

# No Exit? Gaza & Israel Between Wars

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## Table of Contents

Executive Summary.....	i
Recommendations.....	iii
I. Introduction .....	1
II. Gaza after the War.....	2
A. National Consensus in Name Only.....	2
B. Failure to Reconstruct .....	4
C. Coming Apart at the Seams .....	5
D. Fraying Security Threatens a Fragile Ceasefire.....	8
E. Abandoned by Egypt.....	10
F. Israel’s Slight Relaxation of the Blockade .....	12
III. The Logic of War and Deterrence .....	14
IV. Paying Lip Service to Palestinian Reconciliation.....	19
V. Gaza’s Finances: An Accounting .....	22
A. A Roadmap for Employee Integration.....	22
B. Is Gaza Self-sufficient? .....	24
VI. Escaping the Cycle of War and Destruction.....	29
A. Debate over an Extended Ceasefire .....	30
B. Obstacles to an Extended-ceasefire Agreement .....	32
C. Addressing Concerns about an Extended Ceasefire.....	34
VII. Conclusion .....	36
APPENDICES	
A. Map of Gaza Strip .....	38
B. About the International Crisis Group .....	39
C. Crisis Group Reports and Briefings on the Middle East and North Africa since 2012....	40
D. Crisis Group Board of Trustees .....	42

## *Executive Summary*

In the year since the 2014 Gaza war, little has been done to alter the conditions that precipitated it. The so-called Palestinian government of national consensus, formed in June 2014 and seated in the West Bank, has been reconstituted without Hamas's consent. Viewing Gaza as a trap, it refuses responsibility for governing it. Though it lacks the ability and desire to exercise authority there, it continues to collect tax revenues on all Gaza imports as the internationally recognised power. The Hamas government relied on taxes from goods smuggled through Gaza-Egypt tunnels, but those, together with the sole border crossing with Egypt, were shut after President Abdel-Fattah el-Sisi took power in Cairo in July 2013. To forestall another conflict, Israel has loosened the closure regime somewhat. But this does not address Gaza's needs: the acting government lacks funds; its economy is a shambles; and most Gazans have no access to the outside world. More must be done on these, or the next war is probably just a matter of time.

A solution to Gaza's problems is unlikely to be found in Cairo or Ramallah. Both view Hamas, or its parent organisation, the Muslim Brotherhood, as an existential threat. They do not want to rescue Hamas or help Israel in its years-long policy of severing ties between Gaza and the West Bank. Instead both are content to ignore Gaza and watch Hamas drown in its mounting financial problems. If a new war erupts, they calculate, it will be Israel and Hamas that pay the price.

For many leaders of the Palestinian Authority (PA) in Ramallah, returning to Gaza makes little sense: the PA would be blamed for almost certain future Israeli-Palestinian violence, without the tools to prevent it. True control over the territory and war and peace decisions are likely to remain elsewhere. With no solution to the shortage of money with which to pay all Gaza public-sector salaries, an already weakened PA is being asked to take on additional problems that currently weigh on Hamas. Even were solutions to these troubles to be found, there is the question of contestation and dissent within Fatah, President Mahmoud Abbas's ostensible power base. Given his highly antagonistic relationship with former Fatah Central Committee member and movement stalwart Muhammad Dahlan, who is from and enjoys substantial support in Gaza, the challenges to Abbas from within his own movement may be even more daunting than those Hamas poses.

For many in Israel, a reversal of its policy of separating Gaza from the West Bank is viewed as a serious security threat, as Gaza's separation is thought to prevent Hamas from transferring knowledge, weapons, funding and political influence to the West Bank, where its increased power would come at the expense of Israel's security partner, the Fatah-dominated PA. To significant parts of the governing coalition, furthering the separation of the territories also serves demographic interests, as Israel has not relinquished its claim to the West Bank. Even those willing to ease Gaza's closure will do so only insofar as the steps do not threaten to empower Hamas in the West Bank.

Neither Israel nor Hamas considers a new war imminent, but both understand that an eventual resumption of fighting is likely if conditions do not significantly change. Hamas may find itself facing growing internal challenges – Salafi-jihadi attacks, a collapse of government services, popular protests – from which war appears

to be an exit that offers a chance to consolidate power, reestablish military credentials and perhaps relax the closure by reaching a new ceasefire agreement.

Short of renewed fighting or using large carrots and sticks to push a weakened PA into taking responsibility for Gaza, Israel's main options are either to improve conditions there unilaterally, so the Hamas-run administration can govern sustainably, thereby giving Hamas greater incentive to continue enforcing the current ceasefire, or to reach a more robust, extended ceasefire with Hamas. The latter would be very difficult to achieve. Substantive differences are large: Hamas and Israel have different ideas about a potential ceasefire's territorial scope (whether it includes the West Bank), duration, obligations regarding Hamas weapons (smuggling and production) and extent of Israeli measures to end or reduce the closure.

Because a war is thought to be far off, there is little pressure on the Israeli government to make progress in indirect negotiations over Gaza – which Israel and Hamas committed themselves to begin within one month of the 26 August 2014 ceasefire – much less to change its policies significantly or permit a maritime corridor through which Gazans could access the outside world.

Israeli officials see great drawbacks to an agreement with Hamas. They fear a new ceasefire would weaken or destroy the international boycott of the Islamist movement, strengthen it in the West Bank and harm Israel's relations with the PA and Egypt. Even indirect negotiations are politically risky for both Hamas and most Israeli politicians. Israeli officials worry that a deal with Hamas would be a “death blow” to Abbas, whom most do not see as a peace partner but consider a non-threatening, violence-aborring strategic asset.

On the other hand, Gaza's continued constriction and periodic wars have not strengthened the PA in the West Bank. Instead, they have weakened it, strengthened Hamas and helped make successful diplomacy almost impossible. The policies of isolating Hamas and blockading Gaza, originated by the same international actors that guided the diplomatic process, have neither brought a political settlement closer nor dislodged Hamas. There is no reason to believe their continuation will do so.

Whatever options Hamas and Israel choose will not resolve the underlying conflict. But allowing Gazans to export goods, tax themselves and freely exit and enter the territory would at least offer Israelis and Palestinians the possibility of less bloodshed, while other possibilities, including unblocking the diplomatic impasse, are explored.

## *Recommendations*

*In order to stabilise the ceasefire; generate revenue to pay the Gaza government's salary, overhead and service-provision costs; and provide Gazans reliable access to the outside world*

### **To the government of Israel:**

1. Hold indirect negotiations with Hamas or a broader Palestinian delegation that includes Hamas over stabilising and extending the ceasefire, as agreed by Israel and Hamas on 26 August 2014; if Egypt is unwilling to mediate or is unacceptable to either party, seek an alternative mediator such as Norway, Switzerland, Germany, Qatar, Turkey, Saudi Arabia or the UN.
2. Permit an internationally supervised maritime corridor (a seaport or floating pier) to be established in Gaza and connected to Cyprus or another country so Gazans can exit and enter the territory through a secure non-Egyptian and non-Israeli crossing.
3. Facilitate, in the period before a new maritime corridor is established, increased travel from Gaza to the Allenby Crossing with Jordan, including by screening Gazans at Erez before placing them on buses directly to Allenby.
4. Demonstrate that stabilising Gaza will not come at the expense of the two-state solution by strengthening the frayed connections between Gaza and the West Bank, including by increasing Gaza-West Bank travel and trade in ways that do not jeopardise Israeli interests and by formal declarations that Israel views Gaza as an integral part of any future Palestinian state.
5. Consider steps to bolster the standing of the PA in the West Bank, including by:
  - a) extending PA territorial jurisdiction within the West Bank (eg, transferring parts of Area C to B and parts of Area B to A; and permitting the PA and Palestine Liberation Organisation (PLO) to operate in Jerusalem);
  - b) allowing new planning, investment and development in remaining parts of Area C; and
  - c) working with the PA on developing natural gas fields off Gaza's shore.

### **To the government of Egypt:**

6. Invite Israel and Hamas or a Palestinian delegation including Hamas to negotiate a ceasefire, as they agreed would happen within one month of 26 August 2014; if Cairo is unwilling to do so, invite the parties to hold these discussions through a different mediator.
7. Offer to reopen the Rafah crossing with regular hours, six days per week, in parallel to Israel's opening of all its Gaza crossings.

### **To Hamas and the Palestinian National Authority:**

8. Commission an independent audit of Palestinian finances and taxation in Gaza and the West Bank and commit to correct imbalances in the distribution of revenues between Gaza and the West Bank based on its results.

**To the European Union, the U.S. and other donors to the PA:**

9. Offer international supervision of a new maritime corridor for Gaza.
10. Pledge to continue European Union (EU) support to a Palestinian national unity government, with Hamas and Fatah ministers, operating in both Gaza and the West Bank and committed to upholding a ceasefire with Israel.
11. Offer to assist with and support an independent audit of Palestinian finances and taxation in Gaza and the West Bank.
12. Appeal to Qatar, Saudi Arabia and other members of the Gulf Cooperation Council to facilitate the integration of Gaza and West Bank ministries and payrolls by funding salaries, welfare payments and government overhead costs in Gaza.
13. Ensure that budget funds directed to the Palestinian people are apportioned equitably between Gaza and the West Bank, and increase if necessary direct aid to Gaza projects.
14. Bolster the standing of the PA in the West Bank, including by increasing donor assistance, encouraging Israel to take the above steps and providing recognition by additional EU member states of the State of Palestine.

**Gaza City/Jerusalem/Ramallah/Brussels, 26 August 2015**

# No Exit? Gaza & Israel Between Wars

## I. Introduction

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More than a year later, the conditions that precipitated the roughly seven-week-long war in Gaza known in Israel as Operation Protective Edge<sup>1</sup> have grown considerably worse. The Palestinian government of national consensus, formed in June 2014, never exercised authority in Gaza. On 31 July 2015, that government was reshuffled, dropping all pretence of “consensus”, without Hamas’s inclusion or input. It persists nominally in Gaza, because Hamas still sees it as its best bet for disowning responsibility. While it makes certain expenditures there, it has not taken over managing the territory – not payment of salaries of employees who continue to administer Gaza; not functions or operating costs of major ministries; and not control of the border crossings that remain closed or highly restricted.<sup>2</sup> The result for Gaza’s population is unprecedented misery, a sense of abandonment by Palestinian political leaders and economic regression. Per capita income is now 31 per cent lower than in 1994.<sup>3</sup>

This report examines the causes of Gaza’s immiseration and instability, analyses the prospects of various proposals to resolve Gaza’s problems and offers suggestions for prolonging the current calm. It follows on several recent reports on Gaza,<sup>4</sup> including one that anticipated the 2014 war by several months.

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<sup>1</sup> The government’s translation of the Hebrew “Tsuk Eitan” (literally “Operation Firm Cliff”).

<sup>2</sup> Since the closure of three Gaza crossings – Karni (2007), Sufa (2008) and Nahal Oz (2010) – Gaza has had three functioning ones: Rafah with Egypt (primarily for people, used for goods only exceptionally), and, with Israel, Erez, for people, and Kerem Shalom, solely for goods.

<sup>3</sup> “Gaza Economy on the Verge of Collapse, Youth Unemployment Highest in the Region at 60 Per cent”, World Bank, 21 May 2015.

<sup>4</sup> Crisis Group Middle East Briefings N°s 42, *Toward a Lasting Ceasefire in Gaza*, 23 October 2014; 39, *Gaza and Israel: New Obstacles, New Solutions*, 14 July 2014; and 30, *Gaza: The Next Israeli-Palestinian War?*, 24 March 2011; and Reports N°s 149, *The Next Round in Gaza*, 25 March 2014; 133, *Israel and Hamas: Fire and Ceasefire in a New Middle East*, 22 November 2012; 129, *Light at the End of their Tunnels? Hamas & the Arab Uprisings*, 14 August 2012; 110, *Palestinian Reconciliation: Plus Ça Change ...*, 20 July 2011; and 104, *Radical Islam in Gaza*, 29 March 2011.

## II. Gaza after the War

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### A. *National Consensus in Name Only*

Whereas in the months before and after the war, the international community could believe that the solution to Gaza's problems lay in the return of Palestinian Authority (PA) control with Hamas's consent, today few hold out hope that such a transfer is in the offing or would even substantially change conditions. Instead, as with the Israeli-Palestinian peace process, lip service is paid to an ideal, Palestinian unity, that many stakeholders oppose in any serious incarnation, and few deem likely to materialise, even minimally, in the near to medium term. These same stakeholders justify policies that uphold a disastrous status quo by claiming it is temporary, soon to be resolved by the very Palestinian reconciliation almost no one foresees taking place.

And why should it? The parties have scant incentive to make changes. Via Israel, which collects taxes on the PA's behalf for a 3 per cent fee, per the economic arrangements reached in Oslo,<sup>5</sup> Ramallah receives revenues from taxes on all goods entering Gaza but does not have to spend them on behalf of the coastal territory. It instead pays tens of thousands of Gaza-based, Fatah-affiliated employees of the government that existed before Hamas took over in June 2007, most of whom have been ordered to boycott the Hamas government on pain of losing their salaries. Since mid-2013, when nearly all the tunnels between Gaza and Egypt were shut, the amount of goods entering Gaza through Israel, and therefore the tax revenue provided by Gaza to the PA, has greatly increased.<sup>6</sup>

More importantly, leaders in Ramallah view governing Gaza as a trap: taking responsibility for the territory without being granted real authority over it. Were they to take over Gaza's crossings, they argue, Hamas checkpoints would exist a few dozen metres behind them; true control, including over war and peace, would remain beyond their grasp.<sup>7</sup> PA leaders would be blamed for future Israeli-Palestinian violence that is almost certain to erupt, without having the tools to prevent it. Nor are solutions on offer to fix the poverty, poor services, donor neglect and energy and water crises for which they would be responsible. The PA is being asked to commit to covering wages it can scarcely afford; the international community has asked it to agree that all civil service employees in Gaza who are working will be paid, but no country has offered it the means to pay them.

Hamas, meanwhile, has little incentive to move forward so long as Gaza's coffers are empty. The movement has seen its revenues shrink, which is the primary reason it agreed in 2014 to relinquish formal authority to the PA, but not control of security. Because the PA has refused to assume responsibility for Gaza, Hamas has kept its ministries operating, provided basic services and paid civil servants by collecting additional and highly unpopular taxes, generating frustration among a population

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<sup>5</sup> These arrangements, known as the Paris Protocol, were incorporated into the Gaza-Jericho Agreement. "Gaza-Jericho Agreement Annex IV: Protocol on Economic Relations between the Government of the State of Israel and the P.L.O., representing the Palestinian people", Israel foreign ministry, 29 April 1994.

<sup>6</sup> Construction materials brought into Gaza through the UN and other donors, however, are tax-exempt. Still, the amount of taxed imports, including fuel, has greatly increased since the Gaza-Egypt tunnel trade was shut down in 2013.

<sup>7</sup> Crisis Group interview, Abbas adviser, Ramallah, June 2015.



that is blockaded, impoverished, prevented from moving freely and, on many items, doubly taxed.<sup>8</sup>

Egypt views Hamas as an extension of the Muslim Brotherhood and, therefore, a threat to national security.<sup>9</sup> More than at any time in the last several years, it has succeeded in offloading the Gaza problem to Israel. It understands, too, that the PA is not being given sufficient incentive to take over. In Egypt's view, a superficial PA presence at the crossings would not weaken Hamas or further reduce the flow of militants and weapons between Gaza and Sinai. To pressure the PA to return to Gaza, Egypt would want something Israel is reluctant to provide: substantive links between Gaza and the West Bank that would reduce Egypt's concerns that the territory's growing population will eventually move into Sinai.<sup>10</sup>

For Israel, a reversal of its policy of separating Gaza from the West Bank is viewed as a serious security threat, as the separation is thought to prevent Hamas from transferring knowledge, weapons, funding and, perhaps most dangerously, ideological and political influence to the West Bank. Separating the territories also serves a demographic interest for Israel, which retains claims on the West Bank.<sup>11</sup> For Israelis who oppose a two-state solution, the separation also makes a peace agreement more remote and calls into question PA President Abbas's ability to speak on behalf of all Palestinians or claim a monopoly on the use of force that would allow him to credibly offer Israel an end to the conflict.

Thus, though Israel has arrived at a greater appreciation of the need to strengthen Gaza's economy in order to lessen the likelihood of renewed conflict, its preference is to do so by means other than connecting Gaza to the West Bank.<sup>12</sup> It desires greater PA influence in Gaza and control over Gaza's crossings, but only insofar as it does not threaten to empower Hamas in the West Bank, either through progress in reconciliation or Israeli relaxations that would bring greater connection between the two Palestinian territories.

What can be done to improve conditions in Gaza, therefore, is constrained by what Israel and the PA will allow in the West Bank. Because the West Bank is a greater priority than Gaza for both Israel and the PA, and because they remain committed to preventing Hamas from sharing power there, the most that can be hoped for in Gaza are small economic improvements and relaxations of the closure regime. These are necessary steps that should be taken to help forestall the next war, but they will not prevent it or even bring a sense of stability, because they would not come close to ending Gazans' sense of strangulation.

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<sup>8</sup> Hamas does not pay the pre-2007 PA employees whom the PA pays to stay home. It pays employees it hired after its 2007 takeover, and some 2,300 pre-2007 PA civil service employees who, refusing to boycott the Hamas government, continued to work. Crisis Group interview, former Deputy Prime Minister Ziad Zaza, Gaza City, March 2015.

<sup>9</sup> Crisis Group interview, Egyptian official, Cairo, July 2015.

<sup>10</sup> Crisis Group interview, Egyptian official, Cairo, August 2015.

<sup>11</sup> For an insightful overview of the separation policy, see "Separating Land, Separating People: Legal Analysis of Access Restrictions between Gaza and the West Bank", Gisha – Legal Center for Freedom of Movement, June 2015, [www.gisha.org/UserFiles/File/publications/separating-land-separating-people/separating-land-separating-people-web-en.pdf](http://www.gisha.org/UserFiles/File/publications/separating-land-separating-people/separating-land-separating-people-web-en.pdf).

<sup>12</sup> Crisis Group interview, Israeli foreign ministry official, June 2015.

