



# *The EU, Israel and Hamas*



*Clara Marina O'Donnell*



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## Israel and the Palestinian territories



## 1 Introduction

The international dynamics of the Arab-Israeli conflict are still challenging, not least because of deteriorating relations between the US and Iran. Nevertheless, shifts in the global context have been favouring peace. After focusing on other priorities in the Middle East for seven years, the US administration of George W Bush, keen to secure a legacy, has started working towards a peace deal between Israelis and Palestinians. Many Arab states, worried about Iran's growing clout and the spread of radical Islam, have been taking a stronger interest in finding peace with Israel. At the same time, a growing range of outsiders are keen to assist the peace process. Russia, despite growing strains in its relations with the US and the EU, is still committed to US-led peace efforts. China, not an important player in the region but keen to appear a responsible stakeholder, has recently designated its own Middle East envoy. And of course the EU, for which the Middle East is central to building a more effective common foreign and security policy, is keen to help.

As a result, a peace conference that the US organised in November 2007 in Annapolis received wide international support and broke new ground with the involvement of Saudi Arabia and even Syria. Annapolis launched new negotiations with the goal of securing a deal between Israelis and Palestinians by 2009.

However, the situation in Israel and the Palestinian territories is arguably less favourable than at any time since the beginning of the Arab-Israeli conflict. The most critical obstacles to peace lie on the side of the Palestinians, who are divided and feuding. Mahmoud Abbas, the president of the Palestinian Authority (PA), nominally represents the Palestinians in the peace negotiations. But he rules only over the West Bank, and he barely has a grip there. The other

Palestinian territory, Gaza, is controlled by the militant Islamist group Hamas, which opposes the current peace process and is engaged in escalating violence with Israel. Obstacles also exist on the Israeli side: Prime Minister Ehud Olmert is weak politically, notably due to the fallout from the 2006 war in Lebanon. Some factions of his coalition are opposed to the concessions that would be necessary to achieve a two-state solution. At the time of writing, in April 2008, the prospects of the peace negotiations look increasingly bleak.

America's new-found commitment is a necessary condition for peace in the Middle East; the US remains the most influential outside player in the region and the only one that can lean on Israel. But it is not sufficient. A stable peace settlement will be out of reach as long as half the Palestinian territories are unrepresented in the talks, and virtually at war with Israel. So if western governments and their Arab partners wish to take advantage of this moment of international collective determination to end the conflict, they will need to help resolve the local stalemate by exploring new avenues to reconciliation. This will have to include talking to Hamas.

Although the EU still only has a supporting role, it can make a tangible contribution in the international peace effort. The EU has long been committed to ending the Israeli-Palestinian conflict, because of its sense of historical responsibility; its geographical proximity to this destabilising conflict; and its growing ambitions to be a global player. Through the European Neighbourhood Policy, the EU has extensive bilateral ties with both Israel and the Palestinian territories. The EU is also the leading donor to the Palestinians, and has been involved on the ground through its efforts in Palestinian nation-building and training Palestinian security forces. The EU has even provided a border monitoring mission on the Egypt-Gaza border and it has fought hard to get a seat at the table in diplomatic efforts to support the peace process.

Most importantly, the EU can act as the 'other' voice which makes the idea of engaging Hamas more acceptable to Israel and the US.

Until now, Israel, the US, the Europeans and most other countries have tried to isolate Hamas, in the hope of bringing about its collapse. But despite two years of harsh sanctions on the group, Hamas is still in control of Gaza and undermining the peace effort with its attacks on Israel. As long as Hamas remains a leading political and military force on the Palestinian side, its involvement will be needed to curb the violence, stabilise the situation on the ground and, in the longer term, to secure a lasting basis for peace. Hamas' current violent tactics and intemperate rhetoric are unacceptable. But within a favourable environment the organisation may yet transform itself into a more responsible political player.

Another way in which the EU can contribute to the peace process is by showing the Palestinians that the West is seriously committed to improving their lives. The economic situation in the Palestinian territories was already dire before the international community decided to bloc aid to the Hamas government in 2006. As a result of increasingly severe Israeli sanctions, Gaza is now facing a humanitarian crisis. Poverty and unemployment are fuelling alienation and radicalisation, undermining the peace effort. The EU should not only maintain its aid efforts but also strive to persuade Israel to lift its current restrictions on freedom of movement in the Palestinian territories, and on common borders. Without this, EU development assistance will be pointless.

In all its initiatives, the EU will need to be careful not to damage its relations with Israel and the US, or it will lose the little influence it has in the diplomatic track of the peace process. To help gain more trust and credibility amongst Israelis, the EU can also offer peacekeeping assistance and new incentives such as the prospect of full participation for Israel in its single market.

## 2 New constellations in the region

Regional dynamics have been shifting in the Middle East, and so have the security concerns of the Arab countries. Various armed conflicts have destabilised the region, and an enfeebled Iraq has dramatically increased the power of Shia-dominated Iran. Sunni-Shia rivalries cause Sunni Arab countries, in particular those with large Shia minorities such as Saudi Arabia and Bahrain, to view Iran with suspicion. They dislike the footholds that Iran has established across the region through its alliances with Syria, with Hezbollah in Lebanon, and with Hamas in the Palestinian territories.

Arab governments also worry about radical Islamism which is winning popular backing across the region, spearheaded by Hezbollah, the Muslim Brotherhood and Hamas. Al-Qaeda is also making its presence felt, with affiliate groups appearing in Iraq and Saudi Arabia. Radical Islamists put pressure on pro-Western governments by accusing them of betraying Arab interests – charges which resonate with many citizens in Arab countries.

