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# Trump, Europe and the Middle East peace process

## A path out of the quicksand

By Luigi Scazzieri

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## A path out of the quicksand

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- ★ The prospects for a two-state solution to the Israel-Palestine conflict are receding, as Israel tightens its control over the West Bank. After the failure of US-sponsored talks in 2014, progress does not seem likely: neither side is particularly interested in negotiations and both are tightly constrained by domestic politics.
- ★ US President Donald Trump has said that he wants to strike the “ultimate deal” and appears genuinely committed to push for peace. But Trump has been ambiguous about his commitment to the two-state solution.
- ★ Even if the Trump administration engages constructively in negotiations, the chances of progress are slim, given the difficulty of getting the two sides to talk, and the reluctance of external actors to put pressure on Israel and the Palestinian Authority (PA). Progress through multilateral initiatives will also be very difficult, as the Trump administration is likely to block any UN resolution that seeks to hold Israel accountable for its actions.
- ★ This stalemate has led some observers to push for a settlement other than the two-state solution. But other possible models, such as a one-state solution, are equally, if not even more unrealistic.
- ★ Any final settlement of the conflict remains far off. In these circumstances, it would be more productive if international diplomacy focused on intermediate steps to bring the parties gradually closer, without prejudicing the shape of a final agreement.
- ★ Europe and the US should aim for incremental progress to improve the situation on the ground. They should end Israeli settlement construction and improve material conditions in the West Bank. They should pressure Israel to enact a phased release of land for Palestinian economic development in return for a halt to the PA’s financial support to terrorists and their families.
- ★ The point of these steps would be to improve relations; rebuild confidence that a solution to the conflict can be achieved; and preserve the viability of the two-state solution.
- ★ Both Israel’s government and the PA have reasons to reduce the risks they face: many members of the Israeli security establishment are willing to countenance steps that enhance Israel’s security, as an end to settlement expansion would, and large parts of Israeli society appreciate that expansion will eventually lead to international isolation. On the Palestinian side, the PA knows it is losing legitimacy amongst Palestinians, and wants to reinforce its position.

- ★ Europe should adopt a balanced approach. To increase pressure on Israel to strike a deal, it should increase existing 'differentiation' measures, distinguishing its economic relations with Israel from those with the occupied territories. At the same time, it should show greater appreciation of Israeli security concerns and promise deeper economic relations if a deal is struck.
- ★ If Israel takes positive steps towards peace, Europe should press the PA to reciprocate. In the medium term, the EU and its member-states can play a key role in fostering Palestinian economic development and smooth the path to implementing any agreement the two sides reach.

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The Middle East peace process (MEPP) is frozen. The last round of negotiations between Israelis and Palestinians, engineered by then US President Barack Obama and his secretary of state, John Kerry, collapsed in April 2014, and war in Gaza erupted shortly afterwards. Since then, relations between the two parties have deteriorated steadily, and prospects for a two-state solution have receded further as Israel has tightened its control over the West Bank. Even if negotiations resume, a breakthrough is extremely unlikely; the time is not ripe for a comprehensive agreement. The conflict no longer dominates the international agenda in the region as it once did. The problems caused by the Arab Spring and its aftermath, the civil war in Syria, and the rise of the so-called Islamic State, have diverted the West's attention from the MEPP.

Europe and the US should not ignore the continuing risks to regional stability posed by the unresolved conflict. But they should not pursue another attempt to reach an all-or-nothing final agreement. Conditions are not ripe for it, and another failed attempt may well kill off the two-state solution for good. Instead, European and US diplomatic efforts should pursue an incremental approach. They should focus on pressing Israel and the PA towards a set of intermediate steps short of a final deal. Such steps are much likelier to be implemented. In time, they can create the conditions for direct negotiations over a final agreement between Israel and the PA to resume and succeed.

The political dynamics on both the Israeli and Palestinian sides make reaching an overall compromise very difficult. On the Israeli side, regional instability and a new wave of attacks by politically unaffiliated Palestinians, which began in October 2015, have shifted public opinion towards a harder line on security. The Israeli political landscape is currently dominated by right-wing parties. They have little appetite for negotiations that would culminate in a fully sovereign Palestinian state and an Israeli withdrawal from the West Bank. The memory of how Israel's withdrawal from Gaza in 2005 allowed the Islamic fundamentalist Hamas movement to take over is still fresh. The government of Prime Minister Benjamin Netanyahu has been sustained by a right-wing coalition that includes the Jewish Home party – one that openly opposes a Palestinian state. Netanyahu's commitment to the two-state solution is open to question, and his policy of expanding Israeli settlements in the West Bank has made it harder to implement. His

aim appears to be to entrench Israeli control over the West Bank by expanding settlements, while paying lip service to the two-state solution.

The number of settlers in the West Bank is now over 570,000, out of a total Israeli population of over 8 million. Of these, around 460,000 live in settlements within the security barrier. The barrier, built between 2000 and 2006, separates Israel from the West Bank. It generally runs parallel to the 1949 armistice line which forms the basis of Israel's internationally recognised borders, although it occasionally deviates to take in parts of the West Bank. Most settlements within the barrier are very likely to be part of a future Israeli state, and do not pose an insurmountable obstacle to a future agreement. However, another 110,000 settlers live east of the security barrier, in scattered smaller settlements throughout the West Bank, as far east as the Jordan Valley. They are interspersed with 2.3 million Palestinians, and need deployments of the Israeli armed forces to protect them. Their presence fuels tensions because of the need for checkpoints and security controls, which drive home to the Palestinians the reality of the occupation. The presence of settlements deep in the West Bank makes it difficult to envisage a two-state solution. The Israeli government's evacuation of Gaza in 2005 was met with widespread resistance by the 9,000 settlers there. The cost of the evacuation was estimated at \$300,000 per settler.<sup>1</sup> If repeated for the 110,000 settlers in the West Bank, Israel could face a bill of \$33 billion.

