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

EU-Palestinian cooperation beyond disengagement - towards a two-state solution

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INTRODUCTION

Following a period of almost five years of terrorism, violence, destruction of infrastructure and economic decline in the West Bank and Gaza, 2005 has witnessed a concerted effort to advance the peace process. In this, Israelis and Palestinians have been supported by the international community.

Israel's disengagement from the Gaza Strip and parts of the Northern West Bank is a significant step, offering the best chance of sustained peace in the region for many years. The Quartet Special Envoy, James Wolfensohn, is working determinedly towards a breakthrough in the political impasse Palestinians and Israelis have found themselves in since the beginning of the second Intifada. Successful conclusion of his efforts could provide the decisive opportunity for a resolution of the conflict. The Quartet Roadmap, a necessary condition for the creation of a Palestinian state, remains the reference point for EU activities and its re-launch the focus of EU policy.

This optimistic perspective does, however, depend on whether disengagement can bring real benefit to Palestinians and Israelis alike as well as whether the momentum generated by the withdrawal can be used to further implementation of the Roadmap. This includes, *inter alia*, improved security for Israel, better economic and social conditions in Gaza and the West Bank and progress towards a Palestinian state able to assume its responsibilities and exercise the functions of a modern democracy.

The EU is the biggest donor of assistance to the Palestinians, providing around € 500 million each year, over half of which comes from the EC budget and the remainder from bilateral EU Member State funding. It is also a key member of the Quartet. As such, the EU has the potential to make a significant contribution to the future establishment of a Palestinian State living at peace with Israel. In order to fulfil this potential, the EU should now define a comprehensive medium-term strategy for supporting progress towards a two-state solution envisaged by the Roadmap and for its relations with a future Palestinian State.

This Communication sets out elements for a comprehensive and coherent strategy towards the Palestinian Authority and the Palestinians of the West Bank and Gaza Strip. It aims to define the priorities for EU engagement following the Israeli disengagement from the Gaza Strip and parts of the Northern West Bank, *inter alia* in support of the reform and institution-building efforts of the Palestinian Authority. It also indicates a number of key, but not exhaustive criteria that the Commission considers necessary for a successful involvement following disengagement. The Commission proposes to prepare a Country Strategy Paper for the West Bank and Gaza Strip on the basis of the elements laid out in this Communication and in line with the European Neighbourhood Policy Action Plan with the Palestinian Authority.

This Communication does not cover issues arising from the broader context of the Middle East peace process. Commission services are working with the EU Special Representative (EUSR) for the Middle East peace process to identify EU positions on key issues in order to promote a forward-looking approach to the Middle East in a post-disengagement situation.

1. THE QUARTET SPECIAL ENVOY FOR DISENGAGEMENT

The Quartet's designation of James Wolfensohn as Special Envoy for disengagement sets a new context for the work of the international community in the short term. The European Commission has seconded staff to his team and is coordinating closely with other donors, and has made available a € 60 million package for launching quick-start projects.

The Special Envoy has presented six points or joint issues for the Israelis and the Palestinians to address in order to set the conditions for ensuring the success of the disengagement plan and future engagement of the international donor community. These cover questions relating to border crossings, the West Bank/Gaza link, air and sea ports, houses in the settlements, and the greenhouses in the settlements.

In the context of agreements between Israel and the Palestinian Authority on these points, the Commission is making available support for customs operations at the border, and has provided resources for infrastructure which could be used for the sea or air ports.

Looking beyond the disengagement period, the Quartet Envoy has also presented three priorities on which the Palestinian Authority should focus: fiscal stabilisation, a medium-term development plan and job creation. The Commission is addressing these priorities through its contribution to the World Bank Public Financial Management Trust Fund, as this multilateral channel has proved to be the most efficient system in the current circumstances, as well as making available resources for quick-start projects.

Subject to the progress made on the six points, the Quartet Envoy has proposed a doubling of resources from the international community to € 3 billion a year over the next three years. This has been endorsed by the G8.