In recent years the Arab-Israeli conflict has acquired an even more corrosive edge, providing ideological ammunition for radicals across the region. Arab countries, led by Saudi Arabia, are consequently seeking to end the conflict, to neutralise a major generator of support for Islamists and Iran. This is why Saudi Arabia launched the Arab League's peace initiative in 2002, and after it stalled, re-launched it in 2005.

Over the last seven years, the Bush administration has focused on other areas in the Middle East, most importantly Iraq and Iran. But as President Bush approaches the end of his second term and the

US is still bogged down in Iraq, he is keen to leave a positive legacy in the region. Hence his new declared resolve to achieve a lasting peace between Israel and the Palestinians. Since Annapolis, Bush has gone to the region to gather support for the peace initiative and Secretary of State Condoleezza Rice has made it one of her key priorities. But the US suffers from a perception problem which risks hampering its peace efforts. Its own stock of credibility has run low. People in the region, and beyond, query Washington's motives for commitment at this late stage in the life of the administration. Some suspect Bush of having organised the Annapolis conference merely to reinforce Arab support in the US's conflict with Iran.

### The Palestinian territories: From bad to worse

Political authority in the Palestinian territories has fragmented since January 2006, when the radical Islamic group Hamas won a surprise victory in the parliamentary elections. The movement, an

<sup>1</sup> *The PA is the interim administrative organisation which governs aspects of the Palestinian territories. It was set up by the Oslo accords.*

offshoot of the Muslim Brotherhood, is officially committed to the destruction of Israel. For many years Hamas refused to recognise the Palestinian Authority (PA), and it still rejects the Oslo peace process.<sup>1</sup>

Shortly after Hamas formed a government, feuding broke out with Fatah, the leading Palestinian national movement since the 1950s and the ruling party since the creation of the PA in the 1990s. Fatah found it difficult to surrender political authority to Hamas and power struggles broke out in particular over the control of the Palestinian security forces (mostly loyal to Fatah). A government of national unity was formed at Mecca under Saudi auspices in spring 2007, but rapidly collapsed. The conflict escalated when Hamas violently expelled Fatah from Gaza in June 2007. Since then, the Palestinians' two physically distinct territories have been politically separated too, with Hamas in sole control of Gaza, and President Mahmoud Abbas heading a Fatah-backed government in the West Bank.

While intra-Palestinian feuding continues, a spiral of violence has developed between Israel and Hamas. Its armed wing has launched a growing number of Qassam rockets from Gaza into Israel, as have various other militant groups, including Islamic Jihad and the Popular Front for the Liberation of Palestine. In 2007, although only two Israeli civilians were killed, 1,500 rockets and mortars hit Israeli soil and in the first months of 2008 up to several <sup>2</sup> IDF, '2007 annual report', dozens of rockets were being launched a day.<sup>2</sup> December 31<sup>st</sup> 2007.

In response, the Israeli Defence Force (IDF) has clashed with Hamas and other groups in Gaza with increasing frequency and intensity. In March 2008, Israeli forces killed more than 100 Palestinians in Gaza within a few days. In addition in early February Israel suffered its first suicide bombing in over a year; confusingly both Al-Aqsa, a Fatah affiliated group, and Hamas claimed responsibility for the attack. And in March a Palestinian gunman killed eight students in a religious college in Jerusalem.

Since Hamas won government in 2006, Israel, the US, the Europeans and most other countries have isolated the group. Hamas' electoral victory posed a dilemma for the US and the EU. The group had been chosen democratically by the Palestinian people but it is on US and EU lists of terrorist organisations. As important donors to the PA, the EU and the US faced the prospect of financing a terrorist organisation. So the 'quartet' – the EU, US, Russia and the UN – set out three principles it expected the new government to follow: recognition of Israel, renunciation of violence, and acceptance of existing peace accords. Faced with Hamas' refusal to comply, the EU and the US then interpreted these principles as conditions for maintaining contacts with the government and releasing development aid. Most other countries, including many Arab states, also severed contacts with the new government, while Israel withheld the customs dues it collects on behalf of the PA.

Since the 2007 Hamas take-over in Gaza, Israel, the EU, the US and many Arab states have continued to isolate Hamas. Israel has reinforced its boycott by closing its border with Gaza. At the same

time, Israel and most outsiders have given their full support to President Abbas and the PA in the West Bank.

### **Obstacles to the current approach of the peace effort**

The aim of the Annapolis process is to achieve peace by reaching an agreement on a two-state solution between President Abbas and Prime Minister Olmert. Both sides are then supposed to sell the deal to their respective constituencies, while the prospect of peace is supposed to undermine Hamas' support base among Palestinians. Unfortunately, so long as half the Palestinian territories are unrepresented and virtually at war with Israel, the current peace effort is destined to fail.

President Abbas is personally committed to peace but he does not speak on behalf of all the Palestinians. Not only does he have no control over Gaza, but his party, Fatah, is so weak and divided that Abbas can barely speak on behalf of the West Bank. He therefore cannot deliver on any commitments which would result from peace negotiations. Most importantly from Israel's perspective Abbas cannot end the growing violence.

The escalating conflict between Hamas and Israel is undermining the current negotiations by increasing calls from within Israel to break off talks while violence continues. But the conflict is also weakening Abbas. The PA president has lost support from Palestinians across the territories for pursuing negotiations while Israel clamps down on Gaza (be it through strengthening border closures or killing growing numbers of Palestinians). Abbas is seen as co-operating with the enemy.

Peace negotiations will only be able to lead to a credible end-game when the spiral of violence has stopped and Palestinians have a single government committed to peace. Tzipi Livni, Israeli foreign minister and chief negotiator, emphasised in January the need for a united Palestinian government, stating that while Israel would like

to reach a peace deal by the end of the year, "we need this period of time not just to negotiate, but ... for capacity building. We need an effective government (in the West Bank and Gaza) that can rule."<sup>3</sup> The question is how does one reunite the Palestinian territories under one government committed to peace? If the EU and the US want to help end the conflict, they need to help resolve the local stalemate.

