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## **Blocking Transfer of Funds is Ineffective against the Hamas PA**

### **Re'ut Institute – Fundamental Early Warning<sup>1</sup>**

#### **Essence of Warning**

This paper deals with the Israeli policy towards the Palestinian Authority (PA) following the Hamas electoral victory and warns that the attempt to restrict the flow of funds to the PA in order to force its acceptance of Israel's political demands is liable to fail.

From an analysis of the declarations and policy of the government of Israel it is clear that Israel's aim is to force upon the Hamas either a moderation of its stance or a loss of political power. Israel is attempting to build an international coalition that will isolate the Hamas-led PA and will stop the transfer of budgetary funds and project funds (although humanitarian assistance will continue) until the Hamas recognizes Israel, reaffirms existing agreements, and rejects the use of violence.

The Reut Institute argues that a number of trends are bound to frustrate this policy. Israel is liable to find itself in a position of needing to act in direct contact with a Hamas-led PA, without the abovementioned three political demands having been met.

Therefore, Israel should consider the following options: (1) recognizing that the PA is *not* a "Hamas entity" and agreeing to deal directly with Abu-Mazen as Chairman of the PA or the PLO; *or* (2) agreeing to direct and official discussions with the Hamas; *or* (3) exacerbating the political crisis by restricting the movement of goods as a means of pressure on Hamas-led PA.

#### **Introduction**

1. The Palestinian Authority (herein – PA) was created in 1994 on the basis of the "Oslo Accords" which were signed between Israel and the PLO headed by the Fatah movement.<sup>2</sup> According to these accords, the goal of the political process between the two parties is a "Permanent Status Agreement" on the basis of Palestinian recognition of the

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<sup>1</sup> A **Fundamental Early Warning** is a Re'ut Institute product the aim of which is to reveal gaps between new trends and events, *on the one hand*, and primary assumptions of the Government of Israel (GOI), *on the other hand*. Failure to cope with such gaps may lead Israel into a situation of "**Fundamental Surprise**", which may expose its policies as irrelevant. This paper attempts to highlight the working assumptions behind some policies of the GOI, indicate new trends and recommend policy options to close the relevancy gap.

The concepts "Fundamental Early Warning" and "Fundamental Surprise" were coined by Dr. Zvi Lanir, founder of Praxis Institute. See: <http://www.praxis.co.il/>; Zvi Lanir, **Fundamental Surprise – Intelligence in Crisis**, (Tel-Aviv: Jaffe Center, 1983, in Hebrew).

<sup>2</sup> See "**Exchange of Letters between PM Rabin and Chairman Arafat**" (8/93), "**Declaration of Principles**" (9/93), "**Gaza-Jericho Agreement**" (5/94), "**Agreement on Preparatory Transfer of Powers and Responsibilities**" (8/94) and "**Interim Agreement**" (9/95).

State of Israel and the acceptance of Security Council Resolutions 242 and 338, which anchor the principle of "two states for two peoples."<sup>3</sup>

2. The Interim Agreement (9/95) created a unique economic arrangement between Israel and the PA during the "Interim Period" until the signing of a "Final Status Agreement"<sup>4</sup>. The arrangement is based on the establishment of a "customs envelope" in the framework of which Israel collects customs and indirect taxes on behalf of the PA and transfers them after deducting a fee (herein - "customs transfer arrangement").<sup>5</sup>
3. The Hamas movement negates the existence of Israel and denies the legal force of existing agreements between Israel and the Palestinian side.<sup>6</sup> In January 2006 the Hamas won the elections to the PA Legislative Council, garnering approximately 60% of the Council's seats. Following this victory the Hamas has established a government.
4. The Hamas electoral victory signifies a political watershed for Israel. *Until now*, the Fatah movement stood at the head of the PA and the PLO; Fatah had taken upon itself several fundamental principles including recognition of Israel, acceptance of the principle of "two states for two peoples" on the basis of resolutions 242 and 338, rejection of armed struggle and a commitment to negotiate peacefully with Israel on outstanding issues.<sup>7</sup> *As of January 2006* the leadership of the PA and its Legislative Council is held by a movement that, based on its ideology, denies these principles.