The priorities set out in this Communication are part of the response to this new context.

2. REFORM OF THE PALESTINIAN AUTHORITY AND PREPARING FOR A PALESTINIAN STATE

The Commission has been one of the few donors pursuing its assistance to the Palestinian reform process throughout the Intifada, alongside the provision of extensive emergency aid. It has done so both by targeted institution-building programmes and by attaching reform-related conditions to its financial support to the Palestinian Authority.

In the wake of disengagement, however, the Palestinian Authority still faces immense challenges. The effective and complete assumption of responsibility for security and service-provision in Gaza is a major challenge. At the same time, a more comprehensive and sustainable programme of institution-building is required in preparation for a future Palestinian State in both Gaza and the West Bank.

The EU needs to focus its assistance increasingly on the promotion of institution-building by the Palestinian Authority. The Commission Office in Jerusalem has, following the London conference on Palestinian reform, prepared a short-term governance strategy which has been transmitted to the PA. This identifies the most pressing issues of reform and guides the activities of international donors, setting out the short-term priorities for reform and possible donor involvement. This should be done in conjunction with the investments required to revitalise the Palestinian economy and to improve prospects for growth.

This focus must be in addition to the short-term efforts needed to make a success of disengagement as well as to the EC assistance provided to meet humanitarian needs.

3. PRIORITIES FOR EU SUPPORT

The main institution-building priorities are already set out in the EU-Palestinian Authority European Neighbourhood Policy (ENP) Action Plan. This pays particular attention to establishing a functioning judiciary, effective enforcement of legislation and strengthening the rule of law; strengthening institutions and reinforcing administrative capacity and building on the progress already made in establishing an accountable system of public finances. These agreed priorities provide guidance for the Commission's financial assistance programme to the Palestinians.

A key issue for the development of Palestinian authority is the question of political and economic viability of the future state, with economic and political dimensions interlinked and inseparable. Political viability requires the strengthening of democratic institutions, proper control of the security situation, accountability, and the rule of law, respect for human rights and fundamental freedoms and a thriving civil society. Economic viability depends to a large extent on access to and from Gaza and the West Bank, movement within the West Bank, territorial contiguity and economic interaction with Israel.

With a budget deficit of € 400 million in 2004, it will also require appropriate fiscal policies and reliable public financial management in addition to efforts to promote economic recovery, trade and investment. Benchmarks attached to budgetary support for the PA have been and will remain instrumental in promoting progress towards fiscal stabilisation and the further development of a transparent and accountable system of public finances.

Political viability

Political priorities

– Reinforcing legitimacy and accountability

Support to the electoral process

– Strengthening the rule of law

Assist Palestinian reform efforts in the judiciary; develop short-term strategy for consolidating the rule of law including the fight against corruption and organised crime

– **Promoting respect for human rights and fundamental freedoms**

Continue to address the issue of incitement in political dialogue with the PA, support civil society initiatives for human rights

– **Improving security**

Complement EUSR's work on transformation of civil police

– **Engaging civil society**

Promote civil society initiatives in support of the Middle East peace process

– **Making public administration more effective**

Support Palestinian public administration reform efforts, including twinning

– **Jerusalem**

Develop a strategy of assistance for East Jerusalem

– **Addressing the refugee issue beyond immediate humanitarian needs**

Contribute to discussion on future role of UNRWA

Efforts to advance PA reform in the short term must encompass the ultimate objective of ensuring political viability. This should be done through political dialogue, conditioned financial assistance and tailored support programmes, including the twinning mechanism, addressing the following issues:

- Reinforcing legitimacy and accountability

The EU has taken the lead within the international community in support of elections, co-chairing the Election Reform Support Group, providing technical assistance to the Palestinian elections administration, contributing to initiatives in support of civil society and deploying an EU election observation mission (EUOM) for the Presidential elections in January 2005.