<sup>3</sup> Barak Ravid, 'Olmert, Abbas set to meet in Jerusalem, discuss Gaza crisis Sunday', *Haaretz*, January 1<sup>st</sup> 2008.



### 3 A wider peace effort: Include Hamas

Given the current impasse the quartet and other key players should consider a different approach towards Hamas. The policy of isolation is not working. Some EU member-states hoped that isolation would encourage Hamas to change its stance towards Israel. Israel, the US, and many other countries hoped that the boycott would provoke the collapse of Hamas as a result of economic pressure. But despite two years of harsh sanctions Hamas is still strong and in control of Gaza. Nor has it made any concessions; on the contrary, since the boycott the hardliners in the movement have gained in influence. Another unintended effect is that Iran – a key supplier of money and allegedly arms to Hamas – has strengthened its influence in Gaza. Al-Qaeda, too, is making overtures and offering assistance (although Hamas has so far refused its support).

The Israeli government has been considering a substantial ground offensive in Gaza to overthrow Hamas. Israel is under pressure because its current military operations are failing to stop the Qassam rockets. Moreover, it is nervous because Hamas is building up its military capability.

But force may not topple Hamas. The difficulty of defeating a group of fighters who blend easily into the local population was demonstrated by Israel's incursion in Lebanon last year. The month-long large-scale campaign caused over 900 deaths and displaced over one million people, but Israel could not disarm Hezbollah. It only weakened it – and Hezbollah has since rebuilt its military strength. (In addition the war boosted Hezbollah's political capital, allowing it to portray itself as an effective movement of national resistance.) Fighters holed up in the warrens

of Gaza's towns would present a similar challenge. A large ground operation would be likely to inflict severe human losses on the Israeli military. In addition a substantial escalation would destabilise the West Bank.

Instead, Israel, the EU and the US should try to engage Hamas. Hamas is an unattractive partner, but the potential benefits of ending its isolation outweigh the risks. Hamas can help stabilise the conflict. In addition, if it were recognised as a legitimate political force, in the longer term the group might evolve from a resistance movement into a political party, which ultimately would strengthen the foundations for a lasting peace.

### To stabilise the conflict

The EU should advocate a long-term ceasefire between Israel and Hamas, and persuade the US to do likewise. Such a deal, referred to in the region as a *'hudna'*, would be designed to end hostilities for up to a decade without either side having to commit themselves to negotiating peace. The Hamas leadership has indicated that it would be willing to sign such a long-term agreement and, over the last few months, has several times offered the IDF a truce to end the spiral of violence.

The EU should encourage Israel to agree to a long-term ceasefire, and should highlight the potential benefits of working with Hamas to end violence. As the most disciplined and strongest group, Hamas is the most capable of imposing order across the many violent and chaotic factions in the Palestinian territories (particularly in Gaza where powerful clans and families exacerbate the lawlessness of the different militias). Hamas has shown its potential by the improved order it has enforced in Gaza since it seized power, and by the ceasefire it managed to maintain for 16 months from early 2005 (something Fatah has always found difficult to enforce on its Al Aqsa militants).

### Hamas – a partner for peace?

There is also a possibility that Hamas could eventually tolerate a two-state solution with Israel. Such a prospect seems far-fetched, given its aggressive rhetoric and violence towards Israel. But if one looks back over the last few years, Hamas has shown some signs of transforming itself from a resistance organisation into a political group with a more conciliatory stance towards its avowed enemy. After rejecting the PA for many years, Hamas participated in local elections in 2005 and the parliamentary elections in 2006. Some Hamas leaders have indicated a willingness to compromise on peace with Israel. Khaled Meshaal, Hamas' hardline leader in Damascus, has publicly acknowledged Israel's existence "de facto" – even if he has fallen short of recognising its right to exist. He has also declared that "Hamas has announced more than once that it is acting to establish a Palestinian state in the 1967 border" (the border prior to the 1967 war, which serves as the basis for a two-state solution).<sup>4</sup> But if Hamas is to evolve it will have to be allowed to participate, in a united and democratic Palestinian political system.

<sup>4</sup> Khaled Meshaal at a press conference in Cairo in November 2006.

Hamas is not a uniform group, but a collection of competing factions of hardliners and more moderate elements. Since the 2006 elections, the influence of the moderates has declined – partly as a result of the pressure of the international boycott and the fighting with Israel, which are encouraging radicalisation. The EU should instead try to strengthen the moderates and encourage them to continue transforming Hamas. During the late 1980s and early 1990s Fatah underwent a similar evolution, from a resistance movement seeking the destruction of Israel to a more accommodating governing party.

As a first step, the EU, US and Israel should support reconciliation between Hamas and Fatah. The Palestinians could start by co-operating on practical issues such as borders (see section below). Later they could form a new government of

national unity which would be followed by elections. A *rapprochement* between Hamas and Fatah would also restore political unity across the West Bank and Gaza and pull the emerging Palestinian democratic system out of the limbo it has been in since the June take-over.

The Hamas leadership has intermittently called for reconciliation with Fatah. President Abbas has in the past been deeply opposed to such ideas. His forces fought Hamas during the June overthrow, and subsequent Hamas violence against Fatah men made Abbas more implacable. But an increasing number of Fatah members are calling for reconciliation. Intermediaries in both parties and foreign mediators (see further below) have been reaching out in attempts to end the current crisis. Pragmatic elements in both factions realise how damaging the current rift is to the Palestinian cause. Even Abbas has recently shown signs of softening his position. But he remains under international pressure to maintain a tough line; Israel and the US have made it clear they would suspend the peace negotiations and their support for him if he were to engage with Hamas. If, however, the Palestinian president's international sponsors changed their stance and encouraged him to engage with a more conciliatory Hamas, it would give Abbas more room for manoeuvre.