## B. *Failure to Reconstruct*

The donor community has not pressed for an end to Gaza's inequitable system of taxation-without-representation and has also failed to fulfil the pledges it made at an October 2014 conference in Cairo to rebuild the territory after the war.<sup>13</sup> The conference's Norwegian and Egyptian co-chairs announced that \$5.4 billion was pledged over three years,<sup>14</sup> one billion more than the \$4.4 billion in estimated damages and losses from the war.<sup>15</sup> But only \$3.5 billion was for Gaza (the rest was to cover PA costs in the West Bank), and over one fourth of the Gaza amount was committed before the war or had already been disbursed. This left \$2.5 billion in new money for Gaza's reconstruction,<sup>16</sup> of which only approximately \$340 million (13.5 per cent) has so far been delivered.<sup>17</sup>

Donors say they are waiting for the PA to take over in Gaza, so that their aid will not indirectly support Hamas rule and, the thinking goes, so the PA presence at border crossings and in ministries and the resolution of the salary crisis would render war, and destruction of their projects, less likely.<sup>18</sup> But donors knew when they pledged that a prospective PA border presence and takeover of ministries would not end Hamas control, especially with respect to security, or restrain armed groups devoted to fighting Israel, so would be at most a fig leaf that would do little to alter the current set-up. A number of European officials now question whether the PA's absence is the hold-up's real cause.<sup>19</sup> A European ambassador who attended the conference said afterward, "let's be frank: many of these pledges were not made in good faith".<sup>20</sup>

Such acknowledgments render dubious the claim of many officials that the lack of donor aid and absence of PA influence in Gaza are two parts of a chicken-and-egg problem: the PA refuses to take responsibility for reconstructing Gaza so long as there is no funding to do so, and the donors object to making good on their commit-

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<sup>13</sup> For background, see Crisis Group Middle East Briefing N° 42, *Toward a Lasting Ceasefire in Gaza*, 23 October 2014.

<sup>14</sup> "High level conference in Cairo: USD 5.4 billion to Palestine", Norway embassy in Egypt, 15 October 2014, [www.norway-egypt.org/News\\_and\\_events/High-level-conference-in-Cairo-USD-54-billion-to-Palestine-/#.VWmYh1yeDGc](http://www.norway-egypt.org/News_and_events/High-level-conference-in-Cairo-USD-54-billion-to-Palestine-/#.VWmYh1yeDGc). According to the World Bank, the actual figure pledged was \$5.087 billion. "Economic Monitoring Report to the Ad Hoc Liaison Committee", 27 May 2015.

<sup>15</sup> According to the National Early Recovery and Reconstruction Plan for Gaza prepared by the PA in cooperation with donors. Another official estimate of the reconstruction cost, by the Palestinian Economic Council for Research and Development (PECDAR), was much higher: "Palestinians put Gaza reconstruction cost at \$7.8 billion", Reuters, 4 September 2014.

<sup>16</sup> 89 per cent of the \$2.5 billion in new pledges for Gaza came from six countries: Qatar (\$1 billion); Saudi Arabia (\$500 million); Kuwait (\$200 million); United Arab Emirates (UAE), \$200 million); Turkey (\$200 million); and Norway (\$142 million). Qatar and Saudi Arabia have disbursed 10 per cent of their pledges; Norway, which has not distinguished its pledge between Gaza and the West Bank, has disbursed an estimated 39 per cent; the rest have disbursed nothing, according to the World Bank. "Economic Monitoring Report", op. cit.

<sup>17</sup> As of late May 2015. "Economic Monitoring Report", op. cit. The World Bank and others have tried to put an optimistic spin on donors' failure to deliver, claiming that 27.5 per cent (\$967 million of \$3.5 billion) of Gaza-specific pledges has been disbursed. But this is misleading. 65 per cent of the "disbursed pledges" concern aid disbursed or committed prior to the conference. The important figure is for new pledges disbursed: 13.5 per cent. Ibid.

<sup>18</sup> Crisis Group interviews, Swiss, EU, U.S. diplomats, aid officials, Jerusalem, December 2014-May 2015.

<sup>19</sup> Ibid.

<sup>20</sup> Crisis Group interview, Jerusalem, January 2015.

ments so long as the PA has not returned to Gaza.<sup>21</sup> The fact is that only one of these two is strictly necessary for Gaza to be rebuilt: reconstruction can theoretically take place with donor aid and no PA presence (if donors were willing to give aid to Gaza directly, bypassing the PA), but reconstruction is impossible with a PA presence and no donor aid. In effect if not intent, donors are continuing to punish Gaza's population for being under Hamas's control.

Even senior PA officials are not convinced the absence of donor aid is the real reason their government refuses to take control of the ministries and crossings in Gaza. Senior leaders say the main issue is that they are being asked to rescue Hamas from its financial crisis without Hamas giving them true authority, including over security.<sup>22</sup> A minister in the national consensus government, appointed by Fatah and involved in Gaza's reconstruction, attributes primary responsibility for the stasis to the Palestinian president's office, which, he said, "has no intention of rebuilding Gaza or taking responsibility for it".<sup>23</sup> This, he said, has been evident since the government of national consensus was formed in June 2014. At that time, too, the PA refused to take over, though the war had not yet occurred, so there was no need for reconstruction funding (but the economy was in dire straits and reconstruction from previous wars had barely begun), and Qatar had reportedly offered to cover the additional salary costs of employees of the former Hamas government whom the PA would need to begin paying.<sup>24</sup>

Thus to many Gazans there is a whiff of hypocrisy in PA accusations that Hamas and Israel are colluding to separate Gaza from the West Bank; given several opportunities to at least partially reverse the separation, the PA has hesitated.

### C. *Coming Apart at the Seams*

As a result of the enormous shortfall in donor funding, conditions in Gaza are the worst since Israel conquered the territory in 1967. Still homeless and living with relatives, in temporary accommodations, or in tents on the sites of their destroyed homes are 17,863 families – 100,000 people – who lost dwellings during the war.<sup>25</sup> For the first ten months, no homes that were totally destroyed were allowed to be rebuilt, as the PA and Israel argued over how much construction material was needed for each

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<sup>21</sup> Crisis Group interviews, Israeli security official, Jerusalem, May 2015; EU officials, Jerusalem, April 2015.

<sup>22</sup> Crisis Group interviews, Fatah Central Committee member, Abbas adviser, Ramallah, April-June 2015.

<sup>23</sup> Crisis Group interview, February 2015.

<sup>24</sup> "Qatar to pay \$60 million for Gaza employees", Middle East Monitor, 14 June 2014. Qatar reportedly transferred "hundreds of millions of dollars" for salaries of employees of the Hamas government in Gaza, but the U.S. blocked payment. "US blocked Qatari funds intended for Hamas employees", *Times of Israel*, 15 July 2014. U.S. officials told Crisis Group the PA opposed payment of employees of the Hamas government by Qatar, and the U.S. was unable to guarantee banks they would not be prosecuted for channelling money to employees of the former Hamas government. They proposed instead that cash be brought into Gaza through the UN, a method used after the war, in October 2014, but said Israel objected to this until its position shifted during the war. "This was one of Israel's major policy shifts caused by the war", an Israeli intelligence official said. Crisis Group interview, Jerusalem, May 2015; see also Crisis Group Middle East Briefing N°39, *Gaza and Israel: New Obstacles, New Solutions*, 14 July 2014.

<sup>25</sup> "Shelter Cluster Factsheet", Shelter Cluster Palestine, August 2015. [www.shelterpalestine.org/Upload/Doc/ca878214-74a5-48b8-870e-d409a4f5aafa.pdf](http://www.shelterpalestine.org/Upload/Doc/ca878214-74a5-48b8-870e-d409a4f5aafa.pdf).

square metre of a new home.<sup>26</sup> During this period, the majority of private-sector businesspersons in Gaza did not know how to access construction materials.<sup>27</sup>

Until mid-June 2015, 5,600 people lived in temporary shelters in UN Relief and Works Agency (UNRWA) schools.<sup>28</sup> An UNRWA deficit threatened to delay the opening of schools for the majority of students.<sup>29</sup> Since only a small fraction of the needed construction materials have entered since the war ended, poor families with partially destroyed homes have resold their materials on the black market for two or three times their cost, to put food on the table or pay rent.<sup>30</sup> An estimated 23 million tonnes of construction materials are needed to repair Gaza and complete infrastructure and other projects begun before the war. Less than 6 per cent of this has come in since the ceasefire,<sup>31</sup> the vast majority of it Qatari donations brought through the Kerem Shalom crossing with Israel, circumventing, until April 2015, what is known as the Gaza Reconstruction Mechanism (GRM) that is meant to enable purchase, use, and

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<sup>26</sup> Crisis Group email correspondence, Tania Hary, Gisha deputy director, 13 August 2015.

<sup>27</sup> Until June 2015, Gaza entrepreneurs said they were forced to buy construction material at inflated prices from the black market, since the only way they knew to register for purchase was to have the UN Development Programme (UNDP) do an initial damage assessment of their home. UN officials said the Gaza Reconstruction Mechanism allowed private purchase, but they disavowed responsibility for informing the public about access. Crisis Group interviews, Gaza entrepreneurs, UN officials, Gaza City, Jerusalem, March-June 2015. In June 2015, two new paths opened. The first was through the economy ministry in Gaza, which offered registration to those who wished to purchase some of the construction materials that entered from Egypt in June 2015 (approximately 24,000 tonnes came via the Rafah crossing, of which 1,150 tonnes were for Qatari projects). "Construction Material Tracking for Gaza", Shelter Cluster Palestine, August 2015. [www.shelterpalestine.org/Upload/Doc/741ec903-0c96-47fa-93ee-e320417e7dc4.pdf](http://www.shelterpalestine.org/Upload/Doc/741ec903-0c96-47fa-93ee-e320417e7dc4.pdf). The economy ministry sold this cement for 800 NIS (\$206.4) per ton, compared to the official Gaza Reconstruction Mechanism price of 560 NIS (\$144.5). As of 23 August 2015, competition between merchants resulted in prices of 540 NIS (\$139.3) per ton at two of the largest sellers in Gaza. Crisis Group interviews, cement sellers, national economy ministry official, Gaza City, 23 August 2015. The ministry has also sold individuals very small quantities of "excess" cement from Qatari projects. According to private businesspersons, the second path that opened in June 2015 was through the Gaza Reconstruction Mechanism. UN officials, however, say this path was always open but that many in Gaza learned of it only then. Crisis Group interviews, Gaza businesspersons, UN officials, Gisha deputy director Tania Hary, Gaza City, Jerusalem, Tel Aviv, August 2015. The scale of private purchases remains very limited. On 6 August 2015, the PA announced that Israel had approved 86 individuals to buy construction materials not related to war damage. "Minister al-Hassaniya Announces a New Batch of Reconstruction Materials", public works and housing ministry.

<sup>28</sup> "Report to the Ad Hoc Liaison Committee", Office of the UN Special Coordinator for the Middle East Peace Process, 27 May 2015.

<sup>29</sup> UNRWA faced a \$101 million deficit, partially covered by August 2015 donations of \$35 million from Saudi Arabia, \$15 million from Kuwait, \$15 million from the UAE; and \$15 million from the United States. On 19 August, UNRWA announced that the last-minute donations would allow the school year to begin on time. "UNRWA to start school year on time", Ma'an News Agency, 19 August 2015. [www.maannews.com/Content.aspx?id=767139](http://www.maannews.com/Content.aspx?id=767139).

<sup>30</sup> Crisis Group interviews, residents and merchants, Beit Hanoun and Shujaiya, March 2015.

<sup>31</sup> "The Gaza Cheat Sheet", Gisha – Legal Center for Freedom of Movement, 9 July 2015. [www.gisha.org/userfiles/file/publications/Info\\_Gaza\\_Eng.pdf](http://www.gisha.org/userfiles/file/publications/Info_Gaza_Eng.pdf). From the end of the war on 26 August 2014 until the end of June 2015, 1.3 million tonnes of construction material entered Gaza through the Kerem Shalom crossing – less than 6 per cent of the needed 23 million tonnes. For updates, see the Gaza Reconstruction Mechanism website: <http://grm.report>. According to the Israeli NGO Gisha, "only 21 per cent of the construction materials that have entered the Gaza Strip so far are designated for private use to repair damages incurred during Operation Protective Edge, while the rest entered for international organisations or projects funded by Qatar".

monitoring of construction materials and is managed jointly by Israel, the UN and the PA.<sup>32</sup>

Gisha, a leading Israeli NGO that focuses on Gaza, recently called for the GRM to be abolished: “One year after Operation Protective Edge, it seems it’s time to put the GRM to rest. Not only has it slowed down reconstruction and made it more expensive in a context short on resources, even the military has admitted that despite the GRM, construction materials are sold on the black market and there is evidence of new tunnels being built.”<sup>33</sup>

Gaza now has the highest unemployment of any economy in the world, at 41.5 per cent overall and over 58 per cent for youths.<sup>34</sup> 80 per cent of the population relies on donor aid; 39 per cent is below the poverty line. Even before the war, 57 per cent was “food insecure”.<sup>35</sup> The once important manufacturing sector has shrunk by 60 per cent. A third of the agricultural area was destroyed in the war. A functioning economy requires exports, which today are virtually non-existent, approximately 5 per cent of GDP.<sup>36</sup> In 2005, the year of Israel’s disengagement from Gaza and the year prior to Hamas’s legislative election victory and the abduction of Israeli corporal Gilad Shalit, 9,319 truckloads of goods left Gaza, mostly to Israel and the West Bank.<sup>37</sup> In 2014, 136 truckloads went abroad and 92 to the West Bank.<sup>38</sup>

Unions are striking, the health sector is collapsing, and at its current pace, the barely commenced reconstruction of war damage (2014’s and previous) will require

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<sup>32</sup> Since around April 2015 and following meetings between Qatari and Israeli officials, Qatar’s donations have been channelled through the Gaza Reconstruction Mechanism. Crisis Group email correspondence, Gisha deputy director Tania Hary, 16 August 2015. According to Gisha, “since the ceasefire, from August 26 [2014] until the end of February 2015, 462,926 tonnes of construction material entered the Strip .... 15 per cent entered as a part of the mechanism ..., while the rest entered for international organisations or projects funded by Qatar”. “The Gaza Cheat Sheet”, 30 March 2015. In June, 487 truckloads of construction materials entered through the Rafah crossing with Egypt. “Gaza Crossings’ Operation Status: Monthly Update”, UN Office for the Coordination of Humanitarian Affairs (OCHA), June 2015.

<sup>33</sup> “Where’s the housing boom?”, Gisha – Legal Center for Freedom of Movement, August 2015. [www.features.gisha.org/wheres-the-housing-boom](http://www.features.gisha.org/wheres-the-housing-boom).

<sup>34</sup> “Labour Force Survey, Q2 – 2015”, Palestinian Central Bureau of Statistics, 6 August 2015. [www.pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_Ar\\_Arabic%20press.pdf](http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_Ar_Arabic%20press.pdf). Previous figures were slightly higher: overall unemployment, 43 per cent; youth unemployment, over 60 per cent. “Economic Monitoring Report”, op. cit.

<sup>35</sup> “The Gaza Cheat Sheet”, Gisha – Legal Center for Freedom of Movement, 30 March 2015. Food insecurity is defined as lacking reliable access to a sufficient quantity of affordable, nutritious food. This includes inability to access such food due to poverty, even when there are no food shortages. A June 2014 press release of the UN Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) states: “In Palestine, food insecurity is driven by high rates of poverty resulting from unemployment, which is in part due to ongoing Israeli access and movement restrictions, as well as high prices for food and economic shocks. Food is available in markets, but expensive, so households reduce the variety and nutritional value found in their diet. The majority of Palestinians in the Gaza Strip and the West Bank spend more than half their income on food”. “Food Insecurity in Palestine Remains High”, 3 June 2014.

<sup>36</sup> “Economic Monitoring Report”, op. cit.

<sup>37</sup> Gaza’s main products for export abroad and sale in Israel and the West Bank were furniture, textiles and agricultural products. “A costly divide: Economic repercussions of separating Gaza and the West Bank”, Gisha – Legal Center for Freedom of Movement, February 2015. [www.gisha.org/UserFiles/File/publications/a\\_costly\\_divide/a\\_costly\\_divide\\_en-web.pdf](http://www.gisha.org/UserFiles/File/publications/a_costly_divide/a_costly_divide_en-web.pdf).

<sup>38</sup> “Gaza Crossings Activities Database”, UN OCHA, 2015.

decades.<sup>39</sup> Electricity shortages are chronic, with blackouts of twelve to sixteen hours per day (typically eight hours on, eight off, though it is now worsening).<sup>40</sup> Widespread use of generators, far more expensive than power-company electricity, has resulted in increasing burns and electrical shocks.<sup>41</sup> Electricity shortages affect water supply, wastewater treatment, agriculture and health services.<sup>42</sup> Only 60 per cent of homes are connected to sewerage; the vast majority of waste is untreated, with 100 million litres dumped in the sea daily. 95 per cent of the water from Gaza's aquifer, which will soon be unusable, is unfit for humans, and one third of residents have access to water only six to eight hours every four days.<sup>43</sup> Water-related diseases account for over one fourth of illnesses and are the primary cause of child morbidity.<sup>44</sup> For the first time in five decades, the infant mortality rate has started to rise.<sup>45</sup>

#### D. *Fraying Security Threatens a Fragile Ceasefire*

Lawlessness and criminality have spread. Bombs have been placed in front of the homes and offices of Fatah leaders. Fights within Fatah – many between supporters of President Abbas and former Gaza Preventive Security chief Muhammad Dahlan – have occurred in the universities and streets.<sup>46</sup> Ministers and other PA government officials have received death threats. In January, ATMs and cameras belonging to the Bank of Palestine, through which most payments to the mostly Fatah-affiliated employees of the pre-2007 government are made, were sabotaged, and Hamas issued, but did not carry out, a threat not to allow those employees to collect their salaries from the banks.<sup>47</sup>

Boys and young men are eagerly joining the Qassam Brigades, Hamas's military wing and one of Gaza's only growth sectors. Desperate families knowingly risk their lives to escape with the help of maritime smugglers in Egypt, at whose hands hundreds of Palestinians have died since August 2014. Others risk death by crossing the

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<sup>39</sup> See, "Charting A New Course: Overcoming the stalemate in Gaza", Association of International Development Agencies, 13 April 2015.

<sup>40</sup> "The Humanitarian Impact of Gaza's Electricity and Fuel Crisis", UN OCHA, July 2015.

<sup>41</sup> Dr Mads Gilbert, "Brief report to UNRWA: The Gaza Health Sector as of June 2014", 3 July 2014, p.8. [www.unrwa.org/sites/default/files/final\\_report\\_-\\_gaza\\_health\\_sector\\_june-july\\_2014\\_-\\_mads\\_gilbert\\_2.pdf](http://www.unrwa.org/sites/default/files/final_report_-_gaza_health_sector_june-july_2014_-_mads_gilbert_2.pdf).