#### **Existing Mindset: Hamas Can be Bowed by Blocking the Customs Transfer Arrangement**

5. The immediate response of the Government of Israel (herein – GOI) to the electoral victory of the Hamas included a number of elements:
  - a. Institution of a political boycott of the entire PA, including Abu-Mazen as its Chairman, and cutting off its connections with the PA on the basis of the claim that it is an illegitimate "Hamas Authority";<sup>8</sup>
  - b. Termination of the above-mentioned "customs transfer arrangement" between Israel and the PA and closure of the border points between the Gaza Strip and Israel;<sup>9</sup>

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<sup>3</sup> See the Concept "[Permanent Status Agreement](#)" and the Term "[UN Security Council Resolutions 242 and 338](#)" (11/67 and 10/73, respectively).

<sup>4</sup> See the Concept "[Sequence of Israeli-Palestinian Political Process](#)".

<sup>5</sup> The customs and VAT agreements between Israel and the "[Palestinian Authority](#)" were set out in the "Paris Protocol" (4/94) which was attached as Appendix V to the Interim Agreement.

<sup>6</sup> "[The Hamas Movement](#)" was founded in 1987 and established on Islamic-nationalistic ideology. "[The Hamas Covenant](#)" (8/88) rejects any initiative to settle the Palestinian-Israeli conflict in a peaceful manner. (For more information see the Reut Institute website on the challenge of dealing with Hamas (<http://www.reut2006.info/hamas/>)).

See "Exchange of Letters between PM Rabin and Chairman Arafat" (8/93):(<http://www.reut-institute.org/assets/20040829ExchangeofLettersbetweenPMRabinandChairmanArafat.pdf>)

<sup>8</sup> Acting Prime Minister Olmert said during an emergency discussion in his office in Jerusalem following the Hamas election that "The Palestinian Authority under Hamas is not a partner... If a government will establish with leadership or involvement of Hamas, **the Palestinian Authority will become a terror-supporting authority.**" The world and Israel will ignore it and will make it irrelevant... **Israel will not agree to existence of terrorist authority... The Palestinian Authority has been practically transformed into a terrorist authority.** Israel will not make any contact with the Palestinian Authority under Hamas." (**Ynet**, 27/1/06).

- c. A public demand of the Hamas that it accept the basic principles of the political process, specifically including three political demands: recognition of Israel, reaffirmation of the existing agreements, and disarmament and abandonment of violence (herein - "the three demands");<sup>10</sup>
- d. Advocacy of the formation of an international coalition with the Quartet at its core, the aim of which is to put pressure on the Hamas to accept the three demands. This coalition is to be created by means of a political boycott of the Hamas representatives and the cessation of monetary transfers to the PA, among them funding for the PA budget and infrastructure projects;

Nevertheless, Israel is *not* interested in a collapse of the PA or in creating a humanitarian crisis in the Palestinian territories.<sup>11</sup>

- 6. On the basis of these political developments it appears that Israel's object is to convince the Hamas to accept the three above-mentioned demands *or* to lose governmental control of the PA sooner or later. Moreover, the tools for obtaining this goal are (a) blockage of the customs transfer arrangement and (b) the formation of an international coalition that will refrain from granting legitimacy to the Hamas-led PA and will impinge upon the flow of funds to the PA, until such time as the PA will accept the three demands.

### **Diverging Reality: A Disagreement Regarding Goals and Means**

Although immediately following the Hamas victory it did appear that the US and the Quartet members had adopted Israel's demands and were prepared to put political and economic pressure on the PA;<sup>12</sup> in fact, trends have appeared that undermine Israel's current policy to the extent of making it irrelevant, based on the following:

- 7. **Legally, the PA is not a "Hamas entity" –**
  - a. As stated above, Israel's position is that the Hamas victory transforms the PA into a "Hamas entity". Thus any transfer of funds to the PA is equivalent to support for the Hamas and its ideology;
  - b. In practice, Abu-Mazen is the Chairman of the PA, who continues to control many centers of power.<sup>13</sup> In addition, the PLO, as controlled by Fatah, remains formally responsible for the PA's foreign relations;<sup>14</sup>

<sup>9</sup> The GOI in a meeting held on 16/2/06 decided to block the money transfer to the PA and to strengthen supervision over passages between Israel and the PA. (See the GOI declaration: <http://www.pmo.gov.il/PMO/Government/Decisions/2006/02/des4705.ht>).

<sup>10</sup> Acting Prime Minister Olmert presented these three demands in a conversation with UN Sec'y-General Annan on 28/1/06 (Soffer, **Ynet**, 29/1/06).

