

# EUROPE AND THE VANISHING TWO-STATE SOLUTION

Nick Witney



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# Executive Summary

## Introduction

The first months of 2013 have deepened the gloom over prospects for the two-state solution. Israel's election has produced a new government with an even more pronounced annexationist bent towards the West Bank, while US President Obama's visit to the region lived down to the minimal expectations prepared for it. Leading Arab actors are preoccupied elsewhere. It is hard to see who might help avert the final extinction of hope for a two-state solution if not the Europeans.

## Chapter 1: What do Europeans think?

We have analysed views across the European Union. Most member states acknowledge the strategic and economic importance of Middle East peace; many feel a strong political, even emotional, attachment to the aim. But few are much concerned to act decisively. Most prefer to treat the EU's carefully elaborated positions on the "Middle East Peace Process" as a collective alibi, useful for deflecting criticism from the protagonists while they develop bilateral relations on the basis of national interest.

Meanwhile, in the absence of clear instructions to the contrary, the European Commission continues to thicken the EU's relations with Israel despite the suspension of an "upgrade" declared in 2009. Yet if elites favour "business as usual" with Israel, public opinion across the EU is consistently less patient with Israeli policies and more sympathetic to the Palestinians' predicament. And the successive votes at the UN in 2011 and 2012 show that governments are now moving in a similar direction. Israel is in danger of "losing" Europe.

## Chapter 2: The case for European action

Recent reporting by the EU heads of mission in Jerusalem and Ramallah has brought out how far the Palestinian presence in East Jerusalem and much of the West Bank is being undermined. This is Israeli state policy, and it is hard to influence from outside. Should Europeans quietly acquiesce? We argue they should not.

Further entrenchment of the occupation as hope for a two-state solution fades will make the parallels with apartheid South Africa increasingly difficult to ignore. Sanctions and international isolation will follow; and an eventual bloody catastrophe seems more probable than a “Rainbow Nation” sequel.

So Europeans must do what they can – concentrating, given the asymmetry of power between the parties, on Israel. They will not create peace by themselves; but they can hope to preserve the two-state possibility, or even prepare the ground for a new American initiative that should not be ruled out later in Obama’s second term.

## Chapter 3: What Europe can do

European efforts to restrain Israel from entrenching its occupation have had little impact. Their efforts to sustain the Palestinian Authority (backed by more than an annual €1 billion of aid) have not fared much better. “State building” has been a dead end, contributing to the creation of a dependency culture in the West Bank and masking the hollowing-out of the real economy. It is time to treat both parties with tougher love.

### *Working on Israelis*

Identifying ways to influence Israel is not easy. There is simply no appetite among European governments for anything that might look like sanctioning or punishing Israel. Yet finding positive incentives – carrots, as opposed to sticks – is difficult also. Israelis already enjoy the main things they want from Europe: commercial access to the world’s largest market, visa-free travel, and a unique position in the EU’s research and innovation programmes. But limited steps are nonetheless available – mostly to do with ensuring that benefits are not inadvertently conferred – which may influence behaviour at the margin

and could in particular underline for Israelis how they are “losing Europe”.

The newly formed government may look implacable, but the recent elections revealed segments of Israeli society that may be more sensitive to the costs of the occupation and settlement expansion for Israel’s relations with Europe and the wider world. The campaign already underway to ensure that Europeans do not lazily extend to the settlements benefits (such as preferential access to the EU market) that should be limited to Israel proper is necessary to ensure that European actions match their policy, and indeed, international law – it will also usefully signal Europe’s non-acquiescence. The effort should be extended to cover advice to businesses and investors; removal of tax advantages for financial support to settlements; imposition of visa requirements for settlers; and avoidance of contact with the first university in the settlements.

Such moves can be seen as actions that Europeans have no choice but to take. So a more impactful way for Europeans to alert the Israeli public to their increasing isolation will be a more independent policy in the region, involving a bigger push for Palestinian reconciliation; giving up efforts to deter the Palestinians from bringing in the International Criminal Court; and a more nuanced position on Iran. Mainly, though, Europeans should ensure that no new steps are taken to enhance the EU–Israel bilateral relationship without considering what they might be traded for, in terms of easing occupation controls and restrictions.

### *Working on Palestinians*

Thus far, European aid has served to prolong the occupation, easing the impact on Palestinians and paying Israel’s costs. Europeans should reduce their budgetary help to the Palestinian Authority over time and work with the Palestinians to develop the real economy instead.

This will not work without changing the established terms of the occupation: making more land available for Palestinian development; reformulating the Paris Protocol, which has regulated economic relations between Israel and the occupied Palestinian territories (OPTs), to the latter’s disadvantage; ensuring a fairer division of water resources; and, of course, easing the closure of Gaza. Europeans must work with the Palestinian Authority – individual EU states could “mentor” different sectors – to formulate the key “asks” needed to put life back in the Palestinian economy. These should then become the reciprocal



moves from the Israeli government that Europeans seek the next time some new step is proposed to bring Israel closer to Europe.

The major EU aid donors (the “big three” of France, Germany, and the UK, with the Nordics (including Norway) and the main Benelux countries) would be a natural grouping to develop a new aid strategy for the Palestinians, and then, by extension and in concert with the European External Action Service (EEAS), to define what changes in the occupation to press for, and how to encourage Israel to make them.

### *Working on Arabs*

Europe must work to get key Arab states, and Turkey, (re-)engaged. They will need to take up the financial slack as EU aid is reduced; to embolden the Palestinian Authority; to press for Palestinian reconciliation; and to remind Israelis that a recognised place awaits them in the neighbourhood if they give up the occupation.

## Conclusion

Before it is too late, Europe needs to recalibrate its engagement with the Israel/Palestine conflict. It must act to bring it home to Israelis how close they are to the danger of international isolation. And it must wind down its financial support of the status quo, working with and on both sides for changes to the terms of the occupation that will enable the Palestinians to grow their real economy. A harder-nosed and more independent policy from Europe will strengthen Washington’s hand in Israel and improve the chances for a decisive US peace initiative before Obama leaves office and before the occupation enters its fiftieth year.

# Introduction

So, US President Barack Obama has finally visited Israel, and the West Bank. He delivered one of his remarkable speeches and apparently accomplished his objective of mending fences with Israelis. In fact, in the words of one commentator, “Obama finally learned to speak Israeli”.<sup>1</sup> However, he departed giving no indication of what will happen next beyond noting that “Secretary of State John Kerry intends to spend significant time, effort, and energy in trying to bring about a closing of the gap between the parties.”<sup>2</sup>

Obama also left behind some markers. The Palestinians were told that they should not demand a settlement freeze before resuming negotiations (thus reversing a central theme of his first presidential term). The Israeli public – to whom he took his message directly, over the heads of their leaders – were put on notice that while American support to Israel remains unconditional, “given the frustration of the international community, Israel needs to reverse an undertow of isolation”; and peace with the Palestinians is necessary, just, and possible.<sup>3</sup>

Notably absent, however, was the idea that peace with the Palestinians is a matter of urgency. Obama characterised continued settlement activity as “counterproductive”, just as the United States has done for years to little effect, but he evinced no sense of time running out or of the very foundations of a two-

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<sup>1</sup> Jodi Rudoren and Isabel Kershner, “Attempt to Win Hearts Is Tempered by a Challenge to Wary Israelis”, *New York Times*, 21 March 2013, available at <http://www.nytimes.com/2013/03/22/world/middleeast/obama-mends-fences-in-israel.html>.

<sup>2</sup> Transcript of joint press conference by President Obama and PA President Abbas, Ramallah, 21 March 2013, available at <http://unispal.un.org/unispal.nsf/47d4e277b48d9d3685256ddc00612265/1d0d783b4d85688d85257b35006784c5?OpenDocument>.

<sup>3</sup> Transcript of Obama’s Speech in Israel, 21 March 2013, available at <http://www.nytimes.com/2013/03/22/world/middleeast/transcript-of-obamas-speech-in-israel.html>.

state solution being undermined by expansion of the settlement enterprise. European leaders may voice that concern, as indeed latterly has his secretary of state.<sup>4</sup> But for his part, Obama, encouraging his young Israeli audience to put pressure on their government, seemed to signal that he himself had no such intention.

Given the cast and composition of that government, sworn in after recent elections on the eve of his arrival, this should not be a surprise. With the foreign ministry being kept warm for Avigdor Lieberman to resume once his legal troubles are over; former Chief of Staff Moshe Ya'alon taking defence; and settler leader Uri Ariel getting the Housing and Construction portfolio, the key cabinet appointments amount to a settlers' "dream team". The politically enfeebled Tzipi Livni will work for new negotiations with the Palestinians, but she has only half the numbers in the Israeli Knesset as does the Jewish Home party of Naftali Bennett, who openly advocates the annexation of 60 percent of the West Bank. The unexpected electoral success of the "centrist" Yair Lapid should not be read as presenting a counterweight to the expansionist thrust of the new coalition: Lapid's preoccupations are domestic, focused on finance (his ministerial portfolio) and on forcing the draft-exempt and subsidised ultra-Orthodox communities to "share the burden". For most of his constituency, the Palestinians are simply out of sight and out of mind – a fact tacitly acknowledged also by the Israeli Labour Party, whose leader ran an election campaign focussed exclusively on domestic issues. In short, with less than half the cabinet on record as supporting a two-state solution, no Israeli government has ever presented a less promising outlook for Israeli-Palestinian peace.

Further prophylaxis against optimism is created by the "Arab Awakening". Two years ago, it seemed that the spate of uprisings across the Arab world would produce new governments in the region less inclined than the old autocrats had been to indulge Israel, and more ready to exert themselves on behalf of their Palestinian brothers. That may still turn out to be true. In the short

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<sup>4</sup> See, for example, British Foreign Secretary William Hague's words to US Secretary of State John Kerry in London on 25 February 2013: "There is no more urgent foreign policy priority in 2013 than restarting negotiations between Israelis and Palestinians. The region and the world cannot afford the current dangerous impasse in the peace process. For if we do not make progress very soon, then the two-state solution could become impossible to achieve." Available at <https://www.gov.uk/government/news/foreign-secretary-and-us-secretary-of-state-press-conference>. Kerry testifying to the US House of Representatives' Foreign Affairs Committee on 17 April also spoke of a closing "window for a two-state solution". He said: "I think we have some period of time, a year, a year-and-a-half, or two years or it's over". See Harriet Sherwood, "Kerry: Two years left to reach two-state solution in Middle East peace process", *Guardian*, 18 April 2013, available at <http://www.guardian.co.uk/world/2013/apr/18/kerry-two-state-solution-middle-east>.

term, however, the actual and protracted course of events in Egypt, Syria, and elsewhere suggests that the degree of attention Arabs are able to spare for the Israeli-Palestinian conflict has, if anything, been diminished. Israeli Prime Minister Benjamin Netanyahu, for his part, has cited the regional turmoil, and the preference of newly empowered Arab electorates for Islamist governments, as further evidence in support of his insistence that a political solution to the Israeli-Palestinian conflict cannot be achieved at this time.

And, meanwhile, the bulldozers and concrete mixers continue to “create facts on the ground” in the West Bank. The EU Heads of Mission in Jerusalem and Ramallah report that Israel is “systematically undermining the Palestinian presence” in Jerusalem, and similarly note that “the Palestinian presence in Area C [the 62 percent of the West Bank under full Israeli military and civil control] has continuously been undermined through different administrative measures, planning regulations and other means adopted by Israel as occupying power.”<sup>5</sup> Europeans have tried to counteract these policies through aid to the Palestinian Authority (PA) and relief organisations in excess of an annual €1 billion in recent years – only for the latest World Bank assessment to confirm that the PA is in fiscal crisis, and the real economy of the West Bank (Gaza, of course, remains under blockade) is being progressively hollowed out.

Time, then, for Europeans to recognise reality and give up their campaign for a two-state solution? This paper argues “no”: The stakes are too high for Europeans to throw in the towel; it is precisely at this dark hour (before the dawn?) that Europe’s best efforts are urgently needed to restrain Israel’s entrenchment of its occupation and to sustain the Palestinians. It is our belief that Israelis can still be helped to realise that their present policy will ultimately be self-destructive, and therefore that they can be persuaded to change course. It is also our belief that serious US re-engagement, despite Obama’s caution, should not be ruled out – indeed, Europeans may be able to help create the opening. The paper further outlines tactics and approaches that could be adopted by Europeans to make their interventions more effective.

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<sup>5</sup> In early 2012, reports by the EU Heads of Mission in Jerusalem and Ramallah on the situation in East Jerusalem and on developments in Area C of the West Bank were leaked to the media. They are available at <http://thecepr.org/images/stories/pdf/eu%20homs%20jerusalem%202011.pdf> and <http://thecepr.org/images/stories/pdf/area%20c%20%20final%20report%20july%202011.pdf>. In early 2013, a further report on East Jerusalem was similarly leaked, and can be read at <http://publicintelligence.net/eu-homs-jerusalem-2012/>.

First, though, it may help to spend a little time unpacking “Europeans”. The EU may have a jointly agreed policy on Middle East peace, but on this, like so much else, Europeans are anything but homogeneous. So we begin with a look at what Europeans think.

## Chapter 1

# What do Europeans think?

Few international issues command as much attention, or arouse such passion, in Europe as the Israeli-Palestinian conflict. The 1980 Venice Declaration, in which the then-nine members of the EU first proposed a two-state solution, was the EU's first significant venture into collective diplomacy – and no subject has reappeared with greater frequency on the agendas of European ministers meeting in Brussels. No conflict has taken up more of the time of the current High Representative Catherine Ashton or of her predecessor. 2012 alone saw three sets of European Council Conclusions on the Middle East Peace Process; seven statements by or on behalf of Ashton deploring Israeli settlement activity; and visits to Israel by European Commission President Jose Manuel Barroso, Ashton (twice), and the 27 ambassadors of the Political and Security Committee, *en groupe*.

The EU's investment in the issue is not only diplomatic. EU institutions and member states together have provided over €1 billion annually to support the PA (the EU contributes over half the international financial assistance to the PA), spur economic development in the OPTs, and assist Palestinian refugees (the EU is the biggest donor to the United Nations Relief and Works Agency, UNRWA).

Why this preoccupation? There are comparably dangerous disputes elsewhere in the world – Kashmir, for example – where Europe feels no urge to intervene. But the Holy Land has commanded the attention of Europeans ever since Pope Urban II launched the first Crusade, in 1095, while more recent overlays of historical connection include colonial occupation, the creation of a Jewish homeland, and the mass migration of Jewish survivors of Europe's Holocaust. A number of European states, starting with Germany, feel a special responsibility towards Israel; and all enjoy close cultural and personal ties. More than a quarter of a million Israelis were born in Europe (excluding the former USSR) – as were the fathers of almost half a million more.

