



REDEFINING EUROPEAN ENGAGEMENT IN THE ISRAELI- PALESTINIAN CONFLICT

FROM FINANCIAL AID TO INSTITUTION BUILDING

ABSTRACT

The European Union (EU), once a peripheral observer of the Israeli–Palestinian conflict, has ascended to a role of considerable influence. The EU’s engagement, once confined to delivering humanitarian and economic aid, has matured, particularly after the Oslo Accords, into a more proactive diplomatic force. Yet, despite these strides, it has regressed to being perceived as merely a financier, a “payer” rather than a “player”. Today, the EU stands as the Palestinian Authority’s premier financial ally, injecting upwards of €250 million per year, and it also represents over half of the funding for the United Nations Relief and Works Agency despite the recent suspension of pay. Additionally, it is Israel’s predominant trade partner, encompassing 28.8% of Israel’s trade in goods in 2022. With substantial economic clout and a reputation as a defender of human rights, the EU possesses both the resources and the moral imperative to actively champion peace and prosperity for both Palestinian and Israeli societies. However, the devastating terror attacks on 7 October 2023 and the consequent Israeli military response have prompted a moment of introspection for the EU, challenging it to reconcile humanitarian imperatives with the denunciation of violence, all while navigating the complex political landscape to rekindle the stalled peace process.



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Policy Brief published in April 2024 by

FEPS
FOUNDATION FOR EUROPEAN
PROGRESSIVE STUDIES



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This Policy Brief was produced with the financial support of the European Parliament. It does not represent the view of the European Parliament.

Front page photo: Shutterstock.com/Bumble Dee
Editing: Bouchier Ltd
Page layout: Cheshire Typesetting Ltd
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ISBN 978-2-931233-81-8

KBR deposit number: D/2024/15396./22

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Introduction

The European Union's (EU) role in the Israeli–Palestinian conflict has undergone significant evolution, from that of a peripheral observer to a major financial contributor and diplomatic force. However, the EU's engagement has primarily been defined by its financial aid, which, while well intentioned, has inadvertently supported failing governance structures, fostered aid dependency and reinforced the status quo. This approach has also limited the EU's ability to leverage its economic and political influence to effect meaningful change. The 7 October 2023 terrorist attacks and Israel's subsequent military response have prompted the EU to reassess its strategy,¹ recognising the need for a more balanced and strategic approach that integrates political engagement, addresses governance issues and leverages economic relationships to encourage peace and stability in the region. This policy brief examines the EU's evolving role in the Israeli–Palestinian conflict, its limitations and the need for a strategic shift in its engagement strategy.

Palestinian governance shortfall

The current division between Hamas and the Palestine Liberation Organization (PLO) presents a stark dichotomy in governance and ideological outlook towards Israel. At the heart of the divide is a profound ideological chasm. Hamas's foundational refusal to recognise the state of Israel, coupled with its commitment to armed struggle, stands in sharp contrast to the PLO's more secular and pragmatic approach, which has evolved to acknowledge Israel's right to exist and sought peace through negotiation. This ideological rift complicates any efforts towards a unified Palestinian stance on peace, further entrenching the divide.

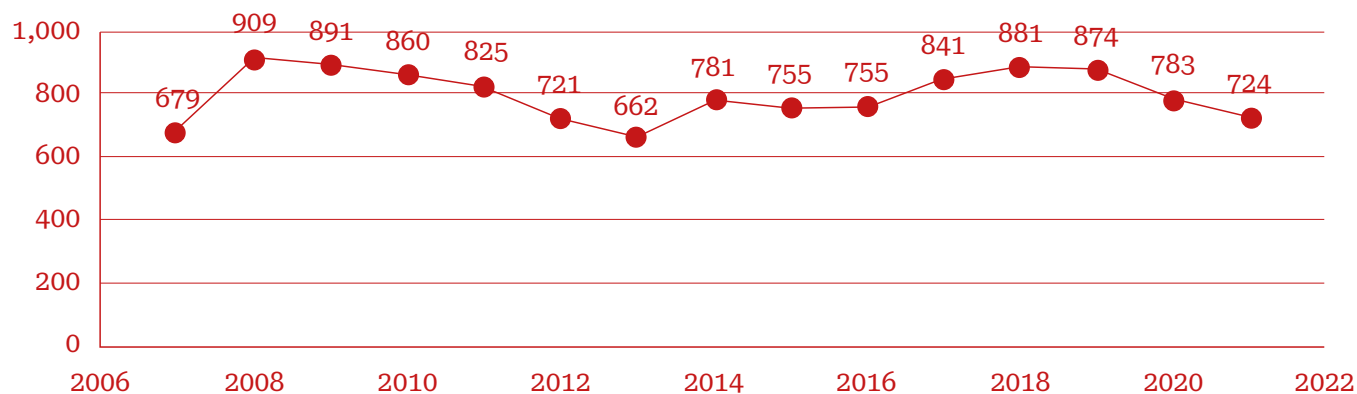
This division is not merely a political inconvenience; it is a fundamental impediment to peace that right-wing Israeli governments have, at times, exploited to their advantage. By negotiating with divided entities, the possibility of reaching a comprehensive peace agreement diminishes, allowing the status quo of occupation and conflict to persist.

