



## CRS Report for Congress

# International Reaction to the Palestinian Unity Government

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### Summary

The new Palestinian unity government established in March 2007 complicates U.S. policy toward the Palestinian Authority (PA) and the peace process. When Hamas took power last year, the Bush Administration, along with its Quartet partners and Israel, responded by cutting off contact with and halting assistance to the PA. The Administration sought to isolate and remove Hamas while supporting moderates in Fatah, led by President Mahmud Abbas. The international sanctions have not driven Hamas from power, and instead, some assert they may have provided an opening for Iran to increase its influence among Palestinians by filling the void. Now that Hamas and Fatah are sharing power, it will be harder to isolate Hamas. The United States and European countries have held meetings with non-Hamas members of the new government, while Israel continues to rule out all contact with PA ministers. Arab states, led by Saudi Arabia, are pressing for recognition of the new government and an end to the international boycott. Some observers believe Saudi efforts to gain acceptance of the unity government and restart Israeli-Palestinian peace talks may be an effort to set the price for Saudi cooperation on other U.S. policies in the region. In 2006, Congress passed P.L. 109-446, the Palestinian Anti-Terrorism Act of 2006, to tighten existing restrictions on aid to the Palestinians. In 2007, Representative Ileana Ros-Lehtinen introduced H.R. 1856, which would amend the original Act to further restrict contact with and assistance to the PA. This report will be updated as events warrant.

### Background

**2006 Palestinian Election.** Hamas, a U.S. State Department-designated Foreign Terrorist Organization, surprised most observers by winning a majority of seats in the Palestinian legislative election in January 2006.<sup>1</sup> The election was judged by international

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<sup>1</sup> Hamas won 74 of the 132 seats in the Palestinian Legislative Council, Fatah won 45 seats, and smaller parties claimed the remainder. Hamas's popular vote victory was far narrower, 44% to (continued...)

observers to be competitive and “genuinely democratic.”<sup>2</sup> Hamas had boycotted previous Palestinian national elections because they were held under the terms of the Oslo Accords, which the group rejected. Immediately after the election, the Middle East Quartet (the United States, Russia, the European Union (EU), and the United Nations) indicated that assistance to the PA would only continue if Hamas renounced violence, recognized Israel, and accepted previous Israeli-Palestinian agreements, which Hamas refused to do. In March 2006, Hamas formed a government without Fatah, the secular party that had dominated Palestinian politics for decades, which refused to join a Hamas-led coalition. On April 7, 2006, the United States and the EU announced they were halting assistance to the Hamas-led PA government but that humanitarian aid would continue to flow through international and non-governmental organizations (NGOs). The EU has been the PA’s largest donor since it was created in 1996 under the Oslo peace accords. At the same time, Israel began withholding about \$50 million in monthly tax and customs receipts that it collects for the PA. In 2005, international assistance and the Israeli-collected revenues together accounted for about two-thirds of PA revenues. In addition, the PA lost access to banking services and loans as banks around the world refused to deal with it for fear of running afoul of U.S. anti-terrorism laws and being cut off from the U.S. banking system.

The resulting fiscal crisis left the Hamas-led government unable to pay wages regularly and deepened poverty levels in the Palestinian territories. The Hamas-led government was forced to rely on shrinking domestic tax revenues and cash that Hamas officials carried back from overseas. Press reports indicate that much of this cash emanated from Iran.<sup>3</sup> By the end of 2006, tensions in the West Bank and Gaza Strip were rising as living conditions deteriorated and PA employees, including members of the security forces, went unpaid for weeks or months. Armed supporters of Fatah and Hamas clashed repeatedly, trading accusations of blame, settling scores, and drifting into lawlessness. More than 100 Palestinians were killed in the violence.

