TRADE BETWEEN THE EU AND ISRAELI SETTLEMENTS: HOW TECHNICAL ARRANGEMENTS ADD TO STRUCTURAL INJUSTICE IN THE SUPPLY CHAIN

El comercio entre la UE y los asentamientos israelies: cómo los acuerdos técnicos suman injusticia estructural en la cadena de suministro

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More than two decades ago, the EU upgraded its preferential trade with Israel. Many EU member states and European multinational companies violate the European Commission’s mandatory directives on excluding the Israeli settlements’ economy from the preferential treatment of free customs duties.

This article argues that the settlements’ economy is correlated to a structural injustice in the supply chain, through the imposition of a coercive environment in the Occupied Palestinian Territories. Many European multinational companies trade in Israeli settlements and partially contribute to the structural injustice. The European Commission tackles the structural injustice by a framework of technical arrangements, but such a framework is unsuccessful due to the thoughtlessness and bad faith expressed by those actors linked to enterprises in the settlements, and due to the lack of normative standards and an operational framework of responsibility. This article challenges the longstanding argument in literature that the problem in the EU-Israeli settlements trade is not only a mere territorial and border dispute, using a mixed method of quantitative datasets and discourse analysis.

EU-Israel preferential trade; European Commission; settlements’ economy; Occupied Palestinian Territory; territorial disputes; rules of origin.

1. Research background

Preferential agreements are intended to allow trade concessions only to the contracting parties while maintaining existing barriers towards non-contracting parties. In order to facilitate reciprocal arrangements in such agreements, a rule of origin system is designated to identify the states involved in trading products (Hirsch, 2002). The general principle of international trade law stipulates that the originating state is the one that carries out the last substantial process or sufficient working or processing of the product (Hirsch, 2002).

In 1964, Israel was one of the first countries to sign a preferential trade agreement with the European Economic Community (EEC), suspending tariff duties on approximately 20 industrial and commercial products. In 1975, the EEC and Israel signed their first limited free trade agreement, which was upgraded in 1995 to an Association Agreement that entered into force on 1st June 2000. The EU-Israel Association Agreement opened the door to cooperation in research and development, financial flow, FDI, and it decreased Israel’s negative trade balance with the EU, particularly in agriculture (Pardo & Peters, 2010). Yet the two contracting parties have separate normative understandings because of territorial disputes caused by Israel’s continued occupation of the Palestinian Territories and Syrian Golan Heights since 1967.

The territorial disputes demonstrating the issue of sovereignty over particular territory or the issue of recognition of a certain government are highly relevant to the rules of origin because international trade law defines the origin of goods on a territorial basis. Hirsch (2002) presented two approaches adopted by the EU in an answer to the rule of origins in territorial disputes. These included practical-trade that resolves the issue from a commercial perspective; such an approach was adopted by the EU in the cases of Taiwan and the Western Sahara. The other approach is political-sovereignty that resolves the issue from an international political and legal perspective based on sovereignty and recognition, and it was adopted by the EU with respect to the Occupied Northern part of Cyprus, the Occupied Palestinian Territories and the Occupied Golan Heights.
Hirsch (2002) concludes that the EU policy is not uniform. Pardo and Peters (2010), and Reich (2014) agree that the EU is heavily influenced by politics that undermine legal certainty, and the nature of the EU-Israeli dispute on the settlements’ economy is a high profile political one. Plessix (2015) argues that EU member states such as Germany, France, and Britain hold resistance attitudes in the enforcement of EU policy towards the Israeli settlements due to conflicting objectives related to avoiding social sanctions and willing to transfer the issue to EU institutions, hypermarkets chains, and consumers. This is so despite the fact that when looking back at the longstanding (for almost two decades) debate within the EU on how to deal with the settlements’ economy, it becomes evident that the EU normative debate can be seen as deeply embedded in a human rights discourse and shaped in line with international humanitarian law and the international consensus on the invalidity of the settlements’ legal status. The EU normative debate brings about the question of whether the settlements’ economy can be conceptualized as a structural injustice within the supply chain, and what kind of model the European Commission adopts to address the structural injustice stemming from the settlements’ economy.

This article traces the transactions from the imposed coercive environment in the Occupied Palestinian Territories to the Israeli settlements’ economy, hence to the EU preferential market and vice versa. This is done by utilizing quantitative datasets extracted from human rights documents, European Commission regulations, notices and directives, and news media investigations. The analysis thus examines the discourse of European Commission official documents on the operational framework of technical arrangements with Israel, and it also examines the discourse of the actors linked to the Israeli settlements enterprise such as the Israeli subsequent governments’ officials, the Israeli association of banks, and some Israeli and multinational companies that invest in the settlements. The analysis puts a new perspective on the problem in the EU-Israel settlements preferential trade, arguing that it is not a mere territorial and border dispute rather it is a dispute on the structural injustice in the supply chain.

