had suspended a marketing and export licence following the laying of charges against an Israeli defence company in another jurisdiction (Recommendation 6). The Working Group decided to follow up practical implementation of Israel's mechanisms for considering defence companies' involvement in foreign bribery allegations indictments, prosecutions and convictions prior to and during defence export licensing.

With regard to the non-tax deductibility of bribes, the Working Group noted that Israel had issued binding Income Tax Circular 2/2011 clarifying this issue (Recommendation 7(a)) and had undertaken significant awareness raising activities with respect to tax officials (Recommendation 7(b)). Israel also reported that the Commentary to Article 26(2) of the

OECD Model Tax Convention is included in bilateral tax treaties as a result of bilateral negotiations (Recommendation 7(c)).

Israel had taken steps to increase the capacity of its Police Legal Assistance Unit to respond to requests for mutual legal assistance (MLA): staff numbers were increased significantly, however only one of the six MLA requests relating to foreign bribery cases received since Phase 2 had been completed (Recommendation 8(a)). The Working Group therefore decided to follow up the issue of the adequacy of police resources necessary to provide prompt and effective legal assistance in future evaluations. In relation to investigating allegations, as part of preliminary examinations conducted by the Israel Police, Israel had made informal information requests in relation to two separate allegations of bribery of foreign public officials by Israeli companies, but had not opened any formal investigations since Phase 2 (Recommendation 8(b)). On this basis, the Working Group will continue to follow-up on Israel's progress in pursuing investigations into foreign bribery cases.

In relation to issues identified in Phase 2 in Israel's legal framework for combating bribery of foreign public officials, Israel has amended the Penal law to remove the dual criminality requirement for the foreign bribery offence (Article 15(b)), and include a political entity that is not a state, including the Palestinian Council within the definition of „Foreign State“ (Article 291A) (Recommendations 9(a) and (b)). On the issue of liability of legal persons, encouraging steps had been taken by Israel to raise awareness and to initiate a reflection on the liability of legal persons in Israel with a working team formed by the Minister of Justice to review the issue. However, enforcement of the liability of legal persons remained limited for intentional offences and Israel had not taken measures to ensure a broad scope for triggering corporate liability, so as to notably cover legal persons with decentralised decision-making processes and ensure that the need to identify a natural person does not prevent effective prosecution of legal persons (Recommendation 10).

The Working Group welcomed amendments to the sanctions regimes for natural persons (from 3.5 years to 7 years" imprisonment and from 202 000 ILS to about 1,100,000 ILS maximum fines) or four times the obtained or intended benefit- whichever is higher, and for legal persons (from a maximum fine of 202 000 ILS to about 2,200,000 ILS or four times the obtained or intended benefit- whichever is higher), but decided to follow-up on the application of these increased sanctions in practice, to determine whether they are effective, proportionate and dissuasive (Recommendations 12(a) and (b)). Israel has also implemented anti-bribery clauses and declarations in ODA and defence and export credit contracts, setting out the grounds for denial of these contracts to legal and natural persons convicted of foreign bribery. In relation to public procurement tender procedures, Israel reported that an Administrative Ordinance was being drafted to establish a procedure for preventing natural and legal persons convicted of foreign bribery from competing in tender processes (Recommendation 12(c)).

Israel had taken steps to encourage companies to continue to develop and adopt compliance programs and had taken steps to develop and strengthen monitoring bodies including by amending the Companies Law to apply reporting rules for public companies to some private entities (Recommendation 11(a)). In relation to the accounting and auditing profession, Israel repeated its assertion from Phase 2, that the statutory obligation to prevent

an offence contained in Article 262 of the Penal Law applied to this profession. The Working Group considered that this remained to be clarified, and that guidelines and training for current members of the profession was still required (Recommendation 11(b)).

The Working Group noted that it was not possible to ascertain whether certain recommendations in Israel's Phase 2 report had been implemented in the absence of concluded cases involving the offence of bribery of foreign public officials.

### Section 3 - Economy

Israel has a technologically advanced free market economy. Cut diamonds, high-technology equipment, and pharmaceuticals are among its leading exports. Its major imports include crude oil, grains, raw materials, and military equipment. Israel usually posts sizable trade deficits, which are covered by tourism and other service exports, as well as significant foreign investment inflows.

Between 2004 and 2013, growth averaged nearly 5% per year, led by exports. The global financial crisis of 2008-09 spurred a brief recession in Israel, but the country entered the crisis with solid fundamentals, following years of prudent fiscal policy and a resilient banking sector. Israel's economy also weathered the 2011 Arab Spring because strong trade ties outside the Middle East have insulated the economy from spill over effects.

Slowing domestic and international demand and decreased investment resulting from Israel's uncertain security situation reduced GDP growth to an average of roughly 2.6% per year during 2014-15. Natural gas fields discovered off Israel's coast since 2009 have brightened Israel's energy security outlook. The Tamar and Leviathan fields were some of the world's largest offshore natural gas finds in the last decade. Political and regulatory issues have delayed the development of the massive Leviathan field, but production from Tamar provided a 0.8% boost to Israel's GDP in 2013 and a 0.3% boost in 2014. One of the most carbon intense OECD countries, Israel generates about 57% of its power from coal and only 2.6% from renewable sources.

Income inequality and high housing and commodity prices continue to be a concern for many Israelis. Israel's income inequality and poverty rates are among the highest of OECD countries, and there is a broad perception among the public that a small number of "tycoons" have a cartel-like grip over the major parts of the economy. Government officials have called for reforms to boost the housing supply and to increase competition in the banking sector to address these public grievances. Despite calls for reforms, the restricted housing supply continues to impact the well-being of younger Israelis seeking to purchase homes. Tariffs and non-tariff barriers, coupled with guaranteed prices and customs tariffs for farmers have kept food prices high through 2015.

In the long term, Israel faces structural issues, including low labour participation rates for its fastest growing social segments - the ultraorthodox and Arab-Israeli communities. Also, Israel's progressive, globally competitive, knowledge-based technology sector employs only about 8% of the workforce, with the rest mostly employed in manufacturing and services - sectors which face downward wage pressures from global competition. Expenditures on educational institutions remain low compared to most other OECD countries with similar GDP per capita.