The EU and the Israeli–Palestinian conflict

The EU's role in the Israeli–Palestinian conflict has primarily been defined by its financial contributions, with €12.6 billion in donations from 2017 to 2024 to the West Bank and Gaza, €6.5 billion of which came from the EU directly and the rest from member states,² positioning itself as the major economic supporter of Palestinian development and humanitarian aid. With annual contributions amounting to hundreds of millions of euros, the EU aims to provide for the immediate needs of the Palestinian people and foster long-term development. However, this financial aid-centric approach, while known for its humanitarian intent, has often overshadowed the need for a more politically engaged and strategic partnership.³

One of the critical consequences of the EU's approach is the inadvertent support of the failing governance structures within both the Palestinian territories governed by the PLO and the Hamas-controlled Gaza Strip. The infusion of EU funds has, in some instances, been used to prop up these regimes. This is the case with the PEGASE, a mechanism that directly funnels funds to the PLO's budget and lacks effective oversight,⁴ sidestepping the necessary fiscal and governance reforms. This has led to a situation where the well-being of the population is delinked from the state coffers, with EU aid obscuring the underlying issues of corruption and authoritarianism that plague both governing bodies.⁵

Total EU aid to the West Bank and Gaza, euros (million)



Source: Recipients – European Commission (europa.eu).

The reliance on financial aid without a corresponding increase in political leverage or strategic engagement has led to several unintended consequences:

- (1) **Aid dependency:** the continuous flow of financial support has fostered a culture of dependency, where the Palestinian authorities rely on external aid for basic services and development, hindering self-reliance and sustainable growth.
- (2) **Reinforcement of the status quo:** the EU's approach has inadvertently contributed to maintaining the status quo, as it has failed to leverage its financial contributions to effect meaningful political or governance reforms.
- (3) **Missed opportunities for political leverage:** the lack of conditionality enforcement tied to EU aid has resulted in missed opportunities to use financial support as a tool to encourage progress towards peace, adherence to human rights and democratic governance.

The EU's pre-war strategy, while rooted in a genuine desire to support the Palestinian people and contribute to peace, requires a re-evaluation. The limitations of a primarily financial approach underscore the need for a more balanced, strategic partnership that integrates political engagement, addresses governance issues and leverages economic relationships to encourage peace and stability in the region. Even prior to ongoing hostilities, EU policy failed to meet its stated goals.

Impact of 7 October on EU diplomatic efforts

Following the 7 October attacks, the EU was quick to condemn the violence, expressing solidarity with the victims and calling for an immediate cessation of hostilities and the release of hostages. Emergency meetings were convened and statements were issued, emphasising the need for humanitarian assistance and a return to dialogue. However, the EU's reaction was met with a mixed response by member states, highlighting the bloc's internal divisions and the difficulty of presenting a unified stance. While



The EU's response to the 7 October attacks underscored the internal divisions within the bloc regarding its stance on the Israeli–Palestinian conflict.



some member states advocated for unequivocal support for Israel's right to defend itself, others expressed concern over the humanitarian implications of Israel's military response in Gaza, emphasising the impact of hostilities on Palestinian civilians.