<sup>11</sup> Minister of Foreign Affairs Livni stated that Israel is interested in preventing a humanitarian crisis in the PA. Likewise, Israel should consider working with the humanitarian organizations (Alon, **Ha'aretz**, 6/3/06) and notification by Minister Livni, (22/3/06 <http://www.mfa.gov.il/MFA/About+the+Ministry/MFA+Spokesman/2006/FM+Livni+meets+with+Italian+leaders+22-Mar-2006.htm>).

<sup>12</sup> The Quartet Statement on Palestinian Legislative Council Elections stated that "...there is a fundamental contradiction between armed group and militia activities and the building of a democratic state." The Statement set out the requirements that participants in the Palestinian democratic process "...renounce violence and terror, accept Israel's right to exist, and disarm, as outlined in the Roadmap". (See [http://ue.eu.int/ueDocs/cms\\_Data/docs/pressData/en/declarations/88161.pdf](http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/declarations/88161.pdf)). In addition, Israeli sources expressed their satisfaction with this Statement (Benn, **Ha'aretz**, 30/1/06).

<sup>13</sup> See, for example, the disagreement on the basic political positions of the Hamas government between Abu-Mazen and the Hamas government. Among other things, Abu Mazen transferred the responsibility for entry points from the Ministry of Civil Affairs to the Presidential Agency for the

- c. Therefore, Israel is having a difficult time convincing the international community not to support Abu-Mazen and other parts of the PA that are still controlled by Fatah on the basis of the claim that the PA is Hamas-controlled.
8. **Legally, the PA has no status regarding political issues such as recognition of Israel or the reaffirmation of agreements –**
- a. In accordance with existing agreements with Israel and in accordance with the Palestinian constitutional system, the PA *does not have* status regarding topics such as recognition of Israel; or the reaffirmation of existing agreements. Those authorities and powers remain exclusively in the hands of the PLO,<sup>15</sup>
  - b. Accordingly, Israeli and the US demands upon the PA to recognize Israel and to reaffirm existing agreements in fact contravene the language of the Oslo Accords;
  - c. Hamas supporters, with the backing of a variety of political actors, have taken advantage of these distinctions in order to avoid the political demands being made of them.<sup>16</sup>
9. **It is difficult to distinguish between humanitarian assistance and funds for development and budget –**
- a. The economic support system in the PA is made up of three main types of funds:<sup>17</sup>
    - (1) **budgetary funds** transferred to the PA budget account by Israel or other states

Management of Border Crossings under the authority of Saeb Erekat (Al-Deeb, **Washington Post**, 26/03/06; **Walla**, 25/3/06 at: [www.news.walla.co.il/?w=12/880239](http://www.news.walla.co.il/?w=12/880239)).

<sup>14</sup> This is the situation according to the Interim Agreement. See specifically Article IX: "Powers and Responsibilities of the Council", Section 5.

<sup>15</sup> Ibid. Specifically -

- a. the PA will not have powers and responsibilities in the sphere of foreign relations, including the establishment of Palestinian diplomatic representations abroad, and the establishment of foreign missions in PA territory;
- b. the "**PLO**" will be the sole interlocutor with Israel, and has the authority (under certain limitations) to sign agreements with states or international organizations for the benefit of the PA;

In addition, the "**Palestinian Founding Documents**" reaffirm the PLO superiority over the PA-

- c. The PA represents the Palestinians inhabitants of Gaza and the West Bank, while the PLO represents the entire Palestinian people;
- d. According to the "**Palestinian Basic Law**", the PLO is "**the sole legitimate representative of the Palestinian people**" wherever they are, and the establishment of the Palestinian state will occur under its leadership.

<sup>16</sup> For example, Moussa Abu Marzouk explicitly distinguishes between the authorities of the PLO and those of the PA: "The PLO recognized Israel, but this is an internal PLO manner and it does not obligate the PA. This would distinguish between the PLO and the PA. There's no need for the PA to recognize Israel" (**Ynet**, 2/20/06). On the other hand, statements made by Israeli and international officials show confusion regarding the identity of the entity to which the demands are directed: the Quartet demanded that the **Palestinian government** adhere to the three demands (**Ha'aretz**, 1/31/06); Egypt, Abu-Mazen and members of US Congress directed their claims to **the Hamas movement** (**Ynet**, 2/1/06).

