

Changing Neighbourhood Dynamics:
An analysis of the European Union leverage
on the Palestinian National Authority

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ABSTRACT

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(Under the direction of Gary Marks)

Since the establishment of the Palestinian National Authority, the European Union has adopted a diplomatic mediating role in the region, highlighting that the resolution of the Israeli-Palestinian conflict is key to the development of the region. The European Union, as an international actor, has been committed to improving the humanitarian and economic situation of the Palestinian National Authority (PA) by the support of principles of building the institutions of a democratic, independent and viable Palestinian state, living in peace and security with Israel. The EU relations with the PNA have become more visible since the outbreak of the Al-Aqsa Intifada in 2000 due to stronger EU peace-keeping and development efforts through agreements and the formation of the “Quartet”. The EU has participated in bilateral and multilateral agreements in order to support the creation of a democratic PA. The European Union has influenced the PA to different extents. There have been clear boundaries to the full effectiveness of EU conditionality on the PA due to the nature of the agreements *per se* and due to the *sui generis* nature of the diplomatic relations between the EU and the PA. The advent of Hamas victory brings a new face to the EU-PA relations putting EU leverage in question.

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I. Introduction

This thesis outlines the European Union leverage on the Palestinian Authority. According to the Presidency Conclusions of the Council of the European Union in 2004, the EU is still committed to promote political reform, good governance, democracy and human rights in the Middle East. At first, I will give an overview of the EU policies and objectives towards the Palestinian National Authority, keeping the Palestinian-Israeli conflict in context. I will, then, analyze the instruments that the EU utilizes in order to reach the reform goals in the PA region, the difficulties of implementation of the objectives and reasons for the less than ideal outcomes. I will analyze EU influence on the PA and following, how this influence is changing in the advent of Hamas. I will, finally, identify possible future outcomes for the altering situation.

II. EU objectives towards the Palestinian National Authority

The first pillar of the EU policy towards Israel and Palestine is the need to respect the collective rights of the Israeli and Palestinian peoples. From vague support of Palestinian self-determination in the 1980 Venice declaration until the assertion of the creation of a democratic, viable and peaceful sovereign Palestinian state, the EU has been supporting the two-state solution in order to also to guarantee Israel's security. (Tocci 2001). With the start of the Al-Aqsa Intifada, the voicing for a two-state solution became even louder through the formation of the Quartet and the pushing for domestic reforms inside the PA. (Tocci 2001). The second pillar of EU goals has been the importance of respecting human rights and promotion of democracy. The EU has always condemned terrorism and has affirmed that solutions for the Israeli-Palestinian conflict need to be found within the boundaries of international law. The European Union is committed to improving the humanitarian and economic situation of the Palestinians, whilst at the same time supporting the Roadmap principles of building the institutions of a democratic, independent and viable Palestinian state, living in peace and security with Israel.

After the clear failure of the Oslo process with the start of the second Intifada in 2000, the world has been watching the two-state solution even further from happening along with violation of human rights, democracy and international law. Israel has been found responsible for excessive use of force and strong restrictions such as closures and curfews. Moreover, there has been a high level of construction connecting Israeli settlements. In 2002, Israeli government started the construction of a wall in order for *de facto* annexation of occupied territory. However, the International Court of Justice (ICJ) has found the wall-building illegal in July 2004. Palestinian militant groups have targeted Israeli civilians within Israel. The responsible groups were found to be Hamas, the Islamic Jihad, the Palestinian Front for the Liberation of Palestine and the Al-Aqsa Martyrs Brigade. Suicide

bombings are illegal under the Protocol I of the Geneva Conventions. Therefore, the EU, since 2003, along with the other members of the Quarter considers these groups terrorist organizations (U.S. State Department, 2003) However, the Conventions refer to state and state-like actors. This is a difficulty in this case because there has been no proof that the PA has sponsored illegal activities. (Human Rights Watch, 2002) Even though the PA is does not act as a state, it is considered to be a state-like actor and is often held accountable for the prevention and punishment of such actions.

The EU became more involved in the Palestinian Authority issues due to disconnected events. The EU is highly interested in the region due to geographic proximity. The historical ties are strong with the Jews as well as with Arabs. The high Arab and Muslim immigration into the EU is also an important factor for the involvement and the interest in the Muslim Mediterranean. France, Spain and Italy have been involved in the Maghreb due to colonial history. Moreover, Germany still suffers from the World War II guilt therefore, it maintains delicate relations with Israel.