With a *hudna* in place and Hamas and Fatah reconciled, Abbas' men or third parties, such as the EU, or Turkey, could start testing the ground to assess whether Hamas would consider peace with Israel on the basis of a two-state solution. There is only a slim chance that Hamas will take part in a peace process in the near future. Notwithstanding the positive claims from some Hamas leaders, there are still many hardliners in the group who are opposed to breaking off hostilities. But the *hudna* would offer the strongest prospect for changing the balance of forces within Hamas. In a process that might take a few years, the *hudna* could increase trust between Hamas and Israel, and allow Hamas to continue its process of political transformation.

Time and a vigorous democratic system would be likely to favour peace. If Hamas wanted to remain an important political force it would need to develop social and political agendas that appeal to voters (the boycott paradoxically helps Hamas, by shielding it from the need to deliver coherent economic and social policies). Most Palestinians favour peace with Israel and are not radical Islamists. So Hamas would have an incentive to become more conciliatory and pragmatic – with regard to its religious agenda and its stance on Israel. However, if Hamas were to continue to champion a strongly militant Islamist agenda, dissatisfied voters would be able to turn away from the movement. Over the next few years Palestinians might turn back to Fatah or to emerging political parties – many of which have conciliatory attitudes towards peace, and some of which reject the use of violence. Hamas' influence would in turn be reduced and the group would no longer represent such an important obstacle to peace.

Outsiders, including the EU, have two principal tools at their disposal to promote the transformation of Hamas into a more pragmatic force. Firstly, quartet members could offer the prospect of recognition and financial assistance, in exchange for the renunciation of violence and a constructive attitude towards talks with Fatah. Quartet members should not abandon the concept of conditionality as such, but should focus on the one condition (ending violence) which Hamas could deliver on now and which, in the short term, would bring the most tangible benefits. The prospect of an end to cash starvation would be a real incentive to Hamas, which faces increasing economic strain in trying to govern Gaza. Moreover, despite its radical rhetoric, Hamas is sensitive to how it is perceived abroad. The role played by the Hamas leadership in securing the release of BBC journalist Alan Johnston in 2007 underlies this sensitivity.

### **Try to exploit Syrian leverage**

In addition the EU and the US should reach out to the sponsors of

Hamas, in a bid to further increase the pressure on the movement to be more constructive.

Syria has close ties with Hamas and hosts its leader-in-exile, Khaled Mashaal. Syria also seems to be wearying of its international diplomatic isolation. It has shown signs of wanting to improve relations with Arab nations, the West, and even Israel. Damascus not only refused to host a ‘spoilers conference’ that Hamas proposed as a foil to Annapolis, but it also accepted the invitation to the US-led meeting and has made clear that it is keen to start peace negotiations with Israel on the Golan Heights.

The EU should encourage Israel and the US to pursue peace negotiations with Syria. If Damascus’ relations with the West and Israel improved Syria could pressure Hamas to rein in its forces and to compromise with Fatah. A shift in Syria’s position could also encourage moderate elements within Hamas; fearful of losing a key foreign supporter, they might distance themselves from the more radical elements in the group. At the same time, constructive co-operation between Syria and the West could also assist in Lebanon, where Syria could play a more constructive role. Naturally, this is an optimistic scenario. But there is a precedent. France has already been trying to use Syrian influence to stabilise Lebanon (see below). The same approach is worth trying towards Hamas.

### Risks of engagement

There are risks in recognising Hamas as a legitimate player. Some argue that international recognition would increase Hamas’ legitimacy and therefore strengthen its rule. But this is not a convincing argument. Hamas is not only already firmly in control in Gaza, but it is also ruling unchecked. If Abbas, the EU, US and other outsiders engaged with Hamas, they would have more opportunity to exert positive influence over the group, for example in its approach to the media. International engagement could also

reduce the influence of Iran, which Hamas turned to out of necessity rather than from any ideological sympathy.

A more significant risk is the potential for Hamas to take advantage of the long-term *hudna* to prepare future attacks. The EU and others can help minimise this threat by highlighting to Hamas the value of the gains a *hudna* would bring in terms of stability and freedom to function as a political group. Conversely the EU could remind Hamas that the price of breaking the *hudna* would be a return to Israeli military operations and repression.

It is possible that Hamas might not respond to advances from the EU, US and Israel. The incentives of cash and recognition may not be sufficient to persuade hardliners to renounce the use of force or soften their hostility towards Fatah and Israel. In that event, Israel and its international partners would have to consider other options, including the use of force by Israel. But at least Tel Aviv would be acting in the knowledge that all other options had been genuinely exhausted.

### Getting the key actors to the negotiating table

Many players supporting the current peace effort will find the prospect of working with Syria and Hamas uncomfortable, at the very least. Damascus is unpredictable. It is implicated in the murder of anti-Syrian Lebanese politicians. The US and the Europeans also suspect Syria of developing weapons of mass destruction. Nevertheless, a number of key actors believe Syria is central to unlocking the regional impasse. Russia, a close ally of Syria, strongly supports opening peace negotiations between Israel and Syria as part of the process launched at Annapolis. France, which had cut ties with Damascus after it allegedly murdered the former Lebanese prime minister, Rafik Hariri, in 2005, controversially sent two senior officials to Damascus in November 2007 in an attempt to persuade Syria to put pressure on Hezbollah to co-operate in the Lebanese presidential election.