<sup>17</sup> In 2005, the international community donated approximately \$1.3 billion, out of which budgetary funds constituted 350\$ million (27%); project funds constituted \$450 million (35%); and humanitarian aid constituted \$500 million (38%). See World Bank, **West Bank and Gaza – Economic Update and Potential Outlook**, (15/3/06, p. 3. <http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/EconomicUpdateMar1506.pdf>).

and international organizations in order to cover ongoing expenses;<sup>18</sup> (2) **project funds**, mostly designated for the development of infrastructure and building of institutions and capabilities;<sup>19</sup> (3) **humanitarian aid** in the form of food, medicine and clothing.<sup>20</sup>

- b. The assumption at the basis of Israel's policy is that it is in fact possible to distinguish between budgetary funds and project funds, which are not currently permitted to be transmitted to the PA; and humanitarian aid, which is allowable;
- c. Moreover, Israel assumes that it will in fact be possible to block budgetary funds and project funds and to pressure the Hamas into accepting the three demands *without* bringing about a humanitarian crisis within the Palestinian population;

Nonetheless,

- d. The lines between "humanitarian aid", "budgetary funds" and "project funds" are inherently blurred – for instance: (1) a significant amount of the budgetary funds are designated for payment of the PA salaries, without which thousands of families will be without a source of income; (2) funds for projects such as the construction of clinics are liable to be diverted to fund the PA's budget; (3) a portion of the PA budget is in any event designated for the payment of salaries of doctors, nurses and other workers in humanitarian fields; (4) a portion of the budget of UNRWA which is considered as humanitarian aid is in fact utilized in areas which are under the responsibility of the PA such as education, public welfare and health.

10. **No one is in charge of the money flow** – Economic assistance to the PA is transferred by many actors (states, the World Bank, the IMF, UN agencies and others) for a variety of goals and such as funding of government ministries, local councils, projects and non-profit organizations.<sup>21</sup> Moreover, as stated above, it is often difficult to distinguish between "humanitarian aid" that is permissible in accordance with Israeli policy and "budgetary funds" and "project funds" that are not allowed.

Thus, any Israeli attempt to supervise the transfer of money between the international community and the PA would require the establishment of a supervisory body that will be able to follow up and to check on the intended and actual end use of the monetary transfers. Such a body will need to be in constant contact with donors regarding situations in which there is slippage from permitted to non-allowed financing of the PA and the Palestinian population. It appears doubtful whether Israel can effectively establish such a body.

11. **A political opportunity is being created for the rivals of the United States in the Mideast region** –

- a. Since the 1970's, the United States has enjoyed a special status in the Arab-Israel political process, in accordance with which it had the support of both the Arab side

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<sup>18</sup> These funds are meant to support the basic functions of the PA, and are under the supervision of international organizations such as the International Monetary Fund. The money finances salaries and PA-funded activities relating to social welfare, health and education.

<sup>19</sup> These funds are transferred under direct supervision of the donor party. The projects include paving roads, building schools and training PA officials.

<sup>20</sup> The funds are directed to social welfare and relief projects, mainly through non-governmental organization, governmental aid organizations (such as the American USAID) and international organizations, such as "[UNRWA](#)" and the Red Cross.

<sup>21</sup> Schiff, **Ha'aretz**, 3/17/06.

and the Israeli side as a mediator of the conflict.<sup>22</sup> As a result, the European Community, Russia and the UN have been relegated to a secondary place in this context. This status has been based mainly on their funding transfers to the PA;<sup>23</sup>

- b. The Hamas victory threatens this special status of the US. *On the one hand*, for the first time since 1988, the Palestinian side is likely to reach out for aid and political support to other, non-US countries such as Iran, Russia, Arab states and others. *On the other hand*, this situation has created a political opportunity for Russia, the UN and the European Union, which may be able to set themselves up within the Israeli-Palestinian political context and to threaten the American political hegemony by establishing an independent relationship with the Hamas-led PA;
- c. It is too early to tell whether the above is the reasoning behind the financial transfers to the PA by the World Bank and the European Community, which were carried out without any distinction made between humanitarian aid and the other types of funds,<sup>24</sup> behind the political contacts which have taken place between representatives of the Hamas;<sup>25</sup> and behind the various gaps between the positions of the US and the other members of the Quartet.<sup>26</sup>

## 12. The Europeans are leading in the humanitarian aid arena, not the US –

- a. As stated above, since the European states and the UN have been pushed aside from the political process by the US, they have chosen to focus on the economic arena. Thus, most of the humanitarian aid to the PA comes from European sources and international bodies such as the World Bank;

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<sup>22</sup> For a description of US dominance in the Middle East in general and with regards to the Israeli-Palestinian conflict in particular, see: M. Hudson, *"The United States and the Middle East"*, in L. Fawcett, **International Relations of the Middle East**, (Oxford, 2005, pp. 284-305); and *"America's Moment in the Middle East"*, in W. Cleveland, **A History of the Modern Middle East, 3<sup>rd</sup>**, (Westview, 2004, pp. 519-523).