The last enlargement caused a lot of preoccupation with the new EU “border”. The new neighbour countries brought new preoccupations. The larger the EU becomes, the closer it becomes to the Israel/Palestine region. Moreover, the rise of radical Islam, the Iraqi War and outbreak of the second Intifada in the Israeli-Palestinian conflict drew attention to the Middle East.

Since the beginning of the second Intifada, the EU has become more preoccupied with Israel’s constructing of the barrier separating the Israeli and PA territories and with the promotion of democracy, governance, and reform within the Palestinian Authority (Tocci 2001).

III. The deployment of EU tools

The EU enjoys categorically different relations with the parties in the Israeli-Palestinian conflict. Since the mid-1990s the Union has had an association relationship with Israel and the PA. In the case of Israel, association has been wide through economic trade and liberalization, while in the case of the PA it has been in forms of high levels of aid. The Union's contractual ties with non-candidate countries, both Israel and the PA rank high on the EU's list of priorities, judging by the relationship that both parties enjoy. The high internationalization of the conflict may also be a reason for such involvement.

Agreements and Processes

The Euro-Mediterranean Partnership or Barcelona process was the previous agreement for between the EU and the region that covered the Israel/Palestine. and had not brought about large changes. A new push was appropriate due to the new reality of the EU. Most of the negotiations were in bilateral manners and strong conditionality was hardly achieved. A positive solution to the Israeli-Palestinian conflict is key for the overall development of the Mashreq area. With financial assistance to the PA as the main incentive to the PA, the main goal behind the partnership was economic liberalization and promotion of trade in line with the IMF. Not a whole lot was planned about the ways to promote human rights. Benefits were often threatened to be annulled however, the EU did little to ensure reforms. Therefore, society's main problems were not fixed. Even though the EMP had not been very successful, there is no doubt that resources and competence had been more prominent. The Barcelona process, as a cooperative partnership, has not had negative rebounds. Therefore, the EU had an incentive to stay involved in the development of the PA since there was legitimacy and non-negative results. The EU then created the European Neighborhood Policy to enforce the details and conditionality of the Association Agreements. (Presidency

Conclusions 2004)

The EU has constructed a set of policies for the neighbourhood as a well-defined new geopolitical space. This consists of the whole of Europe and the Mediterranean basin. The states in this area come in three categories for the EU policy-maker. First, the EU dealt with the accession candidates. Second, there is the Western Balkan states for whom accession is a longterm goal. The EU has grouped these states in the Stabilisation and Association Agreements. Finally, the official 'neighbours' of the former Soviet Union and the Mediterranean were grouped under the European Neighbourhood Policy (ENP). All three groups have the same normative foundations, with only differences in the intensity of pressures and incentives for compliance with EU values, norms and standards. In all cases, the policy documents give first place to the objective of convergence on democratic values and the rule of law. For accession, full compliance is mandatory. The Western Balkans states are set on a course that makes full compliance necessary in order to reach membership, but with much more flexibility on the time sequence. For the ENP states, the same broad objectives are given, but compliance is more flexible and selective. Nonetheless the Commission has followed the same comprehensive normative framework for all three categories..

The agreements were created in a path-dependent manner. Due to the success in reforming the first group or the accession countries, the ENP was created by the Directorate-General for Enlargement of the EU. (Emerson and Noutcheva 2005) Even though the ENP stated no membership prospects, the format is similar to the Copenhagen Criteria in the Accession Agreements between the EU and Central and Eastern European countries. As in the accession negotiations, the process is bilateral and different rules apply to different partners. Even though, the ENP affirms clearly that this was not a membership prospective, it was written in the same format as the accession negotiations. The political criteria are similar and both are based on human rights, rule of law and democracy values. There are specific differences in the agendas of each country, however the main ideas are similar.

The ENP introduced more direct norms. The main difference on the objective from the

Euro- Mediterranean Partnership is that the ENP states that human rights, democracy and rule of law should be similar to that of the EU (European Commission 2004b). The Action plans are supposed to add to the Association Agreements and Barcelona Process. In the same way as the past agreements, the ENP states that if rules are broken, “appropriate measures” will be taken. Suspending the agreement was never done in the case of the PA in the Barcelona process, however it is clearly stated again in the ENP.