Aside from expanding settlements, the Israeli government has continued demolishing Palestinian buildings in Area C of the West Bank (see map), which makes up around

<sup>1</sup>: Ross Anthony, Daniel Egel, Charles Ries, Craig Bond, Andrew Liepman, Jeffrey Martini, Steven Simon, Shira Efron, Bradley Stein, Lynsay Ayer, Mary Vaiana, 'The costs of the Israeli-Palestinian conflict', RAND, 2015.

60 per cent of the West Bank and is under full Israeli civilian and security control.<sup>2</sup> Demolitions appear to have gathered pace in 2017. They are carried out ostensibly because the structures lack formal authorisation; but the

UN assesses that this is almost impossible for Palestinians to obtain. The demolitions inflame tensions, and prevent economic development in the West Bank.



United Nations Office for the Coordination of Humanitarian Affairs  
**occupied Palestinian territory**  
**West Bank: Area C Map**

February 2011



2: The West Bank is divided into three 'Areas': A, B, and C. Area A, containing the major Palestinian settlements, is under full security and civil control of the PA. Area B is under Palestinian civil control, but under joint Israeli-Palestinian security control. Area C is under full Israeli civil and security control.

Pro-settler moves intensified in the months following the inauguration of President Donald Trump, who is perceived by the Israeli government and public as more pro-Israel than Barack Obama. Trump's pro-Israel stance raised the hopes of those who wish to jettison the two-state solution and slowly absorb the West Bank into Israel. In early February 2017, the Israeli parliament passed a law retroactively legalising structures built illegally on private Palestinian land – a move heavily criticised by the opposition, and decried by the UN and the EU. And in early April 2017, Israel announced the construction of the first new settlement in 20 years, (as opposed to the expansion of existing settlements).

Netanyahu himself may not survive as prime minister as he is at the centre of a series of political scandals. But it is doubtful whether a new Israeli government would be more open to halting settlement construction, let alone defining a border between Israel and Palestine and accepting that Jerusalem will be shared capital of both states. Current polls suggest the Labour party's share of seats would halve if a general election were held, making a left-wing (and more pro-negotiation) coalition unlikely.<sup>3</sup>

*“The PA's legitimacy – and its ability to undertake negotiations with Israel – has been declining in recent years.”*

The Palestinian side is divided and also unwilling to restart negotiations. The Palestinian territories are divided between Gaza, administered by Hamas, and the West Bank, which is governed by the Fatah-dominated Palestinian Authority. The PA's legitimacy – and its ability to undertake negotiations with Israel – has been declining in recent years. Polls show that most Palestinians want Mahmoud Abbas, leader of the PA, to resign. His formal electoral mandate expired six years ago. But Abbas does not want a fresh election, given the poor showing of Fatah candidates against independents in the May 2017 local elections in the West Bank, which were uncontested by Hamas.<sup>4</sup>

Abbas is 81 years old, and different Fatah factions are positioning themselves in preparation for his succession. Although Abbas recently selected a deputy, he has no clear successor yet, with many Fatah figures vying for the position amidst reports that different factions are arming themselves. One very popular figure is Marwan Barghouti, a prominent Fatah leader currently serving five life sentences in an Israeli prison. Egypt, Jordan, Saudi Arabia and the UAE are pushing to restore the unity of Fatah and foster reconciliation between Fatah and Hamas.

3: Chaim Levinson and Jonathan Lis, 'If Israeli elections were held today, Netanyahu's Likud would still lead, new poll says', *Haaretz*, March 17<sup>th</sup> 2017.

4: Central Elections Commission of Palestine, 'Detailed results of the 2017 local elections', May 16<sup>th</sup> 2017.

They want the former (now exiled) Fatah leader in Gaza, Mohammed Dahlan, to be reinstated, in the hope he may bring unity to Fatah and enable it to reconcile with Hamas from a position of strength. But their efforts have so far been unsuccessful, as Abbas has resisted their pressure.

The Fatah-Hamas split makes the resumption of negotiations with Israel difficult. The PA and Hamas agreed to form a unity government in January 2017, but this agreement has not been implemented yet. Hamas is unwilling to enter into any kind of talks with Israel, and its commitment to the two-state solution is unclear (although in May 2017 it made some moves towards acceptance of a Palestinian state within pre-1967 borders in a 'Declaration of Principles'). And if the PA entered into talks with the Israelis it would be taking a big risk, as Palestinians would probably see this as legitimising Israel's policy of occupation and settlement construction. Abbas has little to show domestically for taking part in negotiations during the Obama presidency in 2013-14. He has drawn up a list of concessions Israel would have to make before the PA would agree to enter into negotiations. These include a freeze on settlement construction, the release of Palestinian political prisoners, and an agreement to settle borders on the basis of the 1949 lines. It is difficult to imagine a different Palestinian leadership taking a very different line from his.