#### **Agriculture - products:**

citrus, vegetables, cotton; beef, poultry, dairy products

#### **Industries:**

high-technology products (including aviation, communications, computer-aided design and manufactures, medical electronics, fibre optics), wood and paper products, potash and phosphates, food, beverages, and tobacco, caustic soda, cement, construction, met

**Exports - commodities:**

machinery and equipment, software, cut diamonds, agricultural products, chemicals, textiles and apparel

**Exports - partners:**

US 27.5%, Hong Kong 8%, UK 6.1%, China 4.9% (2015)

**Imports - commodities:**

raw materials, military equipment, investment goods, rough diamonds, fuels, grain, consumer goods

**Imports - partners:**

US 13%, China 9.3%, Switzerland 7.1%, Germany 6.1%, Belgium 5.3%, Italy 4% (2015)

**Banking**

Israel has a modern and sophisticated banking system. Three large banks - Bank Hapoalim, Bank Leumi, and Israel Discount Bank - dominate Israel's banking sector. Bank Leumi had assets of USD 86.6 billion at the end of 2008; Bank Hapoalim had assets of USD 85.5 billion at the end of 2008, and Discount Bank, the third largest bank, had assets of USD 50.7 billion at the end of 2008. Bank Hapoalim was fully privatized in 2000. Citibank was the first large international bank to set up a full branch in Israel. HSBC soon followed suit. The government does not interfere in the day-to-day management of the banks. Most types of loans and project financing traditionally available in industrialized countries are available in Israel.

**Stock Exchange**

Founded in 1953, The [Tel Aviv Stock Exchange](#) (colloquially known as the Bursa) in Tel Aviv, is Israel's only stock exchange.



## Section 4 - Investment Climate

### Executive Summary

Israel has an entrepreneurial spirit and a creative, highly-educated, skilled, and diverse workforce. Israel is a leader in innovation in a variety of sectors, and many Israeli start-ups find good partners in American companies. Israel, popularly known as the “start-up nation,” invests highly in education and scientific research, and many leading multinational companies have established research and development (R&D) centers here. Various Israeli Government agencies fund incubators for early stage technology start-ups, and Israel provides extensive support for new ideas and technologies and also seeks to develop more traditional industries. Private venture capital funds have flourished in Israel in recent years.

The fundamentals of the Israeli economy are strong, and the economy proved flexible and adaptable through the worldwide financial crisis. With low inflation, relatively low unemployment, and fiscal deficits that have usually met targets, Israeli Government economic policies are considered by most analysts as generally sound and supportive of growth. Israel seeks to provide supportive conditions for companies looking to invest in Israel, through laws that encourage capital and industrial R&D investment. Incentives and benefits include grants, reduced tax rates, tax exemptions, and other tax-related benefits.

The U.S.-Israeli bilateral economic and commercial relationship is strong, anchored by two-way goods and services trade reaching USD 40 billion in 2015, according to the US Census Bureau, and extensive commercial ties, particularly in high tech and research and development. This year marks the 31st anniversary of the U.S.-Israel Free Trade Agreement, the first such agreement for both countries. During this time the Israeli economy has undergone a dramatic transformation, moving from a protected, low-end manufacturing and agriculture-led economy to one that is diverse, open, and led by a cutting edge high-technology sector. The Government continues to take actions to remove trade barriers and encourage capital investment, including foreign investment. However, several constraints exist in the economy that have contributed significantly to growing public concerns over the high cost of living and the lack of competition in key sectors.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2014	37 of 175	<a href="http://transparency.org/cpi2014/results">transparency.org/cpi2014/results</a>
World Bank's Doing Business Report "Ease of Doing Business"	2015	53 of 189	<a href="http://Doingbusiness.org/rankings">Doingbusiness.org/rankings</a>
Global Innovation	2015	21 of 143	<a href="http://Globalinnovationindex.org/content/page/data-">Globalinnovationindex.org/content/page/data-</a>

Index			<u>analysis</u>
U.S. FDI in partner country (\$M USD, stock positions)	2014	\$10.8 billion	BEA/Host government
World Bank GNI per capita	2014	\$35,320	<u><a href="http://Data.worldbank.org/indicator/NY.GNP.PCAP.CD">Data.worldbank.org/indicator/NY.GNP.PCAP.CD</a></u>

## 1. Openness To, and Restrictions Upon, Foreign Investment

### Attitude toward Foreign Direct Investment

Israel is open to foreign investment, and the government actively encourages and supports the inflow of foreign capital.

### Other Investment Policy Reviews

The World Trade Organization conducted its fourth and latest trade policy review of Israel on October 31 and November 1 2012. In the past three years the Israeli Government has not conducted any investment policy review through the Organization for Economic Cooperation and Development (OECD) or the United Nations Conference on Trade and Development (UNCTAD).

### Laws/Regulations on Foreign Direct Investment

There are few restrictions on foreign investors, except for parts of defense or other industries closed to outside investors on national security grounds. Foreign investors are welcome to participate in Israel's privatization program.

Israel's Ministry of Economy sponsors the web site "Invest in Israel" at [www.investinisrael.gov.il](http://www.investinisrael.gov.il).

### Business Registration

Visit <http://www.israelbusiness.org.il/startingyourbusiness/companyregistration> for more details about registering a business in Israel. The web site advises foreign entities to consult with Israeli attorneys and accountants. All companies in Israel must register with the Registrar of Companies and tax authorities. While Hebrew and Arabic are the official languages of Israel, corporate documents in English will usually be accepted by the Registrar. However, the Registrar does require that the Memorandum of Association be translated into Hebrew and notarized. The fee for registering a company is currently NIS 2,244. Applications by foreign companies are generally processed within 14 business days of submission.

Additional information about business registration can be found at <http://www.investinisrael.gov.il/>.

Israel places 56th out of 189 countries in "Starting a Business rank" at [www.doingbusiness.org](http://www.doingbusiness.org).

Israel defines micro businesses as having up to 5 workers, with annual sales turnover of up to NIS 10 million. Small businesses are defined as having as between 6 and 50 workers, with

annual turnover of up to NIS 25 million. Medium-sized businesses are defined as having between 51 and 100 workers, with annual sales turnover of up to NIS 100 million.

#### Industrial Promotion

The Investment Promotion Center of the Ministry of Economy seeks to encourage potential investors to invest in Israel. The Center stresses Israel's developed infrastructure, educated work force, open economy, and ties to the United States and Europe, and additionally provides information about investment incentives available in Israel.

#### Limits on Foreign Control and Right to Private Ownership and Establishment

The Israeli legal system protects the right of both foreign and domestic entities to establish and own business enterprises, as well as the right to engage in remunerative activity. Private enterprises are free to establish, acquire, and dispose of interests in business enterprises. As part of its current privatization efforts, the Israeli government actively encourages foreign investment in privatizing government owned entities.