The vagueness of the requisites in the Neighborhood and Assessment Agreements raised some challenges however, the specificities of the ENP became a first basis on how to utilize EU conditions for the delivery of assistance, The *acquis communautaire* is specific, whereas the agreements with the PA are often unclear on how the reforms should take place. However, in this aspect, the EU has increasingly become more preoccupied with the stances of the PA. (Sayigh and Shikaki 1999) The EU goals were then, complemented by the recommendations of the Palestinian Legislative Council in 2001, along with numerous Palestinian NGOs and the 100-day reform plan approved in June 2002. Precise conditions and IMF monitoring were set for the disbursement of EU budgetary assistance. In particular, EU conditions called for greater transparency in public finances through the consolidation of all revenues in a single IMF monitored account, a halt on public-sector hiring, the adoption on a Law on the Independence of the Judiciary and the passing and preliminary application of the Basic Law. A further step forward was made in the EU-PA Action Plan. The Action Plan goes far in specifying the “priorities for action” in the areas of democracy, human rights, the judiciary, the legal system, the fiscal and security sectors, institutions and administrative capability (European Commission 2004f). Greater clarity in the reform objectives, to be monitored through EU-PA sub-committees, bode well for the effectiveness of conditionality towards the Palestinians.

There have been voiced attempts, that are often hard to accomplish, from the EU to focus on trade and give preference to Palestinian products, firstly during the Oslo process and the EC-PLO Interim Association Agreement. This has been used as a framework for future trade liberalization. An effective policy of conditionality targeted at a non-state actor would need to distinguish between those reform priorities that the PA can and should meet, the

priorities that require Israeli cooperation and those that need external support. Making such distinctions in practice is no simple feat. Measuring relative capability is not only open to subjective interpretation, but also requires continuous review in view of changing circumstances. To ease this task, however, is the fact that relative to cases of sovereign statehood, the Palestinian context is highly open and internationalized. As such, acquiring the necessary information for the specification of conditions and benchmarks may prove easier than in contexts of sovereign statehood. For example, in Turkey, it was not until recent years that international NGOs such as Amnesty International and Human Rights Watch were able to operate freely in the country.

It is difficult to ignore that many of the reforms of the PA would need the consent and help of Israel. Since Israel is the United States' partner, it means that there is a large field of influence before the PA can actually act on something. The EU-Israel Action plan, on the other hand, has been far more vague with "facilitating efforts to resolve the Middle East conflict, strengthening the fight against terrorism and the proliferation of WMD, promoting the respect for human rights, improving the dialogue between cultures and religions, cooperating in the fight against anti-Semitism, racism and xenophobia" (European Commission (2004e)). It is clear that without further elaboration, these statements could not amount to credible conditions and would at best become subjects for discussion within political dialogue. This indeed appears to be the intention of the Neighbourhood Policy *vis-à-vis* Israel.

Conditionality and incentives

It is key to understand the format of the agreements in order to evaluate EU's leverage on the PA. There are different ways in which the EU delivers benefits through the fulfillment of obligations. In the case of the PA, the contractual ties are based on ex post conditionality, rather than ex ante. (Tocci 2001) This means that the PA needs to maintain and respect the set of rules on the contract, otherwise the contract is lawfully annulled. On the other hand, in an ex ante conditionality example, the EU will deliver the benefits when conditions are

met by the other party. The Copenhagen criteria, adopted in the conclusions of the European Council meeting in Copenhagen in June 1993, through the *acquis communautaire* is an example of the latter since the domestic reforms are incentives for accession to the Union. In the case of the association agreements with *ex-post* conditionality, the EU has been able to influence reforms within the PA, however, the reforms have been superficial at times cosmetic reforms, rather than long-lasting deep reforms.

The EU's involvement on the Palestinians issues has been high since the launch of the ENP. In economic terms, the EU and the member-states represented by far the largest donor to the Palestinian Authority. Without EU aid since 2000, the PA could have collapsed. Palestinian political dependence on the EU has also been high. Like Israelis, Palestinians frequently accuse Europe of its ineffective political role in the Middle East. Unlike Israelis, however, Palestinians appear to have welcomed more European involvement in the conflict. This can be seen as an invitation to participate in the resolution of the conflict.

The ENP, in which both Israel and the PA are included, in principle, aims at blurring the lines separating EU inclusion and exclusion. But to date, the policy falls far short of this objective. In addition, particularly when it comes to the Palestinians, the additional benefits, besides aid, envisaged within the ENP are hardly evident.

The EU is Israel's largest trading partner. Israel's political dependence on Europe is far more controversial. Israel's strategic relationship with the United States has also shadowed the murky political ties with the EU. However, Israel is an EU's neighbor, it is surrounded by real and perceived enemies whereas the US remains on the other side of the Atlantic. Moreover, some member states of the EU have special relationships with Israel. Beyond the rhetoric, Israel's political links to Europe are valued highly and the desire of finding a place of belonging is deeply embedded in Israeli society. (Tocci 2001)

Although Israel enjoys highly developed ties with the EU, it is not included in the customs union, it does not enjoy the relationships characterizing members of the European Economic Area and it does not currently have any prospects of entering the accession

process. Israel seems to be part of Europe only during the Eurovision song contests and for UEFA matches. The PA, besides the large sums of aid received , are even further away in terms of their degree of integration into the EU. Even the provisions for preferential trade included in their Association Agreement remain largely unimplemented.