## Israelis of European Origin (in thousands)<sup>6</sup>

Country of Origin	Born in Europe	Father Born in Europe	Total
Romania	86.2	125.8	212.0
Poland	49.5	150.3	199.8
Germany and Austria	24.1	50.6	74.7
France	42.2	28.3	70.5
Czech Republic, Slovakia, and Hungary	19.4	44.9	64.3
Bulgaria and Greece	16.0	32.5	48.5
United Kingdom	21.6	20.5	42.1
Europe, other	27.5	30.6	58.1

The Arab world, too, has been an object of European fascination, from the wave of Orientalism prompted by Napoleon's expedition to Egypt in 1798 through the Lawrence of Arabia romanticism allegedly still detectable at the British Foreign Office. In more recent years, significant Arab immigrant communities, mainly from North Africa, have established themselves in many of Europe's cities, while energy imports have raised the strategic importance of the Middle East for Europeans. Most European countries have sought to retrieve their petrodollars via arms and other exports, and by tapping the sovereign wealth funds of the Gulf for inward investment. Since the middle of the last century these vital commercial and economic links have been repeatedly interrupted by rounds of warfare between Israel and its neighbours – with the Arab oil embargo of 1973 the most pointed reminder of Europe's economic vulnerability to the unresolved conflict.

<sup>6</sup> Based on data available from the Israeli Central Bureau of Statistics, available at [http://www.cbs.gov.il/reader/shnaton/templ\\_shnaton\\_e.html?num\\_tab=sto2\\_24x&CYear=2012..](http://www.cbs.gov.il/reader/shnaton/templ_shnaton_e.html?num_tab=sto2_24x&CYear=2012..)

Palestinian terrorism, too, brought home to Europeans that the problem would not simply disappear with time. Even the more recent attacks on Europeans committed in the name of al-Qaeda have underlined the message that Europe has no option but to seek the best possible *modus vivendi* with the Arab, and wider Islamic, worlds. Given the totemic importance those worlds attach to the Palestinian question, Europe could hardly ignore it even if it wished to.

Europe's fixation on the Israeli-Palestinian issue, then, is no surprise. Rather, in view of the extent of the EU's links and interests with both sides of the conflict and the amount of diplomatic attention it has given it, what is perhaps surprising is how ineffective Europe's role has been.<sup>7</sup> Determined, as the cliché has it, to play as well as pay, Europe has insisted on its place in the Quartet (the group comprising the UN, the US, the EU, and Russia, created at the behest of the Bush Administration in 2002 to revive a peace process that had collapsed in the wake of the 2000 Camp David talks and the Second Intifada). But its role in that group has been reduced to urging an increasingly disengaged US to try harder. For the rest, Europe's ambition to "play" seems limited to assuming the role of the chorus in a Greek tragedy, voicing a stream of anxieties and lamentations but leaving the action to others.

Mysteriously, then, Europe seems to be united on the importance of resolving the conflict; united on a uniquely detailed policy prescription to effect such a resolution; united on how that resolution should be achieved (direct negotiations between the parties, sponsored by the US); but in permanent disarray over where the onus of responsibility lies for bringing this happy outcome to pass – and what action should be taken in pursuit of that end, whether by the protagonists or by Europeans themselves (beyond, that is, issuing statements and writing cheques). Challenge the Europeans with a specific question, such as the 2011 question of whether the Palestinians should be admitted to membership of the United Nations Educational, Scientific and Cultural Organization (UNESCO), and 27 EU member states managed to divide three different ways (11 for "yes", five for "no", and 11 for "won't say").

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<sup>7</sup> It was, of course, non-EU member Norway that pulled off the biggest diplomatic success in the recent history of the conflict, in the form of the 1993 Oslo Accords.



## Less a policy than an alibi

Faced with these conundrums – preoccupation allied with passivity, a common policy dividing its proponents – we commissioned structured input from experts in all 27 member states, seeking a better understanding of what Europeans really think and feel about the conflict, and why. Perhaps the single most striking conclusion to emerge was the importance almost all member states attach to maintaining a unified European position – less as a means of bringing to bear the EU’s collective weight, than as a form of mutual protection.

A minority of member states seek action to affect the course of the conflict. Thus the Irish, with their tradition of neutrality and commitment to international law – and buoyed by the recent success of peace-making efforts on their own island – consistently press for Europe to act in support of Palestinian rights. Swedish Foreign Minister Carl Bildt also pushed the issue hard during Sweden’s EU presidency in 2009, producing European Council “conclusions”, which toughened the EU line against settlements.<sup>8</sup> On the opposite flank, centre-right Czech elites reflect a tradition of support for Zionism going back to the 1920s, and see their role as both balancing a “pro-Palestinian bias” within the EU and ensuring that Europe toes Washington’s line. In the joint statement issued after the first Czech-Israeli “intergovernmental consultations” – in effect, restricted joint cabinet meetings – in 2011, the Czech side declared its readiness to “provide a gateway for the State of Israel” into European space programmes. At somewhat different points between these two positions, the “big three” of France, Germany, and the UK share a sense that time is running out for a political solution to the conflict, and of the need for Europe to find some effective way to engage before it becomes too late.

For the majority of EU states, however, the real point of a shared European position is herding together for safety. Addressing the conflict is, after all, a dangerous activity. It is internally divisive (we return to that below); and it can lead to unpleasant, even damaging, friction with the protagonists or their principal backers.

Israel’s supporters in Europe may lack the power of their American equivalents, but they are active, well organised, and backed by effective and forthright Israeli

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<sup>8</sup> “Conclusions of the EU Foreign Affairs Council on the Middle East Peace Process”, 8 December 2009, available at [http://eeas.europa.eu/delegations/israel/press\\_corner/all\\_news/news/2009/20091208\\_01\\_en.htm](http://eeas.europa.eu/delegations/israel/press_corner/all_news/news/2009/20091208_01_en.htm).

(and occasionally also US) diplomacy. In the history of the Holocaust, they have a powerful moral and emotional argument to silence criticism, accusing those who challenge Israel of manifesting anti-Semitism – a charge to which Europeans are the more sensitive at a time when the prevailing economic crisis is giving rise to some nasty xenophobia. (It does not feel like much of a defence to point out that this expresses itself in Islamophobia more typically than as anti-Semitism.)

Dutch Foreign Minister Uri Rosenthal was no doubt right to remind Israelis that World War II was changing “from memory to history”.<sup>9</sup> But it is a history that the countries of Central and Eastern Europe have only begun to come to terms with since 1989 and are still processing. In the case of Bulgaria, the country’s refusal to comply with anti-Jewish measures and therefore the saving of the entire Bulgarian Jewish community contributes to today’s friendly relations with Israel. Bulgaria is the most popular overseas destination for Israelis after the US (nearly 140,000 visited in 2011) – a fact of which the perpetrators of the recent murder of Israeli tourists in Burgas were clearly aware. Lithuania, by contrast, with its unhappier history of anti-Semitism, finds that even two formal government apologies for Lithuanians’ role in the Holocaust do not protect them from harsh reminders from Israeli officials.

At the governmental level, Israel has encouraged frequent ministerial visits and successfully propagated in recent years the model of annual “governmental consultations”, typically involving heads of government and a clutch of cabinet ministers on both sides. Such arrangements are now in place with Bulgaria, the Czech Republic, Germany, Italy, Latvia, and Poland.

On the other side of the argument, Palestinian efforts to present their own case to Europeans are generally under-developed. Prominent representatives such as Leila Shahid (formerly in Paris, now in Brussels) are the exception. Nor is the Arab world collectively inclined any longer to use its economic leverage on behalf of the Palestinian cause as it had done in the 1970s. Still, the occupation regularly produces incidents that offend European opinion, from the wounding by Israeli forces of Irish peace activist Caoimhe Butterly in the Jenin refugee camp to the demolition of European-funded development projects in the West Bank (recent celebrated cases include Polish water-

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<sup>9</sup> “Is Israel losing Europe?” Remarks by Uri Rosenthal, Minister of Foreign Affairs of the Netherlands, made at the 11th Annual Herzliya Conference, Israel, 8 February 2011, available at <https://zoek.officielebekendmakingen.nl/blg-107146.pdf>.

collection cisterns and German solar panels).<sup>10</sup> Nor is there any shortage of civil society and non-governmental organisations willing to step in. And European officials are uneasily aware of their vulnerability to charges of double standards when pressing a nuclear non-proliferation agenda or demanding that other countries respect UN resolutions given their acquiescence to Israel's (formally unacknowledged but generally recognised) possession of nuclear weapons, or its violation of UN resolutions on settlements and other issues.

So, for most Europeans, the joint EU position on the conflict – balanced, judicious, carefully elaborated over time – is first and foremost a sort of sophisticated alibi that can be invoked to deflect accusations from one side or the other. The degree to which the maintenance and further development of this collective shelter has become detached from realities on the ground is illustrated by the use that member states are prepared to make of it to further intra-European agendas. Thus, for Poland – though the country has its own reasons for sympathy with Israel – policy towards the conflict has also become linked to the wider Polish interest in cleaving ever closer to German positions; Spain has used it to demonstrate to fellow Europeans the country's continued activism and relevance; and Italy, under Mario Monti, has valued the opportunity for a course correction back towards the European mainstream from the atypical pro-Israel policies of the Silvio Berlusconi years.

Little wonder, then, that there is such reluctance in Europe to acknowledge how the tide of events is undermining Europe's shared policy. The key premise of that policy – the assumption that the US will ultimately, with Europe in a support role, find the opportunity and the political will to bring about a negotiated two-state resolution to the conflict – has had little corroboration over the past decade. Yet our survey confirmed how tenaciously Europeans cling to the belief that the US holds the key to unlocking the conflict if only they could summon the will to turn it. And this despite Netanyahu having demonstrated his ability to generate sufficient political support on Capitol Hill to force Obama into wholesale retreat from his first-term effort to bring the peace process to conclusion. But, though everyone may concede that time is running out for the two-state solution, no one in Europe is prepared to accept the consequences of pronouncing it dead.

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<sup>10</sup> Israel destroyed development projects in Palestine worth €49.2 million, of which €29.4 million were funded by the EU or its member states in the decade prior to 2012, according to the European Commission replying to a European Parliamentary Question. See *European Voice*, 22 March 2012, p. 5.

## The European Commission on autopilot

With this degree of attachment among the assembled officers on the bridge to sticking with the present course, it is unsurprising that no one much wants to call down orders to the engine room – which therefore does its best to maintain full speed ahead. Which is to say that, unless explicitly ordered to the contrary, the European Commission will automatically use the considerable resources available to it under the European Neighbourhood Policy (ENP) to improve relations with all the Mediterranean (and Eastern European) neighbours, including both Israelis and Palestinians. Indeed, when it comes to external relations, it is in the European Commission’s DNA to assist the neighbours with their economic development while pulling them ever more closely into Europe’s gravitational field, through export of the European *acquis*, or corpus of law and regulation. Europe’s new diplomatic service, the External Action Service (EEAS), may favour a more politically savvy approach, but the European Commission has the resources and is not about to stop doing what it does best.

The problems inherent in this approach were notoriously exposed by the Arab uprisings, when the EU – the European Commission and member states together – was caught out vigorously pursuing co-operation with North African autocrats; talk of “conditionality”, of pacing economic ties according to the willingness of those regimes to heed European demands on good governance and human rights, turned out to have been just window dressing.

A similar institutional momentum is detectable at the eastern end of the Mediterranean too, despite the Israeli assault on Gaza in early 2009 resulting in a highly unusual order to put the engines in neutral. European foreign ministers had only just agreed, in December 2008, that it was time “to upgrade the level and intensity of [its] bilateral relations with Israel”. Four months later, in the wake of Operation Cast Lead and in the light of the new Netanyahu government’s rejection of the previous negotiating parameters, the EU put the process of negotiating a new umbrella Association Agreement with Israel on hold – where it remains to this day.

The absence of a new umbrella agreement has not, however, done much to inhibit the steady strengthening of ties with Israel. Subsequent meetings of the EU–Israel Association Council have stressed the desirability of ensuring that every remaining opportunity for closer co-operation should be wrung out of the old agreement – and there seems to have been plenty of scope.

A new agreement to liberalise trade in agriculture and fisheries products was signed at the end of 2009, while a protocol for mutual recognition of industrial standards, starting in the important pharmaceuticals industry, was signed in 2010 (albeit then delayed by the European Parliament, as we discuss below). A co-operation agreement between Israel and the European Space Agency was signed in 2011; a new EU–Israel civil aviation agreement has been negotiated; and EU-funded educational exchanges and “twinning” projects (linking public administrations in Israel and Europe) have grown. The most recent Association Council meeting in July 2012 identified a list of 60 concrete actions in 15 fields (migration, energy, transport, and so on) whereby the EU–Israel relationship could be further thickened.<sup>11</sup> Little wonder that the event was reported as a “wide-ranging boost to bilateral relations”, “[stopping] just short of the full upgrade”.<sup>12</sup>

And all the while, probably more important than the rest put together, Israel has continued to enjoy its unique access, dating from 1996, to the EU’s research and innovation Framework Programmes.<sup>13</sup> Israeli proposals typically attract around €100 million per annum from the foreign-policy budget – a better success rate than that enjoyed by half of the EU member states.<sup>14</sup> As of December 2012, over 1,200 projects involving nearly 1,500 Israeli participants were funded under the current version, the Seventh Framework Programme (FP7). This makes the EU Israel’s first biggest source of public research funding.<sup>15</sup> These EU grants are, of course, substantially covered by the contribution Israel makes to the FP7 budget. But the opportunity to collaborate with the best institutions and researchers across Europe has been key to transforming Israel into the high-tech economy it is today, and remains invaluable.

Against this background, the 2011 insistence by Stefan Füle, the European commissioner in charge of the ENP, that “upgraded ties depend on peace”, may have been taken by his Israeli audience with a pinch of salt. Indeed, Füle’s

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<sup>11</sup> Statement of Commissioner Stefan Füle to the press after the July 2012 EU–Israel Association Council, available at [http://europa.eu/rapid/press-release\\_MEMO-12-594\\_en.htm](http://europa.eu/rapid/press-release_MEMO-12-594_en.htm) (hereafter, Statement of Commissioner Füle to the press, July 2012).

<sup>12</sup> Phoebe Greenwood, “EU move to upgrade relations with Israel”, *Guardian*, 23 July 2012, available at <http://www.guardian.co.uk/world/2012/jul/23/israel-eu>.

<sup>13</sup> The Framework Programmes comprise eight funding programmes (FP1–FP8) created by the European Union to support and encourage research in the European Research Area.