<sup>5</sup> Barak Ravid, 'Attempt to exchange messages between Israel and Syria fails', *Haaretz*, December 21<sup>st</sup> 2007.

Israel is not opposed in principle to peace with Syria. It even approached Damascus at the end of 2007 – notably through EU intermediaries, including Germany – to test the water for new talks (although no common ground was found).<sup>5</sup> Israeli Defence Minister Ehud Barak has openly supported the idea of re-opening the Syrian track. The US has until recently been the most vocal opponent of renewing links with Syria. But the US, too, is of a more open mind these days. At Annapolis, the US and Israel agreed that talks with Syria should be opened as soon as possible, although the current peace effort should be limited to the Israeli-Palestinian issue.

<sup>6</sup> Alvaro de Soto, UN Middle East envoy, 'End of mission report', May 2007.

Opposition to engaging Hamas may also be less fierce than expected. Support for the policy of isolation was never unanimous in the quartet. Several high-level officials in the UN wanted freer contact with Hamas.<sup>6</sup> Russia invited Hamas officials to Moscow despite having signed up to the quartet conditions. And since the June 2007

<sup>7</sup> Saleh Al-Naami, 'Will Fatah wake up and dialogue?', *Al-Aham weekly online*, August 2007.

coup, while officially ceasing contacts with Hamas, Russia has attempted to encourage a reconciliation between the group and Fatah.<sup>7</sup> Switzerland and Norway have also talked to Hamas. Within the EU, officials in the Council of Ministers and the European Commission, as well as several member-states, privately recognise the need to engage Hamas in the long term. When the government of national unity was formed in spring 2007, various groups in the European Parliament publicly called for an end to the boycott of Hamas, as did the foreign affairs committee of the UK House of Commons and the Italian government.

Within the EU, the strongest opposition to engaging Hamas comes from the Netherlands, Germany and the UK. Several new member-states in Central and Eastern Europe are also opposed. However, in February 2008 Germany encouraged Israel to agree a ceasefire with Hamas. Within the UK many senior retired diplomats and some top

serving officials believe it is misguided to isolate Hamas. And just as Prime Minister Gordon Brown has talked about the need to engage with the Taliban in Afghanistan, so he might extend this approach to Hamas. The example of France, already engaged with Hezbollah (on the US terror list but not on the EU's), could help EU efforts to develop a new stance towards Hamas.

Some Arab countries have already been trying to reconcile Hamas and Fatah, recognising the disadvantages of isolating Hamas. Saudi Arabia sponsored the formation of the Palestinian national unity government at Mecca in 2007. It has since renewed attempts to end Palestinian feuding. Yemen has also sponsored a number of reconciliation initiatives. Other Arab countries have a dual policy towards Hamas. Egypt and Jordan fear that engaging the group could trigger calls from their own radical Islamic oppositions for greater political participation. So in public they have been strong supporters of the boycott. But at the same time, they have kept channels open with Hamas. Significantly, Egypt, since the dramatic breach of the Egyptian-Gaza border in January 2008, has recognised the need to engage Hamas and has started encouraging Hamas and Fatah to open negotiations. In March 2008, Cairo also tried to broker a ceasefire between Hamas and Israel.

Israel and the US will be the hardest to convince. The memories of the second intifada are still strong, and Israelis are reluctant to take risks. But even in Israel, there are growing calls – though only from a minority – to distinguish between different strands within Hamas and engage the moderates. The leading liberal newspaper *Haaretz* has repeatedly argued for dialogue. So has Gidi Grinstein, who was part of the Israeli negotiation team in the 2000 peace effort, and who is associated with the current Israeli negotiation team.<sup>8</sup> Moreover, a recent poll showed that 64 per cent of Israelis believe the government should hold direct talks with Hamas in order to secure a ceasefire.<sup>9</sup>

<sup>8</sup> Gidi Grinstein, 'Bear hug for Hamas', *Yetnews*, September 6<sup>th</sup> 2005.

<sup>9</sup> Yossi Verter, 'Poll: Most Israelis back direct talks with Hamas on Shalit', *Haaretz*, February 27<sup>th</sup> 2008.

The US is the most adamantly opposed to dealing with Hamas, particularly because of the perceived ramifications for its wider fight against terrorism. But strong arguments from the EU, Israel and other international partners could sway Washington, particularly a new administration that could be keen to make a fresh start in the Middle East.

The EU should take the initiative in encouraging the US and Israel to shift policy – towards peace negotiations with Syria; encouraging Israel to agree a ceasefire with Hamas; and supporting a reconciliation between Fatah and Hamas. The EU is well placed to do so, given the numerous contacts its member-states have with Arab countries, including Syria. The EU's close relationship with the US puts it in a key position to elicit US support for the new initiatives. The EU should not be afraid to encourage radical policy moves. It has done so in the past. The Venice declaration by EU heads of state and government recognised the need to involve the Palestinian Liberation Organisation (PLO) in the peace negotiations at a time when it was viewed as a terrorist organisation by Israel and the US.

The point at which talks might start with Hamas will depend on how long it takes the EU, the US and Israel to accept the new idea. Some EU member-states might want to give the post-Annapolis negotiations more time before trying a new approach. It might be necessary to wait for a new US administration. But there is a heightened sense of urgency. The situation on the ground is only likely to get worse, so the sooner Israel and the international community decide to try to engage Hamas, the better.

## 4 Rebuilding the Palestinian economy

The international boycott of Hamas has seriously worsened the problems of an already weak economy in the Palestinian territories. And the increasingly severe Israeli restrictions on Hamas-led Gaza – which have included blocking humanitarian supplies and electricity and fuel cuts – have created a dramatic humanitarian crisis. Ubiquitous poverty and unemployment are fuelling desperation and radicalisation, which in turn undermine the peace effort.