IV. The assessment of EU leverage

Through the Neighborhood Policy, the EU has been able to promote a wide range of reforms. The PA benefited and became dependent on EU budgetary transfers, especially after 2002 that Israel halted tax transfers to the PA prohibiting Palestinians to work inside Israel (Tocci 2003). The EU threatened to cancel the aid if reforms were not made in the public and fiscal sector. It was at this time that monitoring of budgetary aid transfers was implemented and the judicial system was reformed. The EU was able to have influence on this aspect.

In response to internal and external pressures, the PA launched a reform program in order to strengthen democracy, governance and legitimization. In the case of the Palestinian Authority, the large section of the population was dissatisfied with the PA leadership. The population resented the high corruption, inefficiency and failure to deliver peace and better standard of living. Therefore, as stated in the EU-PA Action Plan in 2000, the PA did launch a process of reform in 2002, aimed at strengthening good governance and democracy. In 2002, the Basic Law was adopted, and in 2003 the law was reformed in order to allow for a prime ministerial post. A Law on the Independence of the Judiciary was passed. Significant progress was made in the management of the PA's finances, thus curbing the potential for corruption. It is true that some reforms were only exterior. (Emerson and Noutcheva 2005) In 2003, the creation of the prime minister's post did not come with valuable empowerment, as most control remained in the president's hands. Even with the rearrangement of the cabinet, the changes were mostly aesthetic. In the fiscal sector, the late President Yasser Arafat retained approximately 8% of the budget and clientelism was a strong characteristic of the PA (Tocci 2005). Besides the corrupted legacy of the reformed PA, the EU still was able to exert some leverage in the case of domestic reforms.

The death of Yasser Arafat opened the space for a reshaping of Palestinian domestic politics

through new elections and an enhanced dialogue with the Islamic parties. Since Arafat's successor Mahmoud Abbas, stepped into power, a more legitimate process of reform started to take place. There had been a greater empowerment of the prime minister, with President Abbas and Prime Minister Ahmed Qureia sharing powers between them. As recognised by the international community at the Ad Hoc Liaison Committee in Rome in December 2003, "EU budgetary support and its conditions as well as US support, has over the past years been successful in advancing key reform measures such as financial accountability".(European Commission 2005). Therefore, the European Union established an IMF full-monitoring process of the aid distribution and allocation inside the PA. Greater transparency in PA public finances through the control of the president's funds are still in progress and the security sector is undergoing a systematic process of reform

The successes of the early days in Mahmoud Abbas's presidency were evident on most fronts. Nevertheless, without underestimating these steps, the reform process hit a wall. Dialogue between the Palestinian factions enhanced and improved, opening the prospects for the Islamic parties' co-optation into the political system and an ensuing narrowing of polarizations within Palestinian politics. Due to less than immediate result of the benefits of the new reforms, the population had not yet seen meaningful changes in security and standards of living. Moreover, the positive changes during Mahmoud Abbas' government were independent from the evolving dynamics within the Islamic parties. This resulted in the Hamas victory in parliamentary elections on April 7, 2006. The PA, which received considerable financial assistance from the European Union as well as from the United States was forced to face the suspension of all direct aid as it had been threatened in January 2006 in case of success of a terrorist group in the elections.

Nonetheless, several issues deriving from the *sui generis* situation of the Palestinians bedevil the task of EU conditionality. First of all, the case of the PA differs from other actors in the association agreements. The PA does not have full self-determination and is only a state-like actor, not a state. Moreover, the conflict is different because as an identity-based conflict, the two-state solution is the one that has been accepted by the majority of the international community and even both Israel and Palestine. Israel rejects the one-state

solution as other larger states in an identity-based conflict usually support, since it goes against the Zionist project. This is quite unusual, for both the secessionist party and the larger party to accept a two-state solution. The plurality of domestic actors and the inability of the PA to exercise full control hardens the process of negotiations. Moreover, due to the lack of a sovereign state with self-determination and the limited capability of the PA, the bilateral relations between the Union and the PA had to be based on aid, rather than economic agreements.