The Commission is likely to send a further EUOM for elections to the Palestinian Legislative Council scheduled for January 2006. With the objective of achieving self-sustainability of the Central Elections Commission, the ongoing EU support for the CEC should gradually be replaced by appropriations from the PA budget.

Criteria for EU involvement: implementation of the relevant recommendations of the EU election observation mission report on the PA Presidential elections of January 2005.

Following the elections, the Community should provide capacity building for the Palestinian Legislative Council to strengthen the quality of legislation and the effectiveness of reforms.

– Strengthening the rule of law

As part of the Palestinian Reform process, the EU should expand on areas where it is already active and where its support can yield tangible results, in particular in consolidating the rule of law. Efforts have already been undertaken through conditions attached to the EC's budgetary support programme, such as the adoption and entry into force of the Basic Law and the Law on the Independence of the Judiciary. EUCOPPS (see below) also includes elements aimed at modernising the judicial system. Moreover, the Commission's programme on empowering the judiciary is contributing to the modernisation of the Palestinian legal system.

A short-term strategy analysing further measures needed to consolidate the rule of law, to fight against corruption and organised crime and to promote the establishment of an independent, impartial and fully functioning judiciary, is currently under preparation. The Commission, as chair of the local reform support group on the judiciary is coordinating work on this comprehensive needs assessment, working closely together with the recently established Palestinian Steering Committee for reform of the judiciary.

Criteria for further EU involvement: commitment by the PA to reform the judiciary, in line with the agreed priorities in the ENP Action Plan, and full implementation of the relevant provisions of the Roadmap.

– Promoting respect for human rights and fundamental freedoms

Further actions will need to be taken in support of efforts to protect and promote human rights, including freedom of association, freedom of expression and an independent media.

Measures to reduce and eradicate incitement to hatred and violence are part of this process. Eradication of incitement to violence will require greater involvement of civil society but also a more comprehensive approach to reforming the Palestinian education system, and an undertaking by the Palestinian Authority to implement the provisions of the ENP Action Plan and the Roadmap. This will be necessary in order to sustain the peace process and develop a culture of tolerance, moderation, understanding, and mutual respect.

– Improving security

Establishing a safe and secure environment for all Palestinian citizens through the maintenance of law and order is crucial to the success of the whole reform agenda, as well as an integral part of it. The Commission judiciary programme complements the work of the EU Special Representative security and police programme (EUCOPPS) as well as the efforts of the US security coordinator. With EUCOPPS, the EU has entered a long standing commitment of support to the transformation of the Palestinian police. It will help to create a more effective police service and to improve coordination of donor activities in this field. Improved security is also the principal concern of Israel, which will continue to gauge progress in the peace process by measuring the success of PA efforts to end incitement and dismantle terrorist structures.

– Engaging civil society

Political viability will be strengthened by active engagement of civil society, necessary to sustain support for the peace process. The Commission's Partnership for Peace programme has been instrumental in promoting Israeli-Palestinian cooperation on an informal level, and in helping to sustain the concept of dialogue in times of intense conflict. This will be continued in the future.

– Making public administration more effective

A properly functioning public administration requires reforms across the whole Palestinian civil service. Urgent measures need to be taken to implement the civil service and public administration reform programme to strengthen performance and the efficiency of service delivery. The EU should support these efforts through technical assistance, in particular through twinning projects, with Member States sharing their particular areas of expertise with the Palestinian Authority.

Criteria for EU involvement: strengthened accountability of non-ministerial public institutions, progress on restructuring of Ministries.

There are two other important dimensions to legitimacy and to the political viability of a future Palestinian State: the issues of Jerusalem and refugees.

– Jerusalem

The EU has been active in providing support to the Arab population of East Jerusalem. A number of measures have already been undertaken by the European Commission since 2002 including support for the private sector, social services, and cultural and educational activities. Despite the efforts of the international community and the Roadmap commitments, Palestinian institutions in East Jerusalem, such as the Chambers of Commerce, remain closed. An integrated development plan for East Jerusalem should be further supported. These efforts should be worked into a strategy of assistance to East Jerusalem without pre-empting the Final Status negotiations.

