

The Rt Hon Chris Patten

Commissioner for External Relations

**Statement to the Foreign Affairs
Committee on EU budgetary assistance
to the Palestinian Authority**

*Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort*

Foreign Affairs Committee of the European Parliament

Brussels, 19th June 2002

Transcript

I would like to say at the outset after yesterday's atrocity how deeply shocked I was, as I'm sure the Committee was, by the suicide attack. Suicide bombings are totally unacceptable, as I've had to say on too many occasions. Horrendous acts of terrorism can never ever be justified in any circumstances. These acts kill innocent civilians as much as they kill any hope for peace. I strongly suspect, as I'm sure others do, that the second objective is as important to the terrorists who commit these acts as the first. It's obviously crucial that the Palestinian Authority should apprehend extremists and should fight those terrorist groups that are opposed to peace. I think that those are remarks that the whole Committee would share.

It is a fundamental right of every democratic Parliament not only to decide how taxpayers money should be used by the executive branch, but also to monitor closely the actual use of public funds. This Parliamentary right to ask questions - and the similar scrutiny by our public auditors - has brought to light irregularities in the past that had to be pursued and corrected. And this is as true for spending within the Union as for spending outside the Union; these problems are by no means limited to our external economic activities.

We have to be extremely careful about our programmes in some countries and areas that are recovering from breakdown, from war and from violence, or that are still suffering from those afflictions. It is the Commission's role to make sure that the money you vote is spent (and we haven't always been as good we should be) and that it is spent as it was intended to be spent. As this Committee knows, we actually have the reputation among beneficiaries of being one of the most demanding donors in the world when it comes to rigorous controls. That has sometimes resulted in us not being as rapid in what we do as many would like us to be.

Your colleague, Michel Rocard, has led a blue-ribbon working group based on the New York Council on Foreign Relations – with experts like Henry Siegman working with him – which has pioneered the thorough reform of the PA. The author of their most recent report on the state of the PA budget commented publicly that EU payments were subject to *“the most extensive and intrusive monitoring system in any post-conflict situation”*.

Nevertheless, as I have said, it's right for Parliament to ask questions and to expect and receive clear and comprehensive answers. What concerns me in this particular case is that whatever answer we give, the same charges are made again and again and again. I suspect that some critics may not be particularly interested in the facts, preferring to try to fit reality to their theory rather than the other way round. We saw this in the past on the text books issue: it was alleged that we were funding textbooks – that was untrue, we denied it. There was even a report by the EU Heads of Mission in Jerusalem refuting the allegations in terms, a report which is publicly available at the Council web-site! Did this change anything? Alas, no. The story comes back again and again and again with the regularity of clockwork.

I should also add that repeating unproven allegations, wrapping them into a tissue of insinuation and amplifying them without bothering to check the facts, does not make for distinguished journalism. I never think it is sensible or dignified for politicians to attack individual newspapers. We are all part of the fabric of a plural society.

But I have to say that a recent article in a reputable German newspaper, which is repeated to a considerable extent in an American-owned newspaper today, did no service to that newspaper's reputation - nor did that newspaper's refusal to publish a reply to its allegations. If any colleagues wish to see the reply that we would have liked them to publish, I will make it available to members of the Committee.

Let me deal with its main allegations, the main ones, not all of them, not all the insinuations, briefly today. I will be very brief, I could go on for a lot longer. The allegations were under the headline, as I recall, "Arafat Bombs, Europe Pays". There were a number of errors in the article, which could have easily been put right if the author or the author's editor had taken the trouble to check the facts with us, or had wanted to check the facts with us. Contrary, for example, to what is said in the article: Commission support to the Palestinian Broadcasting Corporation ended 5 years ago, in 1997; the Commission has never supported the school book commission in the Palestinian territories; the Government of Israel has never presented to the Commission any proof of any financial transaction regarding the Karine A affair; the payment slips for alleged funding of "salaries for attackers", as they are called, are all dating from 1998 to 1999 - EU funding for the Palestinian Authority budget commenced in 2000. It was also suggested that the Palestinian Authority is creaming off 25% of EU funding when converting EU contributions into shekels, this isn't true: EU contributions are paid in Euros and they are converted into shekels by the Arab Bank the same day they are received at the market exchange rate. Contrary again to what was said in that article no list of Palestinian funding requests was handed over to me or to the Commission in Valencia. It was a Member State's Foreign Ministry that informed the Commission that there was a list and asked whether the list had been presented to the Commission, which had not been the case. Israel did not share parts of its "tax income" with the PA, but collected PA taxes (that is customs and VAT) on their behalf and transferred them on every month deducting a 3% "service commission". All this was according to the 1994 PLO-Israel economic agreement (Paris Protocol).