<sup>42</sup> Water desalination plants have reduced operation levels; agricultural land is at risk of drought due to an inability to use wells operated with electricity; and hundreds of machines at hospitals are out of order. UN OCHA, "The Humanitarian Impact", op. cit.

<sup>43</sup> "Economic Monitoring Report", op. cit. The UN estimated the aquifer will become unusable in 2016. "Gaza 2020: A Liveable Place?", UN Country Team, occupied Palestinian territory, 2012.

<sup>44</sup> "Protecting Children from Unsafe Water in Gaza: Strategy, Action Plan, and Project Resources", UNICEF, March 2011. According to an Israeli human rights organisation, "the Palestinian Water Authority estimates that almost 40 per cent of the incidence of disease in Gaza is related to polluted drinking water". "Water supplied in Gaza unfit for drinking; Israel prevents entry of materials needed to repair system", B'Tselem, 23 August 2010, [www.btselem.org/gaza\\_strip/20100823\\_gaza\\_water\\_crisis](http://www.btselem.org/gaza_strip/20100823_gaza_water_crisis). In 2009, UNICEF said, diarrhoea caused 12 per cent of Gaza's infant and young child deaths. "Protecting Children", op. cit.

<sup>45</sup> "Infant Mortality Rate Rises in Gaza for First Time in Fifty Years", UNRWA, 8 August 2015.

<sup>46</sup> Crisis Group observations, Gaza City, January 2015.

<sup>47</sup> "Explosions rock Gaza banks", *Middle East Eye*, 9 January 2015. Most of the pre-2007 Fatah-affiliated employees had been ordered by the PA to stay home or lose their salaries, in an effort to weaken and topple the Hamas government.

heavily fortified border into Israel, in the hope of finding work or sometimes a jail cell with regular meals and a bed.<sup>48</sup>

Salafi-jihadi groups are growing and emboldened. They do not threaten Hamas rule but do challenge it politically and ideologically, while tearing at Gaza's social fabric and undermining the internal security that is among Hamas's core achievements.<sup>49</sup> They have attacked hair salons and symbols of Western influence, such as the French Cultural Centre, as well as Hamas government facilities and military personnel. In May, they threatened further attacks against Hamas.<sup>50</sup> In response, Hamas conducted a large arrest campaign and put up dozens of temporary checkpoints throughout Gaza; in some parts of Gaza City, Crisis Group staff observed four in an area of no more than several blocks.<sup>51</sup> On 19 July, unknown militants set off bombs targeting five cars belonging to members of the armed wings of Islamic Jihad and Hamas.<sup>52</sup>

Tensions between Hamas and Salafi-jihadi groups threaten to further erode the ceasefire via the old pattern of a trickle of Gaza-based rocket launches from non-Hamas militants and Israeli retaliatory strikes at Hamas facilities and personnel. In the first seven months of 2015, two Palestinians were killed and 52 injured in Gaza by Israeli forces, mostly from Israeli strafing at individuals approaching the "buffer zone" along the border or at boats approaching the Israeli-imposed limit of six nautical miles from shore.<sup>53</sup> On 2 June, Hamas killed a Salafi-jihadi leader suspected of involvement in recent bombings in Gaza; in retaliation, a Salafi-jihadi group claiming affiliation to the Islamic State (IS) fired four rockets toward Israel, two of which fell within Gaza, and unidentified assailants set off an IED near the Gaza City pier.<sup>54</sup> It was the second set of rockets fired toward Israel in little over a week.<sup>55</sup> In both cases Hamas arrested the perpetrators and disavowed responsibility, while Israel retaliated against several targets, including some belonging to Hamas.

A Hamas leader with close ties to the military wing said, "anyone who has a problem with his faction can fire a rocket at Israel in order to express his dissatisfaction. We're trying to do what we can to stop it, but the militants keep asking us why they should hold their fire when the blockade is still in place".<sup>56</sup>

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<sup>48</sup> Crisis Group interviews, Beit Hanoun and Shujaiya residents, March 2015.

<sup>49</sup> For background, see Crisis Group Middle East Report N° 104, *Radical Islam in Gaza*, 29 March 2011.

<sup>50</sup> The Islamic State in Sinai vowed to attack Hamas and its military wing in Gaza, as well the Israeli port of Eilat. See "Report: ISIS-linked terrorists in Sinai threaten to strike Eilat port", *The Jerusalem Post*, 28 May 2015.

<sup>51</sup> Crisis Group observations, Gaza City, Beit Lahiya, Nusseirat, Deir el-Balah, Khan Younis and Rafah, May 2015.

<sup>52</sup> "Car bombs target Hamas, Islamic Jihad armed wings in Gaza", Ma'an News Agency, 19 July 2015.

<sup>53</sup> "Protection of Civilians 28 July-3 August 2015", UN OCHA, 7 August 2015.

<sup>54</sup> "Gunman killed in clashes with Hamas security in Gaza City", Ma'an News Agency, 2 June 2014. "Israeli jets strike 4 targets in the Gaza Strip", Ma'an News Agency, 4 June 2015.

<sup>55</sup> Another rocket was fired from Gaza on 16 July. "Israel Strikes Gaza After Rocket Fire", Associated Press, 16 July 2015. On 1 August, two rockets were fired from Gaza, but no rockets were found in Israel. On 7 August, several rockets were fired from Gaza, one landing in Israel, which retaliated, injuring four Gazans. "IDF strikes Hamas target in Gaza after rocket attack", *Times of Israel*, 7 August 2015.

<sup>56</sup> Crisis Group interview, Gaza City, July 2015.

### E. *Abandoned by Egypt*

Egypt's policy toward Gaza changed dramatically after the July 2013 overthrow of President Mohamed Morsi, long-time leader of the Muslim Brotherhood, Hamas's parent organisation. Morsi's successor, Abdelfattah el-Sisi, pursued a campaign against the Muslim Brotherhood in Egypt that extended to Hamas in Gaza, accusing Hamas of interfering in Cairo's domestic affairs by supporting the Brotherhood and Sinai-based Salafi-jihadi groups like Ansar Bayt al-Maqdis, most of whose members declared allegiance to IS in November 2014.<sup>57</sup> Hamas denies it cooperates with Sinai-based Salafi-jihadi groups.<sup>58</sup> Egypt closed tunnels to Gaza, levelled Sinai communities bordering it, began to shut the Rafah crossing,<sup>59</sup> cut ties with Hamas and threatened to topple it, then supported Israel during the war.<sup>60</sup>

For many years Egypt had been the main portal for Gazans to reach the outside world (far fewer, mostly merchants and medical patients, left via Israel). In 2012, 420,000 transited through the Rafah terminal – the sole border crossing between Egypt and Gaza. In the first five months of 2015, only 6,800 people (26 times fewer per month) did so.<sup>61</sup> In February and April, none at all crossed. After two attacks on Egyptian security forces in Sinai on 24 October 2014, Rafah was open for only fifteen days in the next seven months, and on several of those only for entrance into Gaza, not exit.<sup>62</sup> In late May and mid-June, Egypt opened the crossing for several days but has kept it mostly shut since a large Salafi-jihadi attack in Sinai on 1 July. An Egyptian official said that, despite Saudi requests to ease pressures on Gaza, the crossing would remain mostly closed for the foreseeable future.<sup>63</sup> Egypt has succeeded in pushing responsibility for Gaza entirely onto Israel, through which all Gazan goods and nearly all persons now travel.

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<sup>57</sup> "After joining IS, Ansar Bayt al-Maqdis expands in Egypt", Al-Monitor, 1 December 2014. The group said it was forming an IS province, Wilayat Sinai.

<sup>58</sup> A Palestinian analyst in Gaza said that while Hamas is actively fighting Salafi-jihadis there, it could not afford to ignore Salafi-jihadis in Sinai, since they are growing in influence and control smuggling routes on which Hamas depends. Crisis Group interview, Gaza City, June 2015.

<sup>59</sup> In June 2013, President Morsi's last month in office, the Rafah crossing was open every day. After President Sisi took over in early July, it slowly shut down. The crossing was open 22 days in July, eighteen in August; fourteen in September, fifteen in October, ten in November, eight in December and six in January 2014. "Rafah Crossing: Movement of people into and out of Gaza", UN OCHA, [www.ochaopt.org/gazacrossing/index.aspx?id=2](http://www.ochaopt.org/gazacrossing/index.aspx?id=2).

<sup>60</sup> After crushing the Muslim Brotherhood in Egypt, a senior Egyptian security official said, "Gaza is next .... We cannot get liberated from the terrorism of the Brotherhood in Egypt without ending it in Gaza, which lies on our borders". "Exclusive: With Muslim Brotherhood crushed, Egypt sets sights on Hamas", Reuters, 14 January 2015.

<sup>61</sup> Figures available at "Rafah Crossing: Movement of people into and out of Gaza", UN OCHA.

<sup>62</sup> "Report to the Ad Hoc Liaison Committee", op. cit.

<sup>63</sup> An Egyptian official said, "it's understandable that Saudi Arabia wants to use Hamas to build a Sunni coalition and serve as a bridge to Islah in Yemen. But not at the expense of Egyptian national security". Crisis Group interview, Cairo, 3 August 2015. A Hamas official said Egypt promised to open the crossing again for several days in August and then in September for the annual Islamic pilgrimage to Mecca. Crisis Group interview, Gaza City, 10 August 2015. On 17 August, Egypt opened Rafah for four days. "Egypt Opens Rafah Crossing with Gaza for 4 Days on Monday", Wafa News Agency, 17 August 2015. On the third day, masked men in Sinai boarded a bus that had departed Gaza and abducted four members of Hamas's military wing. "Four Palestinian Hamas militants abducted in Egypt's Sinai: sources", Reuters, 20 August 2015. A member of Hamas's military wing said the bus had been escorted by Egyptian soldiers, who either failed to stop the attack or were part of it. Crisis Group interview, Gaza City, 21 August 2014.



Gaza-Sinai tunnels are nearly all closed, causing an enormous financial crisis for Hamas. In an effort to prevent new tunnels, the Egyptian army has razed the Sinai part of Rafah, replacing it with a buffer zone and relocating its population, many of whom have relatives in Gaza. The goods that flowed through these tunnels had provided tax revenues from which Hamas paid government salaries and operating costs from 2007 to 2013. Since the near-total closure, Hamas has struggled to pay these.<sup>64</sup> Unable to find a way out of the impasse, Hamas sought to relinquish responsibility for the government and its budget, but the new government of national consensus refused this after it was formed in June 2014.<sup>65</sup> With the vise around Gaza tightening and Hamas unable to shed governing responsibility, there was no longer an argument to keep a ceasefire in the hope that the PA or the international community would resolve Gaza's problems. This was a major cause of the war a month later, Israeli officials now acknowledge.<sup>66</sup>

With the tunnels closed, Israel giving the PA all taxes it collects on goods entering Gaza, and the PA refusing responsibility for post-2007 Gaza employees, Hamas has struggled to find the money to keep the government running. What it collects from "top-off" taxes – secondary import taxes on goods already taxed by the PA<sup>67</sup> – has always been a small fraction of budget needs.<sup>68</sup> Additional revenue has come from fees on shipments of certain categories of goods.<sup>69</sup> Proposals for new taxes and fees have met widespread complaints, resulting in either retraction, as with those temporarily imposed on new cars in 2012, or non-implementation, as with an April 2015 draft law for a "solidarity tax" on high-earning businesses.<sup>70</sup> Revenues from existing

<sup>64</sup> Egypt began shutting some of these tunnels before President Sisi, but the vast majority did not cease to be operational until then.

<sup>65</sup> For background, see Crisis Group Middle East Report N°149, *The Next Round in Gaza*, 25 March 2014, and Briefing N°42, *Toward a Lasting Ceasefire in Gaza*, 23 October 2014.

<sup>66</sup> Nathan Thrall, "Hamas's Chances", *London Review of Books*, 14 August 2014. An Israeli official in the prime minister's office said: "We're aware that the salary issue was a major precipitant of the war. Some called it 'harb al-rawatib' [the war of the salaries]". Crisis Group interview, Jerusalem, May 2015.

<sup>67</sup> Hamas finance ministry officials say they began collecting secondary taxes on goods coming from Israel in 2011. This intensified after many tunnels were closed in July 2013, when Egyptian President Sisi came to power. Crisis Group interviews, Gaza City, March-August 2015.

<sup>68</sup> Goods subject to such "top-off" taxes include clothes, shoes, diapers, stationary, food items, sanitary and plumbing tools, building tools, cleaning materials, perfumes and makeup, electrical appliances and computer supplies. Crisis Group interviews, finance ministry officials, Gaza City, March-May 2015. Hatem Oweida, Gaza's deputy economy minister, said, "the only tax the Gaza government takes at the crossing is what we call 'talia' (top-off) tax. This means someone comes with an invoice, and we feel the invoice is fake or inaccurate [so grossly underestimates the value]. Let's say someone brings a container of clothes and says it is worth only \$3,000 dollars, and it is clear that it is worth \$20,000. So we do an estimate and calculate the difference, thus 'top-off' the tax. We don't do this on essential products – flour, cooking oil, salt, oil. We take it only on non-essential products, where there is something wrong with the invoice". Crisis Group interview, Gaza City, March 2015. In March, a finance ministry employee said Hamas collected only \$800,000 per month in top-off taxes, and approximately \$8.2 million per month in all taxes, fees, customs duties, traffic tickets, licenses and insurance payments combined. Crisis Group interview, Gaza City, March 2015. In July, the same official estimated that total income from taxes and fees had risen to \$9-10 million. Crisis Group interview, Gaza city, July 2015.

<sup>69</sup> Crisis Group interview, Gaza finance ministry official, Gaza City, 6 August 2015.

<sup>70</sup> Finance ministry officials say they have not yet worked out the mechanism by which the "solidarity tax" will be imposed. Crisis Group interviews, Gaza City, May 2015. Some Gaza merchants and food vendors have raised their prices, falsely claiming this was due to the tax, which in any case is

taxes collected within Gaza and secondary taxes imposed on goods already taxed by the PA have been insufficient to pay full salaries. As a result, since August 2013, employees hired by the Hamas government have received sporadic, partial payments ranging from one third to one half their salaries, with the largest reductions going to the highest paid.<sup>71</sup>

#### F. *Israel's Slight Relaxation of the Blockade*

Recognising its increased responsibility for Gaza, need to prevent or delay another war and the unlikelihood of Egypt or the PA improving Gaza's conditions, Israel has begun to relax aspects of the closure regime, allowing more imports, exports and exit permits, but still far less than ten or fifteen years ago.<sup>72</sup> In the first half of 2015, there were 13,826 exits of Gazans per month to Israel (58 per cent of them merchants; 18 per cent medical patients and companions); in 2000, when Israel was in full control of Gaza, the number exiting to Israel per month was 780,000, more than 56 times greater than current levels.<sup>73</sup> Israel is now working on expanding its sole crossing point with Gaza for commodities, the Kerem Shalom terminal, to compensate for the commodities crossings that were permanently closed over the past several years.<sup>74</sup>

Israel's efforts to slowly improve exports, imports and freedom of movement for Gazans reflect an understanding, particularly on the part of the Israel Defence Forces (IDF) and the Coordinator of Government Activities in the Territories (COGAT), that economic conditions must be improved to forestall a new conflagration.<sup>75</sup> Israel has cooperated directly with Qatar to facilitate Qatari reconstruction projects and permitted it to make a one-time payment, in October 2014, to a portion of the employ-

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meant to target large companies with sales of over \$1 million per year, such as banks and the main cellular phone provider. "Hamas imposes new taxes to meet payroll dues", Al-Monitor, 29 April 2015. A conflict between Hamas tax collectors and the main cell phone company, Jawwal, was resolved in July 2015. Jawwal had refused to pay taxes to the Hamas government commensurate to taxes in Ramallah. Crisis Group interview, Jawwal employee, Gaza City, July 2015. In June 2015, dealers refused to pick up cars imported from Israel unless Hamas revoked a re-imposed 25 per cent import tax. Hamas compromised, waiving that tax on all cars registered prior to June 2015. All cars imported to Gaza from Israel are registered in Ramallah. Crisis Group interview, Gaza Car Dealers' Association member, Gaza City, July 2015.

<sup>71</sup> According to a Gaza finance ministry official, between August 2013 and January 2015, employees of the post-2007 Gaza government received the following percentage of their salaries per month: those making 1,500 NIS (\$388), 56.5 per cent; 2,000 NIS (\$517), 45 per cent; 3,000 NIS (\$775), 39 per cent; 4,500 NIS (\$1,164), 35 per cent; 5,500 NIS (\$1,423), 35 per cent; and 8,000 NIS (\$2,069), 35 per cent. Crisis Group interview, Gaza City, March 2015. According to a PA finance ministry official, the average monthly salary for PA employees in the West Bank is 3,600 NIS and that of employees of the former Hamas government in Gaza is 2,200 NIS. Crisis Group interview, Ramallah, August 2015.

<sup>72</sup> "Entrance of goods to Gaza from Israel", Gisha – Legal Center for Freedom of Movement, [www.gisha.org/graph/2387?datares=monthly](http://www.gisha.org/graph/2387?datares=monthly).

<sup>73</sup> The six-month total was 82,954. "Exits of Palestinians to Israel and the West Bank via Erez Crossing", Gisha – Legal Center for Freedom of Movement, [www.gisha.org/graph/2392?year-select=2015&month-select=1](http://www.gisha.org/graph/2392?year-select=2015&month-select=1).

<sup>74</sup> They were Nahal Oz (fuel), closed in January 2010; Karni, closed in June 2007; and Sufa, closed in September 2008.

<sup>75</sup> Crisis Group interviews, Israeli security officials, Jerusalem, Tel Aviv, January, April 2015.

ees of the post-2007 ( Hamas ) government.<sup>76</sup> But these steps do not address the fundamental problem of providing a stable source of revenue to the acting government in Gaza; are insufficient to restore the economy, the per capita GDP of which is lower than twenty years ago; and leave the vast majority of Gazans trapped, without access to the outside world. Until these issues are resolved, Gaza is more likely to undergo renewed conflict than not.

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<sup>76</sup> Some 23,000 in all ministries, except the interior ministry's non-administrative employees, received \$1,200 each. "Qatar offers cash to pay some staff in Gaza Strip", *The New York Times*, 28 October 2014.