At the same time, the EU must increase the effectiveness of its messages rejecting the recent upsurge in settlement activity and efforts to establish new 'facts on the ground'. The situation of Jerusalem as a Final Status issue is becoming more intractable with the construction of the separation barrier through the city.

– Addressing the refugee issue beyond immediate humanitarian needs

International (and EC) support to Palestinian refugees is primarily channelled through UNRWA, with the EU the largest contributor. The Commission humanitarian office (ECHO) is also actively responding to the humanitarian needs of the Palestinian people, refugees and non-refugees, in the West Bank and Gaza Strip, through non-governmental organisations, relevant UN agencies, and the Red Cross family. As the peace process advances, the refugee question will increasingly come to the fore as will the mandate and role of UNRWA.

While not pre-empting the outcome of future negotiations, an independent Palestine can have no place for refugee camps. The conversion of camps into permanent dwellings will,

however, require major investment. This is just one of many aspects of a just solution to the refugee issue which will need to be considered.

Economic viability

Despite the remarkable resilience of the Palestinian economy, the West Bank and Gaza still need to become economically viable. There is, in addition, a strong dependence on the Israeli market and Palestinian efforts to diversify markets should be strengthened. The Commission proposes to consolidate the achievements of Community aid and extend assistance in order to put in place the building blocks for the establishment of an economically viable Palestinian State.

Economic priorities

– Developing bilateral and regional trade relations

Improve market access for Palestinian products; provide technical assistance; facilitate dialogue to overcome administrative and regulatory obstacles; develop scenarios for economic arrangements with Israel; encourage integration of the Palestinian economy in the region

– Building up a customs administration

Provide support to customs administration; consider seconding experts; offer to provide third party presence

– Reconstructing and rehabilitating the West Bank and Gaza Strip

Provide funds for quick-start infrastructure projects; promote a renewed inflow of investment

– Creating the enabling environment for private sector investment

Assist Palestinian efforts to review legal framework

– Supporting the private sector

Work with the European Investment Bank (EIB) to combine loan and grant resources for private sector investment; provide assistance and training to SMEs to improve management capacity and performance

– Improving the management of public finances

Support Palestinian efforts to modernise revenue administration; provide assistance for further development of financial control

– Developing a knowledge-based economy

Examine options for support to roll-out of broadband applications

– **Addressing the social dimension**

Contribute to social welfare programmes, in particular the World Bank's Social Safety net reform programme

– Developing bilateral and regional trade relations

The EU goal is to dismantle tariff barriers and establish a free trade area between the PA and the EU covering all goods and services as well as to promote intra-regional trade and investment links.

The EU has already taken a number of measures to deepen trade relations and improve market access for Palestinian products through the Interim Association Agreement on Trade and Cooperation with the Palestinian Authority. Measures to further liberalise trade in agricultural produce were adopted in January 2005. Further measures to liberalise trade will also be considered.

Within the wider regional context, trade and customs links between Israel and the Palestinian Authority will also need to be considered as will the extent to which the Paris Economic Protocol¹ might be revised with a view to a future Palestinian State. The goal of promoting intra-regional trade and investment underpins the EU position that the PA/Israel customs envelope should be maintained for the time being. The Commission has urged the Israeli and Palestinian authorities to maintain the customs envelope in the short term pending future arrangements to be agreed between both parties.

The EU will endeavour to facilitate the integration of the West Bank and Gaza Strip into regional trading arrangements including Pan Euro-Mediterranean cumulation, as appropriate. The EU is actively encouraging Israeli-Palestinian cooperation. To this end, the Commission has organised a trilateral working group on trade that brings together Palestinian and Israeli authorities along with Commission experts. The trilateral working group will also examine ways in which to overcome administrative and regulatory obstacles to trade and to facilitate the implementation of the EU Interim Association Agreement with the PA.