The first section that follows unravels the conceptual framework of the structural injustice in the supply chain and demonstrates the available models to tackle it. The second section presents the operating economy of Israeli settlements and the benefits of the coercive measures imposed in the Occupied Palestinian Territories. The third section demonstrates the highly active foreign trade between Israeli settlements and the European multinational companies in terms of trading goods, FDI, financial flows, and EU research and development funds, all of which are operating under the EU-Israel Association Agreement. The fourth section presents the European Commission directives on excluding settlements from preferential tariff treatment by ensuring the EU-Israel technical arrangements are operating. The fifth section describes why the European Commission technical arrangements model has minimal success, by analyzing the discourse of Israeli officials and the actors linked to the businesses in settlements who express either bad faith or thoughtlessness to the harm they do in the occupied territories.

2. Settlements economy as a case of structural injustice

When assessing the European Neighborhood Policy (ENP) and its impacts on deepening the economic integration between Israel and the EU, Reich (2014) argues that the political disagreement between the two parties on how to treat the settlements has a mere territorial dimension. Plessix (2015) adds that the diverse objectives of the EU member states on how to
deal with the settlements’ exported goods are highly embedded in the CFSP norms regarding the future borders of the state of Israel and those of the new state of Palestine. Yet very little has been said about the problem in the EU-Israel preferential trade which lies in the ongoing structural injustice in the supply chain between the European multinational companies and the settlements’ enterprise.

Young (2006) demonstrates that social structure is a dynamic process of action and interaction of people. People are interlinked across national boundaries, because the contributions by and to institutions effect distant others, as these contributions affect us, generating as such the obligations to justice.

When structural injustice happens, large categories of persons undergo a systematic threat of domination or deprivation of the means to develop and exercise their capacities. At the same time, the social processes enable others to dominate or have a wide range of opportunities for developing and exercising their capacities (Young, 2006). Structural injustice is a wrongful act of an individual agent or the willfully repressive policies of a state (Young, 2006).

The classical model signing responsibility to injustice is commonly derived from a legal perspective based on criminal law. Such model is known as a liability model, where a certain agent is blamed for the harmful outcomes, if the actions were voluntary and were undertaken knowingly; while if the agent could not control the situation in which was placed then the blame would not be placed, and the responsibility is usually mitigated if not dissolved (Fletcher, 1998; Honore, 1999).

Young (2006) presents a different model called as a social connection model of responsibility. This model implies bearing responsibility to individuals in cases where social and economic processes are interlinked across national boundaries and in the cases where it is not possible to trace what specific actions of which specific agents cause which specific parts of the structural processes or their outcomes.

By setting up the social connection model of responsibility, Young (2006) proposes enforcing a forward-looking approach where many people are directed to take part in achieving reform, even though they are not to blame for the past problems. Young also proposes a shared responsibility approach, where each individual is personally responsible for outcomes in a partial way since he or she alone does not produce the outcomes. Furthermore, the social connection model implies political awareness; where a public communicative engagement is presented with others for the sake of organizing our relationships and coordinating our actions most justly.

In this scholarly debate the social connection model of responsibility faces several criticisms on how far it has the capacity to reduce or reverse the structural injustice in the supply chain. Schiff (2008) argues that institutional arrangements are able to insulate the involved individuals from the harm to which they contribute by demonstrating thoughtlessness, which implies objective attitude of the involved agents in structural injustice by using strict language rules in order to conceal the harm they do. Thus, thoughtlessness is able to severely hinder our capacity to confront our implication in, and therefore our responsibility to structural injustice. Schiff also questions the ability of the social connection model to address bad faith, which is a form of lying to oneself and entails concealing from ourselves the ways in which our everyday consumption patterns.

Neuhauser (2014) criticizes the social connection model for its lack of normative standard and operational framework because the model says a little about how the shared responsibility is
distributed between different agents, and what constitutes the criteria for eligibility. Neuhauser (2014, p. 243) concludes that “the distribution of forward looking responsibility depends on who bears how much blame for an injustice and therefore must contribute accordingly to the elimination and possible compensation of the wrongdoing”.

The social connection model best explains the EU policy towards the settlements’ economy. The EU does not support imposing sanctions on actors linked to enterprises in the settlements, rather the European Commission introduced a framework known as technical arrangements, seeking to correct the EU-Israel preferential trade within a technical process that has similar tools as the ones adopted by the social connection model.

The EU prefers a constructive engagement with Israel rather than a negative conditionality (Tocci, 2009). A constructive engagement resembles the forward-looking approach. The former EU Representative to the West Bank and Gaza Strip John Gatt-Rutter said “We’re not very good with sticks… Our strength lies in soft power… We don’t do boycotts. We don’t do those kinds of things. We raise our concerns, in public and in private; we try and engage” (Palestine Economic Policy Research Institute, 2012, p. 5). The EU does not seek to sanction products originating in the occupied territories, it only seeks to exclude them from preferential treatment and allows these products to enter the EU market with customs duties. For example, in the case of German Brita Water Filters Company, the Court of Justice of the European Union (2010) interpreted the EU-Israel Association Agreement as not applying to the territorial scope of the West Bank, requesting an imposition of customs duties on imported goods supplied by Soda-Club into Germany.