### III. The Logic of War and Deterrence

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Since the PA lost control of Gaza in June 2007, Israel and Hamas have engaged in numerous short escalations and three major confrontations, in the last of which, the longest and bloodiest, over 2,250 Palestinians died (1,462 of whom, the UN found, were civilians), as did 71 Israelis (66 of them soldiers).<sup>77</sup>

During those eight years, Israel and Hamas have pursued irreconcilable goals. Israel sought to deter Hamas from attacking it or letting others do so, and to prevent the movement from increasing capabilities, the primary declared goal of the blockade. Hamas sought to maintain its grip on power, strengthen its military capabilities and inflict higher costs on Israel in each successive conflict. The record shows that in the years leading up to the 2014 war, Hamas, far from being deterred or prevented from growing stronger, prepared for and fought larger and larger conflicts with Israel, while its capabilities and its threat to Israeli life and property, steadily increased. Those capabilities may be weaker today than at the outset of the 2014 war, though the head of Shin Bet, the Israel Security Agency, stated in July that Hamas had already rebuilt many of its capabilities, including new rockets and tunnels leading into Israel, and could wage a significant new war.<sup>78</sup> Unless Israel and Hamas change their strategies, this pattern of blockade and recurrent war, with casualties on both sides mounting, is set to continue.

As after past battles, Hamas has spent the last year rebuilding its military capabilities, including manufacturing, in Gaza, longer-range, more accurate, rockets that it has been test-firing into the sea nearly every other day.<sup>79</sup> If and when a new war breaks out, the significant capabilities on each side mean that if it is a long one, it could be more costly for both than the last. In 2014, Israel launched a ground incursion that barely penetrated Gaza's densely populated regions, hardly extending past

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<sup>77</sup> In addition, a migrant worker from Thailand was killed in Israel. A UN commission of inquiry into the Gaza war found that of the 1,462 Palestinian civilians who died, 299 were women and 551 were children. "Report of the detailed findings of the independent commission of inquiry established pursuant to Human Rights Council resolution S-21/1", UN Office of the High Commissioner for Human Rights, 24 June 2015, p. 153. Two soldiers whose bodies are missing were declared dead by Israel. After the war, two additional Israeli citizens entered Gaza and have not returned. Israel has sought to negotiate their release and the release of what it says are the remains of the two soldiers declared dead, but has been unwilling to meet Hamas's demand that it first free a number of prisoners who were released in the 2011 exchange agreement involving Gilad Shalit but then rearrested and in some instances resented. Israel says a number violated the terms of their release, but others may have been swept up in the broader campaign against Hamas in the West Bank following the murder of three Israeli citizens in the West Bank in June 2014. Crisis Group interviews, Jerusalem, May 2015.

<sup>78</sup> "Shin Bet chief: Hamas gearing up for next round with Israel", *Times of Israel*, 1 July 2015. The same day, Hamas leader Ismail Haniyeh said Hamas was stronger than in 2014. "Hamas chief says armed wing 'stronger' now than during Gaza war", *Times of Israel*, 1 July 2015.

<sup>79</sup> Hamas claims to firewall funds for the government and for Gaza's population from money spent for military purposes. Crisis Group interviews, senior leaders, Gaza City, March, June 2015. An IDF spokesperson said, "it's unfortunate that the Hamas regime chooses to invest its resources in terror rather than the welfare of the people of Gaza". An article on the official IDF blog states: "During Operation Protective Edge, the IDF destroyed 32 tunnels. If each tunnel cost around \$3 million, that means Hamas spent almost \$100 million on its vast tunnel network. Each tunnel Hamas built robbed the Palestinian people of potential homes, mosques, schools and medical clinics. Even today, Hamas continues to invest millions of dollars in restocking and rebuilding its weapons cache rather than investing in Gaza". "What's the worst way to spend 3M\$? Ask Hamas", 2 July, 2015.

the agricultural areas that abut the border, and still lost 66 soldiers. The towns and neighbourhoods that suffered the greatest destruction were those adjacent to agricultural lands near that border: Beit Hanoun, Shujaiya, Khuza'a and al-Qararra. Had Israel gone deeper into Gaza, into its central neighbourhoods, as it did during the first major conflict in Gaza during the Hamas era, the 2008-2009 war, casualties would have been far higher on each side.

Israel may yet do so, but its security establishment has indicated it very much prefers to avoid this. Its goal is to deter, not topple Hamas, because it fears the absence of any government more.<sup>80</sup> Thus most officials state that in the next round, unless an attack causes major civilian casualties, perhaps due to failure of the Iron Dome rocket-defence system, Israel is unlikely to reoccupy Gaza – for the same reason the army argued against that in 2014, namely the lack of any viable exit strategy other than returning the territory to Hamas. It believes the PA and Fatah are too weak to wrest lasting control from Hamas and stay in power and that international forces would likely do no better.<sup>81</sup> In the words of the outgoing head of the IDF southern command, responsible for Gaza, “there is no substitute for Hamas as sovereign in the Strip. The substitute is the IDF and chaotic rule ... and then the security situation would be much more problematic”.<sup>82</sup>

Though the army's professional recommendation is unlikely to change, a minority opinion in the government may not rule out reoccupying Gaza.<sup>83</sup> An official noted that at several points during the 2014 war, Prime Minister Benjamin Netanyahu did not believe he had a majority for his plans in the security cabinet – several members sought stronger action against Hamas – so did not convene it, including when Israel approved the final ceasefire.<sup>84</sup>

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<sup>80</sup> An official in the Israeli prime minister's office stated: “One thing that was very clear from the last war and also before it was that Israel's policy is to deter Hamas. Embedded in that word deter is, first, that you are not attempting to destroy the other party, and, second, that you have an interest in them not just surviving but governing, in order to have more to lose from a confrontation. Israel is not seeking to get rid of Hamas in Gaza. We are seeking to deter it. If Hamas collapses in Gaza, that would be a big problem for us”. Crisis Group interview, Jerusalem, May 2015. Hamas leaders share this assessment of Israel's intentions and are dismissive of the possibility that Israeli domestic politics could drive a decision to topple it, against the army's recommendation. Crisis Group interviews, Gaza City, December 2014, February-April 2015.

<sup>81</sup> An Israeli intelligence official said, “I don't think there will be reoccupation in the next war. Maybe going a bit deeper into Gaza, I could see that. The options after reoccupation exist on paper – an international protectorate, putting the PA there – but in reality there is no way to implement them. So that is going to win the argument at the end of the day”. Crisis Group interview, Jerusalem, May 2015. Officials from the foreign and defence ministries and the prime minister's office all emphasised, however, that a high number of civilian casualties would change the calculus. Crisis Group interviews, Jerusalem and Tel Aviv, January-May 2015. An official in the prime minister's office said, “if there is a new war, I think the position of the defense establishment [against reoccupation] will again prevail. With one caveat: unless Hamas does major damage to civilian life in Israel – hitting a school or a hospital – in which case I think the military's professional position will become untenable. So the conclusion Hamas has to draw from that is that if they want to survive, they need to make sure that they do not do major, unexpected damage to civilian targets that Iron Dome does not stop”.

<sup>82</sup> “Israeli general sees common interests with Hamas”, Reuters, 12 May 2015.

<sup>83</sup> Crisis Group interviews, Israeli security officials, Jerusalem and Tel Aviv, April-May 2015.

<sup>84</sup> Crisis Group interview, Tel Aviv, April 2015. For example, then-Foreign Minister Avigdor Lieberman called for overthrowing Hamas. “Lieberman: Topple Hamas and give UN control over Gaza”, *The Times of Israel*, 4 August 2014.

In a future war, particularly one in which residents of border communities are evacuated, as is now planned for towns within 7km of Gaza, politicians may be particularly sensitive to the argument that Operation Protective Edge failed to meet Israel's objectives. There could be a slippery slope toward reoccupation, with an initial phase of partial reoccupation of strategic points within Gaza, or a full ground invasion aimed at eradicating all Hamas's tunnels and most of its rockets and rocket-production facilities.<sup>85</sup> The Israeli public – 85 per cent of which supported continued ground operations, according to a poll conducted three weeks into the war – does not want to undergo cycles of sustained rocket fire every few years.<sup>86</sup> On the other hand, it has not yet held its politicians to account for failing to live up to their pledges to destroy Hamas.

In Gaza, too, there is considerable war weariness. Many residents profess readiness for a new conflict but in the same breath ask, with evident concern, whether one is coming.<sup>87</sup> That the population wishes to avoid war is not lost on the territory's rulers, who have faced high dissatisfaction as reconstruction has stalled. Hamas officials have repeatedly stated that they wish to stabilise the ceasefire, reflecting recognition that the public desires it and that under present circumstances a new war is unlikely to change much. Several have proposed a potentially renewable ceasefire of several years, during which economic life would be normalised and dependency on Israel reduced by connecting a floating pier to a new port in Cyprus.<sup>88</sup> In practice, however, even if a port for Gaza were constructed, as Israel agreed to in Oslo and the 2005 Agreement on Movement and Access, general dependence on Israel would likely remain great.<sup>89</sup>

The idea of an extended ceasefire has received considerable media attention, but so far there is more smoke than fire. The Israeli government has done little to advance substantive discussions of a more stable arrangement, as called for in the 26 August 2014 ceasefire understandings.<sup>90</sup> It has chosen instead, as discussed above, to take unilateral steps to ease the closure regime. Though these are important and may buy some extension of the calm, they are very unlikely to provide true stability to Gaza and its government. Hamas will not consider a several-years-ceasefire in exchange for small increases in exports and imports.<sup>91</sup>

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<sup>85</sup> "How Israel plans to evacuate Gaza border towns during next war with Hamas", *The Jerusalem Post*, 23 May 2015. Crisis Group interview, Israeli security official, Jerusalem, April 2015.

<sup>86</sup> Ephraim Yaar and Tamar Hermann, "85% of the public supports continuing limited ground operations", *Walla! News* (Hebrew), 29 July 2014.

<sup>87</sup> Crisis Group interviews, residents, workers and merchants, Gaza City, Beit Hanoun and Shujaiya, March-April 2015.

<sup>88</sup> Repeated expressions of interest in such an arrangement by officials at the highest level, including the political bureau and figures known to be very close to the military wing, have so far met Israeli rejection. Crisis Group interviews, Beit Lahiya, Gaza City, December 2014-May 2015.

<sup>89</sup> The economy has long been heavily dependent on Israel, particularly for sale of furniture, textiles and agricultural produce. To maximise growth, Gaza needs increased links to the large Israeli economy.

<sup>90</sup> Several government officials and army officers express personal interest in a more stable ceasefire, including by opening an internationally supervised Gaza-Cyprus sea corridor, but they do not reflect a government position or have a mandate to produce a policy shift. Crisis Group interviews, Jerusalem, Tel Aviv, April-May 2015. Self-appointed mediators' efforts (see below) are only exploratory. Crisis Group interviews, Hamas officials, Gaza City, August 2015.

<sup>91</sup> Crisis Group interviews, Hamas political bureau member, Gaza political bureau member, Gaza City, December 2014 and February 2015.

For the time being, neither side is interested in a new confrontation. Hamas needs time to rebuild and improve its capabilities. It awaits a change in regional circumstances that could allow a new war to deliver achievements that the last one did not. Gaza's population needs a respite from war and blockade. Israel is not now sufficiently threatened by Hamas to launch a preventive war, and the difficulties Hamas faces in smuggling in weapons give it a sense of reduced pressure compared to earlier periods of virtually unrestricted weapons trafficking.<sup>92</sup>

As importantly, neither side has reason to believe a new war would have a different outcome.<sup>93</sup> Conditions in the region have not changed substantially. Egypt is only more hostile toward Hamas and would not oppose an Israeli war against it, even one aimed at toppling the movement and reoccupying Gaza.<sup>94</sup> The PA has no more intention of taking over Gaza than it did in 2014. As then, it would oppose Israel making large concessions it fears would prolong Hamas rule.<sup>95</sup> Qatar and Turkey would likely offer diplomatic support but probably again be unable to bypass Egyptian mediation and help Hamas achieve a ceasefire on terms it desires.<sup>96</sup> Israel and the international community would almost certainly continue to oppose direct relations with Hamas, an end to the blockade not premised on disarmament or steps that would significantly stabilise its power.<sup>97</sup>

But though a new war may not be imminent, it is likely if policies do not shift. Regional dynamics are in flux and could change incentives and disincentives. Events in Jerusalem and the West Bank could trigger attacks from Gaza, as before the last war. There is constant risk of error. Hamas's control over other armed groups in Gaza is not total. West Bank tensions – including, ominously, a massive arrest campaign against Hamas, as in the month prior to the 2014 war – could spill over into Gaza.<sup>98</sup> Islamic Jihad has threatened to break the ceasefire if a Palestinian prisoner on hunger strike should die in custody.<sup>99</sup> In December, a non-Hamas militant fired his weapon in the direction of Israeli soldiers near Israel's side of the border fence, injuring one, and the army retaliated by killing a nearby Hamas commander responsi-

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<sup>92</sup> A security official said, "... that there is no smuggling now gives us freedom to do more for Gaza with relatively little risk. If Hamas were smuggling a great deal, ... we would have to go to war much sooner to raze their capabilities". Crisis Group interview, Jerusalem, May 2015.

<sup>93</sup> Crisis Group interviews, Israeli security and foreign ministry officials, Hamas political bureau member, Hamas political committee members, Jerusalem, Gaza City, December 2014-May 2015.

<sup>94</sup> Crisis Group interviews, Israeli security officials and Egyptian diplomat, Cairo, Jerusalem and Tel Aviv, April 2015.

<sup>95</sup> Crisis Group interviews, PA ministers, Fatah central committee members, Gaza City and Ramallah, March-April 2015.

<sup>96</sup> Several Hamas leaders acknowledged this. Some said the war lasted so long because several members of the outside leadership naively thought Qatar and Turkey could bypass Egypt, working with the U.S. (and through it Israel) to deliver a ceasefire agreement in Gaza, within Egypt's sphere of influence. Crisis Group interviews, Gaza City, December 2014 and March 2015.

<sup>97</sup> Crisis Group interviews, Israeli foreign ministry officials and European diplomats, Jerusalem, March 2015 and May 2015.

<sup>98</sup> In mid-July, Hamas published the names of 250 members arrested by the PA in the West Bank that month in one of the largest PA campaigns against Hamas in eight years. The June 2014 arrest campaign, by contrast, was led by Israel. "Hamas takes hit after latest PA crackdown", *Al-Monitor*, 16 July 2015.

<sup>99</sup> Such threats were made most recently in June and August 2015, over two different Palestinian prisoners. "Islamic Jihad threatens to end truce if Adnan dies", *al-Araby al-Jadeed*, 22 June 2015. "Islamic Jihad: If hunger-striker dies, the cease-fire with Israel is over", *The Jerusalem Post*, 14 August 2015.

ble for monitoring and maintaining the ceasefire.<sup>100</sup> “All it would have taken”, a Hamas political committee member in Gaza said, “was for someone next to the Qassam commander to have fired a rocket in the heat of the moment, and we could have found ourselves in a new war”.<sup>101</sup>

No less risky, Hamas could find itself facing growing internal challenges from which war appears to be an exit. These could arise from disturbances caused by the underpayment of public employees; rifts within the movement over the possible terms of an extended ceasefire; refusal of underpaid security forces to continue to thwart attacks against Israel by non-Hamas militants; protests or an uprising instigated by Fatah members or other Gazans frustrated by their leaders’ inability to reconcile or improve economic conditions; increased attacks against Hamas by Salafi-jihadi groups; or internal divisions caused by frustration over restraint against Israel while the blockade continues.

Of the four central stakeholders in Gaza – Egypt, Israel, Hamas and the PA – Hamas and Israel are the most intent on avoiding war. Both recognise this.<sup>102</sup> But they are far more likely to continue periodic escalation and war than to find an arrangement that could substantially forestall the next confrontation.

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<sup>100</sup> “Israeli forces shoot dead Hamas militant after Gaza border firelight”, *The Guardian*, 24 December 2014.

<sup>101</sup> Crisis Group interview, Gaza City, December 2014.

<sup>102</sup> Crisis Group interviews, Gaza City and Jerusalem, April-May 2015.



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#### IV. Paying Lip Service to Palestinian Reconciliation

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After years of actively opposing Palestinian reconciliation, Israel, the U.S. and Europe have changed their tune. This, an Israeli foreign ministry official said, was one of the primary policy shifts caused by the 2014 war.<sup>103</sup> Before it, Israel objected to the PA returning to Gaza and the rationalisation of the payrolls of pre-2007 and post-2007 Gaza employees. After the war, Israel called for the PA to go back, in particular to staff the border crossings with Israel and Egypt, and gave the UN permission in October to transfer one-time payments to some 23,000 employees of the old Hamas government still running the territory in the national consensus government's absence.<sup>104</sup> There is, of course, a huge gap between these steps to give the PA a toehold in Gaza and what Palestinians consider reconciliation – Hamas's inclusion in the PLO, elections in the West Bank and Gaza and true power sharing by Hamas and Fatah in both territories. Israel, the U.S. and Europe grudgingly accept the former. All three continue to oppose the latter.<sup>105</sup>

It is inaccurate to say Israel and Western donors to the PA support Palestinian reconciliation, the primary political demand of Palestinians and the only means, short of coup or revolt in Gaza and/or the West Bank, of ending the two territories' division. What the international community supports is a semblance of PA control over Gaza, largely embodied in a border presence, so donors can deliver the promised aid Gaza needs for reconstruction. But the PA shows no eagerness for this. Senior officials have said they are willing to take over Gaza only if given full control.<sup>106</sup> That is something they are not likely to gain consensually, and certainly not without implementing the Cairo Agreement, the primary reconciliation text Fatah and Hamas forged in October 2009 and signed in May 2011.<sup>107</sup>

According to the Cairo Agreement, which serves as the foundation of all subsequent reconciliation agreements, rationalising payrolls in Gaza is but one small step,

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<sup>103</sup> Crisis Group interview, Jerusalem, May 2015.

<sup>104</sup> Crisis Group interviews, foreign ministry and prime minister's office officials, February, May 2015.

<sup>105</sup> Crisis Group interviews, U.S. officials, European diplomats, Jerusalem, Washington, April-May 2015. A European official said, "if the international community changed its policy of opposition to real Palestinian reconciliation, it would open up the possibility of putting real pressure on the leadership in Ramallah. As things stand now, Ramallah leaders don't want it, and no one in the international community is going to pressure them to change their minds". Crisis Group interview, Jerusalem, August 2015.

<sup>106</sup> Crisis Group interviews, Ramallah, April and June 2015.