The EU should actively encourage cooperation between the Palestinian Authority and its neighbouring countries to reinforce the existing trade links and to develop economic activities that would be of mutual benefit. The neighbouring countries should, in this context, be invited to review and reduce tariff and regulatory barriers.

The Palestinian Authority needs to be prepared for future responsibilities in the areas of customs and trade, including compliance with international trading rules and strengthening administrative capacity. These areas will be further supported by the EU.

Criteria for EU involvement: a significant improvement of the security and access situation, in line with the recommendations of the World Bank report to

¹ The Paris Protocol on Economic Relations was signed in Paris on 29 April 1994 and it outlines key economic responsibilities for the PA and Israel.

the December 2004 Ad Hoc Liaison Committee (AHLC)², and substantial progress on the six points outlined by the Quartet Special Envoy.

– Building up a customs administration

The Commission is providing extensive support to the Palestinian Customs administration, working with UNCTAD to introduce a computerised declaration processing system. Following disengagement, the Palestinian customs administration in Gaza will face many challenges. The Palestinian Authority has therefore requested further assistance as well as a third party presence at their new customs borders.

The Commission is ready to provide further assistance, such as the funding of the deployment of customs officers, under a well-defined mandate, with the aim of building confidence and improving the capacity of the PA customs authorities. The Commission will examine this issue with Member States and can draw on EU experience of improving border management in Central and Eastern Europe. . Such a deployment could be accompanied by a European Security and Defence Policy (ESDP) mission for assistance to border control functions.

Criteria for EU involvement: agreement by the Parties on location and regime applied to border crossings as well as a request by the parties for a third party presence. The EU should seek to extend Israeli guarantees on the operation of land border crossings to the airport and seaport.

– (Reconstructing and) rehabilitating the West Bank and Gaza Strip

The disengagement from Gaza and Northern parts of the West Bank has provided a renewed impetus for donors to return to reconstruction activities. The Commission has established a € 40 million Infrastructure Facility in the context of its 2005 financial assistance programme to be coordinated with the Palestinian Authority and other donors. A number of projects relating to customs, transport, water and energy supply have already been identified.

As the peace process advances, a major reconstruction and rehabilitation programme for the whole of the Palestinian Territory, encompassing both Gaza and the West Bank should be envisaged, in line with the Quartet Special Envoy's three-year plan. If there are improvements in the regulatory environment and respect for the rule of law, reconstruction efforts can focus on the short term to kick-start economic development and to promote a renewed inflow of investment.

A comprehensive reconstruction plan would need to encompass transport in general, including the rebuilding of the Gaza seaport and airport, energy, water supply and wastewater treatment, solid waste management, rural development, and re-building of institutions, in particular security complexes and courthouses. This could only be done in the context of a well developed plan including all major donors and international financial institutions. Work could build on the damage assessment database established by the Commission, but focussed on providing for future needs rather than simply replacing what has been destroyed.

² “High levels of donor assistance cannot substitute for a positive economic environment. If, and only if the parties take sufficient steps to move the economy back onto a path of sustainable growth, a donor funding conference would be justified.” Stagnation or Revival? Israeli Disengagement and Palestinian Economic Prospects, World Bank, December 2004.

Criteria for EU involvement: prior to major infrastructure investments, movement and access restrictions for people and goods will have to be eased, and guarantees from Israel on the operation of the port and airport will have to be sought. There must be coordination with other donors, and with the Ministry of Planning (including in the context of an improved Medium-Term Development Plan).

– Creating the enabling environment for private sector investment

As the peace progress advances, foreign and domestic investment in the West Bank and Gaza Strip should increase. Palestinian investment from abroad is to be expected, together with interest from companies from Israel, neighbouring Arab countries and further afield in establishing operations in the West Bank and Gaza Strip.

Criteria for EU involvement: Progress on improving the legal and regulatory environment for private sector investment.