<sup>14</sup> “Fifth FP7 Monitoring Report 2011”, European Commission, 29 August 2012, available at [http://ec.europa.eu/research/evaluations/pdf/archive/fp7\\_monitoring\\_reports/fifth\\_fp7\\_monitoring\\_report.pdf](http://ec.europa.eu/research/evaluations/pdf/archive/fp7_monitoring_reports/fifth_fp7_monitoring_report.pdf).

<sup>15</sup> See the website of the EU Delegation in Tel Aviv, available at [http://eeas.europa.eu/delegations/israel/eu\\_israel/scientific\\_cooperation/scientific\\_cooperation/index\\_en.htm](http://eeas.europa.eu/delegations/israel/eu_israel/scientific_cooperation/scientific_cooperation/index_en.htm).

conclusion after the July 2012 Association Council meeting that “the concrete achievements over the past year and the scale of specific proposed activities are a clear indication of how strong and vibrant our relations are, despite some occasional difficulties”<sup>16</sup> would seem a fairer reflection of Brussels’s lack of seriousness about making closer relations with Israel conditional on a genuine commitment to advancing the two-state solution.

As in North Africa before the Arab uprisings, the bureaucratic momentum behind the EU’s instinct to draw Israel ever closer ensures that Israeli politicians will naturally calculate that European statements about peace, settlements, and two states can safely be dismissed as so much huffing and puffing – more to do with maintaining a European political alibi than with any real intention to shape events in the region.

## A growing elite/public divide

National leaders in Europe, though aware that the regional ground is shifting beneath their feet, are on the whole not yet sufficiently discomforted as to be ready to countenance practical pressure to Israel. They may, however, be more concerned at the accumulating evidence that their own publics are diverging from their preferred path of “even-handedness”.

In autumn 2011, in the context of the first Palestinian effort to achieve membership at the UN, the campaigning organisation Avaaz commissioned polling on the conflict in the three major European countries.<sup>17</sup> Substantial majorities in France, Germany, and the UK supported the rights of the Palestinian people to self-determination and their own state. Even on the esoteric but clearly contentious issue of UN recognition of Palestinian statehood, majorities in all three countries – France 69 percent, Germany 76 percent, the UK 59 percent – came down in favour.

One might expect this response from the electorates of France and the UK. To the extent that Britons feel historical guilt about the Middle East situation, it is an uneasy feeling of having visited the Palestinians’ problems upon them by

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<sup>16</sup> Statement of Commissioner Füle to the press, July 2012.

<sup>17</sup> Poll results available at <http://avaazimages.s3.amazonaws.com/PalestineIndependencePoll.pdf>.

how they discharged their mandate in Palestine. France, too, has a long tradition of adopting pro-Arab political postures – even if the large and influential Jewish community in France has ensured that this generally remains at the level of political posturing. The German results, however, are striking – and a confirmation of the sense that a generational shift is underway in German attitudes. Chancellor Angela Merkel has reiterated Germany’s unswerving sense of historic responsibility for the security of Israel – a commitment made concrete by the provision of submarines that are rumoured to carry Israel’s “second strike” nuclear capability.<sup>18</sup> But recent German government statements, and UN votes, have made clear an increasing sense of exasperation with Israel’s persistent settlement of the West Bank.

The Avaaz poll’s findings were hardly unique. In 2012, the German Marshall Fund’s annual Transatlantic Trends survey sought views about Israel in 11 EU member states.<sup>19</sup> In Bulgaria and Romania, those with a favourable opinion of Israel outnumbered those with an unfavourable view. In the other nine countries (France, Germany, Italy, the Netherlands, Poland, Portugal, Slovakia, Spain, and the UK) the reverse was true. The weighted average across the 11 was 34 percent favourable, 51 percent unfavourable.

The result for the Netherlands might surprise, given that country’s role as a staunch supporter of Israel, especially during the tenure of the 2010–2012 centre-right coalition government. But, again, public opinion polling (from 2007) reveals majorities in favour of such propositions as pressuring Israel to evacuate all settlements and including Hamas in peace negotiations.

The respondents in our own survey saw various reasons for the failure of Europe’s elites to keep pace with the shift in public opinion. One was the effectiveness of lobbying by Israel’s supporters – many of whom belong to those elites themselves. The role of individual leaders was also mentioned, such as former Italian Prime Minister Silvio Berlusconi and Dutch Foreign Minister Uri Rosenthal. It is also probable that the diplomats who advise on national policies are particularly susceptible to the arguments that Europe must avoid “taking sides” if it is to have an effective mediating role in the conflict – and

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<sup>18</sup> Chancellor Angela Merkel told the Israeli Knesset in 2008: “Here of all places I want to explicitly stress that every German government and every German chancellor before me has shouldered Germany’s special historical responsibility for Israel’s security. This historical responsibility is part of my country’s *raison d’être*.” Text available at [http://www.knesset.gov.il/description/eng/doc/speech\\_merkel\\_2008\\_eng.pdf](http://www.knesset.gov.il/description/eng/doc/speech_merkel_2008_eng.pdf).

<sup>19</sup> *Transatlantic Trends – Topline Data 2012*, p. 39, available at <http://trends.gmfus.org/files/2012/09/TT-2012-Topline-Data.pdf>.

that Israeli policies will be better moderated by a reassuring embrace than by confrontation. In this context, it may be significant that in two cases (Belgium and Italy) it seems that the foreign minister was preparing to abstain in the 2012 UN Palestine vote, but was overruled by the head of government and ordered to vote in favour.

But the simplest and most plausible explanation for elite reluctance to risk incurring Israeli wrath, aside from the desire for a quiet life, seems to be awareness of the extent of benefits derived from close relations with Israel. The country may be small, but it has a big economy – Israel ranks in terms of GDP around the middle of the EU member state league table. It is the EU's largest trading partner in the Mediterranean, and 24th in the world – ahead of such economies as Indonesia or Argentina. And, especially gratifying to crisis-ridden Europeans, 57 percent of the total €29.5 billion goods trade in 2011 was in European exports. (By comparison, European trade with the OPTs is negligible – €87 million of exports and a trivial €12 million of imports in 2011.) Europe's trade with Israel is growing strongly too – up by some 20 percent since the middle of the last decade, despite a dip in 2009. Europeans have more than €22 billion invested in Israel (more than half the country's foreign investment total); Israel's investments in the EU, though only a quarter of this figure, are growing fast.<sup>20</sup>

For individual member states the economic links can, of course, be even more significant. Thus Cyprus does a remarkable 28 percent of its trade with Israel; and Israel has become the Czech Republic's fifth-largest non-EU export market, as well as a significant source of investment (e.g. by Teva, the Israeli pharmaceuticals giant). Israel has also funded gas projects in Bulgaria, while Antwerp's diamond trade links with Israel remain important to Belgium. The Netherlands has been the main European destination for Israeli investment in recent years.

Quality may matter even more than quantity. Israel has developed an exceptionally strong technological and research base. It is thus a prized collaborative partner (as the figures quoted above for the EU's FP7 research programme demonstrate), and a valued source of advanced technologies and equipment, not least in the defence, security, and aerospace domains. In recent

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<sup>20</sup> See the European Commission website, available at <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/israel/>.



Figure 1

## How EU member states voted on recent votes on Israel/Palestine at the United Nations

Vote on Palestinian membership of UNESCO, October 2011



**Against:** Czech Republic, Lithuania, Germany, Netherlands and Sweden.

**Abstained:** Bulgaria, Denmark, Estonia, Hungary, Italy, Latvia, Poland, Portugal, Romania, Slovakia, UK.

**For:** Austria, Belgium, Cyprus, Finland, France, Greece, Ireland, Luxembourg, Malta, Slovenia and Spain.

Vote on upgrading Palestine to  
"Non-member Observer Status"  
at the UNGA, November 2012



**Against:** Czech Republic.

**Abstained:** Bulgaria, Estonia, Germany, Hungary, Latvia, Lithuania, Netherlands, Poland, Romania, Slovakia, Slovenia, UK.

**For:** Austria, Belgium, Denmark, Cyprus, Finland, France, Greece, Ireland, Italy, Luxembourg, Malta, Portugal, Spain, Sweden.

years, Israel has been among the top ten global arms exporters. Several of our correspondents identified links in these areas as lying at the heart of bilateral economic relations with Israel. Only Germany and Italy among the EU member states have recently sold arms to Israel in any significant quantities – but most buy them, benefitting from Israeli expertise in such fields as unmanned aerial systems (drones). Such ties are reinforced by extensive links between intelligence and security services.

Austerity Europe is in no position to disregard its economic and commercial relations. But what is detectable here is the traditional vice of European foreign policy, whereby the member states adopt principled positions at the collective EU level in Brussels and then away from the limelight behave altogether more pragmatically in the pursuit of their own national economic interest (even in opposition to public opinion). In this, as noted above, they are almost unwittingly aided by the technocrats of the European Commission. Again, as noted above, if member states are behaving this way in relation to the Middle East conflict, they are only repeating the pattern of their relations with North African autocrats prior to the Arab uprisings – seeking their own economic advantage under cover of a more morally defensible declared European policy.

## Europe shifts towards Palestine

European elites may be loath to back their rhetoric with action; but the crunch comes at moments when external events generate pressure for action in conformity with declared policy, and saying one thing and doing another becomes untenable. Such crunches are uncomfortable (and potentially costly) – so it was no wonder that Europeans did all they could to support US efforts to deter PA President Mahmoud Abbas from taking his bid for state recognition to the UN, where everyone would have to stand up and be counted. And votes did indeed take place – on admitting Palestine to UNESCO, in October 2011, and on recognising it as a non-member observer state at the UN General Assembly, in November 2012.

Like any spooked herd, European states responded with a good deal of milling around, trying to work out which direction the majority would move in and where safety might therefore lie. Collective abstention might have seemed the obvious (if also visibly feeble) choice. But one or two mavericks on each side rejected such a compromise – so the herd was fatally split (see figure 1).

The most striking feature is that whereas in 2011 five member states were prepared to vote “no”, the following year that number had fallen to one – with Germany, the Netherlands, and Lithuania changing their vote to abstention, and Sweden moving to the “yes” column. Mirroring this shift in sentiment towards the Palestinians, three member states – Denmark, Italy, and Portugal – moved from abstention to “yes”. Only one movement in the opposite direction occurred, with Slovenia switching from “yes” to abstention.

There are, of course, a number of factors at work here. In a situation of confused milling, it is easy to get things wrong and end up in unintended company. This is what seems to have happened to Slovenia, where the government was roundly criticised after the vote. Similarly, Sweden’s vote in 2012 was less a change of policy than correction of a “mistake” in 2011; the fact that the debate was then about UNESCO led to some confusion within the Swedish administration about decision-taking responsibilities, so that the country ended up in the “wrong” company.

But the changes of posture by Italy, the Netherlands, and Germany are of real significance. In the first two cases, the voting shift confirms that with changes of government (Monti replacing Berlusconi in Italy; a new coalition in the Netherlands, with Frans Timmermans replacing Rosenthal as foreign minister) Israel has lost, at least for now, two of its staunchest backers in the EU. And, for reasons both of history and present-day power, no member state’s vote matters more than Germany’s – making its move from “no” to abstention the single most important evolution of Europe’s position.<sup>21</sup> That certainly emboldened Lithuania to join the move out of the pro-Israel camp, and join almost every other Central and Eastern European member state securely herding with Germany under “abstain” – the next best thing to a unified EU 27 vote. Only the Czechs held out in the “no” column – though, by one account, only because they failed to realise until too late that Germany would abstain.

UN votes are not the whole story. Indeed, our correspondents point out that, though they continue to vote consistently with their traditional pro-Palestinian stances, Greece and Cyprus are both moving closer to Israel – partly in the hope that shared gas extraction in the Eastern Mediterranean could ease their

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<sup>21</sup> The evolution may not have been intended to manifest itself in quite this way: Germany’s main aim may have been to rally everyone to abstention. A more clearly deliberate signal was sent by Germany’s Security Council vote in February 2012 in favour of a resolution condemning Israeli settlements.

economic problems, and partly in reaction to Turkey's growing wealth and regional influence. But elsewhere, the pattern is consistently one of increasing frustration with Israel, and of growing concern for the continuing viability of the two-state solution.

Certainly, the last few years have not been good for Israel's stock in Europe. Though Europeans understand, even admire, Israel's tough-mindedness in defending its security interests, the assaults on Lebanon in 2006 and Gaza in 2009 seemed a wholly disproportionate use of lethal force. Subsequently, it has been almost impossible for Europeans to feel sympathy with a government that chose to present itself to the world in the person of Foreign Minister Avigdor Lieberman (an advocate of responding to stone-throwing with live ammunition); and, as prime minister, Netanyahu has seemed almost equally uncompromising, with his readiness to "punish" the Palestinians by pressing on with settlements and withholding their own tax and customs revenues from them – and his dismissal of the idea that however the future of the West Bank is resolved, this could involve withdrawal of Israeli settlers.<sup>22</sup>

Europeans, too, are inevitably influenced by the mood music from Washington. The neocon narrative of the Bush era, which had Israel as a beacon of democracy and a key ally in the "war on terror", has given way to a situation in which Obama lets it be known that he has become "inured" to the "self-defeating policies of his Israeli counterpart".<sup>23</sup> Israel's democratic exceptionalism has been trumped by the democratic uprisings of the Arab Awakening – and undermined by illiberal legislation promoted in the Knesset.<sup>24</sup> And all this to the steady churn of the West Bank concrete mixers. No wonder that Netanyahu's National Security Adviser Yaakov Amidror, no dove, should reportedly be feeling real concern over Israel's loss of friends in the international community and the impossibility of defending such steps as the settlement of the E1 block to even friendly foreign leaders.<sup>25</sup>

So polling, and voting, and official statements all tell the same story – that Europe is becoming increasingly concerned for the continued viability of

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<sup>21</sup> "Netanyahu vows to not dismantle settlements", Al Jazeera English, 18 January 2013, available at <http://www.aljazeera.com/news/middleeast/2013/01/201311884833316812.html>.

<sup>23</sup> Jeffrey Goldberg, "Obama: 'Israel Doesn't Know What Its Best Interests Are'", Bloomberg, 14 January 2013, available at <http://www.bloomberg.com/news/2013-01-14/what-obama-thinks-israelis-don-t-understand-.html>

<sup>24</sup> See the European Commission's annual report for 2011 on Israel in the context of the EU Neighbourhood Policy, available at [http://ec.europa.eu/world/enp/pdf/progress2011/sec\\_11\\_642\\_en.pdf](http://ec.europa.eu/world/enp/pdf/progress2011/sec_11_642_en.pdf).