Both political awareness and shared responsibility can be also seen in the European Commission framework of technical arrangements. The issue of labeling products originating from Israeli settlements (see section 5), enables consumers to be in clarity and gives them the freedom of choice to buy settlement goods or not (Walsh, 2012), thus bearing the consumers the responsibility to the partial contribution of the outcomes. The issue of labeling also aims to raise awareness of the EU based companies on legal, financial and reputational risks of doing businesses with Israeli settlements (Lovatt, 2016).

Before analyzing the minimal success of the European Commission framework of technical arrangements and analyzing the relevance of the aforementioned criticisms on the social connection model of responsibility to such minimal success, it is important to understand the economy of Israeli settlements, and how such economy benefits from the coercive measures imposed in the Occupied Palestinian Territories.

### 3. Settlements economy and the coercive environment in the Occupied Territories

According to the independent international fact-finding mission to investigate in 2013 the implications of the Israeli settlements on Palestinian human rights, the business enterprises in the settlements have directly and indirectly enabled, facilitated and profited from the settlements’ expansion (Human Rights Council, 2013).

The Israeli settlements’ economy includes extensive industrial zones and agricultural lands. There are many Israeli and international companies actively operating from settlements and
openly accessing the world market. Such companies operate at the expense of the Palestinian people living in Area C\(^1\).

Area C covers about 330 thousand hectares and 60% of the West Bank, which is under full Israeli control (Kadman, 2013). In both Area C and East Jerusalem, the settler population reached to over 594 thousand including an estimated 208 thousand in East Jerusalem by the end of 2015, living in some 130 settlements and 100 outposts that cover approximately 70% of Area C land and keeps the land off-limits to Palestinian construction and development (Human Rights Council, 2017).

Settlements do not only include housing units, they also encompass farmlands, industrial zones, parks, access roads, and security perimeters and buffer zones (Yesh Din, 2016). By early 2016, the Israeli residential area covered 6 thousand hectares, which is around half of the space, the other half includes 20 Israeli administered industrial zones in the West Bank that cover approximately 1,365 hectares and the settlers’ cultivated agricultural land that covers around 9,300 hectares (Human Rights Watch, 2016).

With regards to the settlers’ cultivated agricultural land one-third of базed in the Jordan Valley, with 90% of it is under settlements’ municipal area (Hareuveni, 2011). Half of the settlers’ agricultural land in the Jordan Valley is used for various kinds of date trees, and every year 100 new hectares are planted with more date trees (Hareuveni, 2011). It is important to note that agricultural production by settlers in the Jordan Valley values about €115 million on an annual basis (WHO Profits, 2014), and the largest Israel date growers’ cooperative is Hadiklam Company (Walsh, 2012). The other one-third of the settlers’ cultivated agricultural land is based in the Golan Heights and the Jerusalem mountains, covering vineyards for 6 large wineries with the majority of them invested by 5 largest wine producers (WHO Profits, 2011). The settlements’ agricultural land is famous in the production of mangos, pomegranates, kiwi, figs, herbs, avocados, flowers, grapefruits, melons, citrus fruits, tomatoes, cherries, aubergines, cucumbers, peppers, and potatoes (WHO Profits, 2011, 2014). The Largest Israeli agricultural exporters are Mehadrin Company with €160 million of annual sales, and Arava Company with 60 million of annual sales (WHO Profits, 2014).

As for the industrial zones in settlements, they totaled 17 in 2003, while in 2009 the figure increased to 20 industrial zones (Kanafani & Ghaith, 2012). These zones host around 1000 Israeli factories and factories run by multinational companies (Bahl, Chemlali, & Marslev, 2017). They produce such products as plastic, metal, textiles, carpets, cosmetics, food and wine. Some major manufacturers in the settlements’ industrial zones include SodaStream Club with approximately €280 million of annual revenue, Ofertex manufactures, Ahava cosmetics, and Keter Plastics with approximately €930 million of annual sales operating in 90 countries (Walsh, 2012). The industrial zones include more than 980 facilities, whereby some largest

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\(^1\) The Area C is defined in Article XI of the Israeli-Palestinian Interim Agreement (Oslo Accord II) on land transfer as a part of the framework of the Middle East Peace Process initiated in Oct, 1991. The Oslo Accord II was signed between the government of the state of Israel and the Palestine Liberation Organization on Sept, 1995 in the aim to end the decades of longstanding conflict. The terms Area A, B, and C were supposed to be a part of an interim self-government arrangements for five years long. Area C is the areas of the West Bank outside Areas A and B. Area C was to be gradually transferred from Israeli military forces to the Palestinian Jurisdiction. The redeployment was to be implemented within 18 months of the inauguration of the agreement and the implementation was to be completed in three phases. The division of Palestinian Territories into areas was not designed to address the needs of long-term governance, though the interim arrangements remain in force for more than 22 years now. Israel retains control of security and land-management in Area C and views the area as there to serve its own needs, such as military training, economic interests and settlement development (B’Tselem).
industrial zones are located around Jerusalem, particularly Ma’ale Adumim and Atarot (Kanafani & Ghaith, 2012).

