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# EUROPE AND THE VANISHING TWO-STATE SOLUTION

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## Executive Summary

### Introduction

The first months of 2013 have deepened the gloom over prospects for the two-state solution. Israel's election has produced a new government with an even more pronounced annexationist bent towards the West Bank, while US President Obama's visit to the region lived down to the minimal expectations prepared for it. Leading Arab actors are preoccupied elsewhere. It is hard to see who might help avert the final extinction of hope for a two-state solution if not the Europeans.

### Chapter 1: What do Europeans think?

We have analysed views across the European Union. Most member states acknowledge the strategic and economic importance of Middle East peace; many feel a strong political, even emotional, attachment to the aim. But few are much concerned to act decisively. Most prefer to treat the EU's carefully elaborated positions on the "Middle East Peace Process" as a collective alibi, useful for deflecting criticism from the protagonists while they develop bilateral relations on the basis of national interest.

Meanwhile, in the absence of clear instructions to the contrary, the European Commission continues to thicken the EU's relations with Israel despite the suspension of an "upgrade" declared in 2009. Yet if elites favour "business as usual" with Israel, public opinion across the EU is consistently less patient with Israeli policies and more sympathetic to the Palestinians' predicament. And the successive votes at the UN in 2011 and 2012 show that governments are now moving in a similar direction. Israel is in danger of "losing" Europe.

### Chapter 2: The case for European action

Recent reporting by the EU heads of mission in Jerusalem and Ramallah has brought out how far the Palestinian presence in East Jerusalem and much of the West Bank is being undermined. This is Israeli state policy, and it is hard to influence from outside. Should Europeans quietly acquiesce? We argue they should not.

Further entrenchment of the occupation as hope for a two-state solution fades will make the parallels with apartheid South Africa increasingly difficult to ignore. Sanctions and international isolation will follow; and an eventual bloody catastrophe seems more probable than a "Rainbow Nation" sequel. So Europeans must do what they can – concentrating, given the asymmetry of power between the parties, on Israel. They will not create peace by themselves; but they can hope to preserve the two-state possibility, or even prepare the ground for a new American initiative that should not be ruled out later in Obama's second term.

### Chapter 3: What Europe can do

European efforts to restrain Israel from entrenching its occupation have had little impact. Their efforts to sustain the Palestinian Authority (backed by more than an annual €1 billion of aid) have not fared much better. "State building" has been a dead end, contributing to the creation of a dependency

culture in the West Bank and masking the hollowing-out of the real economy. It is time to treat both parties with tougher love.

### *Working on Israelis*

Identifying ways to influence Israel is not easy. There is simply no appetite among European governments for anything that might look like sanctioning or punishing Israel. Yet finding positive incentives – carrots, as opposed to sticks – is difficult also. Israelis already enjoy the main things they want from Europe: commercial access to the world's largest market, visa-free travel, and a unique position in the EU's research and innovation programmes. But limited steps are nonetheless available – mostly to do with ensuring that benefits are not inadvertently conferred – which may influence behaviour at the margin and could in particular underline for Israelis how they are “losing Europe”.

The newly formed government may look implacable, but the recent elections revealed segments of Israeli society that may be more sensitive to the costs of the occupation and settlement expansion for Israel's relations with Europe and the wider world. The campaign already underway to ensure that Europeans do not lazily extend to the settlements benefits (such as preferential access to the EU market) that should be limited to Israel proper is necessary to ensure that European actions match their policy, and indeed, international law – it will also usefully signal Europe's non-acquiescence. The effort should be extended to cover advice to businesses and investors; removal of tax advantages for financial support to settlements; imposition of visa requirements for settlers; and avoidance of contact with the first university in the settlements.

Such moves can be seen as actions that Europeans have no choice but to take. So a more impactful way for Europeans to alert the Israeli public to their increasing isolation will be a more independent policy in the region, involving a bigger push for Palestinian reconciliation; giving up efforts to deter the Palestinians from bringing in the International Criminal Court; and a more nuanced position on Iran. Mainly, though, Europeans should ensure that no new steps are taken to enhance the EU–Israel bilateral relationship without considering what they might be traded for, in terms of easing occupation controls and restrictions.

### *Working on Palestinians*

Thus far, European aid has served to prolong the occupation, easing the impact on Palestinians and paying Israel's costs. Europeans should reduce their budgetary help to the Palestinian Authority over time and work with the Palestinians to develop the real economy instead.

This will not work without changing the established terms of the occupation: making more land available for Palestinian development; reformulating the Paris Protocol, which has regulated economic relations between Israel and the occupied Palestinian territories (OPTs), to the latter's disadvantage; ensuring a fairer division of water resources; and, of course, easing the closure of Gaza.

Europeans must work with the Palestinian Authority – individual EU states could “mentor” different sectors – to formulate the key “asks” needed to put life back in the Palestinian economy. These should then become the reciprocal moves from the Israeli government that Europeans seek the next time some new step is proposed to bring Israel closer to Europe.

The major EU aid donors (the “big three” of France, Germany, and the UK, with the Nordics (including Norway) and the main Benelux countries) would be a natural grouping to develop a new aid strategy for the Palestinians, and then, by extension and in concert with the European External Action Service (EEAS), to define what changes in the occupation to press for, and how to encourage Israel to make them.

### *Working on Arabs*

Europe must work to get key Arab states, and Turkey, (re-)engaged. They will need to take up the financial slack as EU aid is reduced; to embolden the Palestinian Authority; to press for Palestinian reconciliation; and to remind Israelis that a recognised place awaits them in the neighbourhood if they give up the occupation.

## **Conclusion**

Before it is too late, Europe needs to recalibrate its engagement with the Israel/Palestine conflict. It must act to bring it home to Israelis how close they are to the danger of international isolation. And it must wind down its financial support of the status quo, working with and on both sides for changes to the terms of the occupation that will enable the Palestinians to grow their real economy. A harder-nosed and more independent policy from Europe will strengthen Washington's hand in Israel and improve the chances for a decisive US peace initiative before Obama leaves office and before the occupation enters its fiftieth year.

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