Lessons from Central and Eastern Europe

The European Union leverage on the process of democratization in the post-communist countries has been concrete and real, however less substantial in the case of the PA. The European Union has had a large impact on democratization in post-authoritarian societies in Central and Eastern Europe, during the transition from communism to democracy. However, most of the credit in the reconciliation of the situation can be granted to the European Union. The prospect of European membership and the process of meeting the criteria for membership have been successful in establishing incentives for aspiring members to promote domestic reforms. The European Union exertion of leverage has been key to the process of democratic consolidation in the Central and Eastern European countries.

Milada Vachudova argues that asymmetric interdependence, enforcement and meritocracy are three characteristics that enforce the active leverage of European Union. Asymmetric interdependence describes the little economic and political dependence that the EU had on the candidate countries compared to the much larger dependence that the candidate countries had on the EU to succeed economically and politically. Enforcement refers the European Union's interest in making sure that candidate countries do comply with all the membership requirements of the *Acquis Communautaire*. Meritocracy refers to the idea that candidates will be granted EU membership based on individual ability, achievement and compliance to the *Acquis*. The fear of exclusion in the next wave of enlargement plays

a large role in the pre-accession process strengthening even more asymmetric interdependence and enforcement. Active leverage is the conditionality exerted on candidate countries and is exerted in various ways. The benefit of EU membership was key to the domestic reforms in countries in the 2004 enlargement (Vachudova 2005).

The PA shares some characteristics with the Central and Eastern European countries. There is clear asymmetric interdependence between the EU and the PA. The PA has depended on EU financial assistance and on the EU political involvement in the Israeli-Palestinian conflict. Enforcement and meritocracy have a different face in this case. The EU has enforced some agreement requirements, but not others. There has been an institutionalization of the EU's role in the PA, however, there has not been a strong enforcement of the rules of the contract as in the case of the Central and Eastern European countries. The EU controls the allocation of the financial assistance in different ways, however it has not enforced compliance of human right rules as it did in the CEEC's. In the case of the Czech Republic, Romania and Bulgaria, for example, the EU well controlled the minority rights issue through the enforcement of the *Acquis Communautaire* through detailed auditing of the situation. In the case of Turkey, for example, that has started accession negotiations with the EU, the Commission is highly enforcing the *acquis communautaire* as positive conditionality for accession into the EU. The EU however, does not act on meritocracy on the case of the PA since there are no clear future benefits stated in the agreements.. On the contrary, it utilizes negative conditionality on the PA.

The concepts of passive leverage and active leverage have been key to the progress of democratic consolidation. The consolidation of democracy in the post-communist countries was an arduous process changing the shape of the institutions and society. The interplay of external factors along with internal factors are key to understand the process of democratic institutionalization. Vachudova argues in her theory of active leverage that the most important external factor in the process of democratization in the new members of the EU was the prospective of joining the Union. Post-communist states reformed in order to follow pre-accession for the EU and meet criteria eligibility.

The Copenhagen Criteria which covers the country's ability to assume EU's membership was held in 1993 and stated that membership requires that candidate country has achieved stability of institutions, guaranteeing democracy, the rule of law, human rights and protection for minorities (Vachudova 2005). These conditions have been given attention on the reports from the European Commission. This can well be explained with Vachudova's idea of asymmetric interdependence since the standards can be higher for membership of candidate countries since the fear of exclusion is high.

The difference with the conditionality with Accession Partnerships and any agreement between the EU and the PA is the characteristic of the conditionality per se. The Central and Eastern European countries have experienced the EU taking back the prospects of membership. The laggards Romania and Bulgaria will only join in 2007 due to less than ideal domestic reforms. The EU has proved that Accession Agreements are real and credible.

The people of the post-communist countries participated in the domestic reforms through democratic forms. It appears that the median voter in the reforming countries were not directly affected by this leverage since there was a sustained alternation of power between opposition parties. Voting for the most democratic leader would be a way of subsuming to this EU leverage. However, the constraints of the institutions made a democratic choice difficult in the first elections after the fall of Communism. The people wished for the "Return to Europe" however, the parties in power still had Communist characteristics and it took a while for these countries to allow certain parties to rise. Vachudova explains that rent-seeking elites made the process of democratization difficult in the post-communist countries (Vachudova 2005). The rent-seeking elites did not evaporate overnight. The same is happening in the Palestinian Authority. The victory of Hamas in the 2006 election proves that there is a step towards democracy if alternation of parties is a positive sign towards the institutionalization of democracy.

The EU has been better at using its conditionality than its socialization in the case of the PA. For the Eastern European countries, membership prospective is real. Therefore,

socialization is more prominent. Since the countries know that they will be joining the EU at some point, the people have slowly adopted EU's styles. The institutions and civil societies slowly become more similar to those of the EU members (Emerson and Noutcheva 2005). In the case of the ENP agreement with the PA, the EU has not specified future. Furthermore, the PA is still under the conflict which was not the case of the Central and Eastern European countries. Moreover, the cultural gap is colossal between the PA and the EU in comparison with the gap between the latter and the Central and Eastern European countries.