<sup>23</sup> For example, in 2004 the European Community was the main source of humanitarian aid to the PA: it transferred \$105 million, compared to \$20 million transferred by the US. For details see: CRS Report for Congress: **US Aid to the Palestinians**, (2/2/06, p.5, <http://fpc.state.gov/documents/organization/45198.pdf> ).

<sup>24</sup> European Union transferred \$120 million to the PA, although the PA failed to meet requirements regarding accountability and proper management stipulated by the EU in the past. One of the explicit goals of the EU was: "...to help the caretaker government meet obligations including salary payments..." (Stern, **Ha'aretz**, 3/21/06 and European Commission Press Release, 2/27/06: <http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/06/235&format=HTML&aged=0&language=EN&guiLanguage=en>).

The World Bank took a similar step and approved \$42 million "...to the PA to assist the PA meet its immediate financing needs in the wake of a severe fiscal crisis to avoid suspension of vital basic services to the Palestinian population. (3/7/06 - [http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/WESTBANKGAZAEXTN/0..contentMDK:20844208~pagePK:141137~piPK:141127~theSitePK:294365\\_00.html](http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/WESTBANKGAZAEXTN/0..contentMDK:20844208~pagePK:141137~piPK:141127~theSitePK:294365_00.html)).

<sup>25</sup> Shortly after the elections, Russia invited Hamas representatives (not PA representatives who are Hamas members) to meet with Russian Foreign Affairs minister (Regular, **Ha'aretz**, 2/28/06).

<sup>26</sup> The US declared that it would freeze assistance to the PA once Hamas establishes the government, while the Quartet declared that it would "consider" whether to continue transferring funds (see Quartet declaration, 1/30/06, [http://ue.eu.int/ueDocs/cms\\_Data/docs/pressData/en/declarations/88201.pdf](http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/declarations/88201.pdf))

In contrast to the EU, the US cut funds to infrastructures development projects in the PA in order to assure that US funds do not reach the Hamas government and in order to avoid any contacts with members of a terrorist organization (Benn, **Ha'aretz**, 3/23/06). For a general view of US policy towards Hamas see statements by Sec'y of State Rice, (3/9/06, <http://www.state.gov/secretary/rm/2006/62911.htm>). Despite American and Israeli protests, the UN called upon donor states to transfer funds to the Palestinian territories in order to prevent a humanitarian crisis (**Alhayat Aljadida**, 3/1/06).

- b. The present attempt to force the Hamas to accept the three demands is based on the transfer of the political point of leverage to the economic sphere. In this sphere, the US plays a secondary role to that of Europe;
  - c. US support for the three demands of Israel, and its willingness to take severe steps in order to force the Hamas to accept these demands is much more strident than the position taken by the European states. This gap is expressed, for example, by the European willingness to expand the definition of "humanitarian aid" in comparison to the unwillingness to do so on the part of Israel and the US.
13. **Avian flu as an indicator – Israel and the PA are difficult to separate –**
- a. Numerous civil issues require cooperation and coordination between Israel and the PA,<sup>27</sup> including issues relating to environment, health and traffic;
  - b. Contacts held regarding avian flu incidents<sup>28</sup> prove that Israel cannot fully boycott the Hamas government and sever all ties with it;
  - c. Therefore, the PA government under Hamas will have to maintain contacts with Israel, while the GOI will also be obliged to conduct contacts with the PA, whether directly or through mediators.<sup>29</sup>
14. **Israel cannot eat cake and still have it regarding the "customs transfer arrangement" –**
- a. In accordance with the "customs transfer arrangement", Israel collects indirect taxes and customs on behalf of the PA and transfers them after deducting a fee. Hence, Israel is in fact collecting Palestinian taxes;
  - b. This customs transfer arrangement is based, *inter alia*, on Palestinian consent to postpone the establishment of an independent customs regime;<sup>30</sup>
  - c. Eventually, Israel *will not* be able to both freeze the transfer of funds collected on behalf of the PA and simultaneously object to the establishment of an independent Palestinian customs authority.<sup>31</sup>
15. **Israel does not wish to dismantle the PA –**
- a. Israel's declared policy that it does not wish to dismantle the PA limits its political flexibility;<sup>32</sup>

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<sup>27</sup> The Interim Agreement stipulates 40 areas of liaison and coordination in civil affairs between the parties, including public health, post, telecommunications, water resources, electricity etc. See Annex III of the Interim Agreement, "Protocol Concerning Civil Affairs". (<http://www.mfa.gov.il/MFA/Peace+Process/Guide+to+the+Peace+Process/THE+ISRAELI-PALESTINIAN+INTERIM+AGREEMENT+-+Annex+III.htm>).