In the meantime, the settlements’ expansion policy continues imposing a coercive environment on the Occupied Palestinian Territories. Such an environment implies demolition of private property, land confiscation and exploitation of natural resources, deprivation of source of livelihood, and exploitation of low wage labor force. According to OCHA (2016), the Israeli settlements are a key driver of humanitarian vulnerability in the Occupied Palestinian Territories. As shown in chart 1, Israel demolished in the last decade 1,870 Palestinian houses and structures in the West Bank and East Jerusalem. Such policy has increased dramatically in the last five years reaching its highest point in 2016 with 362 demolished Palestinian houses. The official Israeli explanation goes to the lack of building permits by Israeli authorities. Yet according to the Israeli civil administration data, between 2000 and 2012, Palestinians submitted 3,750 applications for building permits and only 211 were approved (Kadman, 2013). In practice, the Israeli authorities allow the Palestinian construction only within the boundaries of its approved plan and this covers less than 1% of Area C, which is already built up (EU Heads of Mission, 2011). The demolition policy has a long-term impact on the demographic changes by shrinking the areas that Palestinians are allowed to build in, while expanding settlements municipal areas especially since most of the demolition occurs in areas allocated to settlements (Walsh, 2012).

![Chart 1. Demolition of Houses in West Bank and East Jerusalem](image)


The underground water source in West Bank is largely exploited by Israel, where 80% is used by Israel from three aquifers (Kanafani & Ghaith, 2012). In the Jordan Valley, the 9,500 settlers use around 44.8 million cubic meters a year, an amount equal to one-third of the total amount used by the West Bank’s 2.6 million Palestinians (Human Rights Watch, 2016). Moreover, 97.5% of settlers’ consumed water is used for agricultural land (Hareuveni, 2011). The water
supply to settlers comes from Israel’s national water company Mekorot, which pumps from 42 water drilling locations in the West Bank. 69% of pumped water comes from the Jordan Valley water reserve (Hareuveni, 2011).

Palestinian labor force working in settlements reached about 21 thousand in 2016 declining from 31 thousand workers in 2009 (Palestinian Central Bureau of Statistics, 2017). 63.8% of the total number of workers work in the construction sector, the rest of the labor force work in mining, quarrying, and manufacturing (Kanafani & Ghaith, 2012). Out of the total number of Palestinian labor force, 5 thousand Palestinians work in the settlers’ agricultural land in Jordan Valley, reaching to 20 thousand during harvest period (Hareuveni, 2011). According to 2009 Israeli government reports, more than half of those who were formally employed in the settlements’ industrial zones are Palestinians (Human Rights Watch, 2016). Thus, it is estimated that the percentage of the Palestinian workforce in comparison to the total workforce in settlements is higher than 50% because many Palestinian workers do not have working permits and therefore they are not included in the official Israeli or Palestinian statistics. The reason behind employing Palestinian workforce lies in the availability of low-cost labor with a capacity to work in coercive conditions in settlements (Human Rights Watch, 2016).

Palestinian workers earn one-third less than Israeli workers and the minimum wage in the settlements’ agricultural sector (Human Rights Watch, 2016). In the settlements’ industrial zones, Palestinians earn a little bit more than two thirds of the minimum wage (Kanafani & Ghaith, 2012), working for $2-$3.5 per hour, while the minimum hourly wage in Israel is $5.50, in addition to no vacation, sick days cover, nor other social benefits (Human Rights Watch, 2016). In all cases, there are clear signs of exploitation of low wage Palestinian labor force working in coercive conditions in the settlements’ economy.2

There is a clear correlation between the coercive measures imposed in the Occupied Palestinian Territories and the operating economy in the Israeli settlements. If such coercive measures are to be removed then the injustice will be mitigated, but the settlements’ economy will slow down. In order to trace the chain of the settlements’ economic activity the upcoming section analyzes the foreign trade between the Israeli settlements and the European multinational companies.

4. EU-Israeli settlements preferential trade

The EU is Israel’s main trading partner with foreign trade amounting $40 billion in 2016, witnessing an increase from $36 billion in 2013. The increase is in favor of the EU, whereby the trade deficit doubled from $6 to $12 billion between 2013 and 2016 (Central Bureau of Statistics, 2016).