Now, I could go through that article in even more detail. I could deal with some of the insinuations in the article - for example those about the IMF's representative in the Palestinian territories - but I want if I can to deal with some more positive elements today. I'll just make one point - the factual inaccuracies in the article are spectacular. To talk about 4.1 billion of EU funding in the Palestinian territories when the real figure is 1.4 billion is more than a slight error of fact, and again and again there are errors like that in the article.

Let me turn to the real issue at stake here, and let me start with two general remarks. First of all budgetary support to the Palestinian Authority is not a policy of the Commission; it is a policy of the Union, endorsed by the Council, supported by the Parliament and executed by the Commission. Secondly, we have taken the allegations that EU funds have been used for funding terrorism or otherwise misappropriated extremely seriously. I can assure the Committee that even if there were the smallest misuse of EU-funds we would not in any circumstances condone it. The Commission services have looked carefully at the evidence provided by the Israeli government (Mr Naveh) and by the IDF. We have looked at it with the Israeli authorities and the IDF, and we asked the IMF and the Palestinian Authority to comment on the allegations.

After this scrupulous examination, I should tell the committee that we have found no evidence, I repeat, **we have found no evidence of EU funds being used for purposes other than those agreed between the EU and the PA. The documents presented to us by Israel do not prove that EU funds have been misused, and, as I understand it, that is no longer the burden of the charge which is made. So there is no case for stating that EU money has financed terrorism, has financed the purchase of weapons, or any similar activities.** In the documents provided to us there is no evidence that the PA budget as a whole provides funds for terror activities.

I want to be as open as possible with the Committee. I am quite prepared to show under the normal terms the cyphers that we have received from our representations, setting out the conclusions of those who have investigated all that documentation, to the Chairman and vice-Chairmen of this Committee. I am quite prepared for them to see every bit of evidence that I have seen from those who have inspected the documents they've been shown on the ground. And I want to add another point as well: if anybody has any further evidence I will ask our services to look at it with all the seriousness that is demanded by such grave allegations.

Let me also tell you what we have actually achieved with our budgetary support. We have prevented the financial collapse of the Palestinian Authority, which is the legitimate governing body in the Palestinian territories as the provider of key services. That has prevented even greater chaos and anarchy than would have taken place otherwise. We managed, together with the IMF and the PA, to work out an emergency budget with reduced expenditures. We attracted enough international support to have its funding secured. Where we failed was to get the Israeli government to resume the tax transfers - by now they are holding some US \$600 million of Palestinian tax money in violation of the Paris Protocol - something which some seem to have lost sight of. This illegal blockade of tax-transfers by Israel was the reason for the EU decision to grant budgetary aid to the PA; a decision which was welcomed and pressed on us by the EP.

But more importantly, we have done more to reform the PA and more to build functioning Palestinian institutions than anybody else has. We started this work - with the European Parliament, with the Norwegian Government and with the American Council on Foreign Relations - long before reform became everybody else's mantra. We know that a well-governed Palestinian State that follows democratic principles and operates in a predictable and transparent way on the basis of market economy rules is the best security guarantee for its neighbours, and in particular for Israel.

We have attached clear, concrete and tangible conditions to assistance, and we have obliged the Palestinian Authority to carry out concrete reform measures. **Through Commission help the Palestinians have already achieved a lot:** reinforced transparency in the PA's public finances; consolidation of all sources of Palestinian Authority revenue in a single treasury account; close monitoring by the International Monetary Fund; full responsibility placed on the Finance Ministry for managing the Palestinian Authority payroll; a freeze on public sector hiring and austerity budget; and the important adoption of the Law on the Judiciary and the Basic Law.

Let me repeat once more that if there is to be a Palestinian State there needs has to be a Palestinian Authority. I cannot see how it could help anybody to destroy the Palestinian Authorities infrastructure or undermine its financial base.

So what are our intentions for the future? We will continue with our budgetary support at a rate of € 10 million per month – and I repeat that the transfer the Committee has been talking about does not affect that. Member States have already agreed to maintain this until February next year unless we have good reason to stop it, such as a major breakthrough in the peace talks and the resumption of payment of the blocked funds. On the basis of our success with previous conditionalities **we are currently working on refocusing and strengthening the conditions attached to our EU/COM budgetary support** on the basis of a reform agenda worked out by experienced and extremely reputable specialists like **Michel Rocard and Henry Siegman.**

In particular we need to **focus our efforts on,**

1. **creating a constitutional government** by shaping the institutions foreseen in the Basic Law and making them efficient and accountable.
2. establishing a truly **independent judiciary and a harmonised national legal and regulatory framework** more suitable to a free society and market, as well as abolishing state security courts.
3. **establishing democratic participatory politics and a pluralist society** by creating a more effective Legislative Council that would exercise enforceable oversight and decision-making authority, and which would be responsible for receiving and implementing the external audit findings of a statutorily established General Control Institute;
4. and encouraging further **financial openness and accountability.**

A couple of final remarks.