Given the difficulties of engaging in direct talks with the Israelis and the meagre results from past negotiations, the Palestinian leadership has sought to gain international recognition as a state, and attempted to marshal international opposition to Israel's actions. These efforts have been partly successful, resulting in Palestinian accession to bodies such as the International Criminal Court in 2015. In late December 2016, the UN Security Council passed resolution 2334, which states that Israeli settlements in the territories occupied in 1967 are “a flagrant violation under international law”, and calls on the international community to distinguish between Israel proper and the occupied territories. The resolution passed thanks to the decision by the Obama administration to abstain. Now that Trump is in the White House, however, the PA will find it harder to bring international pressure to bear on Israel. Trump heavily criticised the UN resolution, and it seems clear that the new US administration will veto any future UN resolution critical of Israel.

Economic conditions in the West Bank are dire: poverty is high and the unemployment rate is over 40 per cent. The situation is made worse by Israel withholding the tax revenues it collects on behalf of the PA for months at a time. According to a September 2016 UN report, the Palestinian economy might double in size if the occupation ended.<sup>5</sup> In the Gaza Strip, the UN assesses

5: United Nations Conference on Trade and Development, 'Report on UNCTAD assistance to the Palestinian people: Developments in the economy of the Occupied Palestinian Territory', September 28<sup>th</sup> 2016.

that 1.3 million people are in need of humanitarian assistance; the Strip's residents have poor access to basic necessities such as power, water and healthcare. And the Fatah-Hamas split means it is difficult for international donors to provide aid for reconstruction in Gaza as the PA insists that it must oversee all aid to Gaza. Poor economic conditions not only provide an unfavourable backdrop to negotiations, but also make Palestinian territories less secure, fuelling the rise of groups more extremist than Hamas, such as the so-called Islamic State.

However, Palestinian actions and attitudes have contributed to the breakdown in relations between the parties, and the difficulty of resuming negotiations. As noted by the Middle East Quartet (the US, Russia, the EU and the UN) in July 2016, the PA continues to maintain an ambiguous attitude towards glorification of violence against Jews, with streets, squares and schools named after terrorists.<sup>6</sup> And the PA continues to give generous

cash handouts (through the PLO) to the families of those killed while carrying out attacks on Israelis or imprisoned for doing so. This feeds Israel's sense that the Palestinians cannot be trusted and that Israel's security needs should remain paramount.

Even if the two sides agreed to restart talks, their differences on the substantive issues would quickly emerge. Israel and the Palestinians disagree on the substance of virtually all the issues that would need to be settled in order to reach a final status agreement. They differ on the borders of a future Palestinian state. They disagree on the status of Jerusalem, which Israel claims as its capital, and on Israel being defined as a 'Jewish' state. They diverge on the right of Palestinian refugees to return to Israel and on the presence of Israeli troops in the West Bank after an agreement. These differences are not limited to governments, with polls showing that the two populations are also far apart.<sup>7</sup>

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## Trump's ambiguity

President Trump has said he wants to strike the "ultimate deal" between Israelis and Palestinians. But, during the campaign and as President-elect, Trump appeared unabashedly pro-Israel. He heavily criticised Obama's policy towards Israel, in particular the abstention that allowed UN Security Council Resolution 2334 to pass. He also said that he would move the US Embassy from Tel Aviv to Jerusalem, a move that could spark unrest throughout the Arab world. And his pick as US ambassador to Israel, David Friedman, is a financial backer of the settler movement. Trump's pro-Israel stance seemed to be confirmed by his meeting with Netanyahu in mid-February 2017. Trump did not throw his weight behind the two-state solution, saying that he did not mind what kind of solution the parties agreed on, as long as they agreed. While Trump did ask Netanyahu to "hold back on settlements for a little bit", his opposition was not as firm as that of previous US administrations.

*“Unless something changes, the two-state solution is likely to become impossible as Israel tightens its control over the West Bank.”*

Trump's stance appears to have shifted since then. He has applied considerable pressure on Israel to limit settlement construction and to release land in Area C for Palestinian development. He has had two cordial meetings with Abbas, and stated that he thinks the Palestinians are ready for peace. And Jason Greenblatt, Trump's envoy on the peace process, has struck both Israeli and Palestinian

negotiators by his willingness to listen to the other side and his apparent enthusiasm for a deal. Symbolically, Trump visited both Israel and the West Bank as part of his first trip abroad in May 2017, and met both Netanyahu and Abbas.

Trump appears to be genuinely interested in a securing an agreement and has placed solving the conflict near the top of his agenda, although he remains light on the details of how a deal could be struck. But his refusal to commit to the two-state solution, in itself, makes the two-state solution less likely.

Unless something changes, the two-state solution is likely to become impossible as Israel tightens its control over the West Bank. As settlements gradually expand, the West Bank is likely to become a densely populated semi-sovereign Palestinian entity which would be highly fragmented territorially and unsustainable economically and politically. Annexation of parts of the West Bank is the official policy of the Jewish Home party, and recent polls suggest support for this policy has broader appeal, with 37 per cent of Israeli Jews backing it.<sup>8</sup>

However, even if no territory is formally annexed, a creeping *de facto* annexation of the West Bank is likely to harm Israel's interests in both the short and long term. The PA might eventually lose so much legitimacy that it collapses, perhaps as the result of another wave of popular violence against the Israeli occupation. The collapse of the PA would force Israel to occupy the West Bank in its entirety, at a high military, financial and diplomatic cost. Israel would have to bear not only the

6: Report of the Middle East Quartet, July 1<sup>st</sup> 2016.