As the leading donor to the Palestinians, the EU can make a unique contribution to the peace process. Without a viable Palestinian state, one with a functioning economy as well as stable institutions, a two-state solution is simply not credible. Through its efforts, the EU can also show the Palestinians that the West is committed to improving their lives, and help restore the West's damaged credibility. The international boycott of Hamas has made many Palestinians feel they have been punished for their democratic choice.

But to have an impact the EU's development efforts will need to include Gaza. In addition, the EU will have to work hard to persuade Israel to lift its current restrictions on borders and freedom of movement across the Palestinian territories, which currently impede economic growth.

### **Barriers to growth in the West Bank**

Since the beginning of the second intifada in 2000, Israel has put in place an increasing number of restrictions on the movement of

people and goods in the West Bank. The security measures, which include over 560 roadblocks and checkpoints and a complex permit system, have reduced the amount of attacks. But, combined with the spread of Israeli settlements, they have also caused serious economic dislocation, fragmenting the territory into disconnected enclaves, to say nothing of the social and human impact.

<sup>10</sup> & <sup>11</sup> Office for the Co-ordination of Humanitarian Affairs (OCHA), 'The humanitarian impact on Palestinians of Israeli settlements and other infrastructure in the West Bank', July 2007.

In May 2007, 40 per cent of people in the West Bank reported difficulties getting to work during the previous six months, due to security restrictions.<sup>10</sup> The potential to export goods from the West Bank is reduced by the limited number of crossings, which creates serious delays and additional costs.

The Israeli 'security fence' currently being built along the western side of the West Bank is further hampering economic development. The structure is designed to prevent Palestinian militants getting into Israel. But most of it is being built on Palestinian land to the east of the 1967 border, often separating Palestinian farmers from their holdings. As a result, by mid-2006, less than half the families farming in closed areas could reach their plots.<sup>11</sup>

### The economic cost of the international boycott

The Palestinian territories are one of the most aid-dependent regions in the world. So there was inevitably a serious impact when donor funding was cut off by the international boycott when Hamas won the parliamentary elections. In 2006, when both the West Bank and Gaza were subject to the boycott, the PA's revenues dropped

<sup>12</sup> World Bank, 'Coping with crisis: Palestinian Authority institutional performance', November 2006.

by over two thirds under the combined impact of the loss of international funding and Israel's withholding of custom dues.<sup>12</sup>

Many public salaries went unpaid, social transfers were interrupted, and public services, such as health and education, were cut back to a minimum.

In the summer of 2006, faced with a growing economic crisis, the EU introduced a temporary international mechanism (TIM) at the request of the quartet. The TIM was designed to minimise the impact of the aid boycott on civilians. It allowed the EU and other international donors to target financial assistance directly at citizens. The TIM provided important relief. It paid some of the Palestinian fuel bills. It provided social allowances to almost 90 per cent of non-security public sector employees. And it funded emergency assistance and food aid to some 73,000 low-income households. But despite the TIM, real GDP contracted by an estimated 8 per cent in 2006 and, by mid-2007, 30 per cent of Palestinians were living in extreme poverty.<sup>13</sup>

<sup>13</sup> Oxfam International, 'Breaking the impasse: Ending the humanitarian stranglehold on Palestine', November 2007.

### Desperation in Gaza

Economic conditions have improved in the West Bank since the boycott against it was lifted after the June 2007 coup. But Gaza is becoming increasingly isolated: the international donor boycott remains (although EU humanitarian assistance is still getting through) and Israel has introduced additional measures to choke Hamas. In June 2007 the Israeli government closed Gaza's borders to trade. Since then, in retaliation for the firing of growing numbers of rockets into its territory, Israel has also intermittently reduced fuel and electricity supplies, and imposed a total closure on crossings (including humanitarian supplies).

As a result the private sector has collapsed, with 75,000 workers out of 110,000 having been laid off since June.<sup>14</sup> Public services have been further cut back and there are major shortages of supplies, including food. Hospitals lack essential drugs and can often carry out emergency surgeries only. Sewage pumps have started to fail because of a lack of spare parts. During the second half of January, almost half of Gaza's

<sup>14</sup> OCHA, 'Gaza Strip humanitarian fact sheet', November 28<sup>th</sup> 2007.

<sup>15</sup> OCHA, 'Electricity shortages in the Gaza Strip: Situation report', February 8<sup>th</sup> 2008.

population had no access to running water and in February the majority of households were suffering power cuts for at least eight hours a day.<sup>15</sup>

In January the border closures increased regional instability. In response to Israel's total closure of the crossings, Hamas blew up sections of the border between Gaza and Egypt. During two weeks hundreds of thousands of Palestinians streamed back and forth into Egypt uncontrolled. Many Gazans bought badly needed food and other supplies. But Palestinian militant groups also took advantage of the chaos to stock up on weapons, and to try to infiltrate Israel through the Egyptian border.

The international boycott has undermined much of the development work pursued over the last ten years across the Palestinian territories by donors such as the EU. PA institutions have been weakened as a result of under-funding and reforms have

<sup>16</sup> Natalie Tocci, 'What went wrong? The impact of Western policies towards Hamas and Hezbollah', CEPS, July 2007.

been reversed. For example, power has been re-centralised in the PA presidency, something that was widely criticised by the West during President Arafat's rule.<sup>16</sup> Private

investment has shrunk and aid dependency has increased. While the TIM has alleviated the humanitarian crisis, it, too, has reinforced dependency because financial donations have shifted from development aid to humanitarian assistance.