The EU's response to the 7 October attacks underscored the internal divisions within the bloc regarding its stance on the Israeli–Palestinian conflict. These divisions are reflective of a broader challenge the EU faces in formulating a cohesive foreign policy, especially in matters as complex and sensitive as the Israeli–Palestinian conflict. The critique from within the EU focused on the need for a more balanced approach that not only recognises Israel's security concerns but also addresses the humanitarian and political rights of the Palestinian people.

The 7 October attacks and the subsequent EU response have had a profound impact on the bloc's policy considerations and its perceived role in the conflict. The events prompted a re-evaluation of the EU's engagement strategy, with calls for a more assertive and strategic approach that goes beyond financial aid and humanitarian support. The need for the EU to leverage its economic and political influence more effectively to facilitate a sustainable resolution to the conflict has become increasingly apparent.

The EU's response illustrates the limitations of its current engagement strategy in the Israeli–Palestinian conflict and underscores the urgent need for a strategic shift. This incident serves as a critical juncture, prompting the EU to reassess its role and approach in fostering peace and stability in the region.

As a result, Josep Borrell, the EU's High Representative for Foreign Affairs, has worked on restating the EU's goals and values in the face of growing scepticism, first through the “three yes's and three no's” declaration, which stated:⁶

- **Yes to recognition:** incentivising both parties to formally recognise the legitimacy and sovereignty of the other, fostering an environment where mutual respect is the norm, and not tolerating negation of the other's right to exist.
- **Yes to negotiation:** championing direct and continuous negotiations as the primary method for conflict resolution, facilitating discussions and offering diplomatic support to ensure that dialogue is maintained even amid setbacks.
- **Yes to peace:** proactively supporting initiatives that promote peace education, cultural exchanges and civil society engagement that contribute to a grassroots foundation for lasting peace.

Conversely:

- **No to violence:** holding a firm stance against violence and terrorism by condemning acts that harm civilians and destabilise the potential for peace, advocating for security cooperation and offering support for non-violent conflict resolution practices.
- **No to settlement expansion:** actively opposing any actions that undermine the viability of a two-state solution, such as

settlement expansion in occupied territories, and using diplomatic channels to discourage such activities.

- **No to unilateral actions:** discouraging unilateral decisions that pre-empt final status issues or alter the status quo without mutual agreement, promoting instead the primacy of bilateral negotiations and international law.

The latest formulation by Borrell is the ten-point plan for the Israeli–Palestinian peace process.⁷ The plan is not just a list of aspirations but a roadmap for the EU’s bolstered involvement, building upon the “three yes’s and three no’s” policy stance to guide its actions:⁸

1. **Mutual recognition:** the plan begins with the fundamental principle of mutual recognition between the state of Israel and a future state of Palestine. This point underscores the EU’s commitment to a two-state solution and aligns with the “yes to recognition”, rejecting unilateral declarations of statehood or annexations.
2. **Direct negotiations:** the plan calls for the immediate resumption of direct and unconditional negotiations between the parties. This emphasis on dialogue resonates with the “yes to negotiation”, proposing the EU’s role as a mediator or facilitator of talks.
3. **Ceasefire:** a durable ceasefire is a prerequisite for any meaningful peace talks, reflecting the “no to violence” stance. The EU can leverage its influence to broker and maintain ceasefires, offering incentives for compliance and disincentives for violations.
4. **Settlement freeze:** echoing the “no to settlement expansion”, the plan calls for a freeze on settlement activity. The EU could

use trade and cooperation agreements as leverage to encourage Israel to halt expansion and dismantle outposts deemed illegal under international law.

5. **Lifting blockades:** addressing the humanitarian situation in Gaza, the plan seeks the lifting of blockades, in line with the “yes to peace” principle, to alleviate suffering and rebuild trust.
6. **Economic development:** the EU aims to foster economic development as a peace dividend, linking financial aid and investment to progress in the peace process, thus incentivising and rewarding constructive actions.
7. **Institution building:** supporting the construction of democratic and transparent institutions in Palestine aligns with the EU’s principles of promoting governance and the rule of law, facilitating the viability of a future Palestinian state.
8. **Civil society engagement:** the EU intends to actively engage with civil society groups that work towards reconciliation and coexistence, amplifying the voices that often go unheard in high-level diplomatic discussions.
9. **Security cooperation:** enhancing security cooperation between Israeli and Palestinian authorities, with the EU possibly playing a supportive role, helps to address the “no to violence” and “yes to peace” simultaneously.
10. **International law compliance:** finally, the plan underscores the need for all actions and agreements to comply with international law, a clear nod to the “three no’s”, particularly regarding unilateral actions that undermine peace efforts.