Foreign investment will in particular depend on the existence and enforcement of transparent and predictable rules. The Commission has already provided assistance in order to draw up and/or revise legislation on, for instance, competition and public procurement. Enforcement will require the far-reaching reform of the judicial and security sectors addressed above.

– Supporting the private sector

Despite the devastating effect of the conflict on the Palestinian economy, the private sector has shown remarkable resilience and adaptability. The SME sector will be the main motor for economic growth and regional integration, contributing to regional stability, job creation and reduced dependency on public sector employment. Vocational training could be of particular benefit, as could the provision of micro-credits. The Commission will continue to support the efforts of the PA to revitalise the private sector, taking into account the principles of the Euro-Mediterranean Charter for Enterprise.

Criteria for EU involvement: the PA will have to accelerate its efforts in creating an environment conducive to private sector development whilst Israel will have to allow for improved movement of goods and services, in line with the Quartet Special Envoy's six points.

The European Investment Bank is currently reviewing conditions for a resumption of activities in the West Bank and Gaza Strip and in Israel. The EIB and the Commission are considering how best to combine loan and grant resources to support private sector investment and promote access to finance for SMEs. This will need to be accompanied by support to improve management capacity.

– Improving management of Public Finances

A viable Palestinian State must possess a modern and transparent system of financial management. Through the budgetary support package provided by the EC and Member States, there have been marked improvements in the management of PA public finances. Nonetheless, there remains a need to further develop an improved, transparent and accountable system of budgeting and control of public expenditure which has the full confidence of the Palestinian population and international community.

Criteria for EU involvement. Progress on drafting an adequate fiscal stabilisation plan by the PA, progress on the consolidation of the pension system, and improvement of planning capabilities.

At the same time, the Palestinian Authority must improve the efficiency and effectiveness of revenue collection. The Commission is currently assisting the PA to put in place a modern system of tax collection which should over time help to increase revenue. However, with the establishment of a Palestinian State with autonomous tax and customs rules, the PA will also be responsible for collection of all VAT and for customs duties, a task currently undertaken by the Israeli authorities on the basis of the Paris Protocol. In addition to efforts to improve the transparency of management of the Paris Protocol and address the issue of fiscal leakage, further capacity-building will be required to increase the transparency and efficiency of the relevant Palestinian institutions, including a modern and reliable statistics system.

– Developing a knowledge-based economy

Support is needed to develop a knowledge-based society through higher and vocational education, research and development in order to strengthen and diversify the Palestinian economy. EC support in line with the recommendations of the UNDP Human Development Report will be as valid for West Bank and Gaza Strip as for other countries in the region. Special effort should be devoted to strengthening Palestinian research and development facilities. In view of the particular geographic situation of the West Bank and Gaza Strip, advanced applications such as broadband connections could allow individuals and organisations to bridge distances and physical barriers. High-speed connections could enable both government institutions and businesses to communicate and access services regardless of their location in either West Bank or Gaza. Broadband could also allow Palestinians to access advanced services, such as e-health or e-learning. Existing internet penetration rates are, however, extremely low.

– Addressing the social dimension

Social development should go hand in hand with any economic development. Efforts must be undertaken to support the sections of the Palestinian population most in need and to improve living and working conditions for all as well as to offset possible short-term adverse effects from some reforms.

Structural action is required to address urgent social needs beyond the short-term humanitarian assistance provided by ECHO and other donors. Consolidating the pension system will contribute to protecting the needs of the elderly. A minimum level of physical and financial access to the entire range of health and educational services should also be achieved. As part of this process, the Commission is contributing to the World Bank social safety net programme.

Promoting active employment policies and equal opportunities will contribute to social development. Poverty reduction schemes such as micro-credit, grass-root job creation systems or specific programmes for the socio-economic integration of the most vulnerable parts of the population (young adults, women, the disabled), should be fostered in order to increase access to basic goods and services.

4. FACILITATING ISRAELI-PALESTINIAN COOPERATION

Policy dialogues

The viability of the West Bank and Gaza Strip will require full and active cooperation with Israel.