Needless to say that the PA also needs to speed up the recently initiated consolidation of police and security forces and to bring them under clear civilian authority, but in parallel **we should also launch programmes and projects that underpin reform and institution-building.** Programmes in support of the judiciary. Programmes in support of the health sector - they are already planned – and additional programmes on the basis of the Rocard/Siegman report could also be designed. It will be essential to mobilise specialist expertise for this in a joint Commission-Member State effort; for example through twinning, as we have done with the accession candidates.

We are also working out ideas for an EU contribution to the preparation and actual holding of **elections.**

In the meanwhile **we have already prepared a small emergency support package under the rapid reaction mechanism (RRM) worth €5 million,** which I intend to launch in the next few days. This will be designed to help re-equip Ministries such as Finance and Health, which were badly affected by damage to equipment and destruction of their records and basic data. I see this as an important, indeed essential step in ensuring that our Palestinian counterparts are in a position to respond to the stringent conditions for our co-operation.

Looking beyond these measures, towards a major international effort for wider reconstruction in the Palestinian territories, I am not prepared to venture today an opinion on the appropriate level of ambition or on the likely timing of such action. First, the political situation must become clearer. What *is* already clear to me, though, is that Europe should be in the vanguard of a concerted international development plan for the Palestinians. So we should take measures now to make sure that we are ready take the lead when the conditions are right.

One final repetitive remark. We should deal seriously, carefully and constructively with the budgetary aspects of a highly charged political issue. We all want to make sure that our assistance offers the best possible support for a way back to stability and security, and ultimately peace in the Middle East. The management of this assistance is an issue which was certainly not politicised by the Commission. I hope I can continue counting on the Committee's support to make rapid progress in this urgent task. Frankly, if we turn our back on this, any words about Europe having a part in the Middle East peace process are pretty worthless.

Response of Commissioner Patten to questions of several Members of the European Parliament

Let me begin in as friendly a spirit as possible in responding to Mr Laschet's lengthy observations. Mr Laschet talked about the article that appeared, he said on the 6th of June, and this issue as though the article had come to him like a bolt out of the blue and as though there was no relationship between this debate and the article. I'm surprised he is showing such innocence about the article since he is quoted in it, and I imagine, knew what the article was saying since it quotes his views in this case on textbooks, which is an issue we've had exchanges about before and whatever I have said about textbooks, whatever all the European Union Heads of Mission in Jerusalem have said about textbooks, the Honourable Gentleman disagrees with us all. Well, there is a limit to how much one can go on saying something that is true.

The Honourable Gentleman asked "why budgetary aid?". Mr Swoboda pointed out why budgetary aid. Budgetary aid because the Palestinians are having their funds illegally blocked by the Israeli Government. Budgetary aid, even more importantly, because during the security operations in the last few months I'm afraid that Israeli defence forces, doubtless sorely provoked, but Israeli defence forces went from Ministry to Ministry destroying the basic fabric of administration in the Palestinian territories. I'd much prefer to be asking this Committee to fund their projects, but just tell me where we could do a project at the moment on the West Bank? Where could we do a project in Gaza? Where would we be able to find a way to revive economic life in the West Bank, with town after town surrounded by fences or by barbed wire or by tanks? The sooner we can get back to projects - which of course demand a certain security and an end to occupation - frankly, the better. Nobody would like it more than I would. But when the Parliament, and I've got the quotes here, when the Parliament, in resolutions, endorsed what we were doing, said that, because of Israeli action, we should provide budgetary assistance, I think the Parliament knew very well what it was doing - what the difficulties were, what the challenges are - which is always the case with macro financial assistance or budgetary assistance. It is only different in these circumstances because we are still operating in conditions that are extremely like war.

The Honourable Gentleman asked me, and it's a point that Mr Salafranca made extremely reasonably, what exactly it was that we were asking for, and I'm sorry that the rather prosaic boring details have got infused with so much highly charged politics.