7: Tami Steinmetz Center for Peace Research (TSC), Tel Aviv University, and the Palestinian Center for Policy and Survey Research (PSR) in Ramallah, 'Palestinian-Israeli pulse', February 16<sup>th</sup> 2017.

8: Ephraim Yaar and Tamar Hermann, 'The peace index: January 2017', February 7<sup>th</sup> 2017.

increased security costs arising from having to take over the duties of the Palestinian security forces, but also those related to health, education and social services. A RAND study estimated that by 2024, this could lower Israeli GDP per capita by 10 per cent relative to where it otherwise would have been.<sup>9</sup>

Even if the PA did not collapse, a gradual de facto annexation of the West Bank would do further damage to Israel's relations with the Arab states, which would come under intense popular pressure to cut ties with Israel. The demographic balance means that Israel would have to choose between being Jewish or democratic: Israeli Jews numbered 6.4 million in 2016, while Palestinians (in Gaza, the West Bank and Israel) numbered 6.6 million - and the Palestinian population is growing faster.<sup>10</sup>

If Israel chose not to grant Palestinians equal rights, it would become increasingly isolated internationally and lose the support of many European countries. European public opinion is shifting, as shown by Sweden's decision to recognise Palestine, and non-binding votes in the

French National Assembly and the UK House of Commons in 2014 to do the same. Ultimately, these trends will result in increasing Israeli isolation: initiatives designed to target the Israeli economy such as the Boycott, Divestment, Sanctions movement are likely to pick up steam.

Notwithstanding the reversion to a more pro-Israel stance under Trump, Israel cannot rely on the United States indefinitely. Some American security officials think that the United States' relationship with Israel is increasingly incompatible with close relations with Arab partners. In 2010 General David Petraeus, former director of the CIA and mastermind of the surge in Iraq, argued that the United States' association with Israel impeded US co-operation with Arab governments, because of popular anger in Arab countries caused by American policies toward the Palestinians.<sup>11</sup> And in 2013, current Defence Secretary James Mattis argued that the US pays a "security price" for its alliance with Israel.<sup>12</sup> Popular opinion may also be shifting: a 2014 Gallup poll found that only 54 per cent of Americans aged 18 to 49 favoured Israel in the Israel-Palestine conflict, compared with 72 per cent of over 50s.<sup>13</sup>

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## No room for grand initiatives

Any US-sponsored effort to restart negotiations will be plagued by the same issues that led previous attempts to fail, unless the US exerts pressure on Israelis and Palestinians alike to make the reciprocal concessions needed to open the way for long-term settlement.

*“Despite American leverage, it seems unlikely that Trump will break with US policy tradition and make use of it.”*

The US has substantial leverage over Israel: the two countries have had a free trade agreement since 1985 and the US is the top destination for Israeli goods exports, worth \$18.1 billion in 2015.<sup>14</sup> The US also has very close military links to Israel, with Israel reliant on US aid for around 18.5 per cent of its defence budget.<sup>15</sup> In September 2016, the US agreed to provide Israel with \$38 billion dollars in military aid, to be disbursed over 10 years from 2019 – an increase from the \$30 billion provided in the 10 years to 2018.

The US also has leverage over the Palestinians. It remains a significant donor to the PA, providing around \$400 million a year. This figure includes \$75-100 million in direct support for the PA's budget, amounting to roughly one tenth of all external budgetary support.<sup>16</sup>

Despite American leverage, it seems unlikely that Trump will break with US policy tradition and make use of it to pursue his stated objectives. Obama did not attempt to use negotiations over the military package as leverage to convince Netanyahu to halt settlement construction, even though he was at the end of his second term and his personal relationship with Netanyahu was poor. Doing so would have been too politically costly; as it was, many Republican lawmakers argued that the package was insufficient.

If the US seems unlikely to alter its stance, what of other actors? In theory, the EU has leverage with both Israel and the Palestinians, and could use it to push them towards a deal. Europe has close economic, research and defence ties with Israel.<sup>17</sup> Israel struck an Association Agreement with the EU in 2000, and it is an important trading partner

9: Ross Anthony, Daniel Egel, Charles Ries, Craig Bond, Andrew Liepman, Jeffrey Martini, Steven Simon, Shira Efron, Bradley Stein, Lynsay Ayer, Mary Vaiana, 'The costs of the Israeli-Palestinian conflict', RAND, 2015.

10: 2016 data from Israeli Central Bureau of Statistics and Palestinian Central Bureau of Statistics.

11: Helene Cooper, 'Washington Asks: What to do about Israel?', *New York Times*, June 5<sup>th</sup> 2010.

12: Jeffrey Goldberg, 'An American General warns the Israeli right', *Bloomberg View*, July 25<sup>th</sup> 2013.

13: Gallup, 'Israel maintains positive image in US', February 15<sup>th</sup> 2017.

14: Bureau of Statistics (Israel), 'Exports of goods by industry and country, 2015', July 27<sup>th</sup> 2016.

15: Jeremy Sharp, 'US foreign aid to Israel', US Congressional Research Service, December 22<sup>nd</sup> 2016.

16: Jim Zanotti, 'US foreign aid to the Palestinians', US Congressional Research Service, December 16<sup>th</sup> 2016.