According to Pridham, democratic conditionality was really developed in the 1990's with respect to post-communist states that were to focus on the implementation of democratic conditionality. Due to the youth and fragility of these post-communist democracies, there is much leftover from communist regimes in terms of concentration of the power in the hands of the elites. The impacts of democratization due to European Union integration possibility occurs rapidly in candidate countries, however, the remaking of the political culture takes a long time until it becomes institutionalized democracy (Pridham 2002)

Schimmelfenig argues that "democratic conditionality" is key to induce candidate countries to promote changes towards democracy. Schimmelfenig describes that "reinforcement by reward" is what leads countries to comply or reform in order to receive the reward offered by an international organization that does not coerce the potential candidate country (Schimmelfenig 2003). Reinforcement by reward groups the concepts of enforcement and meritocracy that Vachudova presents. The Palestinian Authority does not enjoy the same benefits as the CEC's do since there is no reward perspective. Precisely. The EU has attempted to utilize positive conditionality on the PA. The 2003 Wider Europe communication affirmed that "in *return* for concrete progress demonstrating shared values and effective implementation of political, economic and institutional reforms...the EU's neighbourhood should benefit from the prospect of closer integration with the EU". (European Commission 2003). However, neither has the PA nor Israel have had any membership prospects for the EU. Israel's statements have showed intentions of joining the Union (Tocci, 2). The meeting of the Copenhagen criteria would result in severe minority

rights reforms within the state of Israel. The reforms would go against the Zionist project, however, could be changed in prospect of membership.

In the Accession Agreements, but not in the European Neighborhood Policy, there is an active role of the candidate countries in the attempt to become European. The institutionalization of the European level of rule of law, human rights, good governance and democracy is a process. The speed of the process of the EU's contractual ties and the conditionalities that may come with them depends pivotally on the benefits on offer and the costs of compliance with contractual obligations. Only if the potential gains relative to the costs are perceived to be sufficiently high, could the Union meaningfully attempt to exert some form of influence on the PA.

V. EU leverage after Hamas

Accession clearly ranks higher than association or neighbourhood. The characteristic of the Association Agreements that the EU has with Palestine have a ex-post conditionality. This means that the benefit is delivered as long as the rules are followed. If there is a violation of the agreement rules by the PA, the EU holds the right of the immediate suspension of benefits. However, the EU had not utilized this ex-post conditionality until the cut of assistance to the PA after the advent of Hamas victory in January 2006.

The EU has made its conditionality more credible after the halt of aid to the PA and proving that it does enforce the rules on the contractual ties. Moreover, the characteristics of the rules in the processes, if negative conditionality was to be applied in more occasions, the agreements themselves would not have been signed in the first place since none of the countries in the Association Agreements and Neighborhood Policy usufruct from splendid democracies or human rights history.

It took many years for the EU to utilize its negative conditionality. Before the cut of aid, EU had not sanctioned or put embargoes neither on the PA nor in Israel. (European Commission 2004) Since both have broken rules of the human rights clause, there might be a chance that the EU had taken a more constructive role, enforcing promotion of values through communication and support as in the principle of socialization. Therefore, there have been reforms due to this gentle EU pressure however, the objectives have not been nearly as close as what the EU aimed. Reforms have been on the surface in order to please EU. It is true that real changes were made in the post-Arafat era, however there was no enforcement of the amelioration of the human rights clause.

It is essential to understand that any EU use of negative conditionality also has impacts on Israel or vice-versa. The EU aid transfer to the PA was a way to prevent the authority's colla

pse. If collapsed, this would result in large consequences for Israel that would then be faced with an even more vulnerable PA and a large humanitarian crisis. This aid from the EU, in the view of some, has facilitated Israel to maintain the curfews and borders closed. On the eyes of others, the aid could have allowed the sponsoring of suicide bombings. Moreover, if the EU were to enforce the human rights clause for the PA, it would mean doing the same on the Israeli side and enforcing the illegality of the Israeli barrier/wall or raids in the West Bank and Gaza.

The Quartet has a strong position against the transfer of aid to the PA since the parliamentary victory of Hamas. The European Commission had made its standpoint on conditionality in the ENP clear stating that “the EU does not seek to impose priorities or conditions on its partners...these will be defined by common consent and will thus vary from country to country” (European Commission 2004) This statement proves how the European Neighborhood Policy can be soft in some instances.