<sup>25</sup> "Haaretz: Amidror Warns Against Continued Building in Yehuda and Shomron", the Yeshiva World News, 7 February 2013, available at <http://www.theyeshivaworld.com/article.php?p=155937>.

the two-state solution, and increasingly ready to tag Israel with the main responsibility for the impasse in negotiations and the deterioration of prospects for viable Palestinian statehood. But shifting attitudes are one thing, decisive policy changes another. Sensing the need to shore up the crumbling position of Abbas, a number of member states upgraded the diplomatic status of the Palestinian representations in their capitals in 2011. Further “signals” have been sent by the two UN votes discussed above and the near-unanimous European action in summoning Israeli ambassadors to protest against Netanyahu’s punitive reaction to the Palestinians’ UN success in 2012.

But as for measures that go beyond symbolic rebuke – concrete actions that might arrest the erosion of the geographic basis for a future Palestinian state, or induce Israel to co-operate in its creation – Europeans are left scratching their heads. What could stand a chance both of securing unanimous consent in Brussels and of changing Israeli behaviour? We therefore now turn to reviewing the options.

## *Chapter 2*

# The case for European action

So far, then, we have argued that a shift in European attitudes to the conflict, and a heightened sense of European urgency, has sharpened the focus on the question of European action. But, after decades of demonstrated European impotence, identifying steps that might actually be effective is no easy task.

A good place to start would be with a little intellectual honesty. First, Europeans need to acknowledge that Israel's policy of settlement expansion (with the concomitant displacement and dispossession of Palestinians), and in particular the progressive absorption of East Jerusalem, are entrenching the occupation and progressively erasing the "Green Line" – the 1967 boundary between Israel proper and the OPTs. The expansionist "facts on the ground" are already close to irreversible. Second, Europeans need to make a strategic choice: are they going to make a serious effort to arrest this process and preserve the foundations for a two-state solution before it is too late – or are they in practice, with varying degrees of unhappiness, going to acquiesce? Third, if their choice is to make a final effort, then they need to face up to how little has been achieved by their considerable political and financial investment in resolving the conflict to date – and to draw the right conclusions about how to be more effective in future.

## The entrenchment of the occupation

In recent years, the EU Heads of Mission in Jerusalem and Ramallah have compiled an annual report to the Political and Security Committee in Brussels on developments in East Jerusalem. Though intended as internal documents, both the 2011 and 2012 the reports were leaked amid considerable controversy – as was a further collective assessment by the same European diplomats of the situation in Area C of the West Bank (the

62 percent of West Bank territory that remains under Israeli military and civil control.<sup>26</sup>

On Jerusalem, the EU diplomats conclude in their 2011 report that: “Over the past few years, Israel’s actions in East Jerusalem have run counter to its stated commitment to a sustainable peace with the Palestinians through the two-state solution.” Israeli policies in the city are “increasingly undermining the feasibility of Jerusalem as the future capital of two states”, they added. Reiterating these views in 2012, the diplomats conclude that “Israel is actively perpetuating its illegal annexation of East Jerusalem by systematically undermining the Palestinian presence”, and describe settlement construction as “systematic, deliberate, and provocative”. On the West Bank, their report notes that the Palestinian presence in Area C “has continuously been undermined through different administrative measures, planning regulations, and other means adopted by Israel as occupying power”. And also that “frequent destructions of houses, public buildings, and livelihood-related constructions result in forced transfer of the native population.”

The three reports provide detailed evidence that more than substantiates these conclusions. Some 200,000 of the over half a million Israeli settlers are in East Jerusalem – most in the new estates being built to encircle the Palestinian parts of the city and cut them off from the rest of the West Bank. In the last two years, development to the south has progressively isolated East Jerusalem’s southern flank from Bethlehem. And the notorious E1 settlement project, pushed forward by Netanyahu to punish the Palestinians for going to the UN, “would be the final step to geographically cutting off East Jerusalem from the rest of the West Bank”, while at the same time “effectively divid(ing) the West Bank into separate northern and southern parts”.

So the Palestinian population, increasingly hemmed in, is systematically pressured by “restrictive zoning and planning, demolitions and evictions, discriminatory access to religious sites, an inequitable education policy, difficult access to health care, the inadequate provision of resources, the continued closure of Palestinian institutions, and the restrictive residency permit system”. Some 78 percent of Palestinians in East Jerusalem now live below the Israeli-defined poverty line. Though constituting 37 percent



of the population of the city, they benefit from no more than 10 percent of the municipal budget. Official planning aims that they should not exceed 30 percent of the population. Permanent residency rights do not pass automatically to either the wives or the children of Jerusalem Palestinians; since 1967, almost 15,000 have had their residency revoked. No wonder the EU diplomats detect “a political strategy aiming at making it impossible for Jerusalem to become the capital of two states”.

Matters are little better on the wider West Bank beyond East Jerusalem. There, the number of Israeli settlers has grown from 1,200 in 1972 to over 300,000 today. Within Area C (the bulk of the West Bank, constituting most of the fertile and resource-rich land), Palestinian numbers have dwindled to less than half those of the settlers. The replacement of populations has been particularly stark in the Jordan Valley. As the EU diplomats note: “Prior to 1967 there were between 200,000 and 320,000 Palestinians in the Jordan Valley. Today the number is 56,000 (of which 70 percent live in Area A in Jericho).”

With settlement authorities controlling development across approximately 43 percent of the West Bank (i.e. more than two thirds of Area C), the vast majority – more than 94 percent – of the two and a half million Palestinians of the West Bank are living on a sort of archipelago in an “ocean” of Israeli-occupied territory.<sup>27</sup> Add to that fragmentation some 500 physical movement barriers (road blocks, etc.) across the West Bank; separate road systems for Palestinians and settlers; and a separation wall round the edge that has been routed to put roughly 8.5 percent of the West Bank’s territory on the Israeli side – and the degree of Israeli control, and of disruption to any normal Palestinian life outside the main cities, is obvious. Settlement expansion has been enabled by eviction and dispossession of Palestinians and by increasing settler violence.<sup>28</sup> Restrictions on Palestinian access to land and to water – according to the United Nations Conference on Trade and Development (UNCTAD), “the economy has lost access to [...] 82 percent of its ground water, and more than two-thirds of its grazing land”<sup>29</sup> – have led to the devastation

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<sup>27</sup> According to B’Tselem, settlement regional councils have planning and zoning authority over 42.8 percent of the West Bank. See [http://www.btselem.org/publications/summaries/201007\\_by\\_hook\\_and\\_by\\_crook](http://www.btselem.org/publications/summaries/201007_by_hook_and_by_crook).

<sup>28</sup> Settler violence was the subject of another leaked report by the EU Heads of Mission in Jerusalem dated February 2012. It can be read at <http://www.rightsforum.org/english/>.

<sup>29</sup> “Report on UNCTAD assistance to the Palestinian people: Developments in the economy of the occupied Palestinian territory”, United Nations Conference on Trade and Development (UNCTAD), 13 July 2012, available at [http://unctad.org/meetings/en/SessionalDocuments/tdb59d2\\_en.pdf](http://unctad.org/meetings/en/SessionalDocuments/tdb59d2_en.pdf).

of West Bank agriculture since 1994; its productivity has been halved and its contribution to GDP reduced to 6 percent. In short, the basis for a viable Palestinian state is fast evaporating.

## Act or acquiesce?

Support for Israel may be diminishing in Brussels, but in a world of foreign policymaking by unanimity, the EU's reaction to these alarming developments has thus far been confined to diplomatic rhetoric. As noted above, even the 2009 suspension of the formal upgrade of bilateral relations between the EU and Israel has not in practice prevented those relations being steadily enhanced. Thus, for all practical purposes, EU policy to date has been acquiescence to Israel's systematic erosion of prospects for a two-state solution.

This is not noble, and incurs the cost of presenting the EU to the wider world as an international actor into whose face sand can safely be kicked. But it is not necessarily stupid either. As we have seen, the policy has allowed the member states to herd together for safety. It has obviated unpleasant confrontations with Israel and its supporters (including the US), while rhetorical support for a two-state solution, and the semblance of active engagement through the Quartet, has deflected Arab resentment, at least at the governmental level. This relatively passive policy has also allowed EU member states to develop lucrative trade and technology partnerships, and important defence and security relations, with the advanced and vibrant Israeli economy, second in importance only to Turkey's in the non-EU Mediterranean area.

If the first duty of governments is to see to the security and prosperity of their own citizens, it could be argued that acquiescence under cover of ritual protest at Israeli actions is the best policy available. But it is not without risk; the spectre of a third intifada and/or conflict between Israel and its neighbours remains a persistent threat to Europe's vital economic relations with the Arab world, not to mention the tranquillity of European cities.

Realists might, however, assess these risks as acceptable. The Arab world looks set to be preoccupied by domestic political and economic challenges for the foreseeable future, with less incentive to return the Palestinian question to the top of its agenda. And, as to a third intifada, what has been most remarkable since the start of the Arab uprisings is precisely the absence of anything more than a faint echo in the OPTs of the popular convulsions that

have shaken the surrounding region. Though some low-level attempts at civil resistance continue, and incidents such as Palestinian deaths in custody spark periodic shows of public anger, the mood of the populations, particularly in the West Bank, is essentially depressed. They understand how far their cause is weakened without the much discussed “reconciliation” between Fatah and Hamas, and they see the leaders of the two factions consistently prioritising their own sectional advantage over the need for Palestinian unity.

Israelis, having weathered the terrorist campaigns of the Second Intifada, could be forgiven a degree of quiet confidence that they have the security situation in the OPTs under control. West Bank terror has been effectively suppressed (albeit through tactics which carried a heavy cost in terms of loss of international sympathy); and Gaza is effectively locked down. The only form of “armed resistance” left to Palestinians is sporadic rocket fire from Gaza and, though no civilian population should have to live under that sort of threat, the actual number of casualties from such attacks – fewer than 35 civilian deaths since 2004 – shows that this is no sort of existential threat to Israel.<sup>30</sup> Moreover, Israel’s retaliatory assaults in 2009 and 2012, while again expensive in reputation, have induced Hamas to accept the virtues of a ceasefire. In short, Israel is winning, and realist Europeans might well conclude that it makes sense to back the winner – provided, of course, that Israeli victory in these terms (suppression of resistance, bottling up the Gaza Strip, effective annexation and absorption of East Jerusalem and the rest of the West Bank) does not turn out to be self-defeating.

## Israel’s self-destructive course

And here, of course, lies the fatal flaw in current Israeli policy – it fails to provide any remotely plausible answer to the question of what is to be done with the four million Palestinian residents of the OPTs. It is perhaps understandable that, having pulled out of Gaza, Israelis should take it for granted that they will one day be able to divest themselves definitively of the Gazans. It may be natural to suppose that, over time, the problem can be wished on the Egyptians, even if the latter have shown themselves both alert, and allergic, to such a development. Alternatively, the current status quo in

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<sup>30</sup> “Rocket and mortar fire into Israel”, data for attacks on Israeli civilians by Palestinians, B’Tselem, 1 January 2011, available at [http://www.btselem.org/israeli\\_civilians/qassam\\_missiles#data](http://www.btselem.org/israeli_civilians/qassam_missiles#data).

Gaza might simply continue indefinitely – much as the situation of the almost five million refugees in UNRWA camps surrounding Israel has turned out to be sustainable for decades.

But it is much harder to envisage a manageable solution for the two and a half million Palestinians of the West Bank and East Jerusalem, in the absence of a Palestinian state. Any idea that these people can somehow be transferred across Jordan, either through a confederation with the Hashemite Kingdom or through a complete redrawing of the post-colonial map of the Mashriq, is simply wishful thinking. Absent another Nakba, the West Bankers will stay – and in all probability sustain a birth rate consistently higher than that of Israelis. Indeed, global experience suggests that the greater the degree of dispossession and marginalisation, the higher the rate of fertility.

This non-Jewish cuckoo in the nest is what makes the mindset of “managing” the conflict with the Palestinians rather than resolving it so self-deluding. And it is what makes the vision of an Israel that comes to embrace Judaea and Samaria and yet remains both Jewish and democratic simply unattainable. The Israel of the future can be any two out of the three of Jewish, democratic, and enlarged to the banks of the Jordan – but it cannot, without large-scale ethnic cleansing, be all three. Obama made this point deftly to his audience in Jerusalem, recalling words of their former prime minister: “As Ariel Sharon said – I’m quoting him – ‘It is impossible to have a Jewish, democratic state and at the same time to control all of Eretz Israel. If we insist on fulfilling the dream in its entirety, we are liable to lose it all.’”<sup>31</sup> For, as Prime Minister Netanyahu recently reaffirmed, the idea of a democratic Jewish state requires “a solid Jewish majority”.<sup>32</sup>

Even with such a solid majority, the task of reconciling democratic rights for all with a strong ethnic identity is not easy – as the position of the Palestinian minority who hold Israeli citizenship attests. Alongside their colleagues’ reports on Area C and East Jerusalem, the EU ambassadors in Tel Aviv contributed their own depressing perspective on current developments with their 2011 report on the relative impoverishment and marginalisation of this 20 percent of the Israeli population.<sup>33</sup> Average earnings in the Israeli Arab community are

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<sup>31</sup> Transcript of Obama’s speech in Israel, 21 March 2013, available at <http://www.nytimes.com/2013/03/22/world/middleeast/transcript-of-obamas-speech-in-israel.html>.

<sup>32</sup> Address by Netanyahu to a delegation representing the Conference of Presidents of Major American Jewish Organisations, 11 February 2013, available at <http://www.algemeiner.com/2013/02/11/full-transcript-prime-minister-netanyahu-speech-to-american-jewish-leaders-2013/>.

61 percent of those of Jewish households; Israeli Arabs occupy only 7 percent of government jobs, and own a mere 3 percent of the land. Fewer than 10 percent of them live in mixed Jewish-Arab towns.

Even more concerning, however, is what the report tells us about the degree of antipathy between the Jewish majority and Palestinian minority. More than half of Israeli Jews tell pollsters that the government should encourage Arabs to emigrate. Over a third would like to see Israeli Arabs lose their vote. For their part, almost two thirds of Israeli Arabs believe Jews to be a “foreign imprint” in the Middle East, and believe Israel has no right to exist as a Jewish state.

Thus the fallacy of the notion that absorption of the West Bank into Israel (whether by continuation of the current settlement process or by the simple annexation of Area C as advocated by cabinet minister Naftali Bennett) is a viable way forward. The Jewishness of an enlarged Israel could be preserved only by treating a large and expanding Palestinian minority as second-class citizens, and in an increasingly undemocratic manner. (The EU report cited above has more details on recent illiberal legislation, both proposed and enacted.) Combine this prospect with the necessity to maintain tough control over the minority’s residence and movements, and the geographical fragmentation of those areas in which the minority will be allowed a degree of autonomy, and the parallels with apartheid South Africa become impossible to ignore.