Israeli settlements’ major benefits of the EU-Israeli preferential trade are in industrial and agricultural products, the European foreign direct investment in the settlements, financial flows by European funds, and the participation of certain companies in the settlements in research and development programs funded by the EU. Although the European Commission tries to encourage European multinational companies to reduce their investments in the settlements, as well as it pushes Israel to commit to settlements labeling regulations, the trade operations

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2 For instance, see the case of synagogue furniture factory in Mishor Edomim, Heruti-Sover (2017).
remain highly active with the existence of wide cooperation between the EU and Israel under the Association Agreement (see chart 2).

Chart 2 does not present the settlements’ annual market share of the EU-Israeli preferential trade on aggregate because no such data is made available by Israeli customs office or the Israeli central bureau of statistics. Therefore, the chart presents increasingly accessible data released in recent years in reports published by solidarity groups, human rights organizations and news networks about European multinational corporations operating in settlements with regards to trading goods, financial flows, and foreign direct investments.

The Israeli government reportedly estimated the value of the industrial and agricultural products exported from Israeli settlements to the EU market amounts around €187 million in 2002 (Kanafani & Ghaith, 2012). In 2012, the Israeli government reported to the World Bank that the value of the settlements’ exports to the EU market increased to €280 million (Human Rights Watch, 2016). The same value has been reportedly estimated by the Israeli government in 2015 (Human Rights Council, 2017). Yet according to Beste and Schult (2009), the value of goods both fully and partially made in the settlements and exported to the EU market are estimated to reach up to €5.6 billion.

Looking closely at the Israeli companies operating from the settlements and enjoying free access to EU-Israeli preferential trade, many reports have recently revealed such companies as Ahava, SodaStream (Soda Club), and Eden Springs.

Founded in 1988, Ahava is the largest Israeli cosmetics company. It is owned by the Mitzpe Shalem and Qalya settlements on the northern and central shore of the Dead Sea and by the Israeli firms controlled by Goan Holdings (Hareuveni, 2011). Ahava exports its products to 16 EU Member States with an estimated value of €100 million a year (WHO Profits, 2012). The supply chain of industrial ingredients used by Ahava have been traced to such corporates as Lonza Switzerland, Zschimmer and Shwarz Italiana, Eigenmann and Veronelli company, and
Lanxess Distribution Germany, all of which are European multinational corporations (WHO Profits, 2012). In early 2016, news reports released a new Ahava project to be located inside the pre-1967 lines on the Dead Sea shore, speculating that it may move its factory out of the West Bank, yet the company did not explicitly confirm such intentions (Middle East Monitor, 2016).

SodaStream is a manufacturer of home carbonating devices founded in 1991. The main factory of Soda Club is in Mishor Edomim industrial zone in the West Bank established in 1996. 65% of Soda Club’s production is exported to 39 countries including 21 EU countries. The value of exports to the EU market is estimated at €100 million a year (WHO Profits, 2011). In 2014, SodaStream announced plans to move its factory to Negev inside the pre-1967 lines (Bahl et al., 2017).

Eden Springs Company extracts and distributes mineral water, markets coffee and espresso machines, home and office water devices. Its main plant is located in Golan Heights, and its global presence is in 11 EU countries exclusively supplied by a Dutch subsidiary named the Eden Springs Europe. The annual revenue of Eden Springs Company values up to €500 million (WHO Profits, 2013).

With regards to the European foreign direct investment in settlements, the international diversified building materials group CRH plc headquartered in Dublin purchased 25% of the Israeli Company Mashav Initiative and Development Ltd from Clal industries in 2001. Mashav wholly owns Nesher Israel Cement Enterprises Ltd supplying 75-90% of all cement sold in Israel and the occupied territories. In 2010, CRH received €107.67 million from Nesher (Dorman & Hayes, 2011). In 2015, CRH sold out its 25% stake in Nesher, no longer having any interests in Israel (CRH plc, 2016). In 2016 it was one of 40 Israeli connected groups and businesses to be dragged into a $34 billion US lawsuit launched by Palestinian activists for profiteering from illegal settlements in the West Bank (Paul, 2016).

Another FDI coming from EU to settlements is operated by Heidelberg Cement a multinational corporation headquartered in Heidelberg, Germany. Heidelberg Cement is one of the world’s largest producers and suppliers of cement with subsidiaries in 40 countries. In 2007 it acquired the British company Hanson plc that wholly owns subsidiary Hanson Israel. Hanson Israel operates 4 plants in settlements in the West Bank including an asphalt plant and a quarry in Elkanah near Nahal Raba, concrete plants in Modi’in Illit, and a plant in Atarot, with an income reached to €17 million in 2015 (WHO Profits, 2016).

In addition to that, G4S a British-Danish security corporation that operates in more than 120 countries and employs nearly 625 thousand workers, bought a 50% stake in Hashmira the Israeli largest security provider in 2002, and rose its stake to 91% by 2007. G4S also purchased in 2010 Aminut Moked Artzi an Israeli private security firm (Addameer, 2015). Hashmira and Aminut Moked provide armed guards to settlements, construction and maintenance to apartheid wall, surveillance at security checkpoints in the West Bank, and security systems to the Israeli Prison Authority (WHO Profits, 2011). There has been no precise data on G4S annual income from both Hashmira and Aminut Moked.