### What the EU can do

As part of the Annapolis peace effort, the PA's Prime Minister, Salam Fayyad, has created a Palestinian Reform and Development Plan (PRDP). The plan sets out the PA's proposed reforms and budget priorities to promote economic development over the next three years. To support Fayyad's effort, international donors in December 2007 held the largest conference in a decade and pledged over €5 billion to support economic development in the Palestinian

territories. The EU, once again the major contributor, pledged €2.3 billion over the following three years.

In support of Fayyad's economic plan, in early 2008 the EU replaced the TIM with a new mechanism called PEGASE (the French acronym for 'Palestino-Européen de Gestion et d'Aide Socio-Economique'). PEGASE is designed to work more closely with the PA and to address a key shortcoming of the TIM by widening the focus of EU financial assistance to include development assistance. But until there is a change in the political situation, no development assistance will be provided to Gaza. Both the EU and the PA will continue to deliver only emergency assistance.

It is very positive that after two years of inaction, the EU is renewing its state-building efforts with the PA, particularly since the boycott has created so much damage in the interim. But the fact that Gaza is excluded from the development process is a critical shortcoming.

In addition, for the EU's development efforts to make a difference, the EU will need to work hard to persuade Israel to lift its current restrictions on freedom of movement and borders in the Palestinian territories. As long as these restrictions are in place, no significant nation-building is possible. The World Bank estimates that if no changes take place in movement

and access, the Palestinian economy will continue to shrink by 2 per cent a year, even with the full amount of anticipated aid from the December donor conference.<sup>17</sup>

<sup>17</sup> World Bank, 'Investing in Palestinian economic reform and development', report for the Pledging Conference, December 17<sup>th</sup> 2007.

While taking into account Israel's security concerns, the EU should encourage Israel to fulfil its commitments and lift as many restrictions on movement in the West Bank as possible. The EU should also emphasise the need to halt the deterioration of the Gazan economy as an additional reason for Israel and the US to engage with Hamas.



Serious economic development can only begin there when Hamas and Fatah have made peace and Gaza is no longer isolated.

While waiting for Israel to agree to engage Hamas, the EU can take other intermediary steps to alleviate Gaza's economic crisis. The EU should more strongly urge Israel to maintain fuel and electricity shipments to Gaza and to restrain from closing the borders to humanitarian supplies. EU foreign ministers have already repeatedly expressed their grave concern about the deteriorating situation. The EU's commissioner for external relations, Benita Ferrero-Waldner, has described the closures as collective punishment, while Marc Otte, the EU's special

<sup>18</sup> Barak Ravid, 'EU envoy warns Gaza could become the next Somalia', *Haaretz*, February 7<sup>th</sup> 2008.

representative to the Middle East peace process, has warned that Israel's policy risked turning Gaza into Somalia.<sup>18</sup>

Member-states should continue to point out that collective punishment will not eliminate missile attacks from militants, most of whom do not take orders from any government anyway. Such measures instead inflict hardship on civilians and fuel radicalisation. Heavy border closures can also backfire, as shown in the Gaza-Egypt border breaches of January 2008. Israel risks suffering the costs of any border breaches first hand, as they increase the chances of Palestinian militants infiltrating its territory.

The EU should also actively encourage Israel to re-open Gaza's borders to trade. Karni, the principal crossing-point for Gaza, has security systems that limit the risk for Israeli border guards from possible attacks from the other side of the border. A proposal floated by Palestinian Prime Minister Salam Fayyad to put officials from the Abbas administration in charge of the Gaza border crossings with Israel and Egypt gained wide international support in February 2008, including from the EU, US and the UN. The EU has even offered to reinstate its own border monitors on the Egypt-Gaza border crossing, if an agreement can be reached between the Palestinians and the Israelis (the EU withdrew its monitors when

Hamas took charge in Gaza). Fayyad's initiative could be a useful first step to a wider reconciliation between Hamas and Fatah. If the proposal does not take, the EU should support other initiatives discussed at the UN, including the use of private sector contractors to operate the crossings.

The EU's ability to persuade Israel to lift restrictions on freedom of movement and on borders will depend to a large extent on the actions of Palestinians. As long as rockets are being fired from Gaza into Israel, and militant factions of Fatah proclaim that 2008 will be a year of suicide attacks, it will be extremely difficult to convince Israel to scale back its security measures.<sup>19</sup>

<sup>19</sup> Amos Harel and Mijal Grinberg, ' Hamas claims Dimona attack, says bombers came from Hebron', *Haaretz*, February 4<sup>th</sup> 2008.

## 5 The EU and Israel

In the current political circumstances Palestinians are incapable of delivering in peace negotiations. But making concessions is also difficult for Israel. Prime Minister Ehud Olmert might be personally strongly committed to peace, but he remains unpopular, partly due to the failure of the 2006 Lebanese war. He also heads a fragile coalition which includes parties hostile to peace negotiations such as Yisrael Beiteinu and Shas. By 2008 the first had already pulled out of the coalition in protest and the second was threatening to do the same. In addition, Olmert faces a determined settler movement. The government displayed a lack of strategy and leadership in announcing the construction of controversial new settlements in Har Homa in East Jerusalem. This occurred only days after Olmert returned from Annapolis and provoked widespread international criticism, including from the US.

If peace is to be achieved, Israel will need to deliver on its own commitments to the roadmap. It will have to stop the expansion of settlements, and dismantle a large part of them. Such action is urgent as by now nearly 40 per cent of the West Bank consists of settlements, outposts, and road networks which are off-limits to Palestinians. The Israeli settler population has been increasing by around 5.5 per cent a year, reaching approximately 450,000 in 2007.<sup>20</sup> Confidence in the Annapolis process (or any future peace effort) depends to a large degree on Israel's action over settlements. If Palestinians do not see a change on the ground, President Abbas will lose further support.

<sup>20</sup> OCHA, *The humanitarian impact on Palestinians of Israeli settlements and other infrastructure in the West Bank*, July 2007.