<sup>107</sup> For background, see Middle East Reports N°s 110, *Palestinian Reconciliation: Plus Ça Change ...*, 20 July 2011, and 129, *Light at the End of their Tunnels? Hamas & the Arab Uprisings*, 14 August 2012. The October 2009 document is formally known as the "Palestinian National Conciliation Accord – Cairo 2009 [ittifaqiyat al-wifaq al-watani al-filastini – al-qahira 2009]". It was issued after six rounds of Egyptian-sponsored dialogue attended by Hamas, Fatah, other factions and independents. It included points of agreement as well as Egyptian bridging proposals, though Hamas disputes that the document Fatah signed and it rebuffed accurately reflected those talks. Hamas's reservations were ultimately reduced to three chief areas: security (leadership of security forces, composition of the committee to oversee them and fate of militias); election planning and oversight; and PLO reform (particularly composition and role of the temporary leadership to shepherd the organisation through the reform). Crisis Group interviews, Hamas leaders, Gaza, Damascus, October, November 2010. According to both Fatah and Hamas negotiators, the version the movements and factions signed on 4 May 2011 was the one signed by Fatah and rejected by Hamas in October 2009. Crisis Group interviews, Ramallah and Gaza City, June 2011. *Al-Ayyam* published the document on 14 October 2011.

to be followed by elections for the PLO, parliament and presidency; inclusion of Hamas and Islamic Jihad in the PLO; and granting political freedom to Fatah in Gaza and Hamas in the West Bank. The fundamental trade-off at the heart of all Palestinian reconciliation discussions for eight years has been that Fatah will relinquish its near monopoly over the PLO by giving Hamas significant power within it, in exchange for Hamas relinquishing its monopoly in Gaza.

Implementing that trade-off is unthinkable today. In part, this is due to issues of principle: the two movements have yet to agree on the most basic questions of Palestinian national strategy. Fatah will not accept Hamas into the PLO until it has committed to the PLO's past agreements, including recognition of Israel's right to exist in peace and security, acceptance of UN Security Council Resolutions 242 and 338 and renunciation of terrorism and other acts of violence.<sup>108</sup> Otherwise, Fatah fears, many PLO gains will be lost, its international recognition and legitimacy jeopardised – despite the fact that Fatah itself has not accepted these principles, and the PLO already includes groups, such as the Popular Front for the Liberation of Palestine, that, like Hamas, the U.S. State Department designates as Foreign Terrorist Organizations.<sup>109</sup> Hamas is not prepared to renounce armed resistance, and certainly not without Palestinian statehood.<sup>110</sup>

The agreement also cannot be implemented because Fatah and Hamas are each convinced that the other's days are numbered. For Fatah, the value of controlling Gaza is not worth the price of rescuing Hamas from one of its worst crises, nor the risk of opening itself to the one potentially existential threat it faces: increased Hamas influence in the West Bank and the PLO. A far better strategy is to watch Hamas sink under Gaza's mounting problems. Hamas, too, believes its rival is drowning, presiding over a weak, discredited PA that will not last.<sup>111</sup>

More mundanely, implementation is not possible so long as the PA seeks to maintain its peaceful political, security and governance agendas, crucial pillars of which contradict the Cairo Agreement. The 2011 deal calls on the PA to protect the "resistance" in whatever form it takes: "The security services shall respect the right of the Palestinian people to resist and defend the nation and the citizens". The final section's "Charter of Honour" enumerates principles including: "The right of the Palestinian people to resist and confront occupation and hostilities"; to "safeguard the resistance and its weapons in the face of the occupation"; and to "avoid using such weapons in familial, tribal, and factional conflicts". The deal bans arrest of Hamas political leaders in the West Bank, a central component of Israeli-PA cooperation: "Political arrest shall be prohibited". Hamas charities and institutions in the

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<sup>108</sup> Crisis Group interviews, Fatah central committee members, Ramallah, March 2015. The commitments can be found in "Letter from [PLO Chairman] Yasser Arafat to [Israeli] Prime Minister Rabin", 9 September 1993, <http://unispal.un.org/UNISPAL.NSF/o/36917473237100E285257028006C0BC5#sthash.dnp>.

<sup>109</sup> Crisis Group interviews, Fatah central committee members, Ramallah, April 2015. A point many in the international community often neglect is that Fatah has never accepted the Quartet (U.S., EU, Russia, UN secretary-general) conditions or many of the PLO's concessions. Much of Hamas's power in negotiating with Fatah lies in playing on the gap between Fatah's actual policies of, in effect, rejecting violence and recognising Israel and its official positions and statements, which, on such issues as use of violence, are not far from those of Hamas.

<sup>110</sup> Crisis Group interviews, Hamas political bureau members, Gaza City, January-March 2015.

<sup>111</sup> Crisis Group interviews, Hamas leaders, Gaza City, June 2015.

West Bank would be reopened, their boards of directors reinstated, assets restored and losses compensated.<sup>112</sup>

The agreement also in effect outlaws the intelligence and security cooperation that is a core PA function and without which Israel would not allow the PA to operate: “Any information, communication, or exchange with the enemy that prejudices the nation, the Palestinian citizen, and the resistance shall be considered high treason and punished by law”.

Clearly, the trade-off at the heart of any real reconciliation can never be implemented so long as the PA’s existence and strategy depend on the good will of the international community and Israel. Premising Gaza’s reconstruction on full PA control of Gaza, that is, full implementation of the Cairo Agreement – as officials in Ramallah do – is tantamount to refusing to reconstruct Gaza or end the closure regime, thus setting the stage for a new war. What is possible today, barring direct donor aid to Gaza that bypasses the PA, is merely an initial, partial implementation of the agreement that offers the international community a fig leaf of PA control over Gaza and gives Hamas relief from responsibility for salaries and services. The trouble is that senior PA leaders see little for themselves in that, and no country, including Israel, is lining up to offer them new incentives.

Thus the reality for the foreseeable future, so long as the PA continues to exist and receives no strong incentives to take over partial responsibility in Gaza, is that Palestinians will continue to live in two separate, one-party quasi-states: one in the West Bank; another in Gaza. That must be the fundamental premise of any realistic policy to improve Gaza’s economic and humanitarian conditions.

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<sup>112</sup> “Upon signature of the National Accord Agreement, civil associations and institutions in the West Bank and the Gaza Strip, which were closed or confiscated, shall be reinstated to their pre-June 14 2007 status. They shall recover their properties and shall be compensated for any resulting losses”. Copy of Cairo Agreement on file with Crisis Group.

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## V. Gaza's Finances: An Accounting

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With Hamas seemingly set to continue to rule Gaza for the foreseeable future, the way to provide stability and forestall the next war is to ensure that the governing authorities responsible for Gaza's population can provide services. At present, Hamas pays for the vast majority of employees who administer Gaza, as well as the government's operating costs. The PA, meanwhile, pays part of the electricity bill, financial transfers to 69,000 social beneficiaries in the territory and salaries to approximately 60,000 of its own employees, most of whom have been paid to stay home since 2007, in an effort to cripple the Hamas government.<sup>113</sup>

### A. *A Roadmap for Employee Integration*

On 29 September 2014, Hamas and Fatah were presented a roadmap for integrating the two sets of employees in Gaza – those employed before Hamas's June 2007 takeover and those hired after – that was brokered jointly by Switzerland, the UNDP and the World Bank and endorsed by the international community.<sup>114</sup> It formed one of several efforts and plans, including an alternate proposal by Prime Minister Rami Hamdallah, for bringing the PA back to Gaza. In early 2015, Hamas and Fatah agreed to the roadmap in broad outline, with reservations on each side.<sup>115</sup>

The roadmap's first principle, which Hamas accepts without reservation, is that "all working employees should receive a salary, and all employees receiving a salary should be working".<sup>116</sup> But this is watered down in subsequent provisions that speak, for example, of integrating "the highest possible number of employees, including the employees in the ministry of interior, while responsible and creative solutions will be

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<sup>113</sup> According to Ziad Zaza, the former deputy prime minister of the Hamas government, approximately 13,635 employees on the PA payroll work for the Hamas government in Gaza. Crisis Group interview, Gaza City, March 2015. The average salary of PA employees is \$1021 (3,954 NIS) per month. Crisis Group interview, international aid official, Ramallah, April 2015. Among the PA employees in Gaza who are not working, approximately 34,000 were in the security forces and 4,600 in the health and education sectors. (The share of non-working PA employees in other civil sector ministries is likely to be higher.) On the latter figure, see "Mapping Study of the situation of Public Civil Servants in the Health and Education Sectors", (unpublished), Swiss Peace and PalThink Report, October 2013. Copy on file with Crisis Group.

<sup>114</sup> Discussions of the roadmap began after the 2014 war and drew on prior work by Switzerland and the UNDP on integrating employees in the health and education ministries in Gaza. Crisis Group interview, Swiss official, Jerusalem, 20 August 2015.

<sup>115</sup> Following public statements of support by President Abbas and former Prime Minister Ismail Haniyeh, Switzerland announced that the parties had accepted the roadmap. "Switzerland welcomes support for the Roadmap towards the consolidation of the civil service", 16 March 2015. [www.eda.admin.ch/countries/palestinian-authority/en/home/news/news.html/content/countries/palestinian-authority/en/meta/news/2015/3/roadmap](http://www.eda.admin.ch/countries/palestinian-authority/en/home/news/news.html/content/countries/palestinian-authority/en/meta/news/2015/3/roadmap). Prime Minister Rami Hamdallah never accepted the roadmap and has sought to promote an alternate plan. Since taking the post of UN Special Coordinator for the Middle East Peace Process in April 2015, Nickolay Mladenov has sought to broker an agreement on employee integration based partly on Prime Minister Hamdallah's plan. Officials aware of the discussions were pessimistic that these efforts would succeed. Crisis Group interviews, Gaza City, Jerusalem, Ramallah, August 2015.

<sup>116</sup> Copy on file with Crisis Group. The same SwissPeace and PalThink mapping study states that estimates of the number of employees on the PA payroll in Gaza who have been staying at home go up to almost 50,000. "Mapping Study", op. cit.

found for the others”.<sup>117</sup> No less important was the roadmap’s second principle: “All employees will be treated equally in the integration process, and the process of integration will be inclusive and transparent”. Hamas has sought PA and Fatah acceptance of the first and second principles, after which, it says, it is willing to discuss details. But despite having endorsed the roadmap, President Mahmoud Abbas and several Fatah and PA officials refuse to state that all employees in Gaza are PA employees, instead claiming that only pre-2007 employees are legitimate, and have made proposals that directly contradict the document’s first and second principles.

In December 2014, the PA cabinet decided that, rather than ensuring all pre- and post-2007 employees in Gaza would be treated equally, as the roadmap’s second principle stipulates, the government would first call on just the pre-2007 employees to return, and, only after seeing what resulting vacancies were available, would begin to recruit from the pool of post-2007 employees.<sup>118</sup> In other words, the pre-2007 employees would be guaranteed work, while the post-2007 employees all stood to lose their jobs. This has been the central point of contention between Hamas and Fatah over the roadmap: Hamas’s insistence, and Ramallah’s refusal, to commit to a process in which no distinction is made between pre- and post-2007 employees.<sup>119</sup>

PA officials have offered several rationales for the decision. Some simply oppose the roadmap’s first and second principles; others view the decision as a compromise by which the PA would first demonstrate that many pre-2007 employees would not return to their jobs (many have left Gaza but continue to receive salaries), thereby creating vacancies to be filled, in theory, by post-2007 employees. This would allow the PA to make some progress toward rationalisation, without forcing it to commit to paying all salaries before it knew the size of the final payroll.<sup>120</sup> This and similar proposals were nonstarters for Hamas.<sup>121</sup>

Hamas had its own reservations: it demanded that merger of the two payrolls cover all employees, not “the highest possible number”, as the roadmap’s third principle stipulates; that early retirement should be voluntary, not obligatory; that there be no employee security vetting, which it sees as a means of excluding Hamas members for political affiliation, even if they do not appear on a terrorist list; that the PA acknowledge responsibility for the payment and oversight of all employees, not just those in the health and education ministries, as the roadmap calls for as a first step;

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<sup>117</sup> Ibid. An official involved in the negotiations said that mention of interior ministry employees, which includes the security forces, was meant to offset mention of “the highest number of employees”, to which Hamas objects. Crisis Group interview, Jerusalem, August 2015.

<sup>118</sup> “State of Palestine Cabinet Decision no. (07/32/17/M.W/R.H) for the year 2014”, 30 December 2014. Copy on file with Crisis Group.

<sup>119</sup> An international official involved in the negotiations said, “most of the resistance from Ramallah came from objection to the roadmap’s second principle: treating pre- and post-2007 employees equally. In Ramallah, they had a legalistic view that the pre-2007 employees are legitimate, and post-2007 employees are illegitimate and have fewer rights”. Crisis Group interview, Jerusalem, August 2015.

<sup>120</sup> Crisis Group interview, PA and Swiss officials, January-February 2015. On other occasions, Fatah officials have said that if there is to be rationalisation of the employee rosters, the PA must have full security control over Gaza, or it would merely be “rescuing” Hamas from a financial crisis without gaining real authority. Crisis Group interviews, Ramallah, April 2015. At the same time, Prime Minister Hamdallah has stated on several occasions that any employee integration process would not leave anyone behind.

<sup>121</sup> Crisis Group interview, former Deputy Prime Minister Ziad Zaza, Gaza City, April 2015.

and that it assume all overhead costs.<sup>122</sup> A diplomat involved in the negotiations said the real problem was political will: “Fatah doesn’t want to take over Gaza without full control, and Hamas won’t allow Fatah a foothold until it agrees to find financial solutions for all employees”.<sup>123</sup>

A more fundamental problem is that no funding is available to implement the roadmap for the vast majority of pre-2007 employees, at least 34,000 of whom belong to the Palestinian security forces. A European diplomat involved in the talks said, “of the 60,000-70,000 pre-2007 employees, about 40,000 (maybe 35,000) are security employees. They are the elephant in the room. No one offers a solution for them. The roadmap is totally silent on what happens with them and how and whether they will be paid”.<sup>124</sup> As a result of these large gaps between the sides, few believe the roadmap can lead anywhere.<sup>125</sup>

### B. *Is Gaza Self-sufficient?*

As Hamas and Fatah have pointed fingers at one another for the failure to resolve the governance and salary crises, each side has made opposing claims about the financial costs of running Gaza. The PA has long claimed that the territory is a net burden, accounting for 43 per cent of its expenditures and only 13 per cent of its revenues; Hamas has argued that the PA spends less on Gaza than it takes in from it.<sup>126</sup> The subtext, not clearly articulated by either, is that if, as Hamas claims, Gaza is self-sufficient,

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<sup>122</sup> Hamas argues that security vetting procedures, including those now in place in the West Bank, lack transparency and offer no recourse to individuals who have not passed the screening. Hamas officials recognise that any employees paid with international donations must go through security vetting, as all employees of the Hamas government had to do when Qatar made a one-time payment to roughly 23,000 civil service employees in October 2014. (At that time, only 187 individuals did not pass the security screening, and among these were several mistaken cases in which an employee had the same name as someone on a terrorism list.) But Hamas argues that a firewall on international donations can be established whereby even members of the movement who do not pass the security screening can be paid. Such mechanisms have in fact been in place for many years in the West Bank. Crisis Group interviews, Hamas officials, Gaza City, August 2015. A compromise proposed to Hamas was that the initial process of determining which employees would keep their jobs and which would retire would be free of any security considerations; only once an agreed-upon, integrated payroll had been established would a security vetting take place.

<sup>123</sup> Crisis Group interview, Jerusalem, July 2015.

<sup>124</sup> Crisis Group interview, Jerusalem, January 2015.

<sup>125</sup> Crisis Group interviews, Fatah and Hamas officials, Gaza City, Ramallah, April-May 2015. A diplomat involved in formulating the roadmap said, “after much effort, we found that a technical approach to employee integration simply doesn’t work, because the problem is not technical. It is political. At the same time, you could say that the roadmap wasn’t a wasted effort. In a way, it has partially fulfilled its function, which was not really to create a step-by-step plan to be implemented, but more to provide guiding principles and rules of the game for future employee integration”. Crisis Group interview, Jerusalem, 20 August 2015.

<sup>126</sup> Crisis Group interviews, Fatah central committee member and Hamas political bureau member, Ramallah and Gaza City, April 2015. The PA claims that in 2013, only 3 per cent of revenues came from Gaza, while 43 per cent of budgetary expenditures were spent there. “The National Early Recovery and Reconstruction Plan for Gaza”, State of Palestine Inter-Ministerial Committee for Gaza Recovery, October 2014, p.16, [www.mopad.pna.ps/en/images/PDFs/National%20Early%20Recovery%20and%20Reconstruction%20Plan%20for%20Gaza%202014-2017\\_FINAL....pdf](http://www.mopad.pna.ps/en/images/PDFs/National%20Early%20Recovery%20and%20Reconstruction%20Plan%20for%20Gaza%202014-2017_FINAL....pdf). Other estimates of PA expenditures in Gaza are considerably lower than the PA’s. A former IMF official and economic adviser to former Prime Minister Salam Fayyad estimates that Gaza accounts for 34 per cent of PA cash expenditure. Karim Nashashibi, “Palestinian Public Finance Under Crisis Management: Restoring Fiscal Sustainability”, UNDP, 31 March 2015.

the main obstacle to resolving its financial problems is the PA's refusal to distribute tax revenues equitably or allow Gazans to tax themselves. If, as the PA claims, Gaza is dependent on PA subsidies, Hamas could not sustainably rule it on its own.<sup>127</sup>

If transferred to Hamas, would the tax revenues now collected by the PA be enough to pay all Gaza government costs? Without relying on any of the PA's \$1.1 billion in annual external financing, at least 40 per cent of which should in theory go to Gaza (where poverty is greatest, and over 40 per cent of Palestinians in the occupied territories reside), could Gaza be self-sufficient?<sup>128</sup>

Officials of the former Hamas government say the monthly budget is approximately \$46 million (actual expenditures are much lower): \$31 million in wages for approximately 38,000 employees, not including 2,000 on yearly contracts and 7,000 on short-term contracts; \$6 million in running costs and \$9 million for insurance, pensions and payments to prisoners.<sup>129</sup> To this must be added additional payments currently or recently made by the PA, which totalled \$37.7 million monthly in 2013: for electricity from the Israel Electric Company (roughly \$9.5 million);<sup>130</sup> half of a capital charge for the Gaza Power Generation Company (\$1.1 million);<sup>131</sup> allowances to

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<sup>127</sup> Karim Nashashibi remarked: "The issue of whether Gaza is self-sufficient is an interesting one. I would argue that it is not, nor should it be. Poorer regions in most countries are subsidised by wealthier regions. This is standard public finance policy". Crisis Group email correspondence, 18 August 2015.

