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Israeli Financial Measures Against the Palestinian Authority

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Israel has gotten few positive results from past financial measures against the PA, and both sides risk miscalculation and escalation when they employ unilateral tactics.

On April 1, Palestinian Authority president Mahmoud Abbas signed accession papers to fifteen international conventions, endangering the current round of peace talks and spurring the Israeli government to state that unilateral Palestinian steps would be met by unilateral steps of its own. Over the past several days, Israel has made good on this promise, instituting various economic and financial sanctions against the PA. Yet recent historical experience indicates that Israel's willingness to maintain punitive financial sanctions on the PA is limited.

BACKGROUND

As part of the negotiated bilateral political structure created by the 1993 Oslo Accords, the PA was tasked with self-governing Palestinian political, social, and economic affairs. Yet it remains greatly dependent on its financial and economic ties with Israel, codified in the Paris Protocol on Economic Relations (1994).

A major component of the Paris Protocol is a joint customs union whereby Israel collects duties on goods destined for the Palestinian territories, value-added taxes on major Palestinian purchases from Israel, and excise taxes on gasoline, then disburses this revenue on a monthly basis to the PA government. As of earlier this year, these customs transfers amounted to nearly $115 million per month, making up an estimated 36 to 44 percent of the PA's yearly budget of $3.88 billion (adjusting for currency fluctuations between the Israeli shekel and the U.S. dollar). In other words, they constitute the PA treasury's largest single revenue source, surpassing even direct budgetary assistance from foreign donors.

Last week's diplomatic crisis brought with it reported threats of "sanctions" from Israeli negotiator and justice minister Tzipi Livni, followed by Prime Minister Binyamin Netanyahu's April 6 pledge that "unilateral actions from the Palestinians will be answered with unilateral actions from our side." Indeed, immediately after the PA decided to sign accession papers, the Israeli government reportedly took a variety of economic measures, such as freezing permits issued to Palestinian cellular provider Wataniya for infrastructure development in the Gaza Strip and delaying Palestinian planning work in Area C of the West Bank (a zone that is under Israeli security and civil control but also contains small Palestinian population centers, necessitating coordination between the PA and the Israel Defense Forces). Other unilateral economic measures were also being considered, such as suspending agricultural permits for Palestinian farmers in West Bank "seam zones." Israel is said to be implementing some noneconomic measures as well; for instance, top ministry officials were instructed to stop meeting with their Palestinian counterparts.

HISTORY OF FINANCIAL MEASURES

Israel's most significant measure came on April 10, with the announcement that customs transfers would be withheld. In fact, this has long been Israel's most common countermeasure to unilateral Palestinian diplomatic moves outside the Oslo framework. The second intifada period (2000-2004) saw wholesale Israeli closures of PA-controlled areas and the withholding of customs transfers -- sometimes for as long as two years -- in response to waves of Palestinian terrorist attacks. Since then, however, Israeli financial sanctions have been shorter-lived, issued in response to diplomatic and/or political developments seen as inimical to the Oslo framework and a negotiated two-state solution.

- *2006-2007* : In the wake of Hamas's 2006 victory in Palestinian legislative elections, Israel -- along with the United States and European donors -- stopped most direct budgetary assistance to the PA. The move was taken as a result of Hamas's designation as a terrorist organization and its refusal to abide by three international conditions for legitimate rule: namely, ending its armed struggle, recognizing Israel, and accepting past Israeli-Palestinian agreements (including the Oslo Accords). Only after Hamas's coup in Gaza a year later and the creation of an emergency West Bank government headed by Salam Fayyad did Israeli customs transfers and donor funds resume. Despite Hamas rule and the Israeli closure policy, however, financial support to Gaza has continued in the intervening years, primarily via international organizations such as the UN Relief and Works Agency as well as an estimated $1.5 billion per year from the PA.
- *2008:* In mid-2008, Israel delayed transferring customs revenues in protest of Palestinian diplomatic efforts to turn European governments against Israel. At the time, Israel was seeking closer technical and political ties with the European Union, as well as accession to the Organisation for Economic Co-operation and Development. In delaying the transfers, Israeli officials expressed "regret and disappointment that our Palestinian interlocutors with whom we are working for a common goal...are spending time and energy to undermine Israel's bilateral relations with the EU." After a few weeks, the Israeli Finance Ministry, under international pressure, released most of the customs transfers to the PA, though it initially subtracted a significant amount to cover PA debts owed to the Israel Electric Corporation (IEC). This threat of subtracting PA debts owed for services such as electricity and water would be repeated in future years -- indeed, it was the rationale given for this week's customs delay. As of early 2014, PA debt to Israel stood at $573 million, 60 percent of which is

due to the IEC.

- *November 2011:* Israel withheld customs transfers for four weeks in protest of Palestinian efforts to seek diplomatic recognition at the UN. A secondary issue was the PA's expression of interest in reconciliation talks with Hamas. The transfers were eventually resumed due to international pressure and concerns from within the Israeli security establishment about economic and political stability in the West Bank. At the time, Prime Minister Netanyahu's office issued a statement indicating that the money was released only "after the Palestinian Authority stopped taking unilateral moves."
- *December 2012-January 2013:* Israel announced another halt to customs transfers after the PA's successful November bid to secure nonmember observer status at the UN. The following January, it made a single transfer -- which Israeli officials termed "a one-time event" -- after a personal appeal by Middle East Quartet envoy Tony Blair. Regular transfers resumed two months later, after President Obama visited the region.

IMPLICATIONS

The 2012-2013 episode highlighted the tensions involved in Israel's policy of using financial sanctions against the PA, as well as the reason for their usually limited duration. In September 2012, prior to the Palestinian statehood bid at the UN, Israel actually transferred customs revenues in advance so the PA could better deal with a wave of popular protests against its economic policies. That cash infusion, along with other Israeli economic assistance, allowed the PA to placate its public and avert a more serious political challenge. The subsequent withholding of transfers two months later was therefore met with alarm by Israeli security officials, who privately counseled the government to reverse the decision.

Similar fears are in evidence today, as Israel's threat to match unilateral PA diplomatic moves with unilateral economic measures could lead to volatility in the Palestinian territories. The Palestinians' dependence on financial and economic links with Israel is overwhelming, as is Israel's interest in maintaining the PA's viability. In recent days, some wealthy Arab states pledged additional assistance to fill the Palestinian funding gap, but numerous past pledges of this sort have rarely materialized at the scale and pace promised.

In the end, neither Israeli nor Palestinian leaders want the current diplomatic crisis in the peace process to undermine their overall security and economic coordination. While diplomatic or financial unilateralism might seem like an effective tool to pressure each other, such tactics carry a real risk of miscalculation amid escalating tit-for-tat moves.

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