

PALESTINIAN ECONOMIC BULLETIN

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Main reports

BG ends negotiations with Israel over the supply of Gaza's natural gas. The pricing issue was the primary deal breaker.

Pre-paid collection systems will replace existing electricity meters in all Palestinian households. With the introduction of the pre-paid meters, as well as other measures, The PA hopes to reduce the cost of net lending (primarily due to the poor collection of electricity bills) from 10.6% of GDP in 2007 to 7.8% in 2010.

The Ministry of Telecommunications announced 15 new Broadband and VOIP licences; a Trade Promotion project is launched by PalTrade, the Palestinian Shippers' Council and the European Commission.

The agricultural sector increases its value-added by 36.5%, reaching \$557m in 2005/2006.

Feature: \$7.4bn was promised to the Palestinian Territory at the Paris donor conference in December. Foreign aid in 2007 was running at \$2bn - approximately 50% of GDP.

Major cuts in income and corporation taxes

The Palestinian Cabinet approved major cuts in income and corporation taxes on 31 December. The amendments are awaiting the Presidential signature. A senior Cabinet source told the Bulletin that they should come into effect early in 2008. The proposed measures will reportedly include:

Personal income tax:

- Increasing the basic threshold of tax-free income from \$3,000 per annum to \$7,200 p.a.
- Raising the top tax bracket limit from \$16k to \$20k p.a.
- Reducing the basic rate from 8% to 5% (on annual income of up to \$10k)
- Reducing the middle rate from 12% to 10% (on annual income from \$10-20k)
- Reducing the top rate from 16% to 15% (on annual income over \$20k)
- Introducing tax-free allowances for personal transportation (up to 10% of income) and for loan repayments

Corporation tax:

- Reducing the rate paid by businesses from 16% to 15%
- Increasing deductibles;
 - Training - 1% of gross income or \$100k
 - Research and Development - 1% of gross income or \$100k
 - Investment in meeting quality standards - 1% of gross income or \$100k
 - Hospitality - 3% of net income or \$50k

An employee earning \$1,000 per month could save up to \$480 per annum, while someone on \$2,000 per month could save up to \$1,140 a year. Many workers will not have to pay any income taxes. Savings by businesses, along with incentives to invest in people and technology, are intended to provide a much-needed boost to the private sector. Taking a leaf from Nigel Lawson and Ronald Reagan's books, the move is expected to increase overall tax revenues by improving economic growth and tax compliance.

Gaza Gas Deal Falters

BG Group announced on 20 December its decision to end negotiations with Israel over the possibility of supplying Israel with natural gas.¹ BG Group's Policy and Corporate Affairs Manager, Michael Barron, told the Bulletin that the primary deal breaker was the pricing issue. He said that during the 18 months of negotiations, increases in international energy prices made the discussions over price structure no longer acceptable. Other unresolved issues included the setting up of mechanisms for both gas and cash flows that were mutually acceptable to the PA and the Government of Israel.

Meanwhile, on 13 December the Israeli company Dorad Energy closed a fifteen-year \$2bn gas acquisition deal with Egypt's EMG, which is expected to be operational by mid-2008.² Israel is also exploring the possibility of partnering with Turkey to build a 286 mile-long natural gas pipeline from Turkey's Jihan Bay to Israel's Haifa Bay.

Although the Palestinians were not included in the negotiations, the Assistant Deputy Minister of the National Economy, Abdel Hafiz Nofel, told the Bulletin that while selling Gaza's natural gas to Israel was the preferred option, other options remain available, such as selling gas to Egypt. The state of negotiations with Egypt looks favourable, although issues of pipeline control and legal and transparent transfers of funds may still arise.

Modernising the Electricity Sector

The Palestinian Energy Authority (PEA) announced, with the support of Norway, Sweden and France, the introduction of a pre-paid collection system to replace existing electricity meters in all Palestinian households. The Jerusalem Electricity Company has been using pre-paid meters in the Bethlehem, Jericho and Jerusalem districts for a while, with largely positive results in terms of compliance and payment rates. Through the use of pre-paid meters, the PA hopes to reduce the burden on its budget resulting from the non-payment of electricity bills, estimated to have reached \$511m in 2007 (or roughly 10.6% of the gross domestic product).