<sup>128</sup> A former PA official questioned why Gaza should receive foreign budget support commensurate with the size of its population: "Why should Gaza get 40 per cent of foreign budget support? Its GDP is only 28 per cent of Palestinian GDP". Crisis Group email correspondence, 14 August 2015. A counter-argument is that regions with lower GDP should receive more foreign aid, not less. The PA claims to spend \$1.6 billion in Gaza yearly. According to the World Bank, it "spends roughly \$1.6 billion in Gaza per year (58 per cent of 2014 revenue [\$2.69 billion]), which is the major source of its chronic deficit because the tax revenues it collects in Gaza amount to only about 13 per cent [\$349 million per year] of its revenues". "Economic Monitoring Report", op. cit. Hamas says the PA spends only \$918 million per year on Gaza and that Gaza contributes 50 per cent of the PA's clearance revenues. "Investigative report: PA steals Gaza's money", *Al-Resalah*, 28 May 2015.

<sup>129</sup> The 38,000 employees include all permanent civil service and security employees paid by the Hamas government, including 2,300 civil service employees formerly on the PA payroll. This does not include some 9,000 temporary and contract employees. Crisis Group interview, former Deputy Prime Minister Ziad Zaza, Gaza City, March 2015. The Hamas government's former finance minister and deputy prime minister, Ziad Zaza, said that of the 50,000 permanent and contract employees on the Hamas government's payroll, approximately 2,300 are civil service employees of the pre-2007 government who continued to work after Hamas's takeover and lost their Ramallah salaries. In addition, there are some 13,635 on the Ramallah payroll who were permitted to work with the post-2007 government and continue to receive paychecks from Ramallah. Crisis Group interviews, Gaza City, April, August 2015. The 7,000 short-term employees constantly rotate and lack expectation of a permanent job. Crisis Group interviews, Gaza finance ministry officials, Gaza City, March 2015.

<sup>130</sup> See "Assessment and Action Plan to improve payment for electricity services in the Palestinian Territories", World Bank, 25 November 2014.

<sup>131</sup> A senior official with the Petroleum General Directorate in Gaza said the capital charge was 8 million NIS (\$2.1 million) per month. According to this official, from 2012 until the 2014 war, the Hamas government and the PA each paid half. After that, Hamas no longer paid its half, and the PA continued paying 4 million NIS per month, but since April neither has paid. A former PA finance official said this charge had been fully paid by the PA until approximately one year ago. Crisis Group interviews, Gaza City, Jerusalem, 16-18 August 2015. A slightly different figure, a \$2.5 million capital charge, comes from a former PA official and a 2007 report. "West Bank and Gaza Energy Sector Review", World Bank, May 2007, p. 62. Crisis Group interview, former senior PA finance official, Jerusalem, August 2015.

prisoners (\$760,000);<sup>132</sup> aid to vulnerable families (\$4.1 million); social allowances (\$3.4 million);<sup>133</sup> local government, energy authority and water authority projects (\$760,000); health referrals (\$4.2 million); and salaries to the roughly 13,600 employees working for the Hamas government (perhaps \$13.9 million, based on an 3,954 NIS (\$1,021) average salary).<sup>134</sup> Total government expenditures would then be \$83.7 million per month.<sup>135</sup>

Total clearance revenues received by the PA (customs, VAT and fuel excise taxes collected for the PA by Israel for a 3 per cent fee) for both Gaza and West Bank goods, were \$159 million monthly in 2014.<sup>136</sup> This came in nearly equal parts from three sources: taxes on fuel and customs (each 34 per cent) and VAT (31 per cent).<sup>137</sup> The share from Gaza-bound goods is unknown. The PA claims that only 13 per cent of its total revenues (and 18 per cent of its clearance revenues) – \$29 million monthly, \$349 million annually – come from Gaza.<sup>138</sup>

Hamas officials strongly disputes this, pointing out that when Qatar donated \$10 million monthly to pay taxes on fuel for Gaza's power plant, which uses less than one third of the fuel consumed in the territory each month,<sup>139</sup> it was equivalent to the

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<sup>132</sup> Karim Nashashibi, "Palestinian Public Finance", op. cit.

<sup>133</sup> There are 68,928 social beneficiaries in Gaza, according to the PA finance ministry. "Fiscal Developments & Macroeconomic Performance: Third Quarter Report 2014", 5 November 2014. This is 59 per cent of a total of 115,951 social beneficiaries, according to "Economic Monitoring Report", op. cit.

<sup>134</sup> In 2014, the PA wage bill was 7,336.3 million NIS (\$1,893.6 million) for 154,600 employees, approximately 60,000 of whom are in Gaza. This gives an average wage for all PA employees of 3,954 NIS (\$1,021) per month. (The figure does not include the 170 NIS [\$44] per employee per month that the PA takes to pay for electricity.) Data on median wages in Gaza and the West Bank were unavailable. "December 2014 Monthly Report: Fiscal Operations – Revenues, Expenditures, and Financing Sources", PA finance ministry, 29 April 2015. [www.pmf.ps/documents/10180/332541/Dec.+2014+Eng.pdf/1bba8df3-4a14-4010-a97e-2e4fe759ceab](http://www.pmf.ps/documents/10180/332541/Dec.+2014+Eng.pdf/1bba8df3-4a14-4010-a97e-2e4fe759ceab). For similar figures for 2013, see Karim Nashashibi, "Palestinian Public Finance", op. cit., p. 48.

<sup>135</sup> This does not include the roughly 37,000 pre-2007 employees on the PA's payroll who are not working but whose income is an important part of the Gaza economy. In 2013, all PA employees in Gaza, working and non-working alike, received \$63.6 million per month. Of this, \$36.2 million went to security personnel, \$27.4 million to non-security employees. See *ibid.* Among security employees in Gaza, 34,000 are paid by the PA, none of whom work, and about 18,000 are paid by Hamas, including some (one estimate is 3,000) who worked for the PA prior to 2007 and continued after Hamas's takeover. Of the 34,000 security employees paid by the PA to stay home, most are civil police (10,000), national security forces (7,600), administrative staff (7,200), preventive security (2,500), general intelligence (2,100), military intelligence (1,200), presidential guard (1,000), military police (700), and civil defence (500). The 18,000 security employees of the Hamas government include civil police (8,100), administrative staff (2,300), military police (1,600), national security forces (1,150), guards and protective security (1,200), internal security (1,000), medical services (800), civil defence (700), and prisons (500). Crisis Group interviews, PA and Hamas finance officials, Gaza City, Ramallah, June 2015.

<sup>136</sup> In 2014, clearance revenues were \$1,962 million (7,331 million NIS), of which \$168 million (628 million NIS) was spent on tax refunds. Report to the Ad Hoc Liaison Committee, International Monetary Fund, 18 May 2015, p. 21.

<sup>137</sup> Crisis Group interviews, Gaza fuel merchants and finance ministry officials, Gaza City, March 2015.

<sup>138</sup> The PA also says the share of total revenues from Gaza was recently as low 3 per cent. In 2014, clearance revenues were 73 per cent of total PA revenues. For the 13 per cent figure, up from 3 per cent, see "Economic Monitoring Report", op. cit., p. 15. For another calculation that reaches roughly the same result, see Karim Nashashibi, "Palestinian Public Finance", op. cit., p. 26. "Economic Monitoring Report", op. cit.

<sup>139</sup> Fuel meant here is diesel, industrial, and petrol; cooking gas is taxed at a different rate.



monthly taxes on diesel fuel paid to the PA.<sup>140</sup> Hamas argues that Gaza's monthly fuel taxes alone should be between \$27 million and \$40 million.<sup>141</sup> In 2014 and the first seven months of 2015, industrial diesel was 30 per cent of Gaza's fuel imports, excluding cooking gas.<sup>142</sup> If monthly taxes on fuel for the power plant are roughly \$10 million, and it uses only 30 per cent of Gaza's fuel, fuel taxes alone (excluding cooking gas) should be \$33.3 million of \$159 million per month in total PA clearance revenues. Additional revenues from customs, VAT, and taxes on cooking gas would be used to pay the roughly \$83.7 million per month in government expenses, though this figure does not include the funds needed to offset damage to Gaza's economy if

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<sup>140</sup> Crisis Group interviews, former Finance Minister Ziad Zaza and finance ministry officials, Gaza City, March-April, August 2015. According to a senior energy official in Gaza, Qatar's donation was not specifically allocated for payment of fuel taxes (though senior Hamas government officials so characterised it), but the amount donated (\$32 million for three months, beginning in March 2014) was equivalent to the taxes on the industrial diesel used for the Gaza power plant. In March 2014, for example, the deputy chief of Gaza's energy authority said, "Qatar has notified the office of Prime Minister Ismail Haniyeh of its decision to extend by three months its grant for paying taxes on oil supplies for the power plant". Anadolu Agency, 14 March 2014. The official said that, on average, Gaza pays \$15.4-\$16 million (59-61 million NIS) per month for the power plant's industrial diesel, of which \$5.8-\$6.3 million (22-24 million NIS) is for the fuel and \$9.7 million (37 million NIS) is for taxes on it. During the months of Qatar's donation in 2014, an average of 6.8 million litres of industrial diesel were imported to Gaza. "Gaza Crossings: Import of fuel to Gaza", UN OCHA. According to former Deputy Prime Minister Ziad Zaza, taxes on fuel collected by the PA are roughly \$1 (4 NIS) per litre: this is made up of VAT (18 per cent) and what is known as a Blu tax of approximately 3 NIS (\$.79) per litre. (The Blu tax is 3 NIS per litre for industrial diesel; 2.89 NIS per litre for diesel fuel; and 3.02 NIS per litre for petrol). A former PA finance official said that 3 NIS per liter on fuel products included VAT. Crisis Group interviews, PA and U.S. officials, Gaza City, Ramallah, Jerusalem, August 2015. A paper by the Palestine Economic Policy Research Institute MAS, states that the Blu tax alone is roughly 3 NIS per litre. "Electricity Crisis in Gaza: Causes, Consequences and Treatments", November 2013. <http://pal-econ.org/download.php?id=4922dy299565Y4922d>. The PA buys fuel products from Israeli suppliers and resells them to Palestinian gas stations at a loss, which is entered in finance ministry reports as a "tax refund" on fuel. In 2014, such refunds in Gaza and the West Bank were 524 million NIS (\$135 million for the year). "December 2014 Monthly Report: Fiscal Operations – Revenues, Expenditures, and Financing Sources", finance ministry, 29 April 2015. [www.pmf.ps/documents/10180/332541/Dec.+2014+Eng.pdf/1bba8df3-4a14-4010-a97e-2e4fe759ceab](http://www.pmf.ps/documents/10180/332541/Dec.+2014+Eng.pdf/1bba8df3-4a14-4010-a97e-2e4fe759ceab). See Karim Nashashibi, "Palestinian Public Finance", op. cit., p. 43. Several Gaza energy sector and finance officials said that despite years of trying, they were unable to obtain figures from the PA on fuel tax rates or revenues. Crisis Group interviews, Gaza City, 16 August 2015.

<sup>141</sup> At minimum, a Hamas petroleum official argued, fuel taxes alone, which are approximately \$1 per litre, should produce \$22 million per month, since 22 million litres of fuel per month entered Gaza through July 2015, though he said Gaza under normal conditions would use far more fuel. Crisis Group interview, August 2015. In normal times, Gaza consumes more: approximately 600,000-700,000 litres per day in diesel fuel for generators and cars; 300,000-400,000 litres per day in gasoline; and 350,000-500,000 per day in industrial diesel for the Gaza power plant when it operates at its current 60 MW capacity. "Humanitarian Bulletin Monthly Report", UN OCHA, October 2014.

<sup>142</sup> In 2014, industrial diesel (65.4 million litres) was 30 per cent of Gaza's total fuel imports (214.7 million litres), excluding cooking gas (51.1 million kilograms); in the first seven months of 2015, industrial diesel (45.9 million litres) was again 30 per cent (152.3 million litres), excluding cooking gas (33.8 million kilograms). "Gaza Crossings", op. cit. 30 per cent industrial diesel roughly matches the 28 per cent arrived at by taking the lower estimates of Gaza's daily fuel consumption in the figures provided above: 350,000 daily litres of industrial diesel out of a total of 1,250,000 daily litres of all fuel, excluding cooking gas.

the PA tried to undermine the Hamas government by cutting payments to those not working but on its payroll.<sup>143</sup>

If these figures are accurate, and particularly if the wage bill were reduced, it seems possible that a Hamas-run government with ability to tax Gaza's goods could be self-sufficient. Whatever the reality, it would be helpful to the Palestinian public, its political parties and donors if an independent audit were conducted of both the PA's and the former Hamas government's expenditures in and revenues from Gaza, to inform and facilitate discussions of the territory's future.

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<sup>143</sup> Though the PA and Fatah view payments to employees in Gaza as a means of maintaining political support there, it is possible to imagine the PA cutting such payments, if, for example, the Hamas government were to find a means of taxing imports directly, cutting out the PA.

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## VI. Escaping the Cycle of War and Destruction

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In the words of the outgoing head of the IDF's Southern Command, "Israel and Hamas have shared interests, including in the current situation, which is quiet and calm and growth and prosperity".<sup>144</sup> Israel's President, Reuven Rivlin, said in May he had no objection to talks with Hamas and that "Hamas today wants to bring order to Gaza, though not because it is in our [Israel's] interest".<sup>145</sup> Numerous self-appointed mediators, including former Quartet envoy Tony Blair, have met separately with Israeli officials and Hamas leaders to test the feasibility of reaching a ceasefire agreement.<sup>146</sup> In August, an adviser to Turkish President Recep Tayyip Erdogan told a Gaza newspaper: "The negotiations surrounding Mavi Marmara flotilla [a ship seeking to break Israel's naval blockade of Gaza that Israel raided in 2010, killing nine Turkish citizens and a Turkish-American] are proceeding gradually and also include negotiations on a ceasefire with Hamas".<sup>147</sup>

These parallel discussions may one day lead to substantive negotiations, even an agreement or unwritten understandings. However, officials familiar with them say they are very preliminary, more an effort by the individuals to see whether there are grounds to hold indirect talks than negotiations themselves.<sup>148</sup>

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<sup>144</sup> "Israeli general sees common interests with Hamas", Reuters, 12 May 2015.

<sup>145</sup> "President Rivlin says he's not opposed to negotiations with Hamas", *Haaretz*, 27 May 2015.

<sup>146</sup> Crisis Group interviews, Hamas officials, European officials, Gaza City, Jerusalem, June, August 2015. An associate of Khaled Meshal said that Blair had invited Meshal to visit the UK, with the consent of Prime Minister David Cameron. "Blair invites Mishaal to visit the UK", *al-Resalah*, 20 August 2015. In addition, Israel is seeking to hold talks with Hamas over Israeli citizens held in Gaza; see fn. 77 above.

<sup>147</sup> He also claimed that Turkey, Cyprus, and Greece were holding talks on creating a naval "safe passage" between Gaza and Northern Cyprus that would be controlled by Turkey. "Comprehensive Israel-Hamas agreement 'expected', says Turkish official", *al-Araby al-Jadeed*, 17 August 2015. Israel denied the report, as it has denied numerous others of indirect Hamas-Israel negotiations over the past several months. On 17 August 2015, the prime minister's office issued the following statement: "Israel would like to officially clarify that it is not holding any meetings with Hamas, neither directly, nor via other countries, nor via intermediaries. As for relations with Turkey, agreement is still far off".

<sup>148</sup> Former Quartet envoy Tony Blair has held several meetings with Hamas leader Khaled Meshal and Israeli Prime Minister Benjamin Netanyahu. Like many other conversations Hamas and Israel hold in parallel with Swiss, Norwegian, Qatari, UN and other officials, they have not produced any agreement or unwritten understanding and appear to be largely exploratory. Crisis Group interviews, Jerusalem, July-August 2015. According to *Haaretz*, Netanyahu does not see Blair as an intermediary and did not authorise him to convey messages to Hamas. He saw the activity "as testing for feasibility. If he obtains results in his talks with senior Hamas officials, Israel would be prepared to hear the details. Senior Israeli officials and unofficial Israeli figures involved in the issue said that Blair has made no significant progress so far in his two meetings with Meshal". "Israel denies contacts with Hamas on long-term truce", *Haaretz*, 18 August 2015. In an August 2015 interview, Khaled Meshal said that efforts to reach an understanding with Israel were progressing, but five large obstacles remain: reconstructing Gaza; removing the blockade and opening the border crossings; solving the government salary crisis; allowing the construction of a seaport and airport; and building water and electricity infrastructures in the territory. "Mishaal: Calm talks advancing, positive", Official Qassam Brigades website, 22 August 2015. [www.qassam.ps/news-9765-Mishaal\\_Calm\\_talks\\_advancing\\_positive.html](http://www.qassam.ps/news-9765-Mishaal_Calm_talks_advancing_positive.html). Another obstacle is that Israel demands the release of what it says are two Israeli citizens and the remains of two Israeli soldiers in Gaza, while Hamas refuses to discuss the issue until Israel frees all prisoners who were released in the 2011 Gilad Shalit exchange but rearrested. See fn. 77 above.

Despite Hamas's stated interest in progressing in such talks, the efforts of self-appointed envoys and the commitment both parties made to negotiate the details of a ceasefire within a month of the war's end, Israel has thus far refused to do so and is supported in this by Egypt and the PA.<sup>149</sup> Israel has little incentive to pay the price of an extended ceasefire, when many in the security establishment believe it can get that ceasefire for free. In the words of a senior Israeli defence official: "Why do we need to agree to a port or airport, or to other such decisions in return for quiet, as long as the quiet is being preserved by Israeli deterrence"?<sup>150</sup> This logic, which also drove Israeli policy prior to the last war, appears to make no distinction between a quiet due to a long-term Hamas strategic decision not to attack because the costs would be too great and one due to temporary, tactical restraint while it strengthens its military capabilities for the next battle.