**The Mecca Accord.** After months of intermittent talks, on February 8, 2007, Fatah and Hamas signed an agreement to form a national unity government aimed at ending both the spasm of violence and the international aid embargo that followed the formation of the initial Hamas-led government. The accord was signed by PA President and Fatah leader Mahmud Abbas and Hamas political leader Khalid Mish’al in Mecca, Saudi Arabia, after two days of talks under the auspices of Saudi King Abdullah. Under the agreement, Ismail Haniyeh of Hamas remains prime minister. In the new government, Hamas controls nine ministries and Fatah six, with independents and smaller parties heading the remainder. Among the independents are Finance Minister Salam Fayyad, an internationally respected economist, and Foreign Minister Ziad Abu Amr, a reformer and ally of President Mahmud Abbas. Demonstrating the differing priorities of Fatah and Hamas, the new government’s platform calls for establishment of a Palestinian state “on

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<sup>1</sup> (...continued)

Fatah’s 41%. Hamas benefitted from a complicated electoral system that produced a hefty seat bonus in some districts where the popular vote totals were quite close.

<sup>2</sup> Carter Center International Observer Delegation to the Palestinian Legislative Council Elections Statement, January 2006, [<http://www.cartercenter.org>].

<sup>3</sup> Conal Urquhart, “Iran Replaces EU as Top Palestinian Donor,” *The Guardian*, January 15, 2007.

all the lands that were occupied in 1967 with Jerusalem as its capital,” and at the same time affirms the Palestinians’ right to “resistance in all its forms” and to “defend themselves against any ongoing Israeli aggression.” The new government commits to “respect” previous agreements signed by the Palestine Liberation Organization (PLO) but does not explicitly renounce violence or recognize Israel.<sup>4</sup> The government platform states that any peace agreement reached will be submitted for approval to either the Palestine National Council (the PLO legislature) or directly to the Palestinian people in a referendum.

## Reaction to the Unity Government

**The United States.** The Bush Administration expressed disappointment with the unity government platform and said that Prime Minister Haniyeh of Hamas had “failed to step up to international standards.” The Administration, however, is keeping open the option of meeting with non-Hamas members of the new government. A spokeswoman for the U.S. Consulate in Jerusalem said “We won’t rule out contact with certain individuals with whom we have had contact before. We will evaluate the situation as we go along.” On March 20, U.S. Consul General in Jerusalem Jacob Walles met with Palestinian Finance Minister Fayyad in Ramallah, the first diplomatic contact between the United States and the Palestinians in a year. On April 17, Secretary of State Condoleezza Rice held a half-hour meeting with Fayyad at the State Department. According to press reports, Fayyad separately controls accounts held by the PLO, and U.S. officials are examining regulatory ways to allow donor funds from Arab and European countries — but not from the United States — to flow to those accounts without violating U.S. law.

The Administration also has sought to redirect some assistance to PA President Abbas. In late 2006, the State Department notified Congress of the President’s intent to reprogram up to \$86 million in prior-year funding to support efforts to reform and rehabilitate Palestinian civil security forces loyal to Abbas. However, the House Appropriations Committee placed a hold on these funds, seeking more information on where and why the money was to be spent. After the Palestinians reached agreement on the Fatah-Hamas power sharing arrangement, other Members of Congress reportedly expressed further doubts about where the money was going, fearing it may end up with Hamas. In March 2007, Secretary Rice told a House Appropriations subcommittee that the Administration was now seeking \$59 million for Abbas (\$43 million for training and non-lethal assistance to the Palestinian Presidential Guard and \$16 million for improvements at the Karni crossing, the main terminal for goods moving in and out of Gaza). No holds were placed on this request.

**The European Union.** The EU’s reaction to the Palestinian unity government has tracked closely with the United States thus far. EU officials have begun meeting with non-Hamas members of the PA government, but left in place the ban on direct aid. The EU has had some success in forging consensus on its approach to the Israeli-Palestinian conflict over the last few years. The EU views resolving the Israeli-Palestinian conflict

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<sup>4</sup> Previous agreements signed by the PLO and Israel, specifically the exchange of letters between Israeli Prime Minister Rabin and the late PLO Chairman Yasir Arafat on September 9, 1993, renounce violence and recognize Israel’s “right to exist in peace and security.” Therefore, some analysts suggest the new platform implicitly rejects violence and recognizes Israel.

as key to reshaping the Middle East and promoting stability on Europe's periphery. Moreover, EU member states are committed to maintaining a common EU policy on this issue to boost the credibility of the Union's evolving Common Foreign and Security Policy. Still, differences persist among member states. According to some press reports, France, Spain, and Italy may be more inclined to resume direct aid to the PA in the near term while other EU members, such as the UK and Germany, are more wary.<sup>5</sup> A Quartet statement after the unity government was formed said it will be measured not only on the basis of its composition and platform, "but also its actions."<sup>6</sup> Some observers saw this as a softening of the Quartet position, which could allow for a possible resumption of direct aid. European officials reportedly argued for more flexibility, saying the government should not be judged purely on the semantics of its official platform but on the future actions of Hamas. Many European policy makers hope that this strategy will encourage a further moderation of Hamas' position and facilitate forward movement in the peace process.