17: On EU-Israel co-operation see also: Yehuda Ben-Hur Levy, 'EU-Israel Relations: Confrontation or co-operation?', CER Insight, December 18<sup>th</sup> 2014.

for the EU. A quarter of Israeli goods exports, worth \$16.1 billion went to EU member-states in 2015.<sup>18</sup> Israel also participates in a range of EU programmes, including the Horizon 2020 scientific research programme. Despite this, by and large the Israeli public is not aware of the value of EU-Israel co-operation, as the Israeli media provides greater coverage of EU criticism of Israeli actions.

The EU is also a major donor to the PA budget, donating €170 million in 2016 – around 20 per cent of all external support for the budget. And EU member-states contribute significant sums independently of the EU, especially the UK and France. In 1997, the EU and the PA signed an Interim Association Agreement on Trade and Co-operation, but EU trade with Palestine is very limited, amounting to just €272 million in 2016.<sup>19</sup>

*“The US seems likely to veto any new international initiative or further attempts by Palestinians to gain recognition.”*

The EU has made little use of its leverage over both parties; but it has sought to pressure Israel by ‘differentiating’ between its policies towards Israel proper and those towards the occupied territories. For example, entities based in the settlements cannot access Horizon 2020 funds. And in November 2015 the EU issued guidelines on differential labelling of agricultural produce from Israeli settlements, although only a handful of member-states are implementing them.<sup>20</sup> In any case, their impact is extremely limited: settlements make up less than 4 per cent of Israel’s economy, and agricultural produce from settlements is estimated to make up around 1 per cent of total trade between the EU and Israel.<sup>21</sup> As it is currently structured, the EU’s differentiation policy signals opposition to Israeli settlement construction, but has limited impact. An expansion of differentiation measures, for example to the financial sector, is possible. However, this would be politically difficult: moves towards differential labelling were met with vehement Israeli opposition, and not all EU member-states were enthusiastic about the policy anyway.

The EU has also sought to use its diplomatic leverage in the conflict, for instance by supporting the PA’s moves to join international bodies such as the International Criminal Court. And nine member-states have recognised Palestine as a state. While the EU has cut its contributions to the PA budget by over a third since 2009, there is little sign that the EU sought to use this reduction as leverage.<sup>22</sup> And it is doubtful whether support to the PA

could be cut further, as this may potentially cause living conditions in the West Bank to deteriorate.

Europeans might try to make progress in multilateral forums, especially following the adoption of UNSCR 2334. They may table a new UN resolution setting out internationally accepted parameters for resolving the conflict, as Obama considered doing at the end of his presidency. The problem with this approach is that the US seems likely to veto any new international initiative as well as further attempts by Palestinians to gain recognition in international bodies. And in any case, an international approach that excludes the US is unlikely to gain much traction.

Russia appears keen to take on a more prominent role in the peace process, in line with its ambition to cast itself as a regional power broker and highlight the declining role of the US. The January 2017 Fatah-Hamas agreement on the formation of a unity government was signed in Moscow. Russia has also sought to organise a meeting between Abbas and Netanyahu, which has been repeatedly postponed since September 2016 when the two agreed in principle to meet. And following the Paris conference in January, Russia has sought to organise a follow-up meeting in Moscow later this year. But, while Russia has the advantage of appearing more neutral than the US, it has so far failed to set up a meaningful dialogue of its own. Personal relations between Netanyahu and Putin are good, and economic relations have deepened somewhat in recent years, with trade tripling between 2005 and 2014 to \$3.5 billion a year. In an unexpected move in early April 2017, Moscow appeared to recognise West Jerusalem as the capital of Israel. But the significance of the move was unclear: Israel considers the entire city as its capital, while Moscow not only limited its recognition to West Jerusalem, but also recognised East Jerusalem as the future capital of a Palestinian state. In any case, the Israeli-Russian relationship is strained by Russia’s intervention in Syria to prop up President Bashar al-Assad, whose regime is also supported by Israel’s enemies Iran and Hezbollah. While Israelis of Russian heritage number around one million, it is unclear whether this gives Moscow any leverage over Israel. Russia backed the Palestine Liberation Organisation (PLO) in the past, which may give Putin the credibility to exert pressure on the Palestinians to negotiate. But Moscow cannot force either the Israelis or the Palestinians to accept conditions they see as unreasonable – nor does it have any interest in antagonising them.

Egypt, Saudi Arabia, Jordan and the Gulf States could provide an alternative to direct Israeli-Palestinian negotiations, based on the 2002 Arab Peace Initiative. This

18: Bureau of Statistics (Israel), ‘Exports of goods by industry and country, 2015’, July 27<sup>th</sup> 2016

19: European Commission, DG Trade, ‘Palestine’, May 2017.

20: The UK, Denmark and Belgium had previously issued their own guidelines. France started implementing the EU guidelines in November 2016.

21: OECD, ‘Study on the geographical coverage of Israeli data’,

January 31<sup>st</sup> 2012. See also: EEAS, ‘Fact sheet’, November 11<sup>th</sup> 2015.