European public and private funds have been also involved in financial flow to the Israeli settlements. Some of these funds include Norwegian Government Pension Fund that invested in 2008 €800 thousand of tax money in the Africa-Israel Investment Company linked to the settlements’ construction (Ma’an News Agency, 2009). Such funds also include the Israeli...
subsidiary of Belgian bank Dexia that provided loans totaling more than 4.5 million to Israeli settlements in 2013.

In early 2017, Danwatch media and research center revealed a thorough investigation on the five largest European Pension Funds from Norway, Netherlands, Denmark and Sweden. These pension funds invested €7.5 billion in some 36 companies that have businesses linked to Israeli settlements including €332 million investments in five Israeli banks; Bank Hapoalim, Bank Leumi, First International Bank of Israel, Israel Discount Bank, and Mizrahi Tefahot Bank, all of which have activities in the occupied territories (Bahl et al., 2017).

Under the EU multi-annual program on research and development, many Israeli companies involved in the settlements’ economy and policy, took part in previous framework programs and are entitled to receive EU funding for Horizon 2020 the new EU research and innovation program (see chart 3).

Ahava Company previously participated in the Fifth Framework Program (FP5) in CELLAGE—a €3.5 million project—. Later on it participated in the same project under the Sixth Framework Program (FP6) with €1 million (WHO Profits, 2012).

Under the Seventh Framework Program (FP7), Ahava took part in multiple projects including Skin Treat a €5.4 million project, NanoTox a €5.19 million project, and NanoTher a €11.68 million project. Under the FP7, Elbit Systems—the Israeli leading military technology and weapons company— took part in 4 projects receiving €3.27 million. Also, the Israel Aerospace Industries—a major manufacturer of drones— received €3.74 million. Motorola Solutions that provides fences and radar system to settlements took part in 2 projects with unknown precise funding. Technion—the Israeli Institute of Technology that aids Israeli army in demolishing Palestinian houses— received €70.31 million. Finally, Mekorot—Israel’s national water company supplying settlers— received €0.5 million.

Under Horizon 2020, the same companies are entitled to receive EU funding. This includes Elbit Systems €0.4 million, Israel Aerospace Industries €2 million, Motorola Solutions €0.9 million, Technion €17 million, and Mekorot is validated to receive funding with unknown precise funding.

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3. See European Coordination of Committees and Associations for Palestine (2013).
4. See European Coordination of Committees and Associations for Palestine (2016).
5. See European Coordination of Committees and Associations for Palestine (2016).
The demonstrated quantitative datasets, and the demonstrated cases of the European multinational companies and the Israeli companies operating in the settlements show that the cooperation in trading goods, FDI, financial flows, and the EU research and development funds are highly active. Some aspects of the foreign trade have even increased in the last two decades, and certainly the cooperation never stopped or declined. The profiteering utilizes the coercive measures imposed in the Occupied Palestinian Territories and contributes to sustaining such measures for the sake of an active and profitable supply chain between the European multinational companies and the Israeli companies.

The active foreign trade operates under the EU-Israel Association Agreement and enjoys a preferential treatment of free customs duties. Despite the illegality of settlements under the international law and according to the EU, and despite that the European Commission has been issuing notices and directives in the last two decades to exclude settlements from the preferential treatment and to discourage European multinational companies from investing and trading in the settlements.

5. European Commission directives on trade with settlements

The EU reiteration is also aligned with the consensus reached by the UN Security Council (2016) with 14 votes and one abstention by the US, on the illegality of Israel’s established settlements in the Palestinian territory occupied since 1967.

The European Commission as a guardian of EU treaties with third countries raised its concern for the first time in 1998 a memorandum on the importance of completing technical arrangements with Israel. In order to grant diagonal cumulation of origin before Association Agreement enters into force, calling goods manufactured elsewhere (in settlements) would violate the Protocol on rules of Origin annexed to the EU-Israel Interim Agreement (European Commission, 1998). The European Commission in the 1998 memorandum referred to two main outstanding obstacles remaining in the way to correctly implement the EU-Israel Interim Agreement including Israeli settlements, East Jerusalem and the Golan Heights, and the West Bank and Gaza Strip (European Commission, 1998).

However, the Association Agreement entered into force in 2000, without reaching a proper technical arrangement with Israel because of the lack of common normative understanding to the issue. The obligation to construct preferential trade and cooperation between the EU and Israel, in consistency with international humanitarian law was incorporated in the Association Agreement, but with the least clarity. Article 2 of the Euro-Mediterranean Agreement (2000) stipulates that free trade shall be based on respect for human rights and democratic principles, in Article 83, the agreement calls the free trade to apply to the territory of the State of Israel, without providing a statement that it applies only to the internationally recognized territory of the State of Israel within the 1967 borders.