Defying the EU policy, 10 European Parliament members met with Hamas Prime Minister Haniyeh in Gaza on May 1. An EU spokesman said there had been no change in the EU policy.<sup>7</sup> Norway, which is not a member of the EU, has gone the farthest among European states by normalizing relations with the Palestinian government and announcing it was prepared to resume direct aid to the PA. Norwegian Foreign Minister Jonas Gahr Stoere met with Prime Minister Haniyeh in March.

**Russia.** Although a member of the Quartet, Russia has taken a different approach to the Hamas government from the beginning by maintaining contact with Hamas officials and recently arguing to lift the aid embargo. Hamas political leader Khalid Mish'al has twice visited Moscow since Hamas took power, most recently in February 2007. Foreign Minister Sergey Lavrov has urged Hamas leaders to meet the Quartet conditions, but without success. Russian officials prefer to keep lines of communication open with all parties as they seek to position themselves as a mediator between Arabs and Israelis. This in turn would serve their larger ambition of reestablishing Moscow as a significant player in the region. Nonetheless, the Russians continue to see the Quartet as a useful and necessary mechanism and are unlikely to break ranks with it completely.

**The United Nations.** Neither the U.N. Security Council nor the U.N. General Assembly have adopted resolutions or taken a position in response to the formation of the unity government. U.N. officials continue to stress the necessity for the Palestinian government to meet the three Quartet conditions. Secretary-General Ban Ki-Moon declined to meet Hamas officials on a March visit to the region. After meeting with PA President Abbas, Ban welcomed the new government's formation, but said that "the atmosphere is not fully right" for talks with Hamas.<sup>8</sup>

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<sup>5</sup> "Transatlantic Tensions," *The Economist*, April 7, 2007.

<sup>6</sup> Quartet Statement, March 21, 2007, [[http://www.un.org/news/dh/infocus/middle\\_east/quartet-21mar2007.htm](http://www.un.org/news/dh/infocus/middle_east/quartet-21mar2007.htm)].

<sup>7</sup> Jamie Smyth, "MEPs Ignore EU Policy of Boycotting Hamas Officials," *Irish Times*, May 2, 2007.

<sup>8</sup> "Secretary General's Joint Press Conference with President Mahmoud Abbas," Ramallah, (continued...)

**Saudi Arabia.** After brokering the Mecca Accord, the Saudis continued their diplomatic push at the Arab League summit in Riyadh in March. During a speech at the summit, Saudi King Abdullah called for an end to the international boycott of the PA in light of the agreement between Fatah and Hamas to form a unity government. In addition, the summit communique relaunched the Arab Peace Initiative of 2002, which calls for full Israeli withdrawal from the territories occupied in 1967, creation of an independent Palestinian state with East Jerusalem as its capital, and a just, agreed upon solution to the refugee problem in exchange for an end-of-conflict agreement in which all Arab states would enter into peace agreements and establish normal relations with Israel. Analysts speculate that the recent Saudi diplomatic drive has several purposes. First is to end the intra-Palestinian violence and resume long-stalled peace negotiations with Israel. Second, by securing Arab and perhaps international recognition of a government that includes Hamas and then relaunching peace talks with full Arab backing, the Saudis hope to bring Hamas into the Arab consensus, moderate its anti-Israeli ideology, and ultimately get it to accept a two-state solution. Finally, by creating momentum toward peace, the Saudis are seeking to undermine the regional influence of Iran and rejectionist groups like Hezbollah. Some observers also note that Saudi efforts to gain acceptance of the unity government and restart Israeli-Palestinian peace talks may be an effort to set the price for Saudi cooperation on other U.S. policies in the region, notably toward Iran.