The Commission has invested considerable resources in facilitating cooperation and contacts between Israeli and Palestinian authorities in order to foster dialogue and build confidence. This has been achieved by identifying issues and areas of mutual interest for both parties.

Some of these are specified in the Action Plans for Israel and the Palestinian Authority adopted in the context of the EU European Neighbourhood Policy. Trilateral meetings sponsored by the Commission have already been established in the areas of energy, transport and trade.

The Commission is establishing a programme for energy cooperation with a view to enhancing joint energy security of supplies. In this context a joint energy office will be established and a commercial agreement should be reached dealing with electricity exchanges between both parties in compliance with international standards. A joint transport office is also in the process of being established between the parties covering transport infrastructure planning and the facilitation of transport of goods and persons.

The Commission hopes for similar progress on trade issues. Such efforts should continue and be expanded to cover areas such as customs cooperation, environment, science and technology and as appropriate, issues relating to justice and home affairs. Use should also be made of the possibilities for regional cooperation in the context of the European Neighbourhood Policy between the PA, Israel and Jordan.

Third party mediation as part of the peace process

In addition to such Community efforts, the Commission recognises the importance of third party mediation/facilitation in the conflict to ensure dialogue takes place and to generate greater confidence between the Parties. The Quartet Special Envoy, with a regular presence on the ground, has had a positive impact in the context of the Israeli withdrawal from Gaza and parts of the northern West Bank. The Commission has supported his efforts both financially and by seconding an experienced member of staff. It would welcome a renewed mandate for a Quartet Envoy, extended in both duration and scope.

Implementing the Interim Association Agreement

As progress is made on Final Status issues, the EU should be ready to commence negotiations on a full Association Agreement. In the interim, consultation with both Israel and the PA is necessary to develop the EC Interim Association Agreement with the PLO (for the benefit of the Palestinian Authority) and to implement it more effectively. Consultations should address difficulties experienced by Palestinian and EU producers in gaining access to their respective markets (due in particular to administrative problems faced by exporters at Israeli customs borders). The EU should also continue to press for full recognition of the Interim Association Agreement by Israel.

5. IMPROVING EU EFFECTIVENESS AND VISIBILITY

The efforts and activities of the EU need to be more visible, to strengthen our political and reform messages. The Union should step up its efforts to present its messages in a co-ordinated manner.

International coordination

In terms of assistance, there is already close coordination with the EU Special Envoy and Member States and with international partners, including the United States, Israel and international financial institutions. The Commission actively participates in the Quartet and Quartet-established bodies such as the Task Force on Palestinian Reform and the local donor coordination bodies, namely the Local Aid Co-ordinating Committee (LACC). To follow-up the London conference on Palestinian reform, the Commission, together with the World Bank, has presented proposals for a streamlining of donor coordination structures. The Commission will work closely with the Quartet Special Envoy and with the local coordination bodies to ensure effective coordination of international action.

The Commission is in regular contact with the international donor community as well as with international financial institutions and is actively involved in the AHLC. Cooperation with the IMF has been extensive, particularly in the context of the Commission's budgetary support programme to the PA. Together with the World Bank, the Commission has set up the Public Financial Management Trust Fund which builds on the mechanism established for previous Commission budgetary support. The Trust Fund was originally conceived as a temporary measure to overcome the fiscal deficit of the PA. It will have to be succeeded by a more sustainable instrument.

A Clearing House for EU assistance

Efforts to coordinate Member States and Community resources more closely in support of the main policy objectives of the EU - through a local Clearing House mechanism - will improve the visibility of EU assistance. This should include a regular flow of information on Community and bilateral plans and projects, facilitating planning and burden-sharing according to the specialist capacity of Member States and the Commission.