A recent energy-sector study by the World Bank argued that the electricity sector should be a significant contributor to the PA's budget.³ However, the fiscal revenues generated by the energy sector, \$330m in 2005, are offset by the payments the PA has to make to cover

payment and billing shortfalls by electricity consumers. As reported in December, the new Palestinian Reform and Development Plan proposes firm measures to improve the poor collection of electricity bills, such as pre-paid meters and salary deductions for PA employees in case of non-payment. The PA aims to reduce net lending from 10.6% of GDP in 2007 to 7.8% of GDP in 2010.

Omar Kittaneh, Chair of the PEA, announced in December that the European Union and European Investment Bank have agreed to finance the construction of four high-pressure power stations in the West Bank to replace the less efficient medium and low-pressure power stations.⁴

The Jerusalem Electricity Company recently opened a training centre for engineers and technicians in Jericho⁵ and an electric operator for high-pressure power stations. One of the first tasks of the new centre will be to train the company's staff to supervise new equipment related to the installation of the new high-pressure power stations. The company is considering a new training proposal to explore the possibility of expanding the use of solar power.

Following Israeli approval, Palestinian officials are expecting the arrival of a new electricity generator in the Gaza Strip. Funded by the Islamic Development Bank, the installation of the generator will be facilitated with the help of Egyptian technicians. But Gaza residents continue to face eight hours of power cuts everyday because of local fuel shortages. The Chairman of Gaza's Energy Authority, Kanan Obeid, reportedly said that Gaza only has 35% of the power its 1.5 million residents need.

Boost for Telecoms

The Palestinian Telecommunications sector celebrated the New Year with the introduction of 15 new licenses for 4 Broadband and 11 Voice Over Internet Protocol (VOIP) providers. The event was held at the Ministry of Telecommunications on 3 January. The opening of the Palestinian telecommunications market to foreign and domestic investment was also announced.

Progress has been made in introducing Palestine's second mobile telephone operator, Kuwait based and Qatari owned Wataniya Telecom. The Deputy Minister of Telecommunications, Abu Sameer, told the Bulletin that in late December the president of Wataniya Telecom received a letter from the Israeli Prime Minister's office

¹See: <http://www.jpost.com/servlet/Satellite?pagename=JPost%2FJPArticle%2FShowFull&cid=1196847394473>

²See: Ynetnews.com. Dorad, EMG sign \$2 bln natural gas deal. <http://www.ynetnews.com/articles/0,7340,L-3482209,00.html>

³See: <http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/294264-1166525851073/EnergySectorReviewMay07>

⁴Al-Ayyam, 7 December 2007

⁵Al-Ayyam, 2 December 2007

agreeing to assign Wataniya Telecom a frequency (see November Bulletin). While the band width and other technicalities were not mentioned in the letter and still need to be discussed, Abu Sameer was optimistic that the issues will be resolved by the end of January.

Palestinian Chambers of Commerce Joins World Chambers Federation

The Federation Palestinian Chambers of Commerce, Industry and Agriculture signed an agreement in December to join the World Chambers Federation.⁶ Through its membership, the Palestinian Federation will have access to all benefits provided by the World Chambers Federation including institutional and business capacity building, support in cases of commercial arbitration, improved exchange of information related to business opportunities, and participation in international exhibitions. Jamal Jawabreh, Director General of the Palestinian Federation, told the Bulletin that this event will help open up foreign markets to Palestinian businesses and improve the services which the Palestinian Chambers will be able to provide to their clients.

Trade Promotion Project Launched

The European Commission launched a 17 month project with PalTrade and the Palestinian Shippers' Council in December at the 'Promoting Euro-Mediterranean Trade Facilitation' seminar in Jerusalem. The project, costing €433,000, will look to improve Palestinian trade with neighbouring countries. It will explore how to make better use of the trade corridors with Egypt and Jordan and will produce an Export Information Guide on trade logistics for Palestinian exporters. An important component of the trade promotion project will focus on engaging the Palestinian and Israeli public sectors, as well as officials in third countries (Jordan, Egypt), to promote policies and measures that will help to facilitate trade. The seminar brought together senior officials from the Palestinian Authority and a number of Israeli Ministries, including representatives from the Customs department and the Ministries of Transport, Trade and Foreign Affairs.

