Implementing the Israeli Government's Proposed Punitive Measures Could Lead to the Collapse of the Palestinian Authority

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Since the events of October 7 and especially following the Palestinian Authority's involvement in legal cases against Israel at international courts in The Hague and the wave of nations recognizing a Palestinian state, the Israeli government has significantly intensified its punitive measures against the PA, where the economy, which was in a difficult situation even before the war, has deteriorated even further. These measures are designed to punish the Palestinian Authority to the point of its collapse since the package of measures will gradually undermine the PA government's ability to rule. Punitive measures by the Israeli government could spark a violent Palestinian uprising in Judea and Samaria.

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Introduction

Since October 7 and the start of the war in Gaza, and even more so in light of the Palestinian Authority's involvement in legal cases against Israel at international courts in The Hague and the wave of various countries officially recognizing a Palestinian state, the Israeli government has significantly intensified its punitive measures against the PA, where the economy, which was in a difficult situation even before the war, has deteriorated even further. Even before these latest measures have an impact, the Palestinian Authority was considered a failed government according to the Fund for Peace's Fragile States Index. This is due to the loss of control over its territory and its lack of monopoly on the legitimate use of physical force; the erosion of its authority to make collective decisions; and its inability to provide basic services to the Palestinian public.

In this article, we will examine the economic, settlement and individual measures that Israel has announced against the Palestinian Authority, in order to highlight their significance and potential ramifications— undermining the functionality of the PA to the point of its collapse.

Economic Measures

The measures that Israel has enacted since the outbreak of the war in the Gaza Strip have led to a dramatic deterioration in the economic state of the Palestinian Authority:

Ban on Palestinian Workers Entering Israel

Before the outbreak of the war, around 165,000 Palestinians were employed in Israel and West Bank settlements; around 130,000 worked legally. Since October 7, however, Palestinian workers have not been permitted to enter Israel, notwithstanding 8,000 who are defined as essential workers and another 18,000 who have been permitted to work in industrial zones and settlements in the West Bank. In practice, 120,000 people became unemployed and unable to earn a livelihood, with commensurate implications for stability in the territories. The damage to the Palestinian economy is estimated to be in the hundreds of millions of shekels every month and import/export activity has also dropped by 30 percent.

A proposed new law, which was passed in its first Knesset reading on May 29, deals with the forfeiture of the sum that the Palestinian Authority intends to pay to the families of terrorists (thus far, Israel has withheld around 3 billion shekels), which would allow Israel, two years after the money was frozen, to put it toward a special fund for terror victims.

Withholding Tax Revenues and Customs Duties

These funds are tax refunds for Palestinian workers' labor and customs duties collected by Israel for the movement of goods to the Palestinian Authority. They make up 65 percent of the PA's annual budget. The total is between 750 and 800 million shekels a month, of which 120 million shekels is earmarked for the Gaza Strip. A large proportion of the sum is used to pay the salaries of Palestinian Authority employees, particularly the 30,000 or so members of the Palestinian security apparatus. Shortly after the outbreak of the war, in November 2023, the State of Israel decided—much to the chagrin of the Palestinian Authority—to deduct from these revenues the sum that was to be transferred to Gaza, in addition to the regular deduction of around 50 million shekels a month that the PA pays to the families of terrorists and Palestinian security prisoners (known in Israel as terrorist salaries). Under international pressure, especially from the United States, Israel decided in January that it would transfer the accumulated differential—between 250 and 200 million shekels—to Norway. A proposed new law, which was passed in its first Knesset reading on May 29, deals with the forfeiture of the sum that the Palestinian Authority intends to pay to the families of terrorists (thus far, Israel has withheld around 3 billion shekels), which would allow Israel, two years after the money was frozen, to put it toward a special fund for terror victims. Seizing the money and putting it in the national coffers would ensure that the frozen funds do not end up in the hands of the Palestinian Authority.