As a first step, priority should be given to implementing the measures identified in the short-term strategy on governance, prepared by the Commission office in Jerusalem following the London Conference, Member States should be invited to participate in this framework with the objective of facilitating coherence. Whilst the management of national funds would remain with Member States, national strategies for assistance should reflect and be guided by the adopted EU strategy. A policy committee composed of all contributors could, for example, be set up to ensure coordination and prioritisation of expenditure within the EU and with the PA. Such a committee could ensure complementarity and define where the use of pool funds or cofinancing would be most appropriate. The Commission should take a leading role in this mechanism.

As a second step, if Member States agree, we could think of extending this mechanism to other areas of assistance, for example infrastructure. Improved EU 'flagging' of assistance, together with an awareness raising campaign in the region, could also be pursued in the short term.

Coordination of Community resources should also be accompanied by a pooling of information among donors to ensure that funds are properly spent.

In the medium-term, the EU could consider the establishment of a special reconstruction fund or an EU Agency for Reconstruction, drawing on the EU's successful experience of post-conflict reconstruction in the Balkans.

Financial resources

Improved visibility is a necessary counterpart for any additional budget resources that may be explored in response to the G8 endorsement of Mr Wolfensohn's calls for a significant increase in financial assistance. At the Gleneagles summit of the G8, Mr Wolfensohn presented an outline of his development plan which foresees financial assistance to the West Bank and Gaza rising to € 3 billion annually in the coming three years. This represents over double the current efforts of the international donor community. Such an increase will only be possible as a joint effort, with significant burden-sharing, in particular on the part of the Arab states.

In the light of the Commission's role as the biggest donor to the Palestinians, the response to the Quartet Special Envoy's request could possibly correspond to an increase in support from the Community budget of about € 200 to 300 million per year, accompanied by an increase in Member State bilateral assistance.

These resources would be targeted on the priorities set out in this paper, addressing the objectives of fiscal sustainability, strengthening institutions and an improvement of the economic situation through increased investment.

However, for these significant additional resources to have an impact on the economic situation in the West Bank and Gaza, meaningful progress in security and access policy needs to be achieved. This was stressed by the World Bank in its 2004 report, endorsed by the Ad Hoc Liaison Committee (AHLC) in December 2004.

The Commission will come back with further details on proposals for additional resources in the 2006 budget by early 2006 at the latest, and taking into account the financial resources available, in particular the Flexibility instrument. These will also take into consideration the progress on the Quartet Envoy's "six plus three points", more detailed plans from the Palestinians and further consultations with the international community.

6. CONCLUSION

For the EU to lend its weight effectively to a re-launch of the Roadmap (a necessary condition for the creation of a Palestinian State) Member States and the Commission must concert their positions on key issues so as to increase the impact of our messages. Such concertation should set out in particular an EU strategy in the event that progress is stalled due to, for example, a breakdown of the calm and a return to conflict, lack of progress on the six joint issues outlined by Quartet Special Envoy James Wolfensohn, continued expansion of settlement activity in the West Bank or the effects of the Separation Barrier. It will also require better coordination of assistance.

With this in mind, the Commission invites the Council to:

- endorse the objectives and priorities set out in this Communication as the basis of European Community action;
- note the Commission’s intention to prepare, on the basis of this Communication, a Country Strategy Paper for Community support to the West Bank and Gaza Strip and a Multi Annual National Indicative Programme for the West Bank and Gaza Strip;
- to agree better mechanisms for coordination of EU actions, reflecting the Commission proposal to act as a ‘clearing house’ for coordination in order to increase the impact of EU financial assistance;
- confirm the objective of the negotiation of an Association Agreement with the Palestinian Authority and work to ensure the full implementation of the EU-PA Interim Association Agreement, including establishing the structures necessary to implement the European Neighbourhood Policy Action Plan; and seek assurances from Israel on recognition of the Interim Association Agreement.

The Commission invites the Budgetary Authority to:

- examine the need, on the basis of proposals from the Commission, to increase Community financial assistance to the Palestinians over the period 2006 to 2008 in the light of the three year Palestinian development plan announced by the Quartet Special Envoy.