It is not just outsiders who have drawn attention to this uncomfortable analogy. In 1999, Israel’s then prime minister, Ehud Barak, argued that “every attempt to hold onto this entity as one political entity leads, necessarily, to either a nondemocratic or a non-Jewish state. Because if the Palestinians vote, then it is a binational state, and if they don’t vote it is an apartheid state”. And eight years later Prime Minister Ehud Olmert said that if the two-state solution collapsed, Israel would “face a South African-style struggle for equal voting rights”.<sup>34</sup>

Indeed, the parallel lies at the root of the Netanyahu government’s preoccupation with the risk of “delegitimisation”, so much in evidence in 2011 in the run-up to

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33 “EU report on Israeli Arabs”, Council for European Palestinian Relations, November 2011, available at [http://thecepr.org/index.php?option=com\\_content&view=article&id=285%3Aeu-report-on-israeli-arabs-november-2011&catid=5%3Areports&Itemid=27](http://thecepr.org/index.php?option=com_content&view=article&id=285%3Aeu-report-on-israeli-arabs-november-2011&catid=5%3Areports&Itemid=27).

34 Barak Ravid, David Landau, Aluf Benn, and Shmuel Rosner, “Olmert to Haaretz: Two-state solution, or Israel is done for”, Haaretz, 29 November 2007, available at [www.haaretz.com/news/olmert-to-haaretz-two-state-solution-or-israel-is-done-for-1.234201](http://www.haaretz.com/news/olmert-to-haaretz-two-state-solution-or-israel-is-done-for-1.234201).

the Palestinians' first attempt to secure recognition at the UN. It was, on the face of it, an odd contention that Palestinian efforts to secure recognition within the 1967 borders, thus clearly implying recognition of the state of Israel on the other side of the Green Line, should be an attack on Israel's "legitimacy". The root of the Israeli anxiety was, however, that the Palestinian strategy to involve the UN and the wider international community in what Israel has always wanted to insulate as a bilateral dispute could over time so sap support for Israel that it could end up like the old apartheid regime – "delegitimised", isolated, and sanctioned.

Israelis are right to worry about this. Recent years have seen the steady erosion of Israel's once-formidable stock of moral capital and international support. We have discussed the increasing impatience in Europe with Israel's reluctance to engage seriously in the search for a political solution with the Palestinians. This impatience has not yet translated itself into serious action by governments, nor, indeed, has civil society become mobilised in a major way – the "boycott, divest, sanction" campaign has been taken up by some NGOs and church organisations, but only in a minority of member states (Britain, Ireland, Denmark, Spain, and a few others).

Israelis might reasonably feel relaxed about the practical significance of losing European sympathy – were it not for the mounting evidence that, the US aside, Europeans are about the only friends that Israel has left. The recent vote at the UN could not have made things clearer: 138 voting to upgrade Palestinian membership; 41 abstaining; and only seven others standing with Israel and the US in opposition, despite a strong Israeli diplomatic lobbying effort. Discounting the usual scattering of for-sale South Pacific votes and Panama, the only support that the US–Israel camp could muster was that of Canada and the Czech Republic.

Nothing much new here, some might say. Israelis have understandably long been scathing about UN agencies and committees, many of them populated by representatives of countries with the most appalling human rights records, who enjoy wagging a finger at Israel. But, slow-moving though it may be, there is a one-way ratchet at work here. Marshalled by former Brazilian President Luiz Inácio Lula da Silva, eight South American countries moved even before the UN votes to formal recognition of a Palestinian state, as indeed did Cyprus.<sup>35</sup> We noted

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<sup>35</sup> "Report: Cyprus recognises Palestinian state within 1967 borders", *Haaretz*, 30 January 2011, available at <http://www.haaretz.com/news/diplomacy-defense/report-cyprus-recognizes-palestinian-states-within-1967-borders-1.340169>.

earlier the move by a number of European states in 2011 to upgrade the status of Palestinian representation in their capitals. Such steps may seem, to those outside the world of diplomacy, arcane. But, arcane or not, they are all headed in one direction – and diplomatic and legal processes can take on a life of their own. Abbas may not himself be much interested in building on the Palestinian Liberation Organization’s (PLO) new status at the UN to exploit other international platforms from which to pressure the Israelis – but if de-occupation remains at an impasse and a chance appears to bring the issue of Israel’s continued occupation of the West Bank and Gaza in front of the International Criminal Court (ICC), it will be hard for the Palestinian leadership to resist.

Such theatrical developments on the global stage will have – are already having – real-world effects. Thus, though we described above the growth of trade between Israel and the EU, it is also noteworthy how much of Israel’s commerce is now dependent on the EU and the US. The former accounted for 31 percent of Israel’s trade in 2011, the latter for 22 percent – with the third most significant trading partner for Israel, China, at a mere 6 percent.

Israel, then, is gradually losing ground internationally, and beginning to suffer the sort of progressive isolation that apartheid South Africa experienced in the 1970s and 1980s. European readiness to back Israel right or wrong is diminishing, and Israel needs to take with deadly seriousness the prospect that, on current trends, it could one day find itself exclusively reliant on the US for diplomatic support in the face of a hostile global campaign.

Supporters of the Palestinian cause might be tempted to gloat at the prospect of a noose drawn ever tighter around the neck of Israel. They should not. The international campaign to bring down apartheid South Africa achieved its surprisingly happy outcome at least in part because the African National Congress produced Nelson Mandela – and the Boer community produced F.W. de Klerk. But the emergence of leaders of this stature is historically a rare event. There are certainly no present signs of leaders of this calibre on either side of the Israeli-Palestinian conflict. Those who think that a Rainbow Nation outcome – a “one-state solution” – could also be possible between the Jordan and the Mediterranean have to believe that roughly six million Israeli Jews could live together with roughly six million Palestinians in the same state, peacefully and on a basis of equal rights. Though the Chagall tapestries in the Knesset evoke the lion lying down with the lamb, this is simply unrealisable in any meaningful timeframe. Rather, Israel has repeatedly demonstrated that it is prepared to take action that exceeds anything that most onlookers would

consider as proportionate if it discerns a threat. So it would be foolish to bet on the closing stages of an international campaign to isolate and sanction Israel being anything other than a bloody catastrophe for all concerned.

Against this background, Europeans owe it to themselves, the Palestinians, and indeed the Israelis to bring home to the latter the extent of the peril they are creating for themselves. Clearly, the way *not* to do this is to seem to buy the Israeli argument that the business with the Palestinians should be kept “in proportion” and treated as a side issue that need not and should not bear on the principal bilateral relationship between Israel and Europe. Commissioner Füle’s talk of “how strong and vibrant our relations are, despite some occasional difficulties” sends out a dangerously misleading message.

On the contrary, Europe’s only chance of arousing a sleepwalker headed towards disaster is by making it plain that Israel’s occupation of the Palestinian territories, and consequent stand-off with the surrounding Arab world, is *the* salient point about Israel with which Europeans must inevitably concern themselves in managing their relationship, for moral, legal, and prudential reasons. The occupation, in short, is the elephant in the room – and is no longer camouflaged by some hopeful new peace initiative. Divided and afraid of confrontation, Europeans have been dangerously ambiguous on this point. It is past time for them to consider, much more seriously, actions that can be taken to help move Israel off its self-destructive course.

## But why blame Israel?

Before turning to this question of European action, has not the argument so far been unfairly focussed on pressing Israel? After all, it takes two to tango: how can Israel be blamed if it finds no “partner for peace”? Two points need making here. First, say what you will about Hamas or the dysfunctional broader Palestinian movement, it is exceedingly difficult to paint Abbas as unwilling to consider unpalatable compromises. Indeed, as the “Palestine Papers” made clear, he showed himself almost too ready for his own political survival to contemplate far-reaching concessions in his 2008 negotiations with the Olmert–Livni government.<sup>36</sup>

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<sup>36</sup> “The “Palestine Papers” comprise thousands of pages of confidential documents on the Middle East peace process, dating from 1999 to 2010, released in January 2011 by Al Jazeera English, and available at <http://www.aljazeera.com/palestinepapers/>.



Of course, any judgment of who is or is not negotiating seriously partly depends on where one believes a final settlement has to be found. So the positive judgment made here on Abbas's credibility as a negotiating partner reflects the notions that the final settlement will have to be based on the 1967 borders, with mutually agreed land swaps and Jerusalem as the capital of two states – but with the Palestinian demand for a “right of return” to Israel proper satisfied only at some token level. But Abbas's vision of an acceptable peace agreement tracks closely with what Europeans have believed for more than 30 years. As for the suggestion that Abbas dodges negotiations by laying down diversionary preconditions, this also rather turns on whether or not one sees it as reasonable to expect a man to negotiate about the future of his land even while someone else's bulldozers and concrete mixers are at work on it. A growing majority of Europeans are very clearly of the view that it is not.

Ascribing “blame” for the present impasse is, however, beside the point. Such judgments and perceptions will, as we have argued, affect how the strength of international opposition to Israel's continued occupation develops over time. But it will do little to get constructive negotiations restarted. Here, if the focus of our attention is more on Israelis than on Palestinians, this is because of the asymmetry of power between the two parties.

Possession, they say, is nine tenths of the law, and it is Israel that is in occupation of the Palestinian territories. Israel's military is more than a match for anything the combined Arab world could muster against it – on the current balance of power, the idea of conventional aggression by any Arab state seems absurd. In recent years, Israel has met the challenge of Palestinian terrorism, and defeated it. Israel has full civil and military control of 62 percent of the West Bank and military control over a further 20 percent. The PA depends upon Israel to pass to it 70 percent of its revenues, in the form of tax and customs dues (which Israel does not hesitate to withhold as “punishment” or pressure). Planning, construction, movement, and resource control on the West Bank have decimated its agriculture and reduced its economy to an unsustainable dependence on international aid. Gaza is blockaded.

The Palestinians are left holding only two cards, apart from the dead-end path of violence: appeal to the international community; and the power of rejection. The disequilibrium between the two parties inevitably places the onus on Israel's shoulders to create the conditions for constructive negotiations – by refraining from moving the goal-posts by settlement

construction even while the game is being played, and by accepting that the game is to be played by certain rules (the key internationally accepted parameters for a final settlement and international law) rather than as a free-for-all in which strength prevails.

## “Running interference” for the US

For nearly 40 years, since the US brokered the ceasefire that ended the October 1973 War, it has been near-universally assumed that any final settlement of the Israeli-Palestinian conflict would have to be brokered by America too. No other international actor has the weight or credibility to force the protagonists into making the difficult compromises – or to provide the necessary guarantees that whatever is agreed is honoured. The US’s lustre as potential peacemaker has taken a bit of a battering in recent years, first with President George W. Bush’s perceived bias towards Israel (and undoubted antipathy towards former PLO Chairman Yasser Arafat), and then subsequently with Netanyahu’s unhelpful exposure, in his trial of strength with Obama, of the true nature of the US–Israel power relationship – one in which the prime minister of Israel can use support in the US Congress to force an American president to back down. So the hope of the US one day fixing the problem as though with a magic wand has evaporated – but not the view that a concerted US intervention remains the best chance of a peaceful settlement.

Both before and during his March 2013 trip to the region, Obama made it very clear that no such concerted intervention is currently intended. He has other priorities, abroad and especially at home, for his second term: always more pragmatic than quixotic, he will not waste his time or political capital on further head-butting with Netanyahu (now somewhat implausibly promoted to “my friend Bibi”). But Secretary of State John Kerry has evinced more appetite for the issue; may be more inclined than his president to listen to European views; and has, as Obama noted in Ramallah, been licensed to take a good look at whether anything can be done. And the point of pragmatism, Obama’s hallmark, is precisely not to run too far ahead of events or prejudge what may or may not be possible later on. So an American return to peacemaking, even in the relatively near future, should certainly not be ruled out if a reasonable opening presents itself. For Europeans, therefore, the key question is what can they do to try to create such conditions, conducive to the resumption of American efforts?

Slavish adherence to all relevant US policy positions is not a prerequisite for such a role. On the contrary, the more Europe conveys its impatience with Israeli expansionism, the better the chance that the debate within Israel will turn to the risks of “losing Europe” – and the more leverage the Americans will have, if they are willing or able to exercise it. Indeed, in his speech to the American Israel Public Affairs Committee conference in Washington in May 2011, Obama came near to inciting Europeans to make good on his prophecy of rising impatience with Israel around the world.<sup>37</sup> And Europeans can introduce new dynamics into the debate that Americans simply dare not do. It is time to consider in more detail exactly what Europeans could and should be doing, to “run interference” for the US, and to put a little weight behind their own policies.

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<sup>37</sup> “And just as the context has changed in the Middle East, so too has it been changing in the international community over the last several years. There’s a reason why the Palestinians are pursuing their interests at the United Nations. They recognized that there is an impatience with the peace process or the absence of one, not just in the Arab world, in Latin America, in Asia and in Europe, and that impatience is growing, and it’s already manifesting itself in capitals around the world.” Transcript available at <http://www.aipac.org/resources/speeches>.

## *Chapter 3*

# What Europe can do

While waiting for the US to (re-)engage, Europeans have over the last few years focussed most of their efforts simply on trying to keep alive the possibility of a “viable, contiguous, and sovereign” Palestinian state. This effort has had two main axes: criticism of Israeli policies that erode the basis for a future Palestinian state (settlements, but also such tactics as the lockdown of Gaza and the withholding of revenues from the PA); and aid to the Palestinians and more especially to the PA’s “state-building” programme, initiated in 2007.

European efforts have not been conspicuously successful, on either axis. We noted above Netanyahu’s suggestion in the election campaign that the process of settlement was irreversible; and his reaction to the recent UN vote on Palestinian membership – to move ahead with 4,000 new settlement housing units, including development of the pivotal E1 area – was hardly conciliatory. So this Netanyahu move amounted to (or at least, since it could still be reversed, prefigured) an effective coup de grace to the “contiguous, viable state” of European hopes, made in the full knowledge that in doing so he was crossing a European “red line”. With Naftali Bennett’s party, open advocates of annexation of most of the West Bank, securing 12 Knesset seats in the recent election and matched by an equally expansionist cohort within the prime minister’s own Likud faction, it seems clear that European protests are dismissed, at least on Israel’s centre-right, as so much empty rhetoric.