The win of Hamas questions the EU credibility concerning democracy in the Middle East. If democracy is what the West wants for the Middle East, the Quartet has to be realistic that Political Islam is a real and serious movement in the Middle East. It will be quite difficult to find a solution to the Arab-Israeli conflict without the involvement of Islamist groups.

Fatah, the ruling party until recently, had dominated Palestinian politics since 1964. Fatah had always seen itself as the only Palestinian government, which has represented the Palestinian people and defended their rights. Fatah leaders assumed the support was still there after Arafat's death. However, these elections proved that the Palestinian people were supporting Fatah because charismatic Arafat was the leader. Losing the majority in the second parliamentary elections was a clear message that Fatah was no longer the favorite of the Palestinians.

In the past decades, the people were offered nothing but Fatah. The international arena as well as the people of Palestine were dissatisfied. For the first time ever, the January 2006 elections gave Palestinians real options and a distinct choice between distinct parties. The

fake competition that characterized the era of PLO dominance finally came to an end and the PA embarked on an era of real competition. The parliamentary elections forced voters to make choices between real competitors. Furthermore, the establishment of a multi-party system hardens the chances of a party or a couple of parties' monopoly.

Hamas did not win victory only because of its political Islamist character. There are many reasons for the victory. First of all, Palestinians were discontent with Fatah that was not able to bring peace and prosperity. Second, Hamas is popular for its generous role as a service provider for the communities especially in the austere days of Intifada. Last but not least, the Hamas campaign for the elections had a moderate face that did not emphasize on Political Islam or armed resistance.

Hamas well prepared for the elections. Firstly, Hamas suggested that would not attack Israel as long as Israel ceased the offensive against Palestinian regions. Hamas also prepared a very clear proposal explaining the aim of participating in the elections. The document, named the 'Change and Reform List', focused on the Palestinians' domestic concerns, as well as on corruption, unemployment and security. It also suggested a comprehensive plan to reform the Palestinian administration. Hamas avoided mentioning the annihilation of Israel but referenced to Islamic law often. (Jerusalem Post, 2006)

The EU might have gained credibility on its contractual ties, however, new problems can emerge. If the EU fears the rise of Political Islam, EU's aid halting can be an excuse for Islamist groups to unite. There are indications that Hamas is exploring the options for finding financial assistance elsewhere. First of all, Hamas is not alone. It has been reported that the organisation is planning to ask the Arab and Islamic world to support the PA budget (UN Division for Palestinian Rights, 2006). It is improbable however, that Arab and Islamic governments would pay \$1 billion to the PA since they have never been large contributors. However, Hamas might have some support from the Gulf states to develop specific infrastructure projects. In that case, Iran will be a good option for support of Hamas. Iran also could use this as an opportunity to step up and counter the EU and the US on the nuclear debate. Iran promised Hamas delegation who visited Iran at the end of February

2006 that it would pay \$250 million to the new Palestinian government. (UN Division for Palestinian Rights, 2006) Hamas has also invited the Arab private sector to invest in the West Bank and Gaza. Foreign investors from around the globe have been encouraged to invest as well.⁵⁰ This plan seems doubtful in the short term. However, it might be a beneficial second option long-term plan to ameliorate the financial problems and to lose decrease on foreign aid.

The EU has not been able to profit from active leverage on the PA as in the Central and Eastern European countries. The threat to cut financial aid was not enough for the PA to manoeuvre the political parties or the people and prevent the victory of the Hamas. The EU political active leverage was actually used was in 2002 in Slovakia. The EU stated that Meciar was unacceptable as a Prime Minister, the EU asked the other Slovak parties not to form governing coalitions with his party with EU membership at stake. (Vachudova 2005) In the case of Turkey, for example, even while the Islamist party was in power, reforms were made (Tocci, 2004). However, there has been low acceptance of Islamist parties in the case of the Mashreq countries and the EU has proven to have low leverage on the case of the Arab Levant.

The EU leverage on the PA is impaired due to EU-Israeli relations. During the Oslo process, little was done in order not to upset the peace process. Following the failure of the process, other political considerations have come into play. Most important, EU policies have been influenced by Israeli strategies towards the EU. Israel has, at times, criticized Europe for its anti-Israeli and anti-Semitism bias. EU member states and particularly countries such as Germany and Austria, due to the legacy of World War II, have been highly sensitive to any criticism of this kind. A final reason explaining why the Union has largely bent to Israel has been the leverage that Israel can exert on Europe. In economic terms, close EU-Israeli trade ties have benefited Europe as well as Israel. (Dodini and Fantini 2004). Even more importantly, Israel has been key to European security interests for peace and stability in the Middle East.