Do Business in Palestine

The World Bank's annual 'Doing Business' report was published in December, comparing the Palestinian

business environment with 177 other economies across the world.⁸ The comparison assigns each country an overall ranking, based on 10 key (but general) criteria.

Overall, the Palestinian business environment for 2008 was ranked 117th, down three places from 2007. This places it 10th in the Middle East and North Africa region, which is led by Saudi Arabia (23rd) and Israel (29th). Jordan was also ranked higher (80th). The Palestinian Territory ranked higher than Egypt (126th) and Syria (137th) in the overall ease of doing business. It came near the bottom of the list in terms of ease of starting or closing a business, but a credible 22nd in terms of paying taxes and 33rd in terms of protecting investors.

Commercial Arbitration Centre to be established

The Palestinian Businessmen's Association (PBA) has signed an agreement with their counterparts in Dubai and Abu Dhabi to establish a centre for commercial arbitration in the Palestinian Territory.⁷ The centre aims at fostering the growing business ties between Palestinian businessmen and the United Arab Emirates as well raising awareness of the importance of commercial arbitration for the Palestinian private sector. Fouad Jaber of the PBA told the Bulletin that lower costs and increased speed of decision-making will help businesses settle commercial disputes.

Agriculture Statistics Reveal Significant Growth in 2005/06

The value added from the agriculture sector increased by 36.5% to reach \$557m for the agricultural year 2005/06, compared to \$408m in 2004/05. This increase was largely the result of a 21.4% increase in the total value of plant production, which reached \$601m and constituted 84% of the value added. The total value of livestock production rose by 6.1% to reach \$464 million, bringing the total value of agricultural production to over \$1bn.

Consumer Price Index

The consumer price index (CPI) in the West Bank and Gaza has been on the rise since April. Unlike the previous months, in which inflationary pressure was mainly driven by Gaza, inflation in November was

⁶Al-Ayyam, 6 December 2007

⁷Al-Quds, 16 December 2007

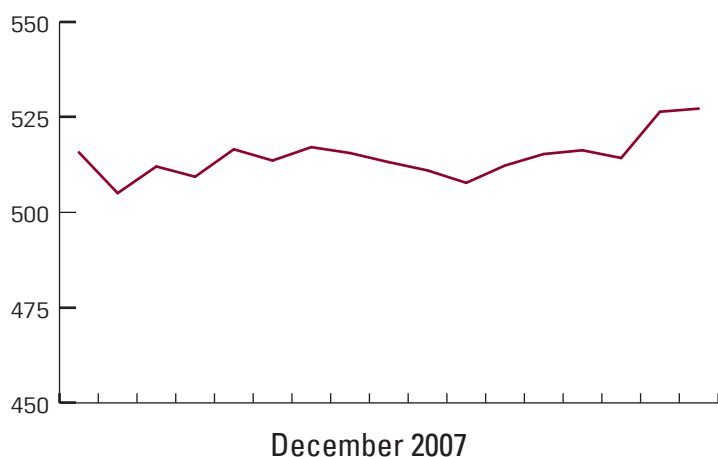
⁸See: www.doingbusiness.org/Documents/CountryProfiles/WBG.pdf

⁹See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Press-releaseE.pdf

¹⁰See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/cpi_nov_e.pdf

Consumer price Index

Stock Market



TIM comes to a close

The Quartet is urging donors to resume direct, bilateral support for the PA.¹² Mario Mariani, Director of the TIM, told the Bulletin that PEGASE will include a greater element of PA ownership than the TIM, which was set up to bypass the Hamas-controlled administration. Although the final details are still being worked out, Mariani explained that the new instrument will be closely linked to assisting the PA implement the Reform and Development Plan. Although it is a European initiative, it will be open to non-EU donors as well and should be operational by February.

The Portland Trust

The Palestinian Economic Bulletin is prepared by the Palestine Economic Policy Research Institute (MAS) and edited by The Portland Trust. Please send any comments, suggestions, or complaints to feedback@portlandtrust.org.