Refusing to Extend the Indemnity Allowing Israeli Banks to Work with Palestinian Banks

Israeli banks need indemnity as insurance against the imposition of sanctions against financial institutions that transfer monetary aid to the Palestinian Authority, which would be a violation of the Taylor Force Act—passed by the U.S. Congress to stop American economic aid to the Palestinian Authority until the PA ceases paying stipends to individuals who commit acts of terrorism. Therefore, refusal to allow two Israeli banks—Bank Discount and Bank Hapoalim—to transfer money to banks in the Palestinian Authority and annulling their indemnity from prosecution for supporting terrorism, could sever the Palestinian banking system from the international system. The Israeli government usually renews this waiver for a period of one year but when Finance Minister Bezalel Smotrich renewed it in April, he did so for just three months. Now Smotrich is threatening not to renew the waivers, which would force the two Israeli banks to sever their ties with Palestinian banks. The waiver, according to financial experts, facilitates payment for vital services and salaries related to the PA and makes it easier to import essential goods, such as food, water and electricity to the West Bank.

Without it, the Palestinian economy would be "shut down for an extended period of time."

Bolstering the Settlements

Finance Minister Bezalel Smotrich and Minister for Settlement and National Missions Orit Strock, both from the Religious Zionism party, recently announced the allocation of funding and permits for infrastructure in more than 60 illegal outposts that are at the start of their authorization process. Five of them (Evyatar, Sde Ephraim, Givat Assaf, Heletz, and Adurayim) were approved at the cabinet meeting on June 27, in response to five nations recognizing the Palestinian state in the aftermath of October 7. It was also decided that Israel would not remove existing farms on state land, based on the claim that they are situated on lands designated as nature reserves. As Finance Minister and Minister of Defense, Smotrich has assumed total control over planning, land, enforcement and transportation in Judea and Samaria and he is also in charge of all issues related to the settlements. To this end, he appointed, for the first time, his own deputy to the head of the Civil Administration—an official who is not subordinate to the head of the Civil Administration but to the new body that he established within the Defense Ministry.

On May 22, the finance minister made more demands of the prime minister, in response to the wave of governments recognizing the Palestinian state and the diplomatic-legal campaign that the Palestinian Authority is waging against Israel. He demanded an immediate meeting of the Judea and Samaria Planning Council to approve the construction of dozens of housing units in existing settlements—including in Area E1 between Ma'aleh Adumim and Jerusalem—, 6,000 of which were approved at the June 27 cabinet meeting; the establishment of a new settlement every time any country unilaterally recognizes a Palestinian state; and the authorization of four illegal outposts. At the same time, Smotrich also intends to start enforcing building restrictions

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on illegal Palestinian construction in Area B of the West Bank, including the nature reserve in the Judean Desert (land that was defined as a nature reserve in Area B)—a move that was also approved as part of the sanctions adopted at the June 27 cabinet meeting.

As for the restrictions on settlements in the northern part of Samaria, the Knesset last year approved the annulment of the Disengagement Law, thereby allowing Israelis to return to and settle areas of northern Samaria from which Israel withdrew in 2005. Implementation of the law is dependent on a military permit. Indeed, on May 22, the defense minister cancelled the ban on entry into three of the northern Samaria settlements that were evacuated in the disengagement—Sa-Nur, Kadim and Ganim (although entry to the settlements is still not possible since the IDF issued a decree to allow the defense establishment to make suitable security arrangements).

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Individual Sanctions

At the security cabinet meeting that was held on June 16, ministers were presented with the measures that the government intended to take against the Palestinian Authority, including permanently cancelling the VIP passes that PA officials use to get through Israeli checkpoints, as well as additional economic sanctions against senior officials and their families. Also discussed was the option of deporting senior PA officials and their families (who are living illegally in Judea and Samaria); travel restrictions within Judea and Samaria for those involved in seeking arrest warrants against Benjamin Netanyahu and Yoav Gallant and preventing them from travelling overseas; and prosecuting Palestinian officials for incitement to terrorism and supporting terrorism in Judea and Samaria—including arresting and putting them on trial. These measures were approved at the June 27 cabinet meeting.

Summary and Significance

Under the current strains, the Palestinian Authority's precarious state, as a failed entity, is liable to worsen to the point of collapse and its institutions will crumble and cease to function as administrative, authoritative and central organizations. As a result, the PA will become insolvent, will stop paying salaries to its employees, will lose the ability to control its security apparatuses and will no longer be able to provide basic civilian needs in Judea and Samaria. This could lead to a situation whereby the Palestinian forces turn their weapons on Israel and stop ensuring public order.