#### A. Debate over an Extended Ceasefire

There is no shortage of current and former Israeli officials who believe an extended ceasefire with Hamas is at least worth exploring. Several security officials have stated that lifting the blockade of Gaza would increase Israel's deterrence, by giving Hamas more to lose in a war. Others have expressed an interest in creating a seaport as a means of disconnecting Israel from Gaza and ridding it of responsibility for the territory, a goal Hamas shares.<sup>151</sup> Among those calling for an arrangement with Hamas in Gaza are Education Minister Naftali Bennett;<sup>152</sup> President Rivlin;<sup>153</sup> Transportation and Intelligence Minister Yisrael Katz, a senior Likud figure;<sup>154</sup> former Shin Bet head Yuval Diskin;<sup>155</sup> former Defence Minister Shaul Mofaz;<sup>156</sup> former IDF Deputy Chief of Staff Yair Naveh;<sup>157</sup> former Mossad head Efraim Halevy;<sup>158</sup> former National Security Council head Giora Eiland;<sup>159</sup> and, privately, numerous other intelligence and security officials.<sup>160</sup>

That such individuals are calling for new arrangements with Hamas does not mean negotiations would likely succeed if pursued. Many Israeli ideas for a longer-term ceasefire involve a trade-off Hamas is highly unlikely to accept: lifting of the block-

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<sup>149</sup> Crisis Group interviews, Israeli, Egyptian and PA officials, Cairo, Jerusalem, Ramallah, Tel Aviv, March-May 2015.

<sup>150</sup> "Hamas denies reports of talks with Israel over long-term cease-fire", *Haaretz*, 16 June 2015.

<sup>151</sup> Crisis Group interviews, Israeli security officials and foreign ministry officials, Jerusalem and Tel Aviv, March-April 2015.

<sup>152</sup> "Hardliner Bennett softens touch, proposes Israel deal with Hamas", *i24 News*, 28 June 2015.

<sup>153</sup> "Rivlin open to negotiations with Hamas, urges Gaza rebuilding", *Times of Israel*, 27 May 2015.

<sup>154</sup> "Could Artificial Island Solve Gaza Problem?", *Israel National News*, 23 July 2014.

<sup>155</sup> Yuval Diskin, "Israel must increase military pressure while pursuing a diplomatic solution", *Yediot Ahronot*, 22 July 2014.

<sup>156</sup> "Mofaz plan offers economic aid for Gaza demilitarization", *Ynet*, 13 July 2014.

<sup>157</sup> Without mentioning Hamas, Naveh said Gaza was "boiling over" and called for lifting the blockade and creating a seaport, perhaps connected to Cyprus. Interview with former Deputy Chief of Staff Yair Naveh, Reshet Bet Radio, 1 April 2015. [www.timesofisrael.com/1-april-2015-netanyahu-boehner-iran-lausanne-nuclear-coalition-yemen-saudi-arabia](http://www.timesofisrael.com/1-april-2015-netanyahu-boehner-iran-lausanne-nuclear-coalition-yemen-saudi-arabia).

<sup>158</sup> "Ex-Israel Intelligence Chief Efraim Halevy calls for talks with Hamas: 'There are worse options than Hamas'", *CNN*, 15 July 2014.

<sup>159</sup> Giora Eiland, "For the sake of security, let Hamas rebuild Gaza", *Ynet*, 9 May 2014; "Gaza reconstruction has nothing to do with peace talks", *Ynet*, 15 October 2014; "A fragile calm on Gaza and Lebanon borders", *Ynet*, 19 December 2014.

<sup>160</sup> Crisis Group interviews, Jerusalem and Tel Aviv, March-April 2015.

ade and creation of a seaport in exchange for Hamas's demilitarisation or at least curtailment of weapons smuggling and development.<sup>161</sup> Still, that important Hamas and Israeli government figures believe there are enough common interests to warrant discussion is worth exploring. Whether the minimum demands of each side are irreconcilable should at least be discovered, not assumed.

Israel and Hamas acknowledge that commitment to indirect talks on how to stabilise the ceasefire was one of three conditions of the 26 August 2014 ceasefire agreement.<sup>162</sup> Though the terms were not publicised, and some Israeli officials say they do not consider it an agreement per se, Israeli, Palestinian and Egyptian officials confirmed that the ceasefire included the following points: (1) an inclusive and mutual ceasefire parallel to an opening of the border crossings between Israel and the Gaza Strip, allowing entry of humanitarian relief and reconstruction materials; (2) permitting fishing up to six nautical miles from the shore; and (3) continuation of indirect negotiations within one month of the ceasefire.<sup>163</sup>

In the words of former Israeli National Security Adviser Giora Eiland:

A few months ago [end August 2014], Hamas agreed to a ceasefire, for two reasons: the price that it had paid and its understanding that after a month of quiet, talks would begin on the Gaza Strip's rehabilitation. And now, four months after the ceasefire, there is no sign of these talks starting. The reason is simple: Egypt was authorised to lead the talks, and the Egyptians are in no hurry because they are busy dealing with the terror in Sinai and because they are angry at Hamas, which it says helps the terrorists in Sinai. But it is also in Israel's interest to get the talks started – since the deterrence that was achieved in Operation Protective Edge will not be enough. Along with the stick, the right thing to do is also to offer a carrot – the Gaza Strip's rehabilitation and a solution to the urgent humanitarian problems there. If this process does not begin soon, we should not be surprised if we return to a cycle of rockets and fire.<sup>164</sup>

That Egypt is not interested in convening the talks or new understandings between Hamas and Israel does not preclude Israel from pursuing them. A number of Israeli officials acknowledged this and said that, beyond state interests, moral obligations are reasons for exploring new Gaza arrangements.<sup>165</sup> The priority, they agreed, should be to include the PA and Egypt, but Cairo and Ramallah should not have a veto over Israel's strategic direction.<sup>166</sup> A foreign ministry official said, "how long can Israel keep using the excuse that Abbas and [President] Sisi don't want to see a change in Gaza? In the final analysis, we too are responsible for what happens in Gaza and for

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<sup>161</sup> Crisis Group interviews, Hamas political bureau members and Qassam commanders, Beit Lahiya and Gaza City, December 2014-May 2015.

<sup>162</sup> Crisis Group interviews, senior Hamas leaders, Gaza City, Beit Lahiya, December 2014-May 2015.

<sup>163</sup> Crisis Group interviews, Cairo, Gaza City, Jerusalem, Ramallah, September 2014. Crisis Group has a copy of the agreement. Hamas has expressed willingness to find a new mediator for talks that could be held indirectly, as both sides would prefer. Crisis Group interviews, Hamas officials, Gaza City, January-May 2015.

<sup>164</sup> Giora Eiland, "A fragile calm", op. cit.

<sup>165</sup> Crisis Group interview, Israeli security officials, Jerusalem and Tel Aviv, March-April 2015.

<sup>166</sup> Crisis Group interviews, Israeli security and foreign ministry officials, Jerusalem, February-March 2015.

the ordinary people there .... It's not enough to say our hands are tied by the PA and Egypt. There is more we can do".<sup>167</sup>

If an Israel-Hamas agreement is to be reached, it would be easier in several respects for each side to do so now. When a new war seems imminent, the fear of appearing weak will be stronger. A year after the war's end, Israeli voters can be told that Hamas's desire for an agreement is proof of the success of Operation Protective Edge. Hamas can claim its success in the war has caused Israel to re-evaluate its policy toward Gaza. Israeli officials say Hamas's smuggling abilities are currently limited, so after any relaxation of the closure regime almost all goods entering and exiting Gaza could still be carefully monitored.<sup>168</sup> The time elapsed since the 2014 war is sufficiently great that it would be difficult to claim that an agreement was a reward for violence, rather than a response to PA inaction and a looming humanitarian and economic catastrophe. The absence of a peace process with Ramallah allows Israel to act in Gaza without fearing that the PA would withdraw from negotiations in retaliation.

### B. *Obstacles to an Extended-ceasefire Agreement*

Despite common interests, the odds of Hamas and Israel concluding a formal ceasefire agreement are low. The substantive differences are large. Within Israel, officials differ widely on whether to hold indirect negotiations but largely agree that Hamas is unlikely to initiate a war in the next months, so there is little pressure on the government to change its Gaza policy.<sup>169</sup> As noted, most but not all who envision a possible agreement would demand a halt to weapons smuggling and development, if not Hamas's demilitarisation, which Hamas would all but certainly reject.<sup>170</sup> Hamas officials believe any steps demanded in a ceasefire agreement should be reciprocal: that as with commitments not to attack, any curtailments of armaments should be binding on each side, a nonstarter for Israel.<sup>171</sup>

Hamas seeks a ceasefire in Gaza alone, leaving it free to attack in the West Bank, which would be difficult for Israel to accept, even if Hamas were capable of upholding a Gaza ceasefire while the West Bank was inflamed.<sup>172</sup> Hamas officials have spoken of an agreement possibly lasting three to five years; Israelis who entertain the idea of a ceasefire say they would seek one of ten to fifteen years.<sup>173</sup> An Israeli official said:

I want to force a dilemma on Hamas. I want them to explain to their people that they are entering an agreement not to attack Israel. All those who came to accept

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<sup>167</sup> Crisis Group interview, Jerusalem, February 2015.

<sup>168</sup> Several Israeli security officials said this. Crisis Group interviews, Jerusalem, Tel Aviv, February, April, May 2015. Of course, the opposite can also be argued: when weapons smuggling from Egypt is high, Israel has little to lose from relaxing the closure.

<sup>169</sup> Crisis Group interviews, Jerusalem and Tel Aviv, February-May 2015.

<sup>170</sup> Crisis Group interviews, Hamas political bureau members, Gaza City, December 2014 and March-April 2015.

<sup>171</sup> Crisis Group interviews, Gaza City and Jerusalem, January-May 2015.

<sup>172</sup> Hamas officials are open to the possibility of a ceasefire in the West Bank also, but their conditions for this – Israel's withdrawal to the 1967 borders, removal of settlements and release of all prisoners – are unacceptable to Israel, and have been since Hamas made its first long-term ceasefire proposal in 1988. Crisis Group interviews, Hamas senior leaders, Gaza City, December 2014 and March 2015. On the 1988 ceasefire proposal and subsequent Hamas proposals, see Khaled Hroub, *Hamas: Political Thought and Practice* (Institute for Palestine Studies, Washington DC, 2000).

<sup>173</sup> Crisis Group interviews, Gaza City and Jerusalem, February-April 2015.

Israel [the PLO] initially said they were not attacking Israel as a temporary step. Three years is easy for Hamas to explain: they can say they are using the three years to build themselves up and get stronger. But ten years, fifteen years, that is harder to do. That will force them to confront a real dilemma.<sup>174</sup>

A ceasefire agreement would also present dilemmas for Israel, not just in the potential weakening of the international boycott of Hamas or the perception of undermining the government's categorical refusal of relations with Hamas (despite indirectly negotiating with it several times, including the 2011 Gilad Shalit prisoner exchange and the ceasefire agreement ending Operation Pillar of Defence, the November 2012 Gaza conflict), but also in straining relations with the PA and Egypt. Egyptian and PA opposition to a Hamas-Israel deal are major disincentives for Israel, which highly values its security cooperation with Egypt and does not want to weaken the PA in the West Bank. An Israeli security official said a separate deal with Hamas in Gaza would be a "death blow" to Abbas, whom most Israeli officials do not see as a peace partner but nevertheless recognise as a non-threatening, violence-abhorring strategic asset who is preventing Hamas from gaining power in the West Bank.<sup>175</sup> A senior PA and Fatah figure vowed, with bravado, to cut ties with Israel if it reached an agreement with Hamas:

If Israel wants to deal with Hamas in Gaza, if it wants to create a state for the terrorists while maintaining occupation for those who want peace, I will be the first to ... announce I was wrong about peace, that there is no need for the PA, and Hamas should ... take over in the West Bank. Hamas has a majority [in the Palestine Legislative Council]. Let Hamas and Israel recognise each other. The PLO will cancel its recognition. A separate agreement would mean whoever pursues peace gets occupation; whoever does terrorism gets a state.<sup>176</sup>

If Israel negotiated a Gaza ceasefire despite Egyptian and PA opposition, finding a suitable mediator might be difficult. Egypt would be doubly incensed by Qatari or Turkish mediation, and Israel might be reluctant to give either a boost in stature, a new stick to poke in Egypt's eye and a prominent regional role.<sup>177</sup> No less significant an obstacle is the opposition to talks, even indirect, within the constituencies of both Hamas and mainstream Israeli political parties, including those now in power. Israeli leaders could be accused of rewarding terrorism and capitulating to Hamas extortion through rocket-fire. Hamas leaders could be accused of secretly intending to extend the ceasefire indefinitely, thereby abandoning its principles, including armed resistance. Salafi-jihadi groups could find new recruits from Hamas and new motivation to attack both Hamas and Israel. An agreement could break up Israel's governing coalition and cause serious rifts within Hamas.

Egypt's primary concerns, aside from antipathy toward Hamas and the Muslim Brotherhood and any steps that might prolong its rule, are Sinai security and deepening the West Bank-Gaza division, thereby undermining the possibility of establishing a unified Palestinian state.<sup>178</sup> Its officials say they want to be sure links between the West Bank and Gaza are strengthened, not just to preserve the two-state solution

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<sup>174</sup> Crisis Group interview, Jerusalem, April 2015.

<sup>175</sup> Crisis Group interview, Jerusalem, May 2015.

<sup>176</sup> Crisis Group interview, Ramallah, March 2015.

<sup>177</sup> Crisis Group interviews, Israeli intelligence and security officials, Jerusalem, May 2015.

<sup>178</sup> Crisis Group interview, Egyptian diplomat, Cairo, March 2015.

but so that when Gaza's growing population needs room to expand, it does so by moving abroad or to the West Bank, not to Sinai and the rest of Egypt.<sup>179</sup> The PA, similarly, worries that a Gaza ceasefire that establishes a seaport and a means for the government to pay its bills would be tantamount to creating a separate state there, killing the two-state solution. An additional, unspoken concern is that a Gaza ceasefire could pave the way to Hamas-Israeli understandings in the West Bank, threatening the PA and Fatah there.<sup>180</sup>

### C. *Addressing Concerns about an Extended Ceasefire*

Concerns about the potential negative repercussions of an extended Gaza ceasefire should be addressed head-on in any agreement. The primary, oft-stated worry of Egypt, the PA and the PA's supporters is that a new arrangement could destroy the possibility of a two-state solution by further separating Gaza and the West Bank. It is unfortunate these concerns were not raised more forcefully over the last eight years, during which the two territories' political, geographic, and economic separation has been nearly total. Today, their connection could be strengthened by beginning to implement PLO-Hamas reconciliation agreements, at least in a minimal form, so as to give Ramallah a foothold in Gaza. But the PA is refusing even that. In fact, among the few things propelling Ramallah ministers to travel to Gaza to discuss governance issues in recent months were reports of indirect Israel-Hamas contacts.<sup>181</sup>

To alleviate concerns about the consequences for Palestine writ large, any future Hamas-Israeli agreement should include declarative statements that Gaza remains an integral part of a future Palestinian state and measures that strengthen currently weak Gaza-West bank connections, including more exports from Gaza to the West Bank and increased Gaza-West Bank travel.

Another concern of Israel, the PA and Egypt is that strengthening Hamas's rule in Gaza would also strengthen the movement politically in the West Bank, further eroding the PA's legitimacy and possibly longevity. An agreement with Israel could help Hamas escape international isolation. These are indeed possible costs of stabilising Gaza, though they are costs not only of a formal ceasefire, but of any steps, even unilateral ones, taken to make the existing administration more stable. To counter the benefits Hamas might get from new understandings in Gaza, Israel and the international community would need to strengthen the PA in the West Bank, perhaps through bilateral recognitions of the State of Palestine, additional donor aid and territorial expansion of PA jurisdiction in the West Bank.<sup>182</sup>

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<sup>179</sup> Crisis Group interview, Egyptian diplomat, Cairo, January 2015.

<sup>180</sup> Crisis Group interview, PA official, Ramallah, August 2015.

<sup>181</sup> A U.S. official said, "the one good thing about all these rumors of a Hamas-Israeli *hudna* [truce] is that it has driven Abbas to at least send his ministers to Gaza". Crisis Group interview, Washington, May 2015.

<sup>182</sup> The PA's jurisdiction could be extended by transferring parts of Area C to B and parts of B to A; allowing the PA and PLO to operate in Jerusalem; reducing Israeli incursions into Area A; and permitting new planning and development in Area C. Under the Oslo Accords, all West Bank land, excluding East Jerusalem, falls into one of three categories: Area A (currently 18 per cent) in theory is under full PA security and civil control, though there are frequent Israeli incursions; Area B (currently 21 per cent) is under mixed PA/Israeli (mostly Israeli) security control and PA civil control; and Area C (currently 61 per cent) is under full Israeli control of security, planning and building, with the PA controlling, for the non-Israeli population, civil matters that do not impinge on Israeli competencies.



A new Gaza ceasefire could also be a first step toward diplomatic progress. For many years, including during the U.S.-led negotiations between Israel and the PLO in 2013-2014, the negotiators and advocates of a two-state solution had no plausible explanation for how Hamas-ruled Gaza would be integrated into an Israel-PLO peace agreement.<sup>183</sup> A ceasefire between Hamas and Israel offers a potential answer: should a final status agreement be reached – however unlikely that may presently appear – it could be implemented in the West Bank while a ceasefire holds in Gaza. That ceasefire could then be renewed, while an Israeli withdrawal in the West Bank could allow Hamas to extend it to there as well. Hamas would then have more to lose from spoiling a two-state agreement. Under current circumstances, by contrast, standing quietly by while a two-state deal is forged would threaten Hamas's rule and possibly even its existence.

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<sup>183</sup> Crisis Group interviews, senior U.S. officials, Washington, October 2013, July 2014, February 2015.

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## VII. Conclusion

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If a new Gaza war is to be avoided during the next few years, there are several potential exits from the current impasse:

- ❑ The PA returns to Gaza, funding is obtained to pay all employees, most likely from Qatar, and West Bank and Gaza ministries are integrated. This option has not materialised in the year since the 2014 war, and there are no indications of a coming change.
- ❑ Hamas obtains new funding. The most likely sources are Iran, if Hamas can repair strained relations, or Qatar.<sup>184</sup> Neither possibility seems likely, and even banking restrictions could be an insuperable obstacle. But Israeli officials say they would accept Qatari funding of the Gaza government.<sup>185</sup>
- ❑ A medium-term ceasefire that would allow the Gaza government to pay all employees and overhead costs and allow Gazans of all political affiliations to travel via a port or crossing not controlled by Israel. For this to work, the new government, at least at a technical or working level, would need to have direct relations with Israel or Egypt or both and, in the absence of a new source of donor aid, agree on a mechanism by which it would become the primary or sole entity receiving tax revenues on goods that enter Gaza.