22: European Parliament, ‘EU financial assistance to the occupied Palestinian territory’, 2010.

called for Israel's withdrawal from the territories occupied in 1967 and Palestinian statehood, in exchange for peace and the normalisation of relations between Israel and the Arab countries. At the Arab League Summit at the end of March 2017, Arab leaders reaffirmed their commitment to this initiative. But a re-launched initiative need not be exactly the same: it could take into account Israeli concerns over the wording of the clauses on Palestinian refugees' right to return, and in any case would only be the starting point for negotiations. A new initiative could also be phased: in mid-May 2017 the Wall Street Journal revealed a plan by the Gulf States to normalise relations with Israel, for example by starting trade negotiations and opening up airspace in exchange for a freeze in settlement construction in parts of the West Bank, and an easing of trade restrictions on Gaza.

*“The problem with all attempts to reach a final status agreement is that the two sides are too far apart.”*

The regional approach is superficially appealing because Israel's Sunni Arab neighbours are better disposed towards Israel than they used to be. Like Israel, they see Iran as a threat and are angered by Obama's nuclear deal, which they see as allowing Iran to edge towards a nuclear bomb. Their priorities are to push back against Iran and its Shia militias, as well as the so-called Islamic State and other Sunni extremist groups in the region. Trump may also be tempted to back the regional approach: his tough stance towards Iran has improved US-Saudi relations. And he also has a much more amicable relationship with Egyptian President Abdel el-Sisi than the Obama administration, which condemned the July 2013 coup against President Mohamed Morsi.

However, progress with the regional approach seems unlikely. Arab countries and Israel can build better relations and foster security co-operation to address

common challenges without seriously opening up the Palestinian file. And even if some low level steps were taken to normalise relations between Israel and Arab states, it is doubtful whether the latter have sufficient leverage over the Palestinians to push them towards a deal. Until recently, Saudi Arabia provided around \$240 million a year in direct budgetary support to the PA. In 2016 it suspended all aid for several months, in a failed attempt to force the rehabilitation of Mohammed Dahlan, the former Fatah leader in Gaza, now living in exile. The PA has become less susceptible to cuts in foreign aid: between 2014 and 2016 external support for its budget was cut from \$1.23 billion to \$757 million without any perceptible change in its stance. This is in large part because the PA's internal revenues in the same period increased from \$2.8 billion to \$3.4 billion.<sup>23</sup> More broadly, no matter how much pressure it is under, even a malleable Palestinian leadership would not bend to external pressure and accept the hard-line conditions that Netanyahu appears willing to offer.

The problem with all attempts to reach a final status agreement is that the two sides are too far apart. Even if they somehow reached an agreement on all the main issues, this would almost certainly be impossible to implement under current political and security conditions. Israel's evacuation of Gaza in 2005 allowed Hamas to take power there. Now, in a more dangerous international context, it is unimaginable that Israel would give up military control over the Jordan Valley, and risk the takeover of the West Bank by extremist groups if the PA collapsed.

In summary, the prospects of any new grand diplomatic initiative in the current context are bleak. The Israelis and the Palestinians are constrained by domestic politics and have few incentives to compromise in the negotiations. External actors either do not possess sufficient leverage or are unwilling to use it. At the same time, Trump's opposition to multilateralism limits the chances of a fresh multilateral effort such as a new UN resolution.

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## Beyond the two-state solution?

The current stalemate has led some observers to argue that it is time to drop the two-state solution, and shift the emphasis of international diplomacy towards other potential frameworks. Indeed, two other models for the future of Israeli/Palestinian relations continue to be mooted occasionally: a 'one-state solution', and a 'three-state solution'.

The one-state solution refers to the setting up of a single democratic state for Israelis and Palestinians, where both

would have equal rights. Supported by Israel's President Reuven Rivlin, this option is also supported by around one third of Palestinians and one fifth of Israeli Jews.<sup>24</sup> But tensions between the two communities are such that it is unimaginable for Israelis and Palestinians to share institutions. A range of questions seem impossible to answer: how could security be ensured? What would a common army look like? What would welfare and public services look like and who would fund them? Above all, the problem with the one-state solution is that Israel

23: International Monetary Fund, 'West Bank and Gaza: Report to the Ad hoc Liaison Committee', April 10<sup>th</sup> 2017.

24: Tami Steinmetz Center for Peace Research (TSC), Tel Aviv University and the Palestinian Center for Policy and Survey Research (PSR) in Ramallah, 'Palestinian-Israeli Pulse', February 16<sup>th</sup> 2017.

could not be both democratic and Jewish in character: a single state would have 6.4 million Jews and 6.6 million Arabs. Polling carried out by Tel Aviv University in January 2017 suggests that, if the West Bank were annexed, only a quarter of Israelis would be in favour of full citizenship for Palestinians. (Most respondents to the poll did not support annexing the West Bank in the first place).<sup>25</sup> Israeli support for citizenship for Palestinians would presumably grow if security fears were assuaged. Clearly, a democratic one-state solution is not a realistic 'off the shelf' answer to the conflict, but one requiring excellent relations between Israelis and Palestinians.

*“Discussions over whether it is best to stick to the two-state solution or to push for other solutions are somewhat futile.”*

The three-state solution has also been discredited. According to this model, the West Bank would become part of Jordan, while Gaza would be absorbed by Egypt. The West Bank had been administered by Jordan prior to the 1967 war, and in the late 1980s, as the rift between Jordan and the PLO healed, many thought Jordan would take over the West Bank again. But this solution was gradually shelved as Jordan and Egypt made plain they did not want to take on the burden of administering the Palestinian lands. Jordan would have become a hybrid Jordanian-Palestinian state, because of the sheer number of new Palestinians citizens. And, as with the two-state

solution, Israel has little inclination to give up the extra territory and security it acquired after 1967.