Progress in Europe’s efforts to sustain the Palestinians has not been much better. It would be ungenerous to quibble with the success of the PA’s “state-building” efforts, led by Prime Minister Salaam Fayyad, to establish the institutions of a functioning state. International institutions and organisations have applauded the result and argued in the context of UN votes that improvements in such matters as the functioning of the judiciary and security services mean that Palestine is now “state ready”. But, important though such

aspects of government are, they are not as important as a functioning economy – and here the picture is substantially bleaker.

A recent economic monitoring report from the World Bank on the situation in the West Bank and Gaza makes dismal reading.<sup>38</sup> The document rehearses the fiscal problems the PA faces through budget-exceeding expenditure (much of it security-related – 590 new employees were added to the security-sector payroll in 2012, while unbudgeted security pension payments were the main cause of a 16.5 percent overshoot in non-wage expenditure), and a shortfall in revenues. Some 70 percent of the PA's revenues, from customs and taxes, are collected on its behalf by Israel, and periodically withheld to “punish” it – most recently following the UN vote in November 2012 to upgrade Palestine's status. (Though the monitoring report does not mention it, the situation was exacerbated by a parallel suspension of US aid imposed by the US Congress, and the failure of most Arab League states to deliver on the financial “safety net” they undertook to put under the PA.) Having now exhausted the credit available from the banking sector, the PA has found itself unable to pay its employees or its suppliers.

Disruptive and demoralising though such fiscal difficulties may be, they are not as pernicious as the decline of the real economy under the weight of the occupation. The impact of the closure of Gaza is unsurprising, with unemployment at 32 percent, among the highest in the world, and the bill for restoring infrastructure estimated at \$2.5 billion. But the West Bank, too, is sustaining lasting damage, under what the World Bank calls the “multilayered system of restrictions” of the occupation. The report highlights in particular a loss of export competitiveness; decreasing employability of the labour force; and a decline in the stock and quality of infrastructure. Between 1994 and 2011, manufacturing's share of GDP has fallen from 19 percent to 10 percent, and agriculture's from 13 to 6 percent – while agricultural productivity fell by half. Investment flows into the OPTs have averaged a trivial 1 percent of GDP over the last decade, while the share of goods exports in the Palestinian economy has fallen from around 10 percent in 1996 to around 7 percent – among the lowest in the world.

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**38** “Fiscal Challenges and Long Term Economic Costs”, Economic Monitoring Report to the Ad Hoc Liaison Committee 19 March 2013, available at <http://reliefweb.int/sites/reliefweb.int/files/resources/Fiscal%20Challenges%20and%20Long%20Term%20Economic%20Costs.pdf> (hereafter, “Fiscal Challenges and Long Term Economic Costs”, Economic Monitoring Report to the Ad Hoc Liaison Committee). The following paragraphs also draw on “Towards Economic Sustainability of a Future Palestinian State: Promoting Private Sector-Led Growth”, World Bank, April 2012, available at <http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/GrowthStudyEng.pdf>.

The degree of de-industrialisation may be judged from the fact that the average Palestinian private sector enterprise has fewer than four employees and only 57 have more than 100 on their payrolls. Export businesses are low value-added, the main one being quarrying; and only 14 percent of exports go beyond Israel. The Paris Protocol arrangements, which created an Israel–OPT Customs Union, have in practice crippled Palestinian trade. There is a certain irony that the West Bank’s principal source of export earnings is to be dug up and trucked to Israel.

With the real economy thus progressively hollowed out, the dependency economy has naturally grown, with the public sector services’ share of total output rising from 19 to 30 percent from 1994 to 2011. As employer of last resort, the public sector now accounts for 23 percent of jobs. The recent resignation of Fayyad confirms that “Fayyadism” has reached a dead end.

All in all, then, it is hard to credit all the effort and money that Europeans have sunk into the conflict over the years with achieving much more than allowing their standard-bearing Middle East policy to collapse in slow motion, rather than all at once. Are there more effective avenues open to them?

## Working on Israel

In the wake of Netanyahu’s defiant E1 announcement, European foreign ministers met; reached for yet more sombre rhetoric (“deeply dismayed... strongly opposes”); and promised to “closely monitor the situation and its broader implications, and act accordingly”.<sup>39</sup> Assuming that “accordingly” means something like “with the seriousness the situation deserves”, and not “in line with our past record of tacit acquiescence”, then something new is required.

Israelis have done a good job in persuading European diplomats that they do not respond well to pressure – that if Europe wishes to exercise influence it had better forget sticks and look for carrots instead. So the nearest Europe has come to trying pressure (beyond the rhetorical) was the suspension of the formal “upgrade” of the EU–Israel bilateral relationship in 2009 – followed, as

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<sup>39</sup> EU Foreign Affairs Council Conclusions, 10 December 2012, available at [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/EN/foraff/134140.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/134140.pdf).

we have seen, by persistent European efforts to soften the impact by thickening the relationship anyway. Those within Israel who have urged that European patience with Israeli policy in the OPTs is not limitless have thus been regularly undercut.

As described above, the new Israeli coalition government looks set, despite the role conceded to Tzipi Livni to pursue peace with the Palestinians, to be less interested in negotiating an end to the conflict, and more overt in its strategy of entrenching the occupation, than any in Israel's history. But some aspects of the recent election and its fall-out provide possible opportunities. One is the substantial centrist vote accruing to the new Yesh Atid party. Its leader, Yair Lapid, is no dove. He is dismissive of any concessions on the major final settlement issues. But he and his followers – mainly secular, Ashkenazi Jews from the coastal strip – seem less interested in the settlement enterprise than in the sort of pocketbook and quality-of-life concerns that typically dominate in European elections. This is the constituency that sees Europe as its hinterland, even as part of its identity. If they can be convinced of the risks their government is running in terms of “losing Europe”, they may come to exercise a restraining influence.

Another potential counter-balance to the expansionist tendency, given the new post-election political realities, is the ultra-Orthodox. Their interest is religion and state subventions to their institutions, not geography. Squeezed out of government by the need to accommodate both Lapid and Bennett in the coalition, and threatened economically by the joint Bennett–Lapid determination to make them “share the burden”, they have reacted with an angry counter-attack on the cost of the settlement enterprise. In the words of the ultra-Orthodox Moshe Gafni, chair of the Knesset Finance Committee, “we will no longer be predisposed to transfer billions to a group that preaches equality in distributing of the civic burden when it is the real burden on society”. And he has threatened to spill the beans about “the billions that go toward the settlements”.<sup>40</sup>

Israel is at pains to obscure the scale of its budgetary support to the settlement enterprise. But recent estimates of the direct and indirect subsidy, excluding security-related costs, are of the order of €200 million to €300 million a

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<sup>40</sup> Sami Peretz, “A look behind state funding of settlements – and down the rabbit hole”, *Haaretz*, 9 March 2013, available at <http://www.haaretz.com/business/a-look-behind-state-funding-of-settlements-and-down-the-rabbit-hole.premium-1.508220>.

year.<sup>41</sup> At one level, of course, these figures are a depressing confirmation of the commitment of the Israeli state to the settlers' agenda. Nonetheless, in dealing with what seems set to be an inflexible government, Europeans should bear in mind that there are significant elements in Israeli society who will be more receptive to reflecting on the costs to Israel, in terms of the economy and Israel's international position, of pressing on with the settlements.<sup>42</sup>

Against this daunting background, what should Europe do? A relatively easy first step should be to ensure that Europeans' actions and policies, like their declarations, reflect the illegality of what is happening in the West Bank. The EU has for years been describing settlements as illegal – in line with a 1980 UN Security Council resolution that unambiguously branded them as such, and which the US forbore to veto – as well as obstacles to peace. As such, one might suppose that Europe would be careful to avoid letting persons, entities, or activities based in settlements enjoy any of the benefits of the EU's relationship with Israel proper. To turn a blind eye not only undercuts its own policy but also abrogates its responsibilities under international law.

Yet the EU has in practice been remarkably lax about settlements. Most conspicuously, it has failed to require Israel to clearly distinguish between exports originating in the settlements and those from Israel proper. In consequence, as recently highlighted in a report by 22 European civil society organisations entitled "Trading Away Peace: how Europe helps sustain illegal Israeli settlements", Europe imports 15 times as much by value from the settlements as it does from the whole of the OPTs.<sup>43</sup> Failing to insist on clear identification of settlement goods has allowed them to enter European markets at preferential tariff rates – and an undertaking by the Israeli authorities to indicate their origin by postcode has left the job of doing the filtering to European customs officials. As "Trading Away Peace" recommends, the onus of correct identification of settlement products needs to be put firmly on the Israeli side.<sup>44</sup> This will also help retailers ensure that they do not misleadingly

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<sup>41</sup> Tovah Lazaroff, "Peace Now: Government Spends NIS 1.6bn more on settlers", *Jerusalem Post*, 31 July 2012, available at <http://www.jpost.com/DiplomacyAndPolitics/Article.aspx?id=279590>.

<sup>42</sup> For more on this topic, see Daniel Levy, "Obama Must Embrace Israel's Tribal Politics", *Real Clear World*, 20 March 2013, available at [http://www.realclearworld.com/articles/2013/03/20/obama\\_must\\_embrace\\_israel\\_tribal\\_politics\\_105010-2.html](http://www.realclearworld.com/articles/2013/03/20/obama_must_embrace_israel_tribal_politics_105010-2.html).

<sup>43</sup> "Trading Away Peace: How Europe helps to sustain illegal Israeli settlements", October 2012, available at [http://www.christianaid.org.uk/Images/Trading%20Away%20Peace%20October%202012\\_tcm115-63607.pdf](http://www.christianaid.org.uk/Images/Trading%20Away%20Peace%20October%202012_tcm115-63607.pdf).

<sup>44</sup> See also the European Parliament resolution of 16 February 2012 on the Regional Convention on pan-Euro-Mediterranean preferential rules of origin (2012/2519(RSP)), which calls for "a simple, efficient and reliable mechanism". Text available at <http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P7-TA-2012-0060&language=EN>.



label settlement goods as coming from “Israel” – in contravention of existing EU consumer protection law. The UK has led the way here in issuing labelling guidelines to retailers; and Ashton commended the practice in her 22 February letter to European foreign ministers.<sup>45</sup> The European Commission should follow up with EU-wide guidance – as urged by 13 EU foreign ministers in a joint 12 April response to Ashton, offering “to assist you in taking forward this important work”.<sup>46</sup>

Some – the Irish foreign minister, for example – have urged that Europe should go beyond clear identification of imports from settlements, and simply ban them. “Trading Away Peace” cites recent legal opinion that such a ban, though not required, would certainly be permissible under international law.<sup>47</sup> But “bans” and “boycotts” in connection with Israel are uncomfortable notions for many European governments, all too reminiscent of the Nazi boycott of Jewish businesses in the 1930s. That should not, however, prevent them from ensuring that in their own public procurement activity they do not spend public funds on products from illegal settlements.

The EU has also been lax about letting settlements and settlers benefit from a range of EU programmes.<sup>48</sup> In particular, settlement enterprises have received European research grants under FP7. The European Commission needs to make sure that there is no repeat under Horizon 2020 (FP7’s successor), both by watertight vigilance and by getting the right territorial application specified in the legal basis of Israeli participation in the new programme. The European Commission will have to satisfy the European Parliament on this before the latter will give its consent – the two institutions are in discussion.

An EU–Israel Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) – i.e. mutual recognition of standards approvals

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<sup>45</sup> Raphael Ahren, “EU foreign policy chief wants settlement goods labelled”, *Times of Israel*, 1 March 2013, available at <http://www.timesofisrael.com/eu-foreign-policy-chief-wants-settlement-goods-labeled/>.

<sup>46</sup> “EU foreign ministers want West Bank settlement goods labelled”, *EUbusiness*, 19 April 2013, available at <http://www.eubusiness.com/news-eu/israel-palestinians.03q/>. The 13 member states were Austria, Belgium, Denmark, France, Finland, Ireland, Luxembourg, Malta, the Netherlands, Portugal, Slovenia, Spain, and the UK.

<sup>47</sup> “Prominent UK jurist says boycott of West Bank settlement products is legal”, *Haaretz*, 9 July 2012, available at <http://www.haaretz.com/news/diplomacy-defense/prominent-u-k-jurist-says-boycott-of-west-bank-settlement-products-is-legal-1.449870>.

<sup>48</sup> Much of what follows draws on “EU–Israel Relations: promoting and ensuring respect for international law”, a report by the Euro-Mediterranean Human Rights Network and APRODEV, Brussels, February 2012, available at [http://aprodev.eu/files/Palestine\\_Israel/ra\\_eu\\_isreal\\_en\\_web72dpi\\_oo\\_5498995891.pdf](http://aprodev.eu/files/Palestine_Israel/ra_eu_isreal_en_web72dpi_oo_5498995891.pdf).

– has encountered similar problems. In the first instance, the agreement will benefit the pharmaceuticals trade – which already achieved a value of €1.2 billion between 2008 and 2010.<sup>49</sup> After more than two years of delay, the European Parliament has finally given its consent. But the European Commission will still face a dilemma when it has to acknowledge the Israeli industry standards body, with its claim to jurisdiction beyond the Green Line.

The Israeli authorities are naturally reluctant to restrict the definition of where their writ runs in this way. But they can be prevailed upon to do so, as in the case of the draft Europol (police co-operation) agreement.<sup>50</sup> The Europol agreement remains, however, stuck on the separate EU requirement for Israel to distinguish, in the data it shares with the EU, between what comes from Israel proper and what comes from the OPTs. This issue recalls the promise made by Israel in joining the Organisation for Economic Co-operation and Development (OECD) in 2010 to disaggregate its statistical data – something it has not yet done.

All this will no doubt get easier as the two sides come to understand that the EU, having woken up to its past laxness, has no legal option but to tighten up and insist that the Israeli side enables it to do so. But it is hard to see how agreement will be possible in instances such as the mooted Israeli judicial co-operation with Eurojust when the Israeli authority – in this case, the Ministry of Justice – is situated in illegally annexed East Jerusalem.

Four other areas need attention. The first is the question of European companies investing in or otherwise doing business with Israelis in the OPTs. The “Trading Away Peace” report notes a number of businesses that have either already disengaged, or intend to do so, in response to civil society pressure. Again, as suggested by the EU Heads of Mission in Jerusalem, governments could usefully issue official advice against such economic activity. Meanwhile, the European Parliament has asked the European Commission for a “black list”.<sup>51</sup>

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<sup>49</sup> Christofer Fjellner, Marek Siwiec, and Baroness Sarah Ludford, “Europe needs access to high-quality and affordable medicines”, *Europolitics*, 17 February 2012, available at <http://www.europolitics.info/social/europe-needs-access-to-high-quality-and-affordable-medicines-art326458-26.html>.

