



**COUNCIL OF
THE EUROPEAN UNION**

Brussels, 6 December 2006

**16371/06
ADD 7**

LIMITE

MED 38

PUBLIC

COVER NOTE

from: Secretary-General of the European Commission,
signed by Mr Jordi AYET PUIGARNAU, Director

date of receipt: 4 December 2006

to: Mr Javier SOLANA, Secretary-General/High Representative

Subject: Commission staff working document accompanying the Communication from
the Commission to the Council and the European Parliament on strengthening
the European Neighbourhood Policy - ENP Progress Report on the Palestinian
Authority

Delegations will find attached Commission document SEC(2006) 1509.

Encl.: SEC(2006) 1509



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 4.12.2006
SEC(2006)1509

COMMISSION STAFF WORKING DOCUMENT

Accompanying the:

**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE
EUROPEAN PARLIAMENT**

ON STRENGTHENING THE EUROPEAN NEIGHBOURHOOD POLICY

ENP Progress Report

Palestinian Authority

{COM(2006)726 final}

Background and overall assessment

The ENP Action Plan (AP) between the EU and the Palestinian Authority (PA) was adopted on 4 May 2005. The Action Plan was inspired by the Palestinian Reform Programme, which aimed at building the institutions of an independent, democratic and viable Palestinian state. In particular, the Action Plan supports reforms in the area of democracy and good governance, economic development and trade. Some encouraging steps towards reform were realised between 2005 and early 2006.

After the victory of Hamas in the January 2006 legislative elections, the EU suspended political contacts and cooperation with the Government of PA, pending its acceptance of the Quartet principles. This led dialogue to become mostly confined to President Abbas and his office aside from some other contacts with the Palestinian Legislative Council, the judiciary and some autonomous PA agencies. Only Arab donors decided to maintain direct support to the PA Government.

In response to the electoral results, Israel stopped transferring tax and customs revenue collected on behalf of the PA, while some commercial banks refused to transfer money to the PA in fear of legal repercussions under US anti-terrorist legislation. Most international donors, including the EU, decided to suspend their direct support to or through the Government.

As a result, resource flows to the PA nearly dried up, throwing it into the most severe financial crisis since its establishment. Civil servants' salaries, a key source of income for a broad segment of the Palestinian population, have not been paid in full since March.

EU dialogue with the Office of the President therefore focussed on how to alleviate the humanitarian crisis in the territories, especially related to setting up of the Temporary International Mechanism (TIM) under European Commission lead, which was able to provide substantial amounts of humanitarian and emergency aid to the most affected segments of the Palestinian population, without any funds transiting through the PA.

The deterioration in the security situation aggravated the fiscal crisis, since Israeli-imposed restrictions on movement and access severely hamper private sector activities. Progress in the construction of the separation barrier has further limited movement. The reduction by Israel of work permits for Palestinian workers has led to a fall in remittances. These developments have further impoverished Palestinians and led to a severe economic and humanitarian crisis. In such a situation, the main concern of the PA has become managing the crisis and avoiding a humanitarian catastrophe. The progress made on reforms in 2005 and early 2006 now seems fragile, although isolated results had been registered. As soon as a new Government is formed that reflects Quartet principles, the EU would be ready to engage with it and resume its co-operation with the PA, including in the field of public internal control and transparency. For this purpose, the priorities identified by the AP and the results achieved in 2005-6 would constitute a useful basis for resumption of the dialogue.

Bilateral EU-PA relations in the context of the ENP Action Plan cannot be thoroughly reported without reflecting the overall political situation in the Middle East. The

period covered by this review witnessed a serious escalation of the conflict, with considerable consequences for the civilian populations in the region.

This document is **not** a general review of the political and economic situation in the Palestinian territories. This was last set out by the Commission in the ENP Country Report for the Palestinian Authority published in May 2004. It focuses solely on progress made in the first year of implementation of the ENP Action Plan.

The ENP Action Plan supported the reform programme of the Palestinian Authority in 2005 and early 2006 and some specific objectives were achieved, in particular in the area of public financial management. The crisis resulting from the formation of Hamas-led Government, and suspension by the EU of political contacts and cooperation with that Government, pending its acceptance of the Quartet principles, has not allowed to make any progress since then. The short term agenda is dominated by the need to focus on immediate humanitarian and other welfare needs.

Political dialogue and reform – building the institutions of an independent, democratic and viable Palestinian State

Development of enhanced political dialogue and cooperation

The area where most progress could be registered was the reinforcement of the **democratic process** in the Palestinian territories, as shown by the January 2006 elections to the Palestinian Legislative Council. The elections saw impressive voter participation in an open and fairly-contested electoral process that was efficiently administered by a professional and independent Palestinian Central Elections Commission. Elections were monitored by the EU Electoral Observation Mission.