One variant of the three-state solution, a Palestinian confederation with Jordan, is occasionally touted by Israeli commentators and MPs, and also discussed in Jordan, for example by former Prime Minister Abdel Salam Majali. Currently it has few backers, but it seems more feasible than a one-state solution or a fully-fledged three-state solution. It could gain further ground as the prospect of a viable independent Palestinian state becomes increasingly unlikely and the political obstacles to a one-state solution sink in.

Discussions over whether it is best to stick to the two-state solution or to push for other solutions are somewhat futile. Souring relations and deepening tensions between the parties are making it harder to envisage any solution acceptable to both, be it the two-state solution, the one-state solution, or a hybrid of the two. The current dynamics point towards the formalising of a 'one-and-a-half-state solution': an Israeli state with expanded control of the West Bank side by side with one or more semi-sovereign Palestinian entities in areas of the West Bank and Gaza. This outcome would only be acceptable to the Israeli right. But, as we have seen, it would be harmful to Israeli security both in the short and long run. It would result in increased violence and damage Israel's relationships with Europe and the Arab world. And if the PA collapsed, Israel would have to bear the costs of administering the West Bank.

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## The case for incrementalism

Any acceptable solution to the conflict is still far off. Instead of debating which one may ultimately be more feasible, it would be more productive if international diplomacy focused on intermediate steps to bring the parties closer, without prejudicing the shape of the final deal. There are actions that the parties can take to change the trajectory of the conflict and foster a better climate, re-injecting a sense of hope that some sort of negotiated settlement can be achieved, however long it takes and however hard it is.

Only when tensions ease will the parties be able to enter negotiations with the ability to make the difficult compromises needed over borders, the status of Jerusalem, the recognition of Israel as a Jewish state, the right of return of Palestinian refugees and permanent security arrangements. Such issues will need to be discussed whether the final agreement is a two-state solution, a one-state solution or something in between.

A realistic roadmap that the US and EU could push for would look something like this:

1) As a gesture of goodwill, Israel would freeze all settlement construction outside the security barrier, and refrain from construction in sensitive areas within the security barrier, especially the E1 area linking the North and South sections of the West Bank. This would be subject to a verification mechanism. Israel would also redenominate a sizeable chunk (around 20 per cent) of Area C into Area B. These steps would not decrease Israel's security: Israeli forces would still be able to enter Areas A and B. But they would demonstrate Israel's goodwill and place the ball in the PA's court. In return the PA would halt payments to prisoners convicted of murder and terrorism and stop preferential treatment of the families of those killed while attacking Jews.

25: Ephraim Yaar and Tamar Hermann, 'The peace index: January 2017', February 7<sup>th</sup> 2017.

2) Acknowledging the PA's move, Israel would transfer another sizeable portion (another 20 per cent) of current Area C into Area B. This would allow Palestinians to develop this land and to ease restrictions on movements of people and goods between the major Palestinian urban centres. In Gaza, Israel would allow in more aid to promote reconstruction and economic development. This move would be matched by Arab states taking small steps towards normalising relations such as allowing access to their airspace for Israeli civilian flights.

3) The PA would then halt propaganda and incitement to violence. In return Israel would redenominate all of Area B into Area A, and a further 30 per cent or so of current Area C to a new Area B. The PA would have full civil and security control of today's Areas A, B, and 40 per cent of current Area C. Another 30 per cent of current Area C would be under Palestinian civil and Israeli security control.

*“These steps would allow economic and infrastructure development in the West Bank and Gaza.”*

These steps would allow economic and infrastructure development in the West Bank and Gaza, generate more jobs and improve living conditions. They would also create a degree of trust about each side's intentions. As relations slowly improved, the US and EU would strive to craft a compromise between the PA and Hamas, with the aim of holding elections in the West Bank and Gaza. In time, perhaps after five years or so, the two sides might be able to contemplate compromise on some of the most controversial final status issues, and negotiations could resume.

These steps stand a good chance of being implemented if the EU, the US and the regional powers all exert diplomatic pressure and constantly frame them as being in the economic and security interests of both parties.

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## What can the EU do?

Only US pressure can force Israel to take substantial steps towards peace. Nevertheless, Europe is a key actor in the conflict and has a major stake in its resolution. The EU cannot hope to achieve Middle East peace single-handed. Its leverage on the parties is substantial, but even if it were willing to make full use of it, it would be insufficient by itself to push Israel and the PA towards the necessary compromises. Its actions can have concrete effects, however. Specifically, the EU can play a major role by pressuring the PA to match unilateral Israeli gestures

26: Commanders for Israel's Security, 'Security first', May 2016.

The current situation undoubtedly presents a threat to both Israel and the PA. By implementing such steps, Israel's security would not be compromised: it would maintain security forces in the West Bank. Indeed, it might benefit: in the short term from a reduction of violence, and in the long term from better relations with Arab countries, which would make Israel more secure and prosperous. And the PA would be able to capitalise on improvements in economic conditions to bolster its faltering legitimacy.