VI. What does the future hold?

The halting of aid to the PA is a catch-22. If the EU does not fulfill its own obligations, credibility is impaired. If benefits are not delivered or annuled as described in the contractual ties, the EU loses some of its credibility as a global actor. Therefore, the EU had to halt aid to the PA in order to maintain its standing. Political imperatives do not appear to have significantly hindered the implementation of EU-PA contractual ties. Due to Israeli and American preoccupation with Palestinian reform since 2000, as well as Israel's accusations that EU funds had been re-routed to support terrorism, EU institutions have gone the extra mile to ensure the full respect of certain conditions under strict monitoring and not enforcing other conditions at all. However, with more credibility after the halt of aid, the European Union can detriment the economic situation of the PA.

When the concept of a Palestinian state took root in the 1990's, the focus was on institution-building in general, rather than on the quality of Palestinian democracy. This was in part because of the *sui generis* nature of the PA. It was also because, due to the fear of disrupting the negotiations of the Oslo process, the EU as well as the rest of the Quartet, opted not to criticize the parties. Israel was not criticized for its violations of international law and the PA for its corruption, human rights violations and authoritarian. (Emerson and Noutcheva 2005) The EU worried about the Establishment of the Palestinian Authority Central Elections Commission. "So far, technical assistance totalling €1.6 million peanuts! has been provided to the CEC to build their capacity in terms of financial management, administrative procedures, operations, logistics and procurement. A further €10 million grant contract was signed in December 2003 for the CEC to cover registration, pre-polling and polling activities for national elections (both legislative and presidential" (European Commission 2005).

The relationship between the EU and the PA appears to be changing. The statement of halting of financial assistance to the PA has shown to be a way to pressure change within the Hamas government. Since the European Commission announced the halt of aid in April 2006, after the Hamas victory, there has been no voicing or hints towards the restoration of the full aid assistance. However, the EU has not completely frozen the allocations. Due to the clear negative impacts of such decision, the EU has been supporting some sectors of the Palestinian Authority. Solely in the months of June and July, two months after the announcement of the halt, the EU has transferred at least €190 million for humanitarian aid to the PA.

However, the EU does not appear to influence the PA as well as it did during the Fatah government. Even though reforms were less than ideal when Fatah was in power, reforms were real. Hamas has shown to be more reluctant to apply reforms according to EU norms as mentioned in the ENP. It might be early to judge the future of EU leverage on the PA formed by a Hamas government. The EU might gain credibility due to the actual appliance of the conditionality of the Agreements. The PA may also lose trust on the EU since the halt of aid. So far, Hamas has not recognized the state of Israel which is the first demand from the EU and the Quartet. The EU has had weak active leverage on Hamas.

VII. Conclusion

In the case of the Israeli-Palestinian conflict, developments on the ground remain far removed from the Union's stated goals in the Barcelona Process and European Neighborhood Policy. Except for the partial successes in the promotion of Palestinian reform, underlying trends are moving steadily away from the EU's aims concerning the establishment of a viable two-state solution and the respect for human rights and international law. If promoting democracy was at the top of the list as a main goal, the EU has accomplished part of the main goals. However, if democracy in the PA has to follow EU democratic norms, the EU cannot even celebrate the promotion of democracy since, according to the EU, an Islamist terrorist party is now in power.. While the Union can't alone realize these objectives, the vagueness of the parties' contractual ties affect effectiveness of leverage.

The EU's ties with Israel and the PA are fundamentally intertwined. With respect to the Palestinians, the Union has been increasingly successful in specifying clear conditions for the receipt of financial aid and it has become credible in threats to suspend support in the event of non-compliance. Key questions remain primarily to the dilemmas of imposing conditionality on a non-state actor that depends on Israel. But on a whole, the Union's efforts in this respect have been relatively successful. There are other underlying issues. Moreover, if the parties of the agreements find that there are more duties than specified in the contract to fulfill in order to receive the benefit, credibility might be harmed.

There is room for manoeuvre so the EU can find a mid-way between the conditionalities. EU membership has been the main driver of domestic reforms in the Central and Eastern European countries. The Accession Agreement have promoted faster and more durable reforms in the countries that had EU membership perspective. Even some countries that are also on the ENP along with the PA, could have membership prospects. The case of the

Arab Levant, however, is more unrealistic. The constant changing dynamics of the Arab levant politics harden the success of the implementation of agreements. For the PA, at least at the present moment, there is no EU membership perspective. Therefore, the EU needs to find incentives, additional to direct aid, for the promotion of political and economic reforms, the elevation of human rights level and the end of the Israeli-Palestinian conflict.

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