<sup>50</sup> The Statement of the European Union at the Tenth Meeting of the EU–Israel Association Council notes that “the necessary provisions are made for the correct territorial application of this and other instruments”.

<sup>51</sup> “Fiscal Challenges and Long Term Economic Costs”, Economic Monitoring Report to the Ad Hoc Liaison Committee.

Second, European governments should be a lot more careful about allowing financial aid to the settler movement from supporters in Europe to be treated as tax-deductible charitable donations. Norway has already blocked this loophole.

The third issue is consular services. Many settlers are European dual nationals, and – regarding themselves as resident in “Israel” – prefer to deal with the relevant embassy in Tel Aviv for such matters as passport renewals. Again, for policy consistency, member states should insist that such individuals, since they are in fact resident in the OPTs, go to their missions in East Jerusalem. Nor does it seem consistent for settlers travelling on an Israeli passport to benefit from the EU’s visa-waiver arrangement with Israel. If the visa requirement were reinstated for all such settlers, it would both make sense in the context of consistency and make it easier to consider refusing admission to Europe to those behind the upsurge in settler violence, again as recommended by the EU Heads of Mission.

Finally, Europeans should be careful to avoid exchanges or collaborations with Ariel University – the first settlement-based institution to be awarded this status, over the opposition of the rest of Israel’s university sector.

Individual member states and the EU institutions all have their parts to play in ensuring that Europe does a better job of distinguishing between settlements and Israel proper. The European Commission must ensure that the right territorial application is specified in bilateral agreements and issue technical guidance to member states; the European Parliament must check that the European Commission does its job properly; the member states, individually or collectively as the European Council, must give policy guidance. The case for tightening up is unarguable – so the problem to be overcome is largely inertia and buck-passing. Many, perhaps most, member states prefer to keep their heads down; the European Commission is in no hurry to admit past errors. So there is an important galvanising job to be done by the braver member states, working in concert with the EEAS: the interaction between Ashton and a group of foreign ministers over settlement product labelling being a good case in point. This sort of pace setting will be more important as and when more controversial steps get on the agenda.

Actions of the kind described above – to ensure that Europe obeys its own rules and conforms to its own policies when it comes to settlers and settlements – are relatively easy for European governments and institutions to take, precisely

because they are non-discretionary. The EU is, after all, a community of law, with a rules-based international order as its principal external objective; and the Lisbon Treaty created the EU's new foreign-policy arrangements precisely to achieve greater consistency in "external action". So such steps can be taken without suggestion of "punishing" Israel or applying "sticks". Nonetheless, they do inevitably – and usefully – signal that Europe is belatedly determined to ensure that, though the Green Line may be progressively erased on the ground, it will have to be respected in EU–Israel dealings.

Such steps are not, however, going to stop the settlement enterprise in its tracks – or even be perceived as much more than irritating pinpricks by Israel's governing coalition. Indeed, given that those who press for such actions (the Danish foreign minister, the NGO coalition behind the "Trading Away Peace" report) are often also the most explicit that they do not advocate any parallel action against Israel proper, the signal that is received may be one of circumspection rather than resolve. To begin to make any real impact, Europeans would have to move beyond measures directed at the settlements to measures bearing on the EU–Israel relationship itself.

Such a shift would of course amount to finally discarding the convenient diplomatic fiction that the expansion of settlements results from the efforts of a minority pressure group rather than being the policy of the Israeli state. But the evidence to this effect, including the European diplomatic reporting reviewed above, is now overwhelming; and even within Israel no one believes otherwise. As Nahum Barnea, perhaps Israel's leading political commentator, recently wrote, "the issue of the settlers goes far wider than the settlers themselves. The settlement enterprise is a national strategy."<sup>52</sup>

The problem, however, with threatening to row back on the central EU–Israel relationship if Israel maintains its settlement strategy is less that "the Israelis will react badly" than that Europeans are manifestly unready to wield any "sticks" big enough to make an impact. Classical deterrence strategy depends on a perceived readiness to escalate, and a willingness to "hold at risk" what the other side most values. In the current case, what Israelis most value are their access to Europe's market, the research and technology co-operation, and their personal and societal links to Europe. In terms of deterrent threat, then,

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<sup>52</sup> Nahum Barnea, *Yedioth Aharonot*, 18 March 2013. Translated quote from *Mideast Mirror*, available at <http://mideast-mirror.net/>.

these would translate into suspending the Association Agreement (perhaps on the grounds of the “respect for human rights and democratic principles” requirement in Article 2), thus depriving Israeli exports of their preferential access to the EU; excluding Israel from the Horizon 2020 programme; and reinstating visa requirements for Israelis to visit Europe (not without precedent: France imposed such a requirement between Israel’s first invasion of Lebanon and the Oslo Agreement). Such threats, if credible, would certainly catch the attention of wider Israeli society, if not the government. But Europe is ill-placed to play poker, with all its internal debates conducted with full transparency, and a number of member states still ready to assure Israel that they can be relied on to block any such moves.

The pity is that, though such actions are not credible as threats, they are the sort of thing that European governments could find themselves forced to do if, for example, the Israeli government were to succumb to Jewish Home’s desire to annex more West Bank territory. The open and diffuse nature of European diplomacy makes it very difficult to avoid going round banging shut the doors of empty stables. There seems little more that Europeans can do than try to convey that major new bites out of the West Bank will attract this kind of damaging reaction – and to do that without seeming to green-light continued munching at the margins.

If sticks are unpromising, that does not mean there is nothing Europeans can do to influence Israel. We have identified above the importance of bringing home to Israelis the danger of international isolation before it becomes an irreversible reality. So the first thing Europeans should do is give up their efforts to dissuade the Palestinians from challenging the occupation in other international *fora*, such as the ICC or the International Court of Justice.

It is easy to view such manoeuvres as irrelevancies – displacement activity enabling Palestinians to avoid the hard business of sitting down and negotiating peace with Israel. But there is no reason in principle why the PLO should not be able to prosecute an international campaign and negotiate at the same time – if and when a serious negotiation based on realistic parameters again becomes possible. European governments are meant to be in favour of widening the application of international law – and they know that the ICC is in increasing danger of being devalued by much of the world as “white man’s justice”. Besides, they have increasingly turned in their own statements to the employment of language meant to evoke Israel’s responsibilities as an occupying power under international law, and in particular the Geneva Conventions – references

to “forced transfer of civilian population” in the OPTs being a case in point. Accordingly, Europeans should desist from trying to hold the Palestinians back on this, and let events take their course.

In a similar vein, Europeans should be braver about asserting their own view of events and actors in the region, and about publicly distancing themselves from the Bush-era narrative with which they were seldom very comfortable in the first place. Most of them know that it is facile to dismiss Hamas and Hezbollah as mere terrorists, when they are in actuality popular resistance or liberation movements, not to mention regional governments and social-service providers, who employ some pretty unpleasant tactics, including periodical terror. Many Europeans also regret that they allowed themselves to be strong-armed by the US into denying Hamas recognition of their victory at the ballot box in 2006; as a means of cutting Hamas down to size this has simply failed, while reinforcing the impression of European hypocrisy and double standards across the Middle East. With a Muslim Brotherhood-inspired government now in power in Egypt and working responsibly with the US and Europe on regional issues, the quarantining of Hamas looks an increasingly self-defeating policy – not least when Israel itself is perfectly ready to deal with Hamas when it needs to do so, as over the recent Gaza ceasefire.

None of this is to argue for a European embrace of either organisation. But it is to say that Europeans have been right not to race to proscribe Hezbollah following the terror attack on Israeli tourists in Bulgaria; and that if the evidence proves to be indisputable then sanctions should be limited to the organisation’s military wing. As for Hamas, European policy now needs to recognise that, like it or not, the movement has entrenched itself in Gaza and enhanced its reputation in the wider Arab world, to the point where it is an actor of equal importance to Fatah and the PA in sustaining the Palestinians’ cause. Put another way, a unified front between Fatah and Hamas is essential if the Palestinians are to achieve their own state in the West Bank, Gaza, and East Jerusalem. Understanding this, Palestinian public opinion has demanded reconciliation from their leaders, and the Arab uprisings seemed to produce a conducive environment, with provisional agreements reached in Cairo and Doha seemingly holding out greater promise than previous efforts. Yet the final sealing of a deal, which would allow a new interim government to supervise new elections, remains obstinately elusive. Hamas in particular, moving away from its Iranian ally to the embrace of Egypt, Qatar, and Turkey, and basking in its perceived success in seeing off the latest rocket-provoked Israeli assault on Gaza in late 2012, is having some difficulty deciding internally whether to stay

with its winning streak or to “profit-take” by striking a deal with Fatah now. Fatah continues to fear the consequences of reconciliation for its relations with the West, among other considerations.

For Europeans, the key issue here is not necessarily formal “recognition” of Hamas. Indeed, given the EU’s ability to talk indirectly to them through intermediaries such as the Norwegians or the Swiss, “recognition” should wait until Europeans are able to extract constructive movement from Hamas in exchange. European influence on Hamas, with or without formal recognition, is anyway unlikely to be great. But it is helpful that the EU has signalled in recent diplomatic statements its support for intra-Palestinian reconciliation and subsequent elections – clearly implying that, this time round, it will look for a way to live with the result if Hamas wins. The European Council should make its language on this more explicit, stressing the urgency of getting new elections held so as to re-legitimise Palestinian representatives whose mandates are now time-expired. The EEAS and leading member states should work to agree a choreography in advance with Hamas. And they should work with other parties who have more influence than itself with Hamas (Egypt, Turkey, and Qatar) and with Fatah (Saudi Arabia and Jordan) to push conclusion of a reconciliation agreement and progress towards Palestinian unity; Fayyad’s resignation may provide the catalyst.

The same goes for Iran. As noted above, Netanyahu has been masterful since 2009 in disguising the elephant of the occupation in the room of Europe–Israel relations by insisting that his audience focus only on Iran and the nuclear issue. Netanyahu insists that the threat of a nuclear weapon in the hands of a deeply anti-Western and violently anti-Semitic regime, and of a regional arms race, trumps all other issues. Yet, at bottom, Europeans are reluctant to buy the “mad mullah” narrative – as evidenced by the total absence of European reaction to the recent US decision to cancel the last layer of missile defence they had planned for Europe, ostensibly to protect Europeans from Iranian missiles.<sup>53</sup> Nor – as evidenced by our survey – do they in any way buy the suggestion that the Iran problem somehow has to be “solved” first before Israel can be expected to think seriously about peacemaking with the Palestinians.

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<sup>53</sup> David M. Herszenhorn and Michael R. Gordon, “US Cancels Part of Missile Defence that Russia Opposed”, *New York Times*, 16 March 2013, available at [http://www.nytimes.com/2013/03/17/world/europe/with-eye-on-north-korea-us-cancels-missile-defense-russia-opposed.html?\\_r=1&](http://www.nytimes.com/2013/03/17/world/europe/with-eye-on-north-korea-us-cancels-missile-defense-russia-opposed.html?_r=1&).

In short, Europeans need to bring it home to Israelis that they will no longer go out of their way to align their regional policies with Israel's narrative. Since that narrative is largely shared by the US, this will mean friction with Washington. But, as we noted earlier, EU states are less terrified than they were about diverging from the American line, provided that they can do so in good company; and the US will know that any hint of insubordination, of independent thinking on the region, from Europe will sharpen Israeli concerns about the possibility of "losing Europe" and thus usefully strengthen the Americans' own hand in Israel.

Finally, having acknowledged the problems with sticks, we should not forget carrots in our dealings with Israel. In the early days of the EU's neighbourhood policy, European Commission President Romano Prodi would hold out the promise of "everything but the institutions" – that is, the vision of complete economic integration of the EU's neighbours through full enjoyment of the EU's "four freedoms" – the free movement of people, goods, services, and capital. Europeans might try to tempt Israel with the renewal of this vision – explicitly contingent, of course, on a settlement with the Palestinians. But with the EU as weakened as it has become, it is hard to imagine the present Israeli government seeing this prospect as decisively alluring.

That aside, the most obvious inducement Europe has to offer is the prospect of renewing negotiations, suspended in 2009, on an "advanced status" for Israel in its relationship with the EU, to be achieved by a new Association Agreement. The EU statement at the last EU–Israel Association Council talks of 20 new areas of co-operation that could be broached in the context of such an upgraded relationship.<sup>54</sup> The problem is, however, that Israel is evidently not salivating; indeed, the tenor of the exchanges suggests more enthusiasm on the European side to resume discussion of upgrades. This may be Israel playing hard-to-get – to make it very clear that it is not going to pay anything in exchange. But it probably also reflects that Israel already has the things that really matter to it, the juiciest carrots – market access, science and technology co-operation, and visa-free travel; and that, as we have seen, the suspension of the upgrade talks has not interrupted the steady delivery of further tasty morsels, from OECD membership to the integration of Israel's pharmaceutical industry into the single market.

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<sup>54</sup> Statement of the European Union at the Eleventh Meeting of the EU–Israel Association Council, 24 July 2012, available at [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/EN/foraff/132046.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/132046.pdf) (hereafter, Statement of the European Union at the Eleventh Meeting of the EU–Israel Association Council).



On the carrot front, then, the real issue for Europeans is to break the habit of handing them over unconditionally. As noted above, there is a deep-seated cultural problem here: relations with the EU's neighbours such as Israel are run by an institution, the European Commission, which is genetically predisposed to embrace anyone willing to take on board the EU *acquis* of standards and regulations. Adoption of a less technocratic, more politically savvy approach will require, as with the labelling issue, a combination of the more forward-leaning member states and the EEAS to be readier to assert themselves. Ideally, the current review of the EEAS will conclude that it should be put firmly in the driving seat of the neighbourhood policy. At all events, it is high time for member states and the EEAS to call for a stock-take – to review what further enhancements of the EU–Israel relationship are under consideration (which sector, for example, could follow pharmaceuticals in benefitting from the Agreement on Conformity Assessment and Acceptance?), and what *quid pro quos* might reasonably be expected from Israel.

Patently, the moves by Israel that Europeans would really like to see – a peace deal, or at least a settlement freeze – are wholly out of reach in the context of some new technical co-operation agreement. But there are some less demanding “asks” that Europe should put forward before inking any new bilateral deals with Israel – asks to do with sustaining the possibility of a future Palestinian state. It is time now to look at that side of the issue.