Following massive social protests in the summer of 2011, the government established a committee to address the issues raised. The committee recommended decentralizing control of essential infrastructure, in order to prevent the transfer of control in state infrastructure to the hands of a few (i.e. existing domestic business conglomerates). It also led to legislation of a business concentrations law, approved by the Knesset at the end of 2013. While most of the legislation was aimed at reducing the concentration of private holdings in the hands of a few wealthy families and tycoons, the intention is that it will have an impact on future privatizations of remaining government-owned entities.

It is government policy to equalize competition between private and public enterprises, although the existence of monopolies and oligopolies in several sectors stifles competition. In the case of designated monopolies, defined as entities that supply more than 50% of the market, the government controls prices.

Investments in regulated industries (e.g. banking, insurance) require prior government approval. Investments in certain sectors may require a government license. Other regulations may apply, usually on a national treatment basis.

#### Privatization Program

In late 2014, Israel's cabinet approved a privatization plan which would allow the government to issue minority stakes of up to 49% in state-owned companies on the Tel Aviv Stock Exchange over a three-year period estimated to increase government revenue by USD 4.1 billion. The plan aims to sell stakes in Israel's electric company, water provider, railway, post office and some defense-related contractors.

#### Screening of FDI

There is no screening of foreign investment and no regulations regarding acquisitions, mergers, and takeovers that differ from those that Israelis must follow.

#### Competition Law

Israel adopted its comprehensive competition law in 1988. The Israel Antitrust Authority was created in 1994 to enforce the competition law.

The discovery by an American-Israeli consortium of substantial offshore natural gas resources in Israel in 2009 and 2010 has created investment opportunities. As Israel moves toward becoming a significant producer, the Israeli government is developing new regulations to oversee the sector, ensure competition, attract investment, and achieve broader energy policy goals. However, Israel's development of natural gas and independent power production regulations almost from scratch has led some investors to complain about uncertainties regarding taxation, licensing, and export policy. Particularly concerning was the December 2014 Israel Antitrust Authority (ATA) announcement that it might declare the partnership between the U.S. company developing Israel's offshore gas and its Israeli partners an agreement in restraint of trade, and force them to divest in part of their investment in the Tamar reservoir, which began production in 2013, or the Leviathan reservoir, which is still to be developed. For more than a year, this anti-trust threat had a chilling effect on further investment in the sector. After much domestic controversy and significant delays stemming from this threat, in December 2015 the Israeli government secured resolution of the antitrust issue and other regulatory problems and gave the green light to proceed with development of Leviathan.

U.S. companies have also complained about Israel's electricity regulator, the Public Utility Authority (PUA), which they say has acted without transparency in setting electricity tariffs at arbitrary and artificially low levels and is effectively forcing investors to subsidize the financially-troubled, state-owned Israel Electric Company. However, the Israeli Government is now in the process of instituting reforms to the PUA that should help alleviate some of the past problems U.S. companies experienced. Recent efforts by Prime Minister Netanyahu and Minister of National Infrastructure, Energy, and Water Resources Steinitz are bringing long-needed support to the energy sector and driving new interest to invest in developing Israel's natural resources.

## **2. Conversion and Transfer Policies**

### *Foreign Exchange*

Israel's foreign exchange liberalization process was completed on January 1, 2003, when the last restrictions placed on the ability of institutional investors to invest abroad were removed. Foreign currency controls have been completely abolished and the Israeli shekel is a freely convertible currency. The Bank of Israel maintains the option to intervene in foreign currency trading in situations of extraordinary movements in the exchange rate which are not in line with fundamental economic conditions, or when the foreign exchange market is not functioning appropriately. Israeli individuals can invest without restriction in foreign markets. Foreign investors can open shekel accounts that allow them to invest freely in Israeli companies and securities. These shekel accounts are fully convertible into foreign exchange.

### *Remittance Policies*

Most transactions must be carried out through an authorized dealer. An authorized dealer is a banking institution licensed to arrange, inter alia, foreign currency transactions for its clients. The authorized dealer must report large foreign exchange transactions to the Controller of

Foreign Currency. There are no limitations or significant delays in the remittance of profits, debt service and capital gains.

### **3. Expropriation and Compensation**

There have been no expropriations of U.S.-owned businesses in Israel in the recent past. Israeli law requires adequate payment, with interest from day of expropriation until final payment, in cases of expropriation.

### **4. Dispute Settlement**

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

Israel has a written and consistently applied commercial law based on the British Companies Act of 1948 as amended. Israel's commercial law contains standard provisions governing company bankruptcy and liquidation. Personal bankruptcy is covered by a separate bankruptcy ordinance. Monetary judgments are always awarded in local currency. The judiciary is independent, but businesses complain about the length of time required to obtain judgments. The Israeli government accepts binding international arbitration of investment disputes between foreign investors and the state. Israel is a member of the International Center for the Settlement of Investment Disputes (ICSID) and the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards.

Bankruptcy

Israeli Law is based on several layers, some of them based on the Common Law and in particular the laws of England, as Palestine was under the British mandate in 1917-1948. Bankruptcy Law in Israel in particular is mostly based on English Law as enacted in Palestine in 1936 during the British mandate.

Bankruptcy proceedings are based on the bankruptcy ordinance (1980), which replaced the mandatory ordinance that was enacted in 1936. Therefore, the bankruptcy law in Israel resembles the English law as it was more or less in 1936.

Investment Disputes

Israel has a written and consistently applied commercial law based on the British Companies Act of 1948 as amended. Israel's commercial law contains standard provisions governing company bankruptcy and liquidation. Personal bankruptcy is covered by a separate bankruptcy ordinance. Monetary judgments are always awarded in local currency.

International Arbitration

The Israeli government accepts binding international arbitration of investment disputes between foreign investors and the state.

*ICSID Convention and New York Convention*

Israel is a member of the International Center for the Settlement of Investment Disputes (ICSID) and the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards.

Duration of Dispute Resolution – Local Courts

Investment/commercial dispute proceedings can be drawn out in lengthy legal proceedings. However, the Knesset is considering legislation which would expedite simple cases.

## **5. Performance Requirements and Investment Incentives**

WTO/TRIMS

Israel complies with the WTO agreement on Trade Related Investment Measures (TRIMs).

The State of Israel encourages both local and foreign investment by offering a wide range of incentives and benefits to investors in industry, tourism and real estate. Special emphasis is given to hi-tech companies and R&D activities.

All benefits available to Israelis are also available to foreign investors. Some of the benefits and requirements are described below. Investment incentives are outlined in the Law for the Encouragement of Capital Investment, and are coordinated by the Israel Investment Center (IIC).