Against the backdrop of the measures described above—and before all of them are implemented—is it important to note that, even now, the Palestinian Authority is in a precarious situation. Since the start of the war in Gaza, more than 530 people have been killed in Judea and Samaria (the vast majority of them terrorists), more than 5,200 have been injured and around 4,000 have been arrested. The IDF is using new methods, including aerial attacks using drones and helicopters. At the same time, the Palestinian Authority's ability to govern and thwart terror attacks has been undermined and its public standing is at an all-time low: more than 60 percent of Palestinians support the dissolution of the PA and 89 percent want Mahmoud Abbas to step down from his position as chairman.

It should come as no surprise, therefore, that the Israeli government's proposals are being met with concern by the defense establishments of both Israel and the United States, which are worried about the economic collapse of the Palestinian Authority, leading to chaos in Judea and Samaria and to more support for Hamas, as Iran continues to provide financial support for terror attacks. Recently, the Shin Bet issued a strategic warning to the political leadership and the defense establishment about the dangers of economic collapse. Among other things, the Shin Bet noted that salaries to members of the Palestinian security apparatus have already been slashed, which could lead to them defecting to terrorist organizations and a drop in the effectiveness of their counterterrorism operations against Hamas in Judea and Samaria.

All of this comes against the backdrop of Prime Minister Benjamin Netanyahu's reticence to work with the Palestinian Authority. He has reiterated time and time again that he does not view the PA as part of the solution for post-war Gaza but as part of the problem, and has drawn comparisons between Fatahstan and Hamastan. The cooperation of the PA with international moves to recognize an independent Palestinian state also erodes its hopes of legitimacy in the eyes of Israel. The package of sanctions that Israel has formulated against the Palestinian Authority is therefore designed to preclude the PA as a relevant player in reforming the Palestinian arena.

Finance and 'territories' minister Smotrich is therefore taking advantage of the opportunity to hasten the Palestinian Authority's economic collapse and descent into dysfunction. Implementing these measures—especially halting the transfer of tax revenues and refusing to extend the waiver for Israeli banks—could even be a death blow for the PA. A warning saying just that was recently issued by the World Bank, which reported that, even before the implementation of these additional measures, the gap between the income and expenditure of the Palestinian Authority could lead to its collapse. The changes that Smotrich is implementing contradict the position of the Shin Bet and the IDF's Central Command, which insist that every incident in Judea and Samaria has security ramifications that could undermine national security. Sources in the defense establishment have expressed their views of Smotrich's planned measures, saying that he is taking advantage of his dual roles as minister in the Defense and Finance ministries, to promote a deliberate policy that could lead to an eruption of violence in Judea and Samaria: "We are walking into the abyss with eyes wide open." It would appear that the far-right members of the Israeli government are ignoring these warnings, as well as the fundamental fact that increasing the number of troops in Judea and Samaria will necessarily come at the expense of the Gaza Strip and the northern border. They are also turning a blind eye to the increase in Iranian involvement on the ground, as Tehran promotes attacks by sending money to terror groups and smuggling arms and ammunition via Jordan into the West Bank.

If the Palestinian Authority were to collapse, Israel would find itself laboring under the heavy burden of responsibility for the civilian needs and public order of some 2.7 million Palestinians living in the West Bank, at an annual economic cost of around 57 million shekels. That would be around 5 percent of Israel's GDP (30 million shekels for pensions, 16 million shekels on education, 18 million shekels on healthcare, 6 million shekels on other government expenses and 2 million shekels on the Civil Administration in the West Bank, minus income of around 15 million shekels). And it should be noted that the process of the PA's collapse—even if, in the end, it does not fully disintegrate—will have ramifications for Israel.

In order to prevent the Palestinian Authority from collapsing—given the dangerous implications for Israel in terms of the cost of supporting the Palestinian population, the need to increase troops levels and the danger of international isolation and damage to peaceful relations with our neighbors—the government must take responsibility for the long-term, must not take any far-reaching decisions that would cost more than Israel's resources can afford and refrain from measures that might hasten the collapse of the PA. This does not mean that Israel cannot take measures against the diplomatic-legal campaign that the Palestinian Authority is waging—but not in a manner than would lead to its collapse or to an escalation of the security situation in Judea and Samaria. To this end, we should encourage the international community and pragmatic Arab states to involve themselves in the introduction of the necessary reforms to the PA, including an end to the policy of paying terrorists' salaries—in accordance with the vision of U.S. President Joe Biden.

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