The draft strategic plan for the development of the **judiciary** was prepared by the steering committee on the development of the judiciary, established by Presidential decree in March 2005. During 2006, some progress was registered in the establishment of an independent, impartial and fully functioning judiciary. The training component of the European Commission funded project "empowering the Palestinian judiciary" continues to provide assistance to the independent Supreme Judicial Council and to enhance the rule of law. The project reflects the priorities for the reform process by providing institutional support and development of a permanent professional training system.

This EC judiciary programme has been complementing the EU's CFSP three-year Joint Action designed to support the transformation of the Palestinian civil police, carried out by the European Union Coordinating Office for Palestinian Police Support (EUPOL COPPS).

In general, the capacity of the President's office and of authorised autonomous PA bodies has been strengthened through the EC-funded European Neighbourhood Policy Support Instrument. There was some progress in **public administration and civil service reform** during 2005, with the passage of a revised civil service law covering all non-uniformed civil servants. The December 2005 general personnel council's development plan aimed at increasing oversight of recruitment and promotion and establishing a single human resources system linked to the payroll system. The subsequent public management reform programme included specific measures to

strengthen decision and policy-making, implement integrated medium-term planning and budgeting, enhance overall management of the civil service, develop a PA-wide training and capacity building strategy, and develop a service delivery improvement system. Implementation of the plan ceased in March 2006.

The EU has been at the forefront of **peace efforts in the Middle East** and has been actively participating in the Quartet, alongside its US, Russia and UN partners, with the aim of reaching a comprehensive settlement of the Israeli/Palestinian conflict and a permanent two-state solution with Israel and a Palestinian state living side by side in peace and security, in accordance with the Roadmap, and the obligations of the parties set out in it.

In relation to final status issues, the European Council called on Israel to desist from any action that threatens the viability of an agreed two-State solution, with particular concern expressed on settlement activities, the construction of the barrier on Palestinian land and activities in and around East Jerusalem as well as in the Jordan Valley. The EU confirmed that it will not recognise any change to the pre-1967 borders other than those agreed to by both sides.

In this context, in November 2005, Israel and the Palestinian Authority concluded an “**Agreement on Movement and Access**”, including agreed principles for Rafah crossing (Gaza) with the involvement of the EU as Third Party. This Agreement aims at facilitating the movement of people and goods from and to the Palestinian territories.

The Council of the European Union (EU) then decided to launch the “**EU Border Assistance Mission for the Rafah crossing point**” (EU BAM Rafah), with the task of monitoring the operations of this border-crossing point. This mission, which began on 26 November 2005 with an initial duration of one year, has been extended for a further 6 months.

In relation to this, the EU has recently recalled the utmost importance of the full implementation of the Agreement of Movement and Access, particularly the permanent opening of the Rafah, Karni and other crossings. It also reiterated its call for the immediate release of the abducted Israeli soldier and the immediate release of Palestinian Ministers and legislators in Israeli custody.

More generally, the European Council affirmed the view of the Quartet that the Hamas-led Palestinian Government needs to meet and implement the three principles of non-violence, recognition of Israel’s right to exist and acceptance of existing agreements and obligations. It condemned violence against Palestinian civilians, as well as the launching of Qassam rockets against population centres in Israel. It called on the Palestinian Authority to take action to improve security and prevent terrorist attacks on Israel, including through the disarmament of groups engaged in violence and terror. It reiterated its condemnation of extra-judicial killings.

Human rights and fundamental freedoms

Human rights for Palestinians continue to be subject to grave violations. This is true of the right to life and personal security and the right to personal freedom and safety (especially as regards arrest, detention, search procedures, torture and ill-treatment

during interrogation). In general, both Palestinian and Israeli authorities are responsible for violations. Due to the deterioration of the security situation in the territories and occupation by Israel, the promotion of basic human rights in the territories suffered particular setbacks in 2006. The European Commission has continued supporting human rights organisations working on issues such as women's and children's rights, civil society empowerment as well as fighting torture and the death penalty.

Despite positive growth rates of about 6% a year during 2003-2005, real GDP per capita never recovered the levels registered before the outbreak of the Al Aqsa *intifada*. Under current conditions of suspension of clearance revenues transfers by the Government of Israel and increasing trade and labour restrictions, macroeconomic projections for 2006 point to a real GDP contraction of around 18%, and a GDP per capita and personal income per capita contraction of around 21%. Unemployment might reach 35% and poverty might rise to levels close to 65% of the population. Economic distress in the Gaza Strip and the West Bank has been aggravated by the compounded action of several factors: continued restrictions on movement and access between Gaza and the West Bank and to and from Gaza, suspension of the transfer of clearance revenues by the Government of Israel and reductions in the number of Palestinian workers with work permits to work inside Israel.