For complete information, potential investors should contact:

Investment Promotion Center  
Ministry of Economy  
5 Bank of Israel Street,  
Jerusalem 91036  
Tel: 972-2-666-2607  
Fax: 972-2-666-2938  
Website: [www.investinIsrael.gov.il](http://www.investinIsrael.gov.il)  
E-Mail: [InvestinIsrael@moital.gov.il](mailto:InvestinIsrael@moital.gov.il)

Israel Investment Center  
Ministry of Economy  
5 Bank of Israel Street,  
Jerusalem 91036 490  
<http://www.moital.gov.il/NR/exeres/111C2143-2296-44C0-96F9-C29C082A19CC.htm>  
Tel: 972-2-666-2236  
Fax: 972-2-666-2905

The Ministry asks that requests be in writing.

Investment Incentives

Investment incentives are outlined in the Law for the Encouragement of Capital Investment, and are coordinated by the Israel Investment Center (IIC).  
<http://www.investinIsrael.gov.il/NR/exeres/08348DA2-83D3-47B1-B043-ED418D9AA846.htm>

To qualify for benefits under the law the company has to be an "industrial company" registered in Israel and has to be "internationally competitive" (i.e. have export capability). However, Biotechnology and Nanotechnology companies do not have to meet the "export"

requirement to qualify. An investment in the Priority Area recognized by the law will be termed an Approved Investment and the company will be designated an Approved Enterprise. More information is available at <http://www.investinisrael.gov.il>

### *Research and Development*

The Office of the Chief Scientist (OCS) of the Ministry of Economy is responsible for implementing the government policy of encouraging and supporting industrial research and development in Israel. The goal of the OCS is to assist in the development of technology in Israel as a means of fostering economic growth, encouraging technological innovation and entrepreneurship, leveraging Israel's scientific potential, enhancing the knowledge base of industry in Israel, stimulating high value-added R&D and encouraging R&D collaboration both nationally and internationally.

The OCS provides a variety of support programs that operate on a yearly budget of about USD 400 million. This is spent on about 1400 projects undertaken by 830 companies. These programs have helped make Israel a major center of hi-tech entrepreneurship. The main OCS program (the R&D Fund) supports R&D projects of Israeli companies by offering conditional grants of up to 50% of the approved R&D expenditure. If the project is commercially successful, the company shall be under the obligation to repay the grant by royalty payments.

A support program for traditional industry was launched in 2005 by the OCS, which offers separate evaluation and discussion for projects from traditional industries. The Office of the Chief Scientist web site (above) also includes information about international support, including bi-national funds, the Global Enterprise R & D Cooperative Framework, Project Centers, and domestic support programs.

### Support for R&D Centers of Foreign Companies

There are four programs that enable High-Technology R&D Centers of Foreign Companies to receive government support which can be accessed through the following link.  
<http://www.israelbusiness.org.il/financialassistance/rdincentives>.

### Financial R&D Centers Support Program

Israel has developed a highly dynamic and vibrant Financial Services IT sector. In order to capitalize on the capabilities of this sector the Ministry of Economy has devised an innovative support program directed at foreign Multi-National financial and banking corporations.

<http://www.investinisrael.gov.il/NR/exeres/6EAE7AD8-96B0-44E2-8DEC-26F421A24594.htm>

To qualify the following criteria must be met:

The applicant is a foreign company and does not conduct any R&D activities in Israel, operates in the financial sector; and has a turnover in excess of USD 10 billion.

### Employment Grants

In order to complement the revised Law for the Encouragement of Capital Investments, the government has decided to establish an additional program to increase employment in the outlying areas of Israel as well as in specific centers with high unemployment.

<http://www.investinIsrael.gov.il/NR/exeres/EECEBB1D-866C-4D5D-9FB4-593C556622D7.htm>

#### The Standard Program

In order to complement the revised Law for the Encouragement of Capital Investments, the government has decided to establish an additional program to increase employment in the outlying areas of Israel as well as in specific centers with high unemployment. Support will be granted for the establishment or expansion of industrial plants, telephone call centers, computer service support centers or logistic centers. In order to be eligible for this program these enterprises will have to employ a minimum number of workers at a minimum wage as detailed below. The maximum support per worker will be NIS 135,000 (around USD 34,000) over a period of 30 months or NIS 4,500 (around USD 1,100) per month.

#### Employment Grant Program for High Salaries (R&D Centers)

The Ministry of Economy has launched an incentive program for supporting industrial companies established in the Negev (south) and Galilee (north) that pay high salaries to their workers. This program is part of a long term plan to promote the establishment of hi-tech companies in outlying areas and to create high-paying employment centers.

#### The Employment Grant Program for “Anchor” Enterprises

The Ministry of Economy has launched a new incentive program encouraging employment in large enterprises in the Negev (south) and Galilee (north). This new program is part of a long term plan for the Negev and Galilee to increase employment possibilities in northern and southern Israel. To qualify, industrial companies must employ at least 100 workers at their plant.

The program offers the investor employment grants that are calculated as a percentage of the cost to employ each new employee, for a period of up to four years.

#### Film Law Benefits

The main aim of the law is to encourage the production of foreign films in Israel. To this end, the law offers generous tax benefits that reduce the cost of production by up to 20 percent. The Law for the Encouragement of the Production of Films was approved by the Israeli Knesset on October 28th, 2008. The law recognizes two models: foreign productions and co-productions. In both cases, the benefits by law accrue to an Israeli production company, which is expected to pass on these benefits to the foreign production company.

<http://www.investinIsrael.gov.il/NR/exeres/9DF0E022-7076-45C7-A8C9-FCA9603D5EF6.htm>

#### Start-up Incubators

As repositories of potential ideas, the Israeli technological incubators have helped make Israel's high-tech entrepreneurship capability world-renowned. The Office of the Chief Scientist (OCS) of the Ministry of Economy has the responsibility of implementing the



government policy of encouraging and supporting industrial research and development in Israel at the earliest stages.

<http://www.investinIsrael.gov.il/NR/exeres/2EC10169-510E-4A60-80F6-BAFD466F7DED.htm>

#### Business Grants for Employing New Immigrants

Businesses are eligible to receive grants for employing new immigrants and returning Israelis from The Ministry of Immigrant Absorption's Center for Absorption in Science.

<http://www.investinIsrael.gov.il/NR/exeres/D2884B15-03DA-42FC-8316-54E565658641.htm>

#### Training Support Program

The Manpower Training Department in the Ministry of Economy actively assists industrial companies to train workers in the different disciplines and professions as required by the company.