Financial aid must not only address humanitarian needs but also serve as a catalyst for political progress, governance reforms and the strengthening of democratic institutions within the Palestinian territories.



The ten-point plan has been met with scepticism from both parties, as the prospect of full implementation seems far-fetched. The EU's lack of political and diplomatic capital hinders its involvement in ceasefire negotiations and limits its ability to impart EU values to the belligerents. The cornerstone of this emerging strategic shift ought to involve transitioning from a role primarily defined by financial support to one characterised by strategic partnerships. These partnerships should leverage the EU's substantial economic contributions as a tool for political influence, advocating for and supporting initiatives that align with the objectives of peace, stability and sustainable development as stated in the ten-point plan. Financial aid must not only address humanitarian needs but also serve as a catalyst for political progress, governance reforms and the strengthening of democratic institutions within the Palestinian territories.⁹ Despite having fewer resources than some member states and no previous stake, Qatar has demonstrated that efficient conversion of capital into political capital is possible. By skilfully using its economic strength for diplomatic gains, Qatar has been able to sway both parties involved in the conflict. It has leveraged its political and diplomatic capital to mediate between warring factions, influencing geopolitical events and gaining international prestige as a result.

The EU's engagement must extend beyond governmental corridors to embrace and empower civil society organisations, grassroots movements and initiatives promoting democracy, human rights and peace within both Israeli and Palestinian societies. By supporting these entities, the EU can help build the societal foundations necessary for sustainable peace, fostering dialogue, understanding and reconciliation across divided communities.

The EU must also address the challenge of limited cooperation from some non-governmental organisations and the Palestinian Authority (PA), particularly concerning anti-incitement clauses and transparency requirements.¹⁰ When the anti-incitement clause was first implemented, 13 projects opted out of EU funding in protest. The fact that no project has ever been penalised for violating the clause, including in the latest post-7 October inquiry, suggests lax enforcement of the anti-incitement clause.¹¹ Strengthening the EU's resolve to improve compatibility and alignment between its objectives and the actions of its partners is crucial. This may involve re-evaluating partnerships, enhancing due diligence processes and fostering a culture of accountability and shared values.

A new approach should be based on the following tenets:

- **Linking aid to progress:** making financial support conditional on measurable progress towards specific goals such as governance reforms, adherence to international law and steps towards peace and reconciliation.
- **Implementing accountability mechanisms:** establishing clear benchmarks and monitoring mechanisms to ensure aid effectively contributes to its intended objectives, while also setting up safeguards to prevent the misuse of funds.

- **Balancing humanitarian needs with political objectives:** ensuring that the conditionality approach does not compromise the delivery of essential humanitarian aid to vulnerable populations, while still using financial leverage to encourage positive political and governance reforms.

The EU is a significant trading partner for Israel and a major source of financial aid for the Palestinians, positioning it uniquely to influence both parties. By making economic relations and trade agreements contingent on concrete steps towards peace and cooperation, the EU can incentivise actions that contribute to a stable and peaceful region. For instance, enhancing trade benefits or easing access to European markets could be used as rewards for adhering to ceasefire agreements or engaging in direct negotiations.

Encouraging trade and investment that benefit both the Israeli and Palestinian economies can foster a shared interest in stability and peace. Initiatives could include supporting joint Israeli–Palestinian business ventures, investing in cross-community projects and facilitating access to EU markets for products made in cooperative ventures. Such economic interdependence creates tangible incentives for peace and reduces the appeal of conflict.

Utilising the reconstruction of Gaza as an opportunity to exert financial influence, the EU can set conditions that promote peace and reconciliation. By tying financial support for rebuilding efforts to specific political benchmarks, such as the disarmament of militant groups or the resumption of elections for a larger PA which should include Gaza, the EU can help create a conducive environment for peace negotiations. This approach not only addresses immediate humanitarian needs but also aligns reconstruction efforts with long-term peace objectives.