**Other Arab States.** Among the Arab states, only Libya refused to attend the Riyadh summit and join the call to back the new Palestinian government and the Arab peace initiative. The Arab League subsequently appointed Jordan and Egypt to promote the initiative with Israel and persuade it to accept the plan as the basis for peace talks. Jordan's King Abdullah II has been the most outspoken Arab leader on the need to seize the Arab peace initiative as a way to restart Israeli-Palestinian peace talks. In March 2007, speaking to a joint meeting of Congress, he urged renewed international, and especially U.S., engagement to move the process forward. In April, he told a group of visiting Israeli Knesset (parliament) members that the initiative was a historic opportunity for Israel to gain recognition by the Arab states and true integration into the region.

**Israel.** The Israeli government is maintaining a complete ban on meetings with Palestinian ministers, including non-Hamas ministers, and continues to withhold tax and customs revenues that it collects on behalf of the PA. Israel is unwilling to enter into direct talks with a Palestinian government that includes Hamas, which has killed hundreds of Israelis in terrorist attacks and whose charter calls for an Islamic state in all of the former British mandate of Palestine. However, Prime Minister Ehud Olmert meets regularly with PA President Abbas and in mid-April the two reportedly discussed economic aspects of a future Palestinian state. Olmert has also spoken of "positive aspects" of the Arab peace initiative and stated his willingness to meet any Arab leader to discuss it.

**Iran.** Since the early 1990s, Iran has supplied cash, arms, and training to Hamas, but most observers say the relationship has been an uneasy one. Iran has sought a foothold in the Palestinian territories, while Hamas jealousy guards its political and operational independence. The relationship has been relatively unaffected by the widening rift

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<sup>8</sup> (...continued)

March 25, 2007, [<http://www.un.org/apps/sg/printoffthecuff.asp?nid=998>].

between Sunni and Shiite Islam, although Hamas protested the December 2006 execution of Saddam Hussein by the pro-Iranian government of Iraq. Since the aid boycott was enacted, Iran has increased its assistance to Hamas. Hamas officials visiting Tehran in the past year often returned carrying large sums of cash, according to press reports. The International Monetary Fund (IMF) estimates that in 2006 some \$70 million in cash was carried into the territories, most of it thought to be from Iran.<sup>9</sup> After a visit to Iran in December 2006, Prime Minister Haniyeh said Iran had agreed to provide \$120 million in assistance in 2007 and up to \$250 million in total.<sup>10</sup> Israeli security officials have warned of growing Iranian influence in Gaza. The head of the Israel Defense Force Southern Command, Maj. Gen. Yoav Galant, said in April 2007 he believes a large number of “Iranian terror and guerrilla experts” are operating in the Gaza Strip, training Palestinian terrorists.<sup>11</sup>

## Recent Legislation

On December 21, 2006, President Bush signed into law P.L. 109-446, the Senate version of the Palestinian Anti-Terrorism Act of 2006, which bars aid to the Hamas-led Palestinian government unless, among other things, it acknowledges Israel’s right to exist and adheres to all previous international agreements and understandings. It exempts funds for humanitarian aid and democracy promotion. It also provides \$20 million to establish a fund promoting Palestinian democracy and Israeli-Palestinian peace. The law limits the PA’s representation in the United States as well as U.S. contact with Palestinian officials. In a signing statement, the President asserted that these and several other provisions of the bill impinge on the executive branch’s constitutional authority to conduct foreign policy and he therefore viewed them as “advisory” rather than “mandatory.” The original House version of the bill (H.R. 4681, passed on June 23, 2006) had been seen by many observers as more stringent as it would have made the provision of U.S. aid to the PA more difficult even if Hamas relinquishes power.

In March 2007, Representative Ileana Ros-Lehtinen introduced H.R. 1856, the Palestinian Anti-Terrorism Act Amendments of 2007, which would amend the original Act to further restrict contact with and assistance to the PA.

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<sup>9</sup> IMF, “West Bank and Gaza: Fiscal Performance in 2006,” March 2007.

<sup>10</sup> “Haniyeh Says Iran Pledges \$250 Million in Aid for Palestinians,” Dubai Al-Arabiya Television in Arabic, December 11, 2006, Open Source Center document number GMP20061211637001.

<sup>11</sup> Amos Harel, “Senior IDF Officer Confirms Iran Training Militants in Gaza,” *Ha’aretz*, April 22, 2007.