<http://www.investinIsrael.gov.il/NR/exeres/A3C87DA0-1155-41B8-BA7D-97A8431F4013.htm>

The support program is offered via three possible programs:

"Plant Class" whereby the department will support the opening of a class numbering at least 18 to train the workers in the specific skills as required by the company. The main condition being that the company obligates itself to employ at least 50% of the class graduates.

"Training and Placement Class." This program is intended for employers and institutions that wish to train workers in specific disciplines and professions. The company/institution commits itself to employ at least 50% of the class graduates within six months of the completion of the course. The Department will finance the entire cost of running these classes.

"Internal Plant Training." This program assists employers who wish to have an on-the-job training project in their plant. The Department will assist by paying ILS 1,100 – 1,500 (around USD 250 - 350) per worker in this program.

Invest in Israel website homepage for investment incentives:

<http://www.investinIsrael.gov.il/NR/exeres/2A82DCE7-9B2D-4581-83B7-8C518D8323D1.htm>

#### Performance Requirements

There are no universal performance requirements on investments, but performance requirements, including inbound investment "offset" requirements, are often included in sales contracts with the government. In some sectors, there is a requirement that Israelis own a percentage of a company. Israel's visa and residency requirements are transparent. The Israeli government does not impose preferential policies on exports by foreign investors.

#### Data Storage

Several major U.S. information technology companies have opened large research and development centers in Israel. Information on Israel's data storage policy for foreign investors can be found at the Ministry of Economy's website.

<http://economy.gov.il/English/Pages/default.aspx>

## 6. Protection of Property Rights

### Real Property

Israel has a modern legal system based on British common law that provides effective means for enforcing property and contractual rights. Courts are independent. Israeli civil procedures provide that judgments of foreign courts may be accepted and enforced by local courts. Secured interests in property are recognized and enforced by the Israeli judicial system. A reliable system of recording such security interests exists. Israel currently ranks 127th out of 189 countries in "registering property" according to the World Bank's Doing Business Report.

### Intellectual Property Rights

The Israel Patent Office (ILPO) with the Ministry of Justice is the principal government authority overseeing the legal protection and enforcement of intellectual property rights (IPR) in Israel. IPR in Israel has undergone many changes in recent years as the Israeli economy has rapidly transformed into a knowledge-based economy.

In recent years, Israel's IPR legal framework has undergone a number of changes in order to comply with new international treaties it has signed. In recent years, Israel has taken stronger, more comprehensive steps towards protecting IPR and the government acknowledges that IPR theft costs rights holders millions of dollars per year, reducing tax revenues and slows economic growth. In 2013, the ILPO invested in building its capacity by adding 21 new certified patent examiners, improving examination procedures, and upgrading quality control processes. In addition, the ILPO expanded access to searchable databases available to patent examiners, which now includes real-time access to current patent applications in China, Japan, and South Korea. In 2014, the ILPO began utilization of a fully integrated online system, available on the ILPO website, for online patent applications which allows real-time public access to all Israeli patent applications, adding to the efficiency of the entire IPR system.

Due to steps taken to improve intellectual property rights under a Memorandum of Understanding the United States and Israel signed in 2010, Israel was removed from the USTR's Special 301 Watch List, and subsequently removed from the Special 301 report, which identifies countries with deficient intellectual property rights protection, altogether.

While several recent legislative improvements have been instituted, the United States continues to urge Israel to strengthen and improve its IPR enforcement regime. In some cases, the government has not taken effective action to enforce basic obligations in the various IPR related treaties Israel has signed. Israel lacks specialized judicial courts and Special Police Units designed to enforce IPR, common in other countries with advanced IPR regimes. Cases in Israel are typically adjudicated in general civil or administrative courts.

IPR theft in Israel is fairly common and involves a high-level of sophistication. The EU ranks Israel as a "third tier" priority country with regards to the level of IPR protection and/or enforcement. The EU cites inadequate protection of innovative pharmaceutical products and end-user software piracy as the main issues with IPR enforcement in Israel.

Israel's present copyright law is based on the United Kingdom Copyright Act of 1911, with subsequent amendments. Protections include the exclusive right to (a) copy or reproduce

the work; (b) produce, reproduce, perform or publish translations; (c) publicly perform plays or novels; and (d) make recordings of literary, dramatic or musical works. Criminal penalties are also provided for certain commercial infringing activities. Recently passed copyright legislation is an improvement over old Israeli law in that it is more modern in its structure, terminology and scope. Temporary copies are explicitly protected and a "making available" right is explicitly provided. Under this law, a person who is a non-Israeli national has no rights in their sound recordings that were not published for the first time in Israel, unless the person is a national of a country that has an agreement with Israel concerning sound recordings. In the case of the United States, the Israeli government promulgated an order which implements a 1950 bilateral agreement between Israel and the United States which does protect U.S. sound recordings. The term of protection for sound recordings is 50 years; for other works, it is the lifetime of the author plus 70 years.

Copyright law in Israel also lacks certain protections that have become common in the copyright laws of developed countries, including protection of "technological protection measures," "rights management information," provisions related to internet service provider liability and safe harbors and parallel import protection. Israel has also not acceded to the WIPO Internet Treaties; however, it is reviewing a draft exposure bill that is in conformance with the WIPO Copyright Treaty. The Ministry of Justice indicated that if the Copyright Treaty is successfully implemented, it will proceed with similar action on the WIPO Performances and Phonograms Treaty.

Israel is a member of the WTO and the World Intellectual Property Organization (WIPO). It is a signatory to the Berne Convention for the Protection of Literary and Artistic Works, the Universal Copyright Convention, the Paris Convention for the Protection of Industrial Property, and the Patent Cooperation Treaty. Israel was obligated to implement the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) by January 1, 2000 but has failed to do so to date. Implementation remains under consideration by the government.

Until February 2014, Israeli law provided inadequate intellectual property protections against unfair commercial use of data generated to obtain marketing approval for pharmaceuticals, which discouraged U.S. companies from substantial investment in the health sector. As a result of these deficiencies in Israel's intellectual property regime, the United States placed Israel on the USTR's Special 301 "Priority Watch List" in 2005. In February 2010, Israel reached agreement with the United States to modify its intellectual property laws to address shortcomings in its treatment of new pharmaceutical products related to data exclusivity, patent term extension and publication of patent applications. In February 2014, in response to Israel's enactment of the final piece of legislation specified in the agreement, the United States removed Israel from the Special 301 Watch List.

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/>.