Under present conditions, a new war is more likely than any of the above. It does not appear imminent today, but there may not be time to stop it when it does. Meanwhile, Israel plans to continue unilateral steps to somewhat improve conditions in Gaza: increasing exports, expanding the capacity of the Kerem Shalom crossing to 1,000 trucks a day and increasing exit permits for Gazans. These can help alleviate but not eliminate pressures within Gaza. Most importantly, they cannot address the fundamental problems of a captive population whose travel is restricted by Israel and Egypt, and a governing authority unable to collect taxes and fully pay its bills.

Israel's options lie along a spectrum, with renewed fighting and reoccupation of Gaza at one end, and a new, years-long ceasefire agreement and lifting of the blockade at the other. In between are unilateral steps it can take, or is already taking, that do not lift the blockade but do relax the closure. Each eases pressures within Gaza, so offers the possibility of further postponing armed conflict. But each step toward lifting the blockade also entails costs, since Hamas would likely use relaxations to increase its capabilities, including but not only those of its military, more rapidly. The price of fighting Hamas less frequently is that Hamas will likely be stronger after each round; at the same time, a stronger Hamas would be better able to control Salafi-

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<sup>184</sup> Relations between Iran and Hamas have been strained since the onset of the Syrian uprising in 2011, when Iran pressured Hamas to support the Assad regime, and Hamas refused. In late July, Hamas political bureau member Mousa Abu Marzouk said Tehran's aid had almost completely stopped, adding: "The relations between Hamas and Iran are not advancing in a direction in which the organisation [Hamas] is interested and aren't improving to the degree the organisation wants in order to help the Palestinian issue". "Iran has stopped giving us money, top Hamas official says", *Times of Israel*, 28 July 2015.

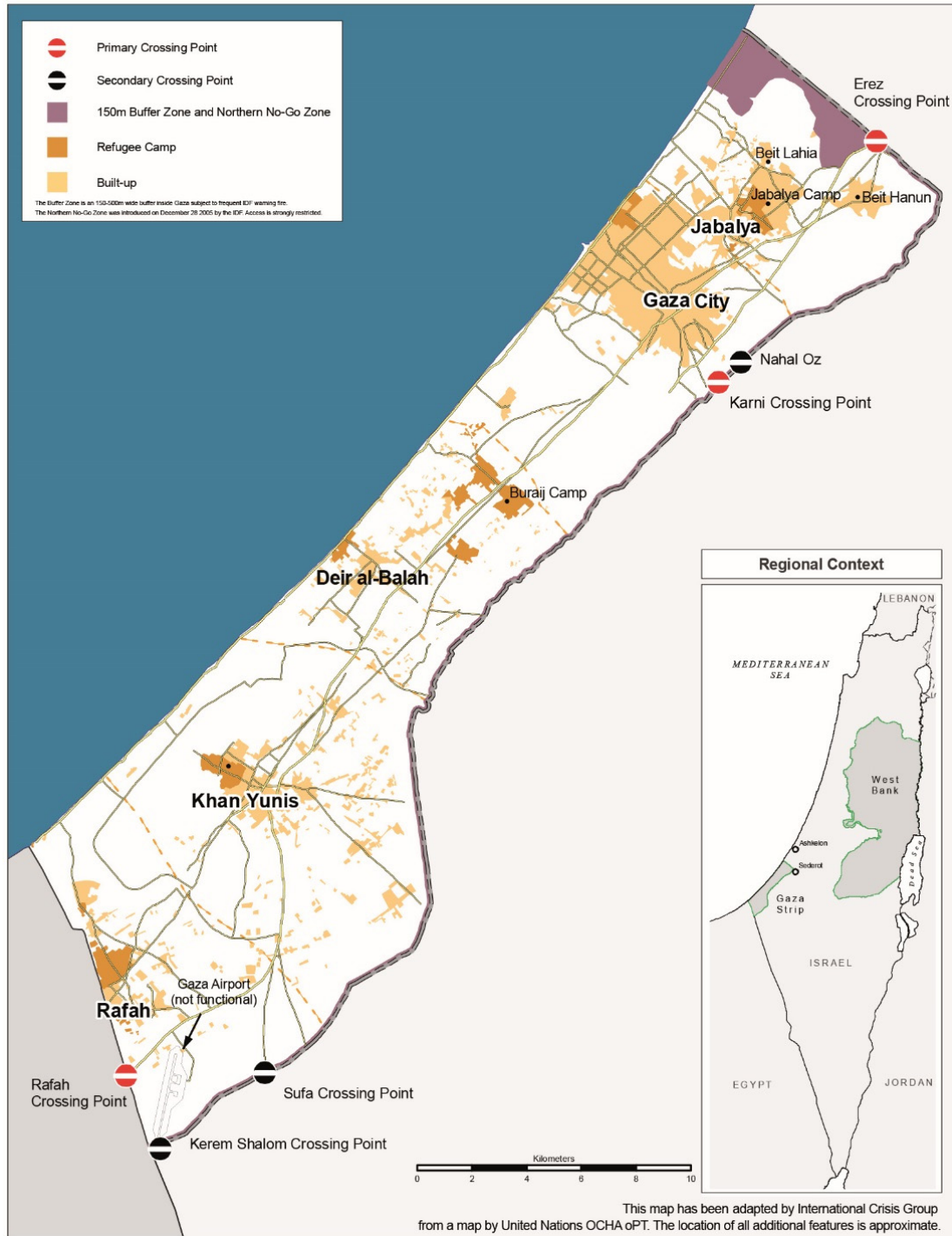
<sup>185</sup> An official in the prime minister's office said, "if Qatar wants to be the CEO of Gaza, Israel won't accept that. For many reasons, including regional ones – namely, Egypt. But this position comes with what in Hebrew we call a small 'chupchik' [an apostrophe-like symbol]: if you take those encapsulated letters 'CEO' and shave off the bottom of the middle one, the E, Israel will have no problem with Qatar being the 'CFO' [chief financial officer] of Gaza". Crisis Group interview, Jerusalem, May 2015.

jihadis and other militants. The questions for Israel are, first, how much stronger might Hamas be in five years if the blockade were lifted or partially lifted, and, secondly, would a war at that time be more costly than fighting sooner, without lifting the blockade?

For an international community that has backed the Israeli-Palestinian diplomatic process for more than two decades, an extended Gaza ceasefire might seem like too little and too much at the same time: too little in that it would distract from the so-called peace process, to which there remains a collective addiction, the current time-out notwithstanding; and too much, in that a ceasefire, particularly an extended one, could strengthen Hamas and reinforce the Gaza-West Bank division, to a two-state solution's detriment. But those objections would be more convincing if the peace process, as currently conceived, had a possibility of success; if the attempt to weaken Hamas had not scored an own goal by enabling the movement to consolidate control over Gaza and polarising the Palestinian national movement; and if Gaza and the West Bank had not already been subject to an Israeli policy of separation even before Hamas took over the Strip in 2007. Holding Israelis and, especially, Palestinians in Gaza hostage to defunct approaches makes little sense and indeed will only precipitate further strife.

**Gaza City/Jerusalem/Ramallah/Brussels, 26 August 2015**

Appendix A: Map of Gaza Strip



## Appendix B: About the International Crisis Group

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The International Crisis Group (Crisis Group) is an independent, non-profit, non-governmental organisation, with some 125 staff members on five continents, working through field-based analysis and high-level advocacy to prevent and resolve deadly conflict.

Crisis Group's approach is grounded in field research. Teams of political analysts are located within or close by countries at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, it produces analytical reports containing practical recommendations targeted at key international decision-takers. Crisis Group also publishes *CrisisWatch*, a twelve-page monthly bulletin, providing a succinct regular update on the state of play in all the most significant situations of conflict or potential conflict around the world.

Crisis Group's reports and briefing papers are distributed widely by email and made available simultaneously on the website, [www.crisisgroup.org](http://www.crisisgroup.org). Crisis Group works closely with governments and those who influence them, including the media, to highlight its crisis analyses and to generate support for its policy prescriptions.

The Crisis Group Board of Trustees – which includes prominent figures from the fields of politics, diplomacy, business and the media – is directly involved in helping to bring the reports and recommendations to the attention of senior policymakers around the world. Crisis Group is co-chaired by former UN Deputy Secretary-General and Administrator of the United Nations Development Programme (UNDP), Lord Mark Malloch-Brown, and Dean of Paris School of International Affairs (Sciences Po), Ghassan Salamé.

Crisis Group's President & CEO, Jean-Marie Guéhenno, assumed his role on 1 September 2014. Mr Guéhenno served as the UN Under-Secretary-General for Peacekeeping Operations from 2000-2008, and in 2012, as Deputy Joint Special Envoy of the United Nations and the League of Arab States on Syria. He left his post as Deputy Joint Special Envoy to chair the commission that prepared the white paper on French defence and national security in 2013.

Crisis Group's international headquarters is in Brussels, and the organisation has offices or representation in 26 locations: Baghdad/Suleimaniya, Bangkok, Beijing, Beirut, Bishkek, Bogotá, Cairo, Dakar, Dubai, Gaza City, Islamabad, Istanbul, Jerusalem, Johannesburg, Kabul, London, Mexico City, Moscow, Nairobi, New York, Seoul, Toronto, Tripoli, Tunis and Washington DC. Crisis Group currently covers some 70 areas of actual or potential conflict across four continents. In Africa, this includes, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Côte d'Ivoire, Democratic Republic of Congo, Eritrea, Ethiopia, Guinea, Guinea-Bissau, Kenya, Liberia, Madagascar, Nigeria, Sierra Leone, Somalia, South Sudan, Sudan, Uganda and Zimbabwe; in Asia, Afghanistan, Indonesia, Kashmir, Kazakhstan, Kyrgyzstan, Malaysia, Myanmar, Nepal, North Korea, Pakistan, Philippines, Sri Lanka, Taiwan Strait, Tajikistan, Thailand, Timor-Leste, Turkmenistan and Uzbekistan; in Europe, Armenia, Azerbaijan, Bosnia and Herzegovina, Cyprus, Georgia, Kosovo, Macedonia, North Caucasus, Serbia and Turkey; in the Middle East and North Africa, Algeria, Bahrain, Egypt, Iran, Iraq, Israel-Palestine, Jordan, Lebanon, Libya, Morocco, Syria, Tunisia, Western Sahara and Yemen; and in Latin America and the Caribbean, Colombia, Guatemala, Mexico and Venezuela.

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**August 2015**

## Appendix C: Reports and Briefings on the Middle East and North Africa since 2012

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*Back to Basics: Israel's Arab Minority and the Israeli-Palestinian Conflict*, Middle East Report N°119, 14 March 2012 (also available in Arabic).

*The Emperor Has No Clothes: Palestinians and the End of the Peace Process*, Middle East Report N°122, 7 May 2012 (also available in Arabic).

*Light at the End of their Tunnels? Hamas & the Arab Uprisings*, Middle East Report N°129, 14 August 2012 (also available in Arabic).

*Israel and Hamas: Fire and Ceasefire in a New Middle East*, Middle East Report N°133, 22 November 2012 (also available in Arabic).

*Extreme Makeover? (I): Israel's Politics of Land and Faith in East Jerusalem*, Middle East Report N°134, 20 December 2012 (also available in Arabic and Hebrew).

*Extreme Makeover? (II): The Withering of Arab Jerusalem*, Middle East Report N°135, 20 December 2012 (also available in Arabic and Hebrew).

*Buying Time? Money, Guns and Politics in the West Bank*, Middle East Report N°142, 29 May 2013 (also available in Arabic).

*Leap of Faith: Israel's National Religious and the Israeli-Palestinian Conflict*, Middle East Report N°147, 21 November 2013 (also available in Arabic and Hebrew).

*The Next Round in Gaza*, Middle East Report N°149, 25 March 2014 (also available in Arabic).

*Gaza and Israel: New Obstacles, New Solutions*, Middle East Briefing N°39, 14 July 2014.

*Bringing Back the Palestinian Refugee Question*, Middle East Report N°156, 9 October 2014 (also available in Arabic).

*Toward a Lasting Ceasefire in Gaza*, Middle East Briefing N°42, 23 October 2014 (also available in Arabic).

*The Status of the Status Quo at Jerusalem's Holy Esplanade*, Middle East Report N°159, 30 June 2015 (also available in Arabic and Hebrew).

### Egypt/Syria/Lebanon

*Lebanon's Palestinian Dilemma: The Struggle Over Nahr al-Bared*, Middle East Report N°117, 1 March 2012 (also available in Arabic).

*Now or Never: A Negotiated Transition for Syria*, Middle East Briefing N°32, 5 March 2012 (also available in Arabic and Russian).

*Syria's Phase of Radicalisation*, Middle East Briefing N°33, 10 April 2012 (also available in Arabic).

*Lost in Transition: The World According to Egypt's SCAF*, Middle East/North Africa Report N°121, 24 April 2012 (also available in Arabic).

*Syria's Mutating Conflict*, Middle East Report N°128, 1 August 2012 (also available in Arabic).

*Tentative Jihad: Syria's Fundamentalist Opposition*, Middle East Report N°131, 12 October 2012 (also available in Arabic).

*A Precarious Balancing Act: Lebanon and the Syrian conflict*, Middle East Report N°132, 22 November 2012 (also available in Arabic).

*Syria's Kurds: A Struggle Within a Struggle*, Middle East Report N°136, 22 January 2013 (also available in Arabic and Kurdish).

*Too Close For Comfort: Syrians in Lebanon*, Middle East Report N°141, 13 May 2013 (also available in Arabic).

*Syria's Metastasising Conflicts*, Middle East Report N°143, 27 June 2013 (also available in Arabic).

*Marching in Circles: Egypt's Dangerous Second Transition*, Middle East/North Africa Briefing N°35, 7 August 2013 (also available in Arabic).

*Anything But Politics: The State of Syria's Political Opposition*, Middle East Report N°146, 17 October 2013 (also available in Arabic).

*Flight of Icarus? The PYD's Precarious Rise in Syria*, Middle East Report N°151, 8 May 2014 (also available in Arabic).

*Lebanon's Hizbollah Turns Eastward to Syria*, Middle East Report N°153, 27 May 2014 (also available in Arabic).

*Rigged Cars and Barrel Bombs: Aleppo and the State of the Syrian War*, Middle East Report N°155, 9 September 2014 (also available in Arabic).

*Lebanon's Self-Defeating Survival Strategies*, Middle East Report N°160, 20 July 2015 (also available in Arabic).

### North Africa

*Tunisia: Combatting Impunity, Restoring Security*, Middle East/North Africa Report N°123, 9 May 2012 (only available in French).

*Tunisia: Confronting Social and Economic Challenges*, Middle East/North Africa Report N°124, 6 June 2012 (only available in French).

*Divided We Stand: Libya's Enduring Conflicts*, Middle East/North Africa Report N°130, 14 September 2012 (also available in Arabic).

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*Tunisia's Elections: Old Wounds, New Fears*, Middle East and North Africa Briefing N°44 (only available in French).

*Libya: Getting Geneva Right*, Middle East and North Africa Report N°157, 26 February 2015. (also available in Arabic).

*Reform and Security Strategy in Tunisia*, Middle East and North Africa Report N°161, 23 July 2015 (only available in French).

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*In Heavy Waters: Iran's Nuclear Program, the Risk of War and Lessons from Turkey*, Middle East Report N°116, 23 February 2012 (also available in Arabic and Turkish).

*Popular Protest in North Africa and the Middle East (IX): Dallying with Reform in a Divided Jordan*, Middle East Report N°118, 12 March 2012 (also available in Arabic).

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*Yemen's Military-Security Reform: Seeds of New Conflict?*, Middle East Report N°139, 4 April 2013 (also available in Arabic).

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*Iran Nuclear Talks: The Fog Recedes*, Middle East Briefing N°43, 10 December 2014 (also available in Farsi).

*Yemen at War, Middle East Briefing N°45, 27 March 2015 (also available in Arabic).*

*Arming Iraq's Kurds: Fighting IS, Inviting Conflict*, Middle East Report N°158, 12 May 2015 (also available in Arabic).

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<b>Amy Benziger</b>	<b>Matthew Magenheim</b>	<b>Dillon Twombly</b>
<b>Elizabeth Brown</b>	<b>Rahul Sen Sharma</b>	

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**SENIOR ADVISERS**

Former Board Members who maintain an association with Crisis Group, and whose advice and support are called on (to the extent consistent with any other office they may be holding at the time).

<b>Martti Ahtisaari</b> Chairman Emeritus	<b>Kim Campbell</b>	<b>Aleksander Kwasniewski</b>
<b>George Mitchell</b> Chairman Emeritus	<b>Jorge Castañeda</b>	<b>Todung Mulya Lubis</b>
<b>Gareth Evans</b> President Emeritus	<b>Naresh Chandra</b>	<b>Allan J. MacEachen</b>
<b>Kenneth Adelman</b>	<b>Eugene Chien</b>	<b>Graça Machel</b>
<b>Adnan Abu-Odeh</b>	<b>Joaquim Alberto Chissano</b>	<b>Jessica T. Mathews</b>
<b>HRH Prince Turki al-Faisal</b>	<b>Victor Chu</b>	<b>Barbara McDougall</b>
<b>Óscar Arias</b>	<b>Mong Joon Chung</b>	<b>Matthew McHugh</b>
<b>Ersin Arıoğlu</b>	<b>Pat Cox</b>	<b>Miklós Németh</b>
<b>Richard Armitage</b>	<b>Gianfranco Dell'Alba</b>	<b>Christine Ockrent</b>
<b>Diego Arria</b>	<b>Jacques Delors</b>	<b>Timothy Ong</b>
<b>Zainab Bangura</b>	<b>Alain Destexhe</b>	<b>Olara Otunnu</b>
<b>Shlomo Ben-Ami</b>	<b>Mou-Shih Ding</b>	<b>Lord (Christopher) Patten</b>
<b>Christoph Bertram</b>	<b>Uffe Ellemann-Jensen</b>	<b>Shimon Peres</b>
<b>Alan Blinken</b>	<b>Gernot Erlor</b>	<b>Victor Pinchuk</b>
<b>Lakhdar Brahimi</b>	<b>Marika Fahlén</b>	<b>Surin Pitsuwan</b>
<b>Zbigniew Brzezinski</b>	<b>Stanley Fischer</b>	<b>Cyril Ramaphosa</b>
	<b>Malcolm Fraser</b>	<b>Fidel V. Ramos</b>
	<b>Carla Hills</b>	
	<b>Swanee Hunt</b>	
	<b>James V. Kimsey</b>	