<sup>28</sup> Israel supplies the PA with equipment for handling the epidemic (Cohen, **Ha'aretz**, 3/26/06).

<sup>29</sup> See statement made by Nigel Roberts, who was World Bank Country Director for West Bank and Gaza until 2005 (2/7/06): "In 2004, in the context of disengagement, Israel's National Security Council (INSC) invited the Bank into a dialogue on what could be done to bring about Palestinian economic recovery... Thus the Bank served as an interlocutor with a regime that Israel refused to deal with". (<http://www.nrg.co.il/online/1/ART1/064/668.html>).

<sup>30</sup> See Fundamental Early Warning: "[The End of the Era of the Israeli-Palestinian Customs Envelope](#)".

<sup>31</sup> See Hamas official Aziz Dweik statement: "According to international conventions, the occupier has duties towards the occupied. The money the Israel is refusing to transfer is not Israeli money, it is Palestinian money that Israel collects from the Palestinians and is obliged to transfer to the PA. If Israel would insist, the legal system would rule in this matter." (Waked, **Ynet**, 2/16/06).

- b. This declaration allows the Palestinian side to undermine Israel's policy by limiting the PA's authority or by threatening to dismantle it.<sup>33</sup>

### **Possible Implications and Policy Options**

16. **Increasing demands may break the fragile coalition** – International trends imply that Israel may not be able to force the Hamas-led PA to accept the three demands, since Israel's policy is based on its ability to establish and maintain a solid international coalition against Hamas. As mentioned above, the structure of this coalition is presently unstable. Therefore, **if political demands on the Hamas and the pressure placed on the PA increase, the international coalition will tend to break down.**<sup>34</sup> Maintaining the coalition will require moderating the demands and sanctions against Hamas.

In light of the above, Israel has **three policy options**:

17. **To confront Hamas on the movement of goods *and not* on the transfer of funds** – if Israel *is interested in seeking* a confrontation that will force Hamas to accept its demands or lose control of the PA, Israel should impose pressure in the area of movement of goods and not in the area of transfer of funds.

An attempt to block all funds to the PA requires a wide international coalition which is susceptible to a variety of factors. On the other hand, Israel has full control at present over the movement of goods to and from the PA. Yet pressure in this latter area will require additional political measures, such as canceling the Rafah arrangement, opening the Gaza-Egypt border, and allowing a wide range of humanitarian assistance to the Palestinian population.

18. **To treat Abu-Mazen as Israel's "address", in his capacities as Chairman of both the PLO and the PA** – according to this option, Israel would no longer consider the PA as a "Hamas-controlled entity". It would continue to boycott Hamas members in the PA, but would conduct contacts with Abu-Mazen and Fatah members in the PA in accordance with existing agreements.

However, it is essential to note that it may be difficult to distinguish between the organs of the PA that are under Hamas control, and therefore do not receive international aid under Israeli policy, and those which are under Fatah control and may receive aid.

19. **To treat the PA's Hamas-led government and Legislative Council as Israel's "address"** – according to this option, Israel would waive the three demands, declare that the PA (and not the PLO) is the political address and begin negotiating with the PA.

This option would entail a declaration that Israel is willing to negotiate a "Hudna" (a long-term cease-fire agreement) in order to confront Hamas with the inherent tension between its responsibility for the Palestinian population and its ideological principles. Should Hamas refuse to moderate its positions, it will risk losing international legitimacy.

End.

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<sup>32</sup> Minister of Foreign Affairs Livni stated before the Knesset Foreign Affairs and Defense Committee, that the worse the situation in the PA is, the more lenient the international community would be towards Hamas (Alon, **Ha'aretz**, 3/6/06).

<sup>33</sup> See Point of View: "[Is the PA about to be Dismantled?](#)"

<sup>34</sup> E.g., according to the UN, attempts to block the entrance of goods and fuel to Gaza may lead to a humanitarian crisis. (<http://www.timesonline.co.uk/article/0,,251-2097549,00.html>)