## Working on Palestinians

The other side of the coin of resistance to settlements is sustainment of the Palestinians; is there more that Europeans might do here, beyond financial aid? Many Europeans are frustrated at how hard the Palestinians are to help. Abbas seems to proceed with no clear strategy – as evidenced by his misdirected effort to secure state recognition at the UN in 2011 and his seeming lack of any follow-up plan for using the upgraded diplomatic status once it was awarded by the UN General Assembly in 2012. But the accusation of lack of strategy may be a little hard given that Abbas and the PA have, since the victory of Hamas in Gaza in 2007, been doing exactly what the US and other members of the Quartet have told them to, i.e. focussing on “state-building” (and security co-operation with Israel) as means to build Israeli confidence and to marginalise Hamas.

It is hardly the Palestinians' exclusive fault that this strategy has turned out to be an own-goal. Rather than undermining Hamas, it has diminished the

PA in the eyes of its own people; and it has sapped the Palestinian economy by increased dependence on foreign aid. If “Fayyadism” has led nowhere, it is Europeans as much as Palestinians who need a strategy rethink. After surveying how the Palestinian presence is being undermined in both East Jerusalem and Area C, the EU has toyed with symbolic actions that EU officials might take, such as acts of physical presence at court cases or illegal evictions or demolitions, to signify moral support. But it is the PA itself that should be leading the way here; and the PA cannot hope to command the allegiance of West Bankers, nor Fatah to lead the wider Palestinian movement, unless they establish themselves first and foremost at the head of non-violent resistance to the occupation. The EU and its member states should be prodding and poking Abbas and his allies into a much more prominent leadership role.<sup>55</sup>

So Europeans should encourage the PA to demonstrate more leadership to its own people and to do what it can to push forward Palestinian reconciliation. And they must also now confront the problem of the West Bank dependency culture that they have helped create and the hollowing-out of the real economy that Israeli controls and restrictions have brought about.

It is often observed that European aid may perversely be serving to prolong the occupation – by softening its material impact on the Palestinians, and its financial impact on the Israelis. The latter, of course, should by rights be bearing the costs of their occupation; the fact that they have passed the bill to Europe obviously makes it easier to subsidise the settlement enterprise.

As Europeans come to terms with the realisation that their new era of austerity, ushered in by the financial crisis of 2007, is likely to be with them for years, continuing aid to the Palestinians at over €1 billion annually must be unsustainable. But what then is to be done? Simply turning off the financial tap – visiting immediate impoverishment on tens of thousands of blameless Palestinians, and quite possibly precipitating a third intifada – seems an unacceptably irresponsible alternative. That seems to point ineluctably towards

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<sup>55</sup> Just as Obama may have slyly incited the Europeans in his 2011 AIPAC speech (see footnote 34), so there may have been a message for Palestinians in his remarks at his press conference in Ramallah: “If given the chance, one thing that I’m very certain of is that the Palestinians have the talent, the drive, and the courage to succeed in their own state. I think of the villages that hold peaceful protests because they understand the moral force of nonviolence.” See Transcript of joint press conference of President Obama and PA President Abbas, Ramallah, 21 March 2013, available at <http://unispal.un.org/unispal.nsf/47d4e277b48d9d3685256ddc00612265/1d0d783b4d85688d85257b35006784c5?OpenDocument>.

a middle course: either turn the money off slowly, with plenty of notice, over a number of years; and/or switch it out of direct budgetary support to the PA into development assistance.

In more normal conditions, both moves would make a lot of sense. Indeed, the recent World Bank report quoted above concludes with the words: “Bolder efforts need to be made to stem the deterioration and help put the economy on a sustainable growth path that will reduce its dependence on donor transfers.” Kerry has evidently seized this point and is working on a package of measures to promote economic development in the West Bank. For European donors, the strategy should be to put the PA on notice that the days of the dependency state are numbered – but that Europe will stay around long enough to assist them in shifting their focus from “state-building” to “economy-building”, from running a large public sector to enabling the private sector to generate jobs and tax revenue. Critically, this would require the PA to shift its mindset from “but we can’t do that because of the occupation” to “these are the things we need to do – and the terms of the occupation must change to allow us to do them”.

Thus if the necessary renaissance of agriculture and light industry is prevented by Israeli planning constraints in Area C, then the PA must present the case for taking the requisite tracts of Area C and re-designating them as B or A (a process always envisaged under Oslo). If the Paris Protocol has in practice resulted in a Palestinian economy that has become less integrated with that of Israel but more isolated from the outside world, and in a revenue-handling regime that tempts the Israeli government to deny the Palestinians their own money to punish annoying diplomatic behaviour, then the Palestinians must demand something different. The ability to re-route trade through Jordan, without all the delays and expense of trans-shipment through Israel, is clearly necessary for a sustainable Palestinian economy – and Europeans could help ensure it was managed without jeopardising Israeli security. And if the Joint Water Commission gives Israel predominance in the allocation of West Bank water resources because of what the World Bank calls “fundamental asymmetries – of power, of capacity, of information”,<sup>56</sup> then the PA, with European support, must demand that it is rebalanced.

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<sup>56</sup> World Bank Publishes Assessment of Restrictions on Palestinian Water Sector Development”, World Bank, April 2009, available at <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/WESTBANKGAZAEXTN/0,,contentMDK:22145826~pagePK:1497618~piPK:217854~theSitePK:294365,00.html>.

Most critically, of course, the PA should be pushing for the lifting of the blockade of Gaza. It is absurd that it continues to channel European money to pay tens of thousands of employees in the Strip to sit at home; and an organisation that aspires to lead the whole Palestinian nation could usefully show more solidarity with their brothers in the other half of the OPTs. Again, looking positively ahead to the achievement of their own state, for the viability of which the unity of Gaza and the West Bank is essential, the PA needs to be formulating its own ideas on the necessary transport links between the two entities, with an eye to route safeguarding.

In practice, this is of course a lot to ask of the PA, distracted as it is by a fiscal crisis and daily events, and given the track record of Israeli nay-saying. So Europeans should offer their expertise and support – different member states could mentor different elements within the PA to help them define with authority just what help they would need, and just what changes in the conditions of the occupation are required, to enable them to build a viable Palestinian economy. And some of the work has already been done at the local level: as the UN Special Coordinator for the Middle East Peace Process notes in a recent report, Palestinian local councils have in the past two years submitted 32 new planning schemes to the Israeli authorities, but none has yet been approved.<sup>57</sup> Forward-leaning EU states could also make more use of the tactic of “anticipating” Israeli planning approval for development projects in the West Bank, leaving the Israeli authorities to choose between acquiescence and politically embarrassing demolitions.

To all of which it would be all too easy to reply “a nice dream, but useless; Israel will never wear it”. This may or may not turn out to be true. But for the PA or Europeans to assume it in advance, and adapt their behaviour accordingly, is tantamount to giving up on the aim of a viable, independent Palestinian state. Rather, both Palestinians and Europeans urgently need to get off the back foot in their dealings with Israel and impress upon the latter that, as the 20th anniversary of Oslo approaches with no sign of a final settlement in sight, things in the OPTs cannot go on as they are. Whatever else, Palestinians must be empowered to earn their own living – matching a progressive reduction in European budgetary support – and the terms of the occupation must be altered

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<sup>57</sup> Office of the United Nations Special Coordinator for the Middle East Peace Process, “Report to the Ad Hoc Liaison Committee”, 19 March 2013, paragraph 36, available at [http://unispal.un.org/pdfs/AHLC-March2013\\_UNSCOrpt.pdf](http://unispal.un.org/pdfs/AHLC-March2013_UNSCOrpt.pdf).

to enable the Oslo intention of a progressive build-up in the role and authority of the PA.

Thinking along these lines is becoming evident in some parts of Brussels. A more positive note was struck in the EU's statement at the 2012 meeting of the EU–Israel Association Council, when the EU declared that it “will take steps to address the social and economic situation of the Palestinian population in Area C, will strengthen Palestinian planning capacities and, stressing Israel's obligations regarding the living conditions of the Palestinian population in that area, will engage with the Israeli authorities to work out improved mechanisms for the implementation of donor funded projects in that area”.<sup>58</sup> What is now needed is for such intentions to be vigorously implemented, in close partnership with the PA; to be given new urgency by the announcement of a progressive wind-down of EU budgetary support to the PA; and to be set in the context of a much more hard-headed European approach to further developing relations with Israel.

This, of course, links back to our earlier discussion of how to influence Israel – and in particular the need to break with the self-defeating habit of hunting for new ways to unconditionally thicken the EU–Israel relationship. In other words, the policy should be no more free carrots for Israel, only carrots bartered for the necessary changes in the terms and conditions of the occupation. As noted above, this will require the member states and/or the EEAS to be readier to assert themselves and to require the European Commission to operate the technical aspects of the EU relationship with Israel in the context of a political strategy laid down by the member states and their high representative.

However reasonable such a strategy may be, it will still require political courage to advocate it and a substantial “advance guard” of member states if the rest are to be brought along. Often in the past, the EU3 – France, Germany, and the UK – have been able to pull the strings behind the scenes. A range of considerations (including the UK's uncertain commitment to Europe and the deterioration in Franco-German relations) suggest that a wider coalition is now needed. The obvious place to start would be with the major donors – a grouping that would add the Nordics (including the Norwegians, who chair the current international donors group) and the main Benelux countries to

the EU3 – whose collective agreement would anyway be necessary to plan the sort of programmed reduction and redirection of aid to the Palestinians recommended here. Such a group would also be a natural forum for discussing which changes most urgently need to be made to the terms of the occupation – and how to manage the wider relationship with Israel so as to bring those changes about.

## Working on Arabs

It is not only Israel that has been let off the hook by Europe’s readiness to reach for its chequebook. Financial support to the Palestinians from fellow Arabs, even from the wealthy energy exporters, has been markedly less forthcoming than declarations of political solidarity – and consistently less than Europeans have put on the table. At the recent Arab League summit in Doha, the hosts proposed a \$1 billion fund “to protect the Arabic and Islamic heritage of East Jerusalem”, offering a quarter of that sum themselves.<sup>59</sup> Europeans should push for this idea to become a reality.

Of course, Arab leaders have had much else to distract them in recent months and years. It is understandable that it has taken a particular crisis, such as last November’s clashes in Gaza that elicited visits from a number of Arab foreign ministers (and their Turkish counterpart), to catch their attention. Yet their consistent engagement is essential for a successful resolution of the conflict. They are needed not just to take over from Europeans as the principal financial backers of the PA but also, as we have argued, to push Fatah and Hamas to reconcile. And their involvement is necessary, both to sustain the idea that peace negotiations can one day succeed and in due course to help them happen. Arab support will encourage Palestinians who will otherwise fear being steamrolled by Israel and the US. And Israel, too, will need their assurance that the prospect of regional acceptance of the Jewish state within its 1967 borders, as embodied in the 2002 Arab Peace Initiative, remains on offer.

Europeans should therefore make it their business to foster Arab engagement, concentrating particularly on Egypt, Saudi Arabia, Qatar, and the Arab League – as well, of course, as Turkey. Armed with the latest assessments of the undermining of the Palestinian presence in East Jerusalem and the West Bank, and promising a tougher line on Israeli entrenchment of the occupation, Europeans should propose a three-cornered conversation with the PA. This should be aimed not just at transferring the main burden of financial support

but also at making Arab support on the ground more visible and identifying specific relaxations in the occupation that would most help the real economy, for which all should push.

# Conclusion

In sum, then, the argument is that it is time for Europeans to match their rhetoric with action. As their diplomatic statements have repeated with increasing emphasis, the remorseless expansion of settlements, the lockdown of Gaza, and the systematic undermining of the Palestinian presence in East Jerusalem and in the West Bank have eroded the basis for a two-state solution almost to the point of collapse. So the most urgent need is to find ways to persuade the Israelis to desist from further entrenching their occupation and to move to de-occupation.

Words on this point will carry no conviction as long as Europeans are allowing people, activities, and enterprises based in the settlements to benefit from interaction with Europe as though the settlements were part of Israel proper. Some steps have been taken, and more are needed, to ensure that European practice on this is properly aligned with European policy, and indeed international law. But beyond such “basic hygiene”, Europeans should break with the mindset of constantly looking for ways to thicken relations with Israel without making such moves conditional on parallel Israeli action to address European concerns. De-occupation and an end to the settlement programme should of course remain at the top of Europeans’ expressed priorities. But given that even the US president has been unable so far to get the Israelis to desist from settlement expansion, more attainable points for Europeans to press on are easing of the restrictions of the occupation – first and foremost to assist the Palestinians to build a sustainable economy.

Although the PA – under Western tutelage – has in recent years concentrated on “state-building”, the Palestinian economy has been progressively hollowed out by the restrictions of the occupation. Europe will be unable to sustain current levels of aid, so it is time to wean the PA off its donor-dependency and refocus it on building the economy and campaigning for Israel to relax its



controls so as to enable that to happen. Europeans should also work to engage other Arabs to take up the slack of financial support; to press reconciliation and new elections on Fatah and Hamas; and to bring the helpful 2002 Arab Peace Initiative back into currency.

A final-status peace agreement or de-occupation, of course, is probably unattainable without a change of heart on the part of Israelis, and – probably – a major US initiative. Neither is out of reach. Israel is sleepwalking towards international isolation like apartheid South Africa: the strategy proposed above should help Israelis realise their predicament, before it is too late. It should also help prepare the ground for a serious new US peacemaking effort, not least by strengthening Washington’s hand in dealing with an Israel that fears it is “losing” Europe.

For even the pragmatic and realistic Obama will not be immune to legacy concerns in his second term, and will prefer to be remembered as the president who finally delivered peace than as the president on whose watch the last hope of peace was extinguished. Kerry has underlined the urgency and his readiness to devote his own time and efforts to it. The 50th anniversary of the Six-Day War and the start of the occupation, just four years away, suggest a deadline (coincident with the end of Obama’s term of office) – half a century seems as long as any occupation can last without becoming a de facto annexation, which the international community will not accept. So it might not be fanciful to envisage that, a year or two from now and in the absence of any amelioration of the situation on the ground, Obama might be ready to put his own solution on the table and invite the protagonists to negotiate it. A Europe that had learned to treat both parties with tougher love would have more weight to put behind such an initiative.

Ultimately, Israel stands or falls by its moral capital. The circumstances of its foundation, its early heroics on the battlefield, and its pioneering myths built up huge stocks – which have been depleted at an ever-accelerating rate in recent years. David is now seen by the world at large as Goliath; from being the shining exemplar of democracy in the Middle East, Israel’s polity looks increasingly tinged with extremism, even racism.

As the parallels between its policies in the West Bank and Gaza with those of apartheid South Africa become ever more difficult to resist, so the likelihood of it ending up as a global pariah becomes increasingly probable. To avoid this,

to bring that fact, and that prospect, home to Israel with clear action now. In so doing they will also be doing right by the long-suffering Palestinians, and serving their own interests in the Arab world. As foreign-policy dilemmas go, this does not seem a particularly complicated one.

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