The EU has been reminding Israel of its obligations under international law for many years, but to little effect. (The same is true of the US, notwithstanding its greater leverage over Israel.) If the EU wants to have more influence in persuading Israel to fulfil its obligations, and if it is to encourage bold policy initiatives relating to Syria and Hamas, it will need to improve its image in Israel. The EU will need to solve two problems that limit its diplomatic influence. First, it often reacts too slowly to events, and speaks with too many voices. Second, despite the strong cultural affinity many Israelis feel for Europe, and despite improvements in relations over the years, there is still some mistrust amongst Israelis towards Europe. There is a feeling that a number of EU states (in particular France and some Southern European states) have a pro-Arab bias and are insensitive to Israel's security concerns.

### **New incentives for Israel**

The EU needs to act more rapidly and more coherently. EU credibility suffers from confused messages. For example in July 2007, the foreign ministers of ten Mediterranean member-states wrote an open letter to Tony Blair declaring the failure of the roadmap. Not only did they not consult the remaining members of the EU, but they broke the official EU line which argues that the roadmap is the key instrument for guiding the peace process.

The new Lisbon treaty's merger of two posts into a new high representative for foreign policy should help the EU speak with one voice, as long as member-states can forge a single message. More immediately, an EU trio similar to that which is engaged with Iran could fill the gap, with France, the UK and Germany working together with Javier Solana. Such a group could underwrite the security guarantees that would form part of the peace negotiations, such as promising Israel peacekeeping troops, (see below). This could help give Israel the confidence to make serious concessions.

In order to increase its leverage, the EU has various carrots it could offer Israel. Within the European Neighbourhood Policy, it could offer deeper bilateral relations. In exchange for a settlement with the Palestinians, the EU could even offer a similar status to that enjoyed by two other advanced economies, Norway and Switzerland: full participation in the single market, without full membership of EU institutions.

The EU can also offer to strengthen Israel's security environment. It could expand its training for Palestinian security forces. The EU should also take a lead in assembling a strong peacekeeping and observer force as part of a peace deal. A new international force could replace the IDF in the West Bank and establish a presence in Gaza. This would offer concrete evidence to the Palestinians of international commitment to real progress, while helping to alleviate Israeli security concerns. In the past Israel has been reluctant to consider international security assistance. But it has been warming to the idea as its perception of such assistance has improved. In March 2008, IDF officials even suggested the idea of an international peacekeeping force for Gaza.<sup>21</sup> Israel has been getting accustomed to US and EU advisors on the ground, training Palestinians. It is also satisfied with the work of UN troops in Lebanon.

<sup>21</sup> *Amos Harel and Avi Issacharoff, 'Defence chiefs warm to idea of multinational force in Gaza', Haaretz, March 3<sup>rd</sup> 2008.*

President Sarkozy has greater credibility with Israel than previous French presidents. And with new leaders in the UK and Germany too, Europe has a new standpoint to promise Israel steadfast support in return for taking real risks for peace.

## 6 Conclusion

President Bush has affirmed that a Middle East settlement is a priority for the remainder of his term. Prime Minister Olmert and President Abbas are also personally committed to ending the conflict. The resolve of these three pivotal players is an essential condition to end the Arab-Israeli conflict. The obstacles on the ground, however, cannot be under-estimated.

The EU must invest all its efforts in supporting this latest attempt to end the conflict. But it should also encourage its allies, most importantly the US and Israel, to entertain new policies, in particular towards Hamas. Without a different approach to the group, the current peace initiative will not succeed. Even with agreement from Israel and the quartet to engage Hamas, peace is far from guaranteed. In the near term, Hamas is unlikely to consider peace with Israel. But if the EU can convince Israel, with US backing, to engineer a long-term ceasefire with Hamas, it will already have contributed significantly to stabilising the situation. Years could still be needed for the parties to build up the will and trust to enter into serious peace negotiations, but at least the cycle of endless violence will have been interrupted.

If the EU can help to improve the Palestinian economy, it will make a further crucial contribution to creating the conditions for a viable peace. Effective EU financial assistance can also help restore the credibility of the EU and US – damaged by their boycott of Hamas which many Palestinians perceive as a punishment for their democratic choice. To maximise the impact of its aid, the EU should try to persuade Israel to allow more free movement within the West Bank and open its borders to trade with Gaza.

Some of these suggestions, in particular talking to Hamas, will encounter serious opposition from some quarters in Israel. As the EU already has a tendency to be perceived as insensitive to Israeli security concerns, it should offer some serious incentives in an effort to dispel such suspicions and engage the Israelis. The EU should offer the prospect of full participation in its single market. It should also offer to take a lead in assembling a strong peacekeeping force as part of a peace deal.

The EU should highlight to Israel that its long-term security will only be assured with a strong Palestinian state – one that can put an end to terrorist attacks, and neutralise criticism from threatening states like Iran. Over the last two years, the Israeli-Palestinian conflict has taken a new turn for the worse. The EU and all other actors need to reverse this trend before the conflict reaches potentially catastrophic proportions. If the EU is serious in its ambition to become an effective global actor, then it must demonstrate its capacity to contribute in this most critical and testing area of international relations.

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# The EU, Israel and Hamas

Clara Marina O'Donnell

The US has embarked on a new attempt to solve the Arab-Israeli conflict, backed by wide international support. But the situation on the ground between Israel and the Palestinians is so bad that peace looks out of reach for now. The Palestinians are divided and feuding; half of them are outside the peace talks and virtually at war with Israel. Clara Marina O'Donnell suggests how the EU can help resolve the current stalemate and improve the prospects for peace, in particular by convincing its American and Israeli partners of the need to engage Hamas.

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