Annual statistics on seizures of counterfeit goods in Israel is maintained by the Israel Tax Authority located in the Ministry of Finance. In 2014, Israel made 843 counterfeit seizures compared with 343 in 2004, an increase of nearly 250 percent. Since 2004, the amount of annual seizures has increased steadily, reaching a 10-year peak of 1,137 in 2012. More information is available on the Israel Tax Authority webpage at: <https://taxes.gov.il/customs/Documents/Netunim2014.pdf>

## *Resources for Rights Holders*

Embassy point of contact: Cameron Woodworth ([woodworthcj@state.gov](mailto:woodworthcj@state.gov))

Local lawyers list: <http://israel.usembassy.gov/lawyers.html>

### **7. Transparency of the Regulatory System**

Israel promotes open governance, and has joined the International Open Government Partnership. The government's policy is to pursue the goals of transparency and active reporting to the public; public participation; and accountability.

Israel's regulatory system is transparent. Ministries and regulatory agencies give notice of proposed regulations to the public on a government web site, <http://www.knesset.gov.il>. The text of proposed regulations is also published on this web site. The government requests comments from the general public about proposed regulations.

Israel is a signatory to the WTO Agreement on Government Procurement (GPA), which covers most Israeli government entities and government-owned corporations. Most of the country's open international public tenders are published in the local press. However, government-owned corporations make extensive use of selective tendering procedures. In addition, the lack of transparency in the public procurement process discourages U.S. companies from participating in major projects and disadvantages those that choose to compete. Enforcement of the public procurement laws and regulations is not consistent.

Israel is a member of UNCTAD's international network of transparent investment procedures. (<http://unctad.org/en/pages/home.aspx>). Foreign and national investors can find detailed information on administrative procedures applicable to investment and income generating operations including the number of steps, name and contact details of the entities and persons in charge of procedures, required documents and conditions, costs, processing time and legal bases justifying the procedures."

### **8. Efficient Capital Markets and Portfolio Investment**

Credit is ostensibly allocated according to market terms. However up to 70 percent of credit in Israel is issued to a handful of individuals and corporate entities, some of whom own controlling interests in banks. Furthermore, the primary profit centers for banks are various consumer banking fees, i.e. credit is given on preferential terms. Various credit instruments are available to the private sector, and foreign investors can receive credit on the local market. Legal, regulatory, and accounting systems are transparent and conform to international norms, although the prevalence of inflation-adjusted accounting means that there are differences from U.S. accounting principles.

In the case of publicly traded firms where ownership is widely dispersed, the practice of "cross-shareholding" and "stable shareholder" arrangements to prevent mergers and acquisitions is common, but not directed in particular at preventing potential foreign investment. While until now a number of companies have had "pyramidal-like" structures, the business concentrations law, which was approved by the Knesset at the end of 2013, is intended to alleviate this going forward. Israel has no laws or regulations regarding the

adoption by private firms of articles of incorporation or association that limit or prohibit foreign investment, participation, or control.

#### Money and Banking System, Hostile Takeovers

There are five major banks in Israel. Bank Hapoalim and Bank Leumi, the two largest banks, dominate the market, followed by Israel Discount Bank. Together these banks account for 75 percent of the market. In 2015, Bank Hapoalim had assets of USD 110.6 billion and Bank Leumi had assets of USD 106.7 billion. In 2014, the latest date available, Israel Discount Bank had assets of USD 57.8 billion. Israeli banks have all been privatized except for Leumi, with 6 percent of shares remaining in the hands of the State of Israel. Given the high concentration of ownership of most firms, hostile takeovers are a virtually unknown phenomenon in Israel.

### **9. Competition from State-Owned Enterprises**

The Government Companies Authority (GCA) was established and operates under the Government Companies Law. This is an auxiliary unit of the Ministry of Finance. The GCA is the administrative agency for state-owned companies in charge of supervision, privatization and implementation of structural changes.

The GCA oversees some 100 companies including commercial and noncommercial companies, government subsidiaries, and companies under mixed government-private ownership. Among these companies are some of the biggest and most complex in the Israeli economy, such as The Israel Electric Corporation, Israel Aerospace Industries, Rafael Advanced Defense Systems, Israel Postal Company, Mekorot Israel National Water Company, Israel Natural Gas Lines, the Ashdod, Haifa and Eilat Port Companies, Israel Railways, Petroleum and Energy Infrastructures, Israel National Roads Company, advanced study funds, and housing companies.

Israel is party to the Government Procurement Agreement (GPA) within the framework of the World Trade Organization.

#### OECD Guidelines on Corporate Governance of SOEs

The OECD Guidelines on Corporate Governance of State-Owned Enterprises give concrete advice to countries on how to manage more effectively their responsibilities as company owners, thus helping to make state-owned enterprises more competitive, efficient and transparent. The Guidelines were developed in 2005 and are currently under review by OECD. More information is available at <http://www.oecd.org/corporate/ca/corporategovernanceofstate-ownedenterprises/oecdguidelinesoncorporategovernanceofstate-ownedenterprises.htm>

#### Sovereign Wealth Funds

There are no sovereign wealth funds (SWF) in Israel. However, active consideration of establishing a SWF in light of the discoveries of major offshore natural gas fields is underway.

### **10. Responsible Business Conduct**

There is awareness of responsible business conduct among enterprises and civil society.

Israel adheres to the OECD Guidelines for Multinational Enterprises and a National Contact Point is operating in the Foreign Trade Administration. See below also for Corporate Social Responsibility activities among NGOs.

Maala–Business for Social Responsibility:

<http://www.maala.org.il/eng/home/about/01/default.asp?ContentID=333>

## **11. Political Violence**

Israel is a parliamentary democracy with a stable domestic environment. Nonetheless, the conflict between Israel and the Palestinians is unresolved, and the risk of politically motivated violence and terrorism continues. The threat of rocket fire from Gaza reached a crescendo in the summer of 2014. Hamas and other jihadist groups in Gaza launched 4,600 rockets at Israeli territory. The Iron Dome defense system intercepted virtually all of these that were aimed at populated areas, but there were frequent alarms requiring persons to move to shelter. Following a rocket landing in the area of Ben Gurion Airport, the U.S. Federal Aviation Administration issued a Notice to Airmen warning and a number of international air carriers, including three U.S. carriers, cancelled flights over a 36-hour period.

Heightened tensions with Iran due to concerns over Tehran's nuclear program and its support for terrorism also present the potential for regional conflict. Israel's borders with Lebanon and Syria are closed, but instability in Syria and threats from the Iran-backed terrorist group Hezbollah in Lebanon also present some risk of violent incidents or conflict. Israel signed peace treaties with Egypt (1979) and Jordan (1994).