The momentum for such an approach is building up in Israel. Many members of the Israeli security establishment have advocated a degree of unilateral Israeli disengagement from the West Bank, including 200 retired general-ranked military and security officials who set out their views in a plan, 'Security First', in the summer of 2016.<sup>26</sup> The plan argues Israel should fill gaps in the security barrier, gradually abandon settlements deep in the West Bank, and encourage Palestinian economic development. In response to pressure from Trump, on the eve of his visit in May 2017 Netanyahu's government approved measures to help the Palestinian economy, such as increasing building permits for Area C.<sup>27</sup> Diplomatic pressure from the EU can add to the momentum, especially if Israel's partners can demonstrate to ordinary Israelis how such steps would improve Israel's strategic situation. But ultimately, the effectiveness of EU and US pressure will depend not only on being able to strengthen favourable trends in Israeli public opinion but on their willingness to exert pressure on Israel when their reasoned arguments are ignored.

The PA should be favourable to such a phased initiative. It would increase the size of the area it directly controls and improve Palestinians' social and economic conditions, thereby boosting the PA's legitimacy. If Abbas did not welcome Israeli steps and refused to match Israeli moves, for example continuing payments to convicted terrorists, he knows he would be cast as the spoiler of the détente. His own position would become vulnerable, as the US and Arab governments would probably increase their efforts to foster a new Palestinian leadership.

of goodwill, and in fostering Palestinian economic development. And in the long run, once an agreement is struck the EU can smooth its implementation by offering all parties privileged access to its markets.

The EU's overarching short-term aim should be to end Israeli settlement expansion and facilitate Palestinian economic development. To do so it should consider the following steps:

27: Jonathan Ferziger and David Wainer, 'Israel takes steps to help Palestinian economy as Trump arrives', *Bloomberg Politics*, May 21<sup>st</sup> 2017.

★ The EU should vigorously back existing US attempts to curb Israeli settlement construction, and press the Trump administration to do more to halt their expansion. To influence US policy, the EU should point out that better relations between Israelis and Palestinians, and an end to settlement expansion, would make Palestine and the broader region more stable and bring a final settlement into the realm of the possible.

★ Europe should make better use of its leverage towards Israel, and tighten existing 'differentiation' measures. Differentiation means the correct application of EU law, which regards the West Bank as an occupied territory. The challenge will be for the EU to bring all member-states on board and to increase the coherence of its differentiation measures across the board. Differentiation should be increased gradually. First the EU should ensure member-states are in compliance with existing differentiation regulations. If Israel does not halt settlement construction, the EU should apply restrictive measures to all financial transactions involving entities in the West Bank, as recommended by the February 2012 report of the EU Heads of Mission.<sup>28</sup> This measure would undermine the economic viability of settlements, making it difficult for European banks to provide financing to Israeli banks operating in the West Bank. That in turn could force Israeli banks to reassess their exposure to settlements.

★ To win the goodwill of Israel, the EU should demonstrate that it understands Israel's security dilemmas. Given the current uncertainty, it is unrealistic to expect that Israeli forces would withdraw from areas of the West Bank and from the Jordan Valley for years to come. The EU should also strive to inject a sense of proportion into the debate: Israel's deployments in the

West Bank do not number thousands, but hundreds. Their footprint need not be large.<sup>29</sup> And it should draw on the arguments used by members of the Israeli security establishment who advocate Israeli disengagement from the West Bank and goodwill gestures towards the Palestinians, highlighting the fact that the settlements undermine Israel's security

★ The EU should press the PA to match any Israeli gestures of goodwill. If Israel freezes settlement construction east of the security barrier and in other sensitive areas, the EU should demand that the PA halt payments to terrorists in prison and special funding for their families. The point is not to prevent payments to destitute families of terrorists, but to make sure that they do not receive special treatment. The EU should offer to increase development assistance if the PA complies. But the EU also needs to make clear that if the PA does not comply, it will freeze the 'salaries and pensions' component of direct financial assistance disbursed through the PEGASE mechanism, worth over €100 million per year.

★ In the medium term, the EU and its member-states can play a key role in fostering Palestinian economic development. They should step up financial and technical assistance to Palestine, allowing its economy to grow. The EU should make clear it is willing to smooth the path to implementation of a final deal once it is reached. The EU's support will be valuable not only if the two-state solution is implemented, but also if the two sides opt for a one-state solution, or if Palestine becomes more closely integrated with Jordan. In all cases the EU can offer a privileged political partnership and privileged access to its internal market.

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## Conclusions

The Middle East Peace Process is stuck, with little prospect of a breakthrough or even a resumption of negotiations. The two-state solution is stretched to its limits: another grand attempt to reach a final settlement would probably fail, and might spell its end for good. President Trump's policy is unpredictable, but it is clear that he is not committed to the two-state solution. He is likely to block attempts to advance the resolution of the conflict through multilateral initiatives such as UN resolutions. At the same time, alternatives to the two-state solution remain unacceptable to the interested parties and powers.

To avoid an unstable one-and-a-half state solution which would be the worst of all outcomes, Europe and the US should adopt an incremental approach. They should pursue a series of phased steps to build trust and promote Palestinian economic development. These steps would help to ease tensions and restore a sense of hope that a deal may be achieved and set the basis for future negotiations.

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28: EU Heads of Mission, 'Report on East Jerusalem', *Journal of Palestine Studies*, 41 (3) 2012, pp.223-232.

29: Michael Eisenstadt and Robert Satloff, 'Clarifying the security arrangements debate: Israeli forces in the Jordan valley', *The Washington Institute for Near East Policy*, February 24<sup>th</sup> 2014.