There are two transfer requests: one to top up the budget line for UNRWA by €9.6 million; the other to top up the Middle East peace process budget line for €18.7 million. This is an issue about good treasury management. It's an issue that only concerns payments credits. It's the sort of thing we do at this time of the year, fairly regularly, in order to try to ensure that the money we've got to pay meets the commitments we are going to have over the next few months and, typically, we come back and we discuss the Notenboom transfer later on in the year with the Committee and with the Parliament. We need €10 million for UNRWA because we are proposing to make a larger annual commitment to UNRA of €10 million. Why do we need the money for the Middle East peace process budget line? Because we took money from the Middle East peace process budget line at the beginning of the year in January and February (again for payments credits reasons) in order to make budget support payments, and because we need the money now to continue to meet commitments for ongoing projects, particularly the World Bank health trust fund and the work in municipalities. I am absolutely 100% prepared to go through all the projects that we are funding to report on progress with those projects under these budget transfers with this Committee. I am also prepared to say to the Committee that if the Committee would prefer not to take the money from the MEDA budget line we can come back to the Committee and propose to take it from the TACIS budget line, where there is also at the moment slightly too much of a gap between payments credits and what we think we will be able to commit. So we will be as accommodating to the Committee as possible. But I don't want the Committee to be under any illusion about what the purpose of this transfer is or about the implications for the purpose. Last year, the Parliament, in its wisdom, increased the amount of payments credits we were going to have this year in MEDA, and that is why we have got the elbow room at this time of the year to be able to deal in a sensible treasury way with the squeeze on another couple of budget lines.

I want to say just a couple of other things about what the Honourable Gentleman said. I have to say that I think the insinuations about the IMF representative in the Palestinian territories are literally monstrous. What the Honourable Gentleman is suggesting is that because the Gentleman in question is of Palestinian origin, he can't be trusted. He holds a Jordanian passport and was educated in the United States. If we were to make similar insinuations in other circumstances we would be charged, quite properly, with making very very serious allegations, and I think it is not right to make those allegations against an extremely distinguished international civil servant. The other quote that the Honourable Gentleman made from an alleged Cypher from our Commission Delegation was actually the Commission Delegation not saying what they thought, as the Commission Delegation have pointed out in a letter to Ha'aretz, but saying what they were told by the Israeli defence forces and the Israeli authorities was happening.

Now let me make one other point. What the Honourable Gentleman says, in effect, is: can you be absolutely certain, can you give a rock-solid guarantee that there are no circumstances in which any money voted by European taxpayers can conceivably sustain any violent activities. The first Ministerial job I had in British politics was as a Minister in Northern Ireland and I was responsible for a £3 billion budget in Northern Ireland.

Could I be absolutely certain that none of the money that I was responsible for, that none of the money I was going to Parliament to ask for, ever went, for example, to pay social security payments for somebody who didn't have the same political views on the Northern Ireland Peace Process as I had? It's an impossible question to ask in the real world. What I can say is we are doing everything we possibly can to ensure that the money that you vote is properly used and properly monitored and we will follow any other sensible advice that anybody has to offer us.

I confirm that we are prepared to provide the information which the Honourable Gentleman mentioned to the Chair and vice-Chairs under the normal conditions of confidentiality, which I'm sure the Committee would understand, and I confirm that if there is the slightest suspicion we would want to make enquiries straight away. I just remind the Committee that there was a report by the Court of Auditors in 2000 on payments to the Palestinian Authority and its worth perhaps going back to that report and seeing what that report says. Have there been problems of corruption in the Palestinian Authority? Yes, there have. Who has done most to promote reform? Who has done most to promote transparency in the Palestinian Authority? The European Union. When I go to the G8 Foreign Ministers meetings, like last week, and hear everybody as I did talking about the importance of reform in the Palestinian authorities, I have to say I think to myself, why were they not listening when we were saying all this? A lot of people - when this Parliament was talking for example about the importance of promoting democracy in the Palestinian territories, about the importance of having elections, about the importance of an independent judiciary - sort of took the view that, provided Mr Arafat was in a position to lock people up if they caused trouble, it didn't matter too much about civil liberties and human rights. I don't think that Parliament took that view and I don't think this Parliament would take that view today. I'm not sure how it helps transparency, I'm not sure how it helps openness in dealing with issues like financing, I'm not sure how it helps us to prevent corruption to go around Ministry after Ministry of the Palestinian Authority destroying all the records, destroying all the hard disks, destroying all the files. It doesn't seem to me that that's a very good way of promoting transparency.

The Honourable Gentleman, Mr Dupuis has said that this was a political question and the Honourable Gentleman disagrees with helping the Palestinian Authority. He has his point of view, I don't think it's the same view as the Parliament's, I hope it's not the same view as the Parliament's, it is certainly not my point of view. I think, as I've said a hundred times, the alternative to the Palestinian Authority - to a Palestinian Authority that I hope will become increasingly democratic - is Palestinian anarchy. I repeat that, as I said earlier, in referring to the Honourable Gentleman Mr Salafranca's observations, we will provide all the detail about the projects, which will be funded under the transfers that we are proposing, and I repeat again that those transfers are not going to provide budgetary assistance.

We will also be happy to discuss with this Committee and with the Budget Committee any additional ideas that the Committee has for sensible monitoring of the money that we spend - I have to say not just in the Palestinian territories, but elsewhere too.