In 2001, the European Commission issued its first notice to importers on products coming from territories under the Israeli administration since 1967, as not entitled to benefit from preferential treatment, calling Community operators to take necessary precautions for putting products coming from Israeli settlements in the West Bank, Gaza Strip, East Jerusalem, and Golan Heights on customs debt.

In 2005, the European Commission issued a new notice to importers, declaring that the EU and Israel had arrived on a technical arrangement for the implementation of Protocol 4 to the Association Agreement, by which Israel will bear the responsibility to demonstrate the city, village or industrial zone of the origin of the product, and those cities, villages or industrial zones which are in occupied territories are excluded from preferential treatment.

In 2012, the European Commission issued another notice to importers urging the operators to regularly consult a list of an up to date non-eligible locations on the Commission’s thematic website indicated with their postal codes.

Yet after ten years of EU-Israel agreed to implement technical arrangements, Israel has been using certification for the place of origin in accordance with its national law, which is contradictory to the EU normative understanding of the occupied territories. Therefore, the technical arrangements were all along procedures to mislead the EU consumers rather than to publicly make them aware of the exact origin of products because the EU did not make Israel liable to the international law.

The continued lack of common understanding on the issue, and the continued breach of Protocol 4 of the Agreement by not only misleading the consumers, but also by increasing the EU-Israeli settlements preferential trade, an increase in legal and political debate arose within
the EU. Other than the ECJ case on German Brita Company, on political level the former EU Foreign Policy Chief, Catherine Ashton, sent a letter in 2013 to her colleagues asking them to enforce EU Israel technical arrangements, and during a meeting of foreign ministers in the same year, 13 Member States expressed their support for labeling products imported from settlements (WHO Profits, 2014).

Ultimately in 2015, the European Commission issued a new notice to importers on using expressions such as product from the Golan Heights (Israeli settlement) or product for the West Bank (Israeli settlement) as a mandatory indication of origin for ensuring that EU citizens will not be further misled.

6. Liability, thoughtlessness and bad faith pertaining settlements businesses

In 2016, after a year of the mandatory directive published by the European Commission, news reports revealed a non-existent impact and a minimal economic effect on EU-Israeli settlements trade. There is very little follow up on the guidelines, and out of 28 Member States, only France published its own guidelines for retailers and importers (Wilson, 2016). The reason why the implementation of EU-Israeli technical arrangements go through bumpy road with minimal success for almost two decades, lies in the lack of normative standard of responsibility, in addition to the thoughtlessness and bad faith expressed by different actors supporting and benefiting from settlements’ economy.

The European Commission focuses on technical arrangements as a model, by which different actors linked to the EU-Israeli settlements trade shall use in good faith and share their responsibility for the sake of organizing the EU-Israeli relations most justly. Yet the European Commission directives say very little on how shared responsibility is to be distributed giving the fact that there is already a big harm being caused to Palestinians living in the occupied territories. In all its directives, a blind eye has been turned by the European Commission to the most liable agent of Israeli government, which explicitly and actively encourages commercial development by Israeli and international businesses in and around settlements (Human Rights Council, 2017). The Israeli government aims to alleviate housing shortages, encourage positive migration, encourage development and improve economic resilience of settlers, according to the Ministry of Construction (Human Rights Watch, 2016).

The aims of the Israeli government are pursued through designating 75% of settlements in the occupied territories including 90 settlements as National Priority Areas (NPAs) (Kanafani & Ghaith, 2012). Almost all the 20 settlements’ industrial zones are NPAs. Also, 23 settlements in the Jordan Valley and the Dead Sea –where most settlers’ agricultural land is located– are NPAs (Human Rights Watch, 2016). NPAs enjoy low price of land, grants for the development of infrastructure, and tax breaks for individuals and businesses. For instance, in 2012, in the Barkan industrial zone in the occupied territories the cost of rent was between 24 and 27 shekels per m², compared to 43 shekels per m² in industrial zones inside Israel. Annual taxes in Barkan are 47 shekels per m², compared to 100 shekels inside Israel. In the Atarot industrial zone in East Jerusalem rent is 23 shekels and taxes are 74 to 85 shekels per m², compared to taxes of 92 to 140 shekels in other areas in Jerusalem (Human Rights Watch, 2016). Those incentives made the Israeli government succeed in bringing 300 factories to seven newly established settlements’ industrial zones (Human Rights Watch, 2016).
The Israeli government also supports raising the standard of living for settlers. For every 50-100 settlers, there is one medical facility, which is above the proportion for those living inside Israel. The settlement councils are highly supported by the Israeli government, where 35% of their budgets in 2006 were financed by the government (Kanafani & Ghaith, 2012). It is important to note that the government’s financial incentives to the settlements go through the same five Israeli banks that receive investments by the largest five European pension funds in 2016-2017.