Financial Accountability and Sound Management of Public Finances

Significant progress was made, until the end of 2005, in the improvement of the **management of financial resources**. This included the creation of a single treasury account to channel all Government revenues within the budget, payment of all public sector salaries into bank accounts, the channelling of all public investments into the Palestine Investment Fund (PIF), the development of modern internal audit and control facilities within the Ministry of Finance as well as the key line ministries, and the development of a modern integrated tax, VAT and customs system through the implementation of the ASYCUDA and PATACS computerized management systems.

Trade-related issues, market and regulatory reform

Private sector reform efforts were particularly successful, spearheaded by a trade capacity building project funded by the EC and support for the establishment of the Palestinian Shippers' Council. This organisation was established to facilitate export to international markets by all Palestinian importers and exporters. However, such progress is under threat of being undermined by the continued closure of crossings and the worsening security developments.

In 2005, the trilateral working group on trade between the European Commission, Israel and the PA discussed how to strengthen the Paris Protocol, how to increase Technical Co-operation between Israel and the PA and how to introduce the Pan-EuroMed cumulation of origin. In 2006, the parties advanced to the final stages of a Ministerial declaration aimed at facilitating trade between the three countries. The Commission stands ready to re-launch these talks as soon as the political circumstances allow.

Regarding **sanitary and phytosanitary** issues, the PA took measures following the outbreak of avian influenza early 2006.

Some progress in the area of market economy legislative reform has been achieved, such as the entry into force in 2005 of the first unified tax law for the Palestinian Authority encompassing a single tax code for the West Bank and the Gaza Strip, as well as the adoption of the Capital Market Authority Law in 2005.

Energy, Environment, Transport and Information Society

Energy and transport constitute topics of strategic importance where Palestinian–Israeli cooperation was intense until the end of 2005. With the financial support of the European Commission, a financing agreement was signed in December 2005 to implement a three-year Palestinian–Israeli **Energy Cooperation Programme** including the establishment of a joint energy office. Implementation of this initiative has been suspended in the light of the current situation in the region. Gaza offshore gas resources, once exploited, could impact positively on the economy.

In 2005 the two parties agreed to set up a **Joint Transport Office (JTO)** to promote transport cooperation. The Commission is ready to also support this endeavour as soon as the parties agree to further the agreement.

The overall **environment situation**, including water supply and sanitation, is deteriorating. The Palestinian Authority is an observer to the Convention for the protection of the Marine Environment and the Coastal Region of the Mediterranean (Barcelona Convention) and has, under the Strategic Action Programme, developed a national action plan identifying priority actions for 2010. The Palestinian Water Authority is participating in EMWIS (the Euro-Mediterranean Information System on the know how in the Water Sector) and the Euro-Med Water Director conferences.

People-to-people contacts, education, and public health

Education, training, and youth

The Ministry of Education and Higher Education has continued to implement the Education Development Plan, but the ongoing crisis seriously affects education. Particular attention is being paid to quality assurance and governance of the institutions of higher education. Some steps have been taken to reform vocational education too, such as the setting up of a VET council.

Eight Palestinian universities on the West Bank participate in **Tempus**.

In terms of wider, conflict-related, people-to-people activities, the European Commission's **Partnership for Peace programme (PFP)** has, over recent years, sought to further mutual understanding, foster the development and consideration of alternative political options, and support active engagement of civil society.

Public health

The Ministry of Health embarked on a series of institutional and operational reform initiatives during the last semester of 2005 and the first months of 2006. These

initiatives were linked to the health sector component of the **Medium Term Development Plan 2006-8**, which articulated the sector's activities and resources required over the medium-term. The EC-funded **Health Sector Support Programme** contributed to the planning process at Ministry level, with the aim of implementing cost-effective measures for primary, secondary and tertiary care and for prevention. This programme had to be frozen after March 2006.

European Community-Palestinian Authority Cooperation

EC cooperation in 2005 focused on supporting the reforms for building PA institutions and infrastructure necessary for the functioning of a viable state. Provision of assistance enabled the EC to coordinate its activities with other international donors and apply some pressure for the acceleration of certain reforms (e.g. in financial management and transparency). EC cooperation in 2005 amounted to € 277 million. Combined with EU Member States' contributions, the overall EU level exceeded **€ 550 million**.

In June 2006, in order to contribute to alleviating the socio-economic crisis, under the umbrella of the Quartet, the European Commission and the World Bank set up a **Temporary International Mechanism (TIM)**. TIM channels allowances directly to vulnerable Palestinians, provides funding for fuel to operate hospitals and water installations in Gaza and operates a Trust Fund to pay for operating cost of social Ministries.

Together with the support granted through international organizations, UNRWA and NGOs, EC support to the Palestinian people will reach € 329 million in 2006. If Member States' contributions are considered, overall EU support in 2006 will be over **€ 650 million**, or 15% higher than in 2005.