The EU should seek to strengthen its collaboration with key stakeholders in the region, including Arab states, the United States and international organisations such as the United Nations. This involves aligning strategies, sharing intelligence and coordinating diplomatic efforts to present a unified front in support of peace. Such collaboration can enhance the credibility and effectiveness of peace initiatives, providing a multilateral framework for negotiation.

Given the significant influence of the United States in the Middle East, aligning EU policy with the Biden administration’s initiatives is essential for a coherent approach to the conflict. The European progressive movement and the Biden administration share common values, such as reverence for democratic institutions and human rights, which should underpin their joint efforts in promoting peace. By coordinating policies and leveraging their collective diplomatic and economic weight, the EU and the US can more effectively support the peace process and encourage compliance from both the Israeli and Palestinian sides.

The prospect of a second Trump administration poses significant challenges for the EU, necessitating a robust contingency strategy. This strategy must anticipate and mitigate potential shifts that could undermine the EU’s efforts to promote a balanced and just resolution to the Israeli–Palestinian conflict. The Trump-era Congress enacted the Taylor Force Act,¹² named after an American citizen killed in a Palestinian terror attack, which enables families of US victims of Palestinian violence to sue the PLO over its policy of providing a stipend to those convicted of terror charges in Israeli courts. The PA requested the cessation of funding as it was unwilling to stop providing the stipend and unable to face the legal repercussions in American courts.¹³ The European progressive movement should

be braced for a money-pinching Trump to cut funding to USAID and support unilateral Israeli plans that undermine the two-state solution and weaken ever further Palestinian sovereignty.

In the event of a Trump victory in the US, or a far-right win in Europe, the European progressive movement would retain the unique value proposition of being the only force that is friendly and fully engaged with both the Israeli and Palestinian governments, supportive of a two-state solution and unequivocally committed to democracy and democratic values. This would make the European progressive movement uniquely qualified to act as a fair judge and mediate between the Palestinians and Israelis. FEPS can and should encourage dialogue at the local level and sponsor such talks. In the event that Europe fails to rise to the challenge and calcified conceptions of EU foreign policy impotence prevail, other parties such as a Trumpist US, Putin's Russia or despotic Qatar would substitute mediation with capitulation.

The EU's engagement strategy should include the Arab Peace Initiative, a 20-year-old proposal by moderate Arab nations, particularly Saudi Arabia, that encourages Israel to pursue a two-state solution in exchange for normalised relations. The Abraham Accords and the potential for Israeli-Saudi rapprochement present further avenues for regional collaboration and cooperation. By supporting these frameworks, the EU can contribute to a comprehensive regional peace architecture that tackles the core aspects of the conflict. Promoting normalisation efforts within a comprehensive peace agreement can facilitate Israel's integration into the region and provide Palestinians with essential support in their pursuit of statehood.

In advocating for a strategic shift in EU engagement, addressing the critiques of past and present EU policies is vital for moving



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forward. This includes tackling perceived biases, ensuring the effectiveness of interventions and balancing security concerns with humanitarian needs.

The EU has faced criticism for its perceived bias, ineffectiveness and failure to adequately balance security with humanitarian considerations. To address these critiques, the EU must demonstrate a commitment to impartiality, basing its engagement on principles of international law and human rights. Acknowledging past shortcomings and adopting a more transparent and accountable approach to its interventions can help rebuild trust and credibility.

The path to a more engaged and strategic EU role in the Israeli-Palestinian conflict is fraught with obstacles, including political resistance, logistical challenges and the need for accountability in aid distribution. Overcoming these obstacles requires clear leadership, innovative solutions and a steadfast commitment to the principles of peace and justice. By fostering dialogue, enhancing monitoring mechanisms and prioritising engagement with civil society, the EU can navigate these challenges and contribute more effectively to peace.

The call for a strategic shift in the EU's engagement in the Israeli-Palestinian conflict is urgent and necessary. By leveraging its existing

economic influence, engaging with regional and international partners and addressing critiques head-on, the EU can play a transformative role in forging a peaceful future in the Middle East. Policymakers and citizens alike must advocate for and support this strategic shift, recognising

that a more peaceful and stable region benefits not only those directly involved in the conflict but also the global community at large. The time for action is now; the EU must rise to the challenge and lead the way towards lasting peace and reconciliation.

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