## **12. Corruption**

Bribery and other forms of corruption are illegal under several Israeli laws and Civil Service regulations. Israel became a signatory to the OECD Bribery convention in November 2008 and became a full member of the OECD in May 2010. Israel ranked 32nd out of 168 countries in Transparency International's 2015 Corruption Perceptions Index. There are several NGOs that focus on public sector ethics. Transparency International has a local chapter in Israel.

*UN Anticorruption Convention, OECD Convention on Combatting Bribery*

The UN Anticorruption Convention entered into force on December 14, 2005, and there are 144 parties to it as of December 2010 (see <http://www.unodc.org/unodc/en/treaties/CAC/signatories.html>). Israel is a signatory. The UN Convention is the first global comprehensive international anticorruption agreement. The UN Convention requires countries to establish criminal and other offences to cover a wide range of acts of corruption. The UN Convention goes beyond previous anticorruption instruments, covering a broad range of issues ranging from basic forms of corruption such as bribery and solicitation, embezzlement, and trading in influence to the concealment and laundering of the proceeds of corruption. The Convention contains transnational business bribery provisions that are functionally similar to those in the OECD Anti-bribery Convention and contains provisions on private sector auditing and books and records requirements. Other provisions address matters such as prevention, international cooperation, and asset recovery. Israel has signed and ratified the convention.

The OECD Anti-Bribery Convention entered into force in February 1999. As of March 2016, there are 41 parties to the Convention, including Israel and the United States (see [http://www.oecd.org/daf/anti-bribery/ConvCombatBribery\\_ENG.pdf](http://www.oecd.org/daf/anti-bribery/ConvCombatBribery_ENG.pdf)). The Convention obligates the Parties to criminalize bribery of foreign public officials in the conduct of international business. Israel has adopted the Convention.

Israel is a signatory to the OECD Convention on Combatting Bribery of Foreign Public Officials in International Business Transactions (see list of signatories and their implementation reports at <http://www.oecd.org/daf/anti-bribery/countryreportsonteimplementationoftheoecdanti-briberyconvention.htm>).

#### *Resources to Report Corruption*

The National Police, the state comptroller, the attorney general, and the accountant general are responsible for combating official corruption. These entities operate effectively and independently, and are sufficiently resourced. NGOs that focused on anticorruption efforts operate freely without government interference.

The international NGO Transparency International closely monitors corruption in Israel.

### **13. Bilateral Investment Agreements**

Israel has protection of investment agreements with Albania, Argentina, Armenia, Azerbaijan, Belarus, Bulgaria (amending protocol), China, Croatia (Treaty in force, negotiations for amendment, resulting from Croatia's accession to the EU are underway), Cyprus, Czech Republic, El Salvador, Estonia, Ethiopia, Georgia, Germany, Guatemala, Hungary (treaty terminated in 2007, existing investments are protected for ten years after termination), India, Kazakhstan, Latvia, Lithuania, Macedonia, FYR initialed, Moldova, Mongolia, Montenegro, Poland, Romania (amending protocol), Serbia, Slovakia, Slovenia (terminated 2007, existing investments protected for ten years after termination), South Africa (pending ratification), South Korea, Thailand, Turkey, Turkmenistan, Ukraine, Uruguay, and Uzbekistan.

This year marks the 31st anniversary of the signing of the U.S.-Israel Free Trade Agreement, the first such agreement for both countries.

#### *Bilateral Taxation Treaties*

Israel has a bilateral tax treaty with United States. The Income Tax Treaty and the Technical Explanation of the Treaty were signed in 1975.

### **14. Foreign Trade Zones/Free Ports/Trade Facilitation**

Israel has one free trade zone, the Red Sea port city of Eilat. There are three ports in Israel: Haifa Port (including Kishon), the Port of Ashdod and the Port of Eilat. Plans are already underway to expand and upgrade the major ports of Haifa (in the north) and Ashdod (in the center). There is good quality warehousing including cold storage in all of the major ports and trade zones, but current capacity may become inadequate in the face of growing demand.

### **15. Foreign Direct Investment and Foreign Portfolio Investment Statistics**

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Host Country Statistical source		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (\$M USD)	2013	\$277,000	2014	\$305,700	<a href="http://www.worldbank.org/en/country">www.worldbank.org/en/country</a>
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 (\$M USD, stock positions)	2013	\$19,700	2014	\$10,801	<a href="http://bea.gov/international/factsheet/factsheet.cfm?Area=504">http://bea.gov/international/factsheet/factsheet.cfm?Area=504</a>
Host country's FDI in the United States (\$M USD, stock positions)	2013	\$10,300	2014	\$8,982	<a href="http://bea.gov/international/factsheet/factsheet.cfm?Area=504">http://bea.gov/international/factsheet/factsheet.cfm?Area=504</a>
Total inbound stock of FDI as % host GDP	2013	7.1	2014	3.5	N/A

Table 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data						
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)						
Inward Direct Investment				Outward Direct Investment		
Total Inward	82,392	100%	Total Outward	75,368	100%	
United States	19,969	24%	Netherlands	28,885	38%	
Cayman Islands	7,344	9%	United States	10,269	14%	
Canada	4,891	6%	Singapore	3,522	5%	
Netherlands	4,771	6%	Canada	2,419	3%	
Hungary	2,917	4%	Switzerland	1,892	3%	



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

Table 4: Sources of Portfolio Investment

Portfolio Investment Assets								
Top Five Partners (Millions, US Dollars)								
Total			Equity Securities			Total Debt Securities		
All Countries	106,187	100%	All Countries	60,429	100%	All Countries	45,758	100%
United States	62,287	59%	United States	39,366	65%	United States	22,921	50%
Luxembourg	7,694	7%	Luxembourg	6,721	11%	United Kingdom	2,283	5%
United Kingdom	6,975	7%	United Kingdom	4,692	8%	Germany	1,589	3%
Germany	3,861	4%	Germany	2,272	4%	Netherlands	1,168	3%
Ireland	2,279	2%	Ireland	2,147	4%	Luxembourg	973	2%

## Section 5 - Government

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

### Legal system:

mixed legal system of English common law, British Mandate regulations, and Jewish, Christian, and Muslim religious laws

### International organization participation:

BIS, BSEC (observer), CE (observer), CICA, EBRD, FAO, IADB, IAEA, IBRD, ICAO, ICC (national committees), ICRM, IDA, IFAD, IFC, IFRC, ILO, IMF, IMO, IMSO, Interpol, IOC, IOM, IPU, ISO, ITSO, ITU, ITUC (NGOs), MIGA, OAS (observer), OECD, OPCW (signatory), OSCE (partner), Paris Club (associate), PCA, SELEC (observer), UN, UNCTAD, UNESCO, UNHCR, UNIDO, UNWTO, UPU, WCO, WHO, WIPO, WMO, WTO






## Section 6 - Tax
























### Exchange control

There are no exchange controls in Israel and foreign currency can be freely transferred in and out of the country.

### Treaty and non-treaty withholding tax rates -

Israel has signed **53 agreements (53 DTC agreements)** providing for the exchange of information.

Jurisdiction	Type of EOI Arrangement	Date Signed	Date entered into Force	Meets standard	Contains paras 4 and 5	
Austria	DTC	29 Jan 1970	26 Jan 1971	No	No	
Belarus	DTC	11 Apr 2000	1 Jan 2004	Unreviewed	No	
Belgium	DTC	13 Jul 1972	4 Nov 1975	Yes	No	
Brazil	DTC	12 Dec 2002	21 Sep 2005	Yes	No	
Bulgaria	DTC	18 Jan 2000	1 Jan 2003	Unreviewed	No	
Canada	DTC	21 Jul 1975	27 Jul 1976	Yes	No	
China	DTC	8 Apr 1995	1 Jan 1996	Yes	No	
Chinese Taipei	DTC	18 Dec 2009	24 Dec 2009	Unreviewed	No	
Croatia	DTC	26 Sep 2006	1 Jan 2008	Unreviewed	No	
Czech Republic	DTC	6 Dec 1993	23 Dec 1994	Yes	No	
Denmark	DTC	9 Sep 2009	29 Dec 2011	Yes	Yes	
Estonia	DTC	29 Jun 2009	28 Dec 2009	Yes	No	
Ethiopia	DTC	2 Jun 2004	1 Jan 2008	Unreviewed	No	
Finland	DTC	1 Aug 1997	1 Jan 1999	Yes	No	
France	DTC	31 Jul 1995	18 Jul 1996	Yes	No	
Georgia	DTC	12 May 2010	1 Jan 2012	Unreviewed	Yes	
Germany	DTC	9 Jul 1962	21 Aug 1966	No	No	
Greece	DTC	24 Oct 1995	6 Mar 1998	Yes	No	
Hungary	DTC	14 May 1991	13 Nov 1992	Yes	No	
India	DTC	29 Jan 1996	15 May 1996	Yes	No	
Ireland	DTC	20 Nov 1995	24 Dec 1995	Yes	No	
Italy	DTC	8 Sep 1995	6 Aug 1998	Yes	No	
Jamaica	DTC	29 Jun 1984	13 Sep 1985	Unreviewed	No	
Japan	DTC	8 Mar 1993	24 Dec 1993	Yes	No	
Korea, Republic of	DTC	18 Mar 1997	1 Jan 1998	Yes	No	
Latvia	DTC	20 Feb 2006	1 Jan 2007	Unreviewed	No	
Lithuania	DTC	11 May 2006	1 Jan 2007	Yes	No	
Luxembourg	DTC	13 Dec 2004	22 May 2006	No	No	
Malta	DTC	28 Jul 2011	not yet in force	Yes	Yes	
Mexico	DTC	19 Jul 1999	1 Jan 2000	Yes	No	

Jurisdiction	Type of EOI Arrangement	Date Signed	Date entered into Force	Meets standard	Contains paras 4 and 5	
Moldova, Republic of	DTC	23 Nov 2006	1 Jan 2008	Unreviewed	No	
Netherlands	DTC	2 Jul 1973	9 Sep 1974	No	No	
Norway	DTC	2 Nov 1966	11 Jan 1968	Yes	No	
Panama	DTC	8 Nov 2012	not yet in force	Yes	Yes	
Philippines	DTC	9 Jun 1992	27 May 1997	Yes	No	
Poland	DTC	22 May 1991	1 Jan 1992	Yes	No	
Portugal	DTC	26 Sep 2006	18 Feb 2008	Yes	No	
Romania	DTC	15 Jun 1997	1 Jan 1999	Unreviewed	No	
Russian Federation	DTC	25 Apr 1994	1 Jan 2001	Yes	No	
Singapore	DTC	19 May 2005	6 Dec 2005	No	No	
Slovakia	DTC	8 Sep 1999	23 May 2000	Yes	No	
Slovenia	DTC	30 Jan 2007	1 Jan 2008	Yes	No	
South Africa	DTC	2 Oct 1978	27 May 1980	Yes	No	
Spain	DTC	30 Nov 1999	20 Nov 2000	Yes	No	
Sweden	DTC	22 Dec 1959	3 Jun 1960	Yes	No	
Switzerland	DTC	2 Jul 2003	22 Dec 2003	No	No	
Thailand	DTC	22 Jan 1996	1 Jan 1997	Unreviewed	No	
Turkey	DTC	14 Mar 1996	1 Jan 1999	Yes	No	
Ukraine	DTC	26 Dec 2003	1 Jan 2007	Unreviewed	No	
United Kingdom	DTC	20 Apr 1970	25 Mar 1971	No	No	
United States	DTC	20 Nov 1975	1 Jan 1995	Yes	No	
Uzbekistan	DTC	15 Sep 1998	1 Jan 2000	Unreviewed	No	
Viet nam	DTC	8 Apr 2009	1 Jan 2010	Unreviewed	No	

**Methodology and Sources**

**Section 1 - General Background Report and Map**

(Source: [CIA World Factbook](#))

**Section 2 - Anti – Money Laundering / Terrorist Financing**

	Lower Risk	Medium Risk	Higher Risk
<a href="#">FATF List of Countries identified with strategic AML deficiencies</a>	Not Listed	AML Deficient but Committed	High Risk
<a href="#">Compliance with FATF 40 + 9 recommendations</a>	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
<a href="#">US Dept of State Money Laundering assessment (INCSR)</a>	Monitored	Concern	Primary Concern
<a href="#">INCSR - Weakness in Government Legislation</a>	<2	2-4	5-20
<a href="#">US Sec of State supporter of / Safe Haven for International Terrorism</a>	No	Safe Haven for Terrorism	State Supporter of Terrorism
<a href="#">EU White list equivalent jurisdictions</a>	Yes		No
<a href="#">International Sanctions UN Sanctions / US Sanctions / EU Sanctions</a>	None	Arab League / Other	UN , EU or US
<a href="#">Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network</a>	>69%	35 – 69%	<35%
<a href="#">World government Indicators (Average)</a>	>69%	35 – 69%	<35%
<a href="#">Failed States Index (Average)</a>	>69%	35 – 69%	<35%
<a href="#">Offshore Finance Centre</a>	No		Yes

### **Section 3 - Economy**

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

### **Section 4 - Foreign Investment**

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

### **Section 5 - Government**

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

### **Section 6 - Tax**

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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