Due to the government’s financial incentives, the income level for a family in the settlements is 10% higher than the national average, and the unemployment rate in the settlements is below the national average (6.5% in settlements, compared to 7.3% inside Israel) (Kanafani & Ghaith, 2012). Bahl et al. (2017) mentioned a comment of an ultra-orthodox Jewish settler living in Beitar Illit settlement nearby East Jerusalem that he chose to live in a settlement because it’s so inexpensive, and it provides a high quality of life with lots of jobs.

The other reason why the model of technical arrangements is unsuccessful lies in the objective attitudes expressed by relevant actors, in order to conceal the harm they do and as an implication to their incapacity to confront their involvement in the ongoing structural injustice. Other relevant actors imply bad faith by scapegoating globalization and suggesting they do what they can within the permitted structures.

In their discourse, the Israeli government officials focus on border issues and political disputes, distancing themselves from the core issue of liability to injustice. Following the 1998 memorandum of the European Commission, the director general of Israel Ministry of Agriculture denounced the EC move as defining the borders of the State of Israel (Pardo & Peters, 2010). After the 2001 notice, the Israeli Minister of Trade and Industry Dalia Itzik said that the European decision was an incorrect step and was politically biased to pro-Arab positions (Shuman, 2002). In 2013, the Israeli Prime Minister Benjamin Netanyahu said “Building in Judea and Samaria will continue. It is continuing even today, but we have to understand what is happening around us. We have to be smart, not only right” (Siryoti, Cesana, & Forsher, 2013).

The Israeli officials also deny the difference between inside pre-1967 Israeli territory and settlements in the occupied territories, considering the EU measures towards the Israeli settlements as against the State of Israel as a whole. In 2013, the Israeli Minister of Finance called the EU position as a de-facto boycott of Israel since there is no difference between products produced over the Green Line and those produced within the Green Line (Human Rights Watch, 2016). The Israeli Deputy Foreign Minister Tzipi Hotovely also said after the European Commission issued its notice in 2015, “We see it as a boycott of Israel for all intents and purposes. We view it as a slippery slope. It’s simply a sweeping disqualification of Israel” (Lynfeld, 2015). In addition, some Israeli officials present the technical measures as discriminatory against Jews, such as the Israeli Energy Minister Yuval Steinitz describing the 2015 notice as disguised anti-Semitism (Younes, 2015).

Some companies try to deny operating from settlements for reputational reasons, for example the CEO of Ahava claims that the mud and minerals used in Ahava’s cosmetic products are not excavated in the occupied area rather in the Israeli part of the Dead Sea, despite the fact that Ahava has a license from the Israeli Civil Administration in the West Bank to operate in the occupied area (WHO Profits, 2012).

Other actors linked to businesses in settlements hold bad faith by bearing the responsibility to the system. For instance, the Association of Banks in Israel conceives no difference between
national and international law, because there is no binding international or national court criminalizing economic activity by Israeli and other companies in settlements (Bahl et al., 2017). According to the Mexican Cement Company Cemex – that operates three factories through its Israeli subsidiary Readymix in the settlements’ industrial zones – it does not supply building materials to illegal settlements, because illegal settlements are only the settlements which are not approved by the Israeli government (Bahl et al., 2017).

The minimal success of the European Commission framework of technical arrangements goes back to the expressed attitudes of thoughtlessness and bad faith by the Israeli governments’ officials, the Israeli companies and the multinational companies operating in the settlements. Without a common normative understanding and without a clear operational framework on distribution of responsibility, where the actors linked to the settlements’ economy are blamed and sanctioned for their deeds, the structural injustice in the supply chain will stay out of reach.

7. Conclusion

The structural injustice in the supply chain stemming from illegal settlements’ economy implies the imposition of a coercive environment in the occupied territories, including an increase in the demolition of the Palestinians private property, the maximum exploitation of the natural resources particularly the underground water, and the exploitation of low wage Palestinian labor force working in coercive conditions.

The active business enterprises in the industrial zones and the agricultural lands in the settlements, have directly and indirectly enabled, contributed and profited from the coercive environment in the occupied territories.

The EU normative understanding is consistent with international humanitarian law and the international political consensus demonstrates opposition to the structural injustice in the supply chain stemming from the settlements’ economy. Thus, the European Commission enforces a framework of technical arrangements, which resembles the social connection model of responsibility. The European Commission supports excluding settlements from the preferential tariff treatment but does not support sanctioning the actors linked to the businesses in the settlements. The European Commission also supports raising awareness of consumers by correct labeling that gives consumers the freedom of choice to buy settlement goods or not. Furthermore, the European Commission prefers to engage in constructive technical cooperation with Israel rather than enforcing negative conditionality.

The European Commission technical arrangements signal longstanding failure because the EU-Israeli settlements trade did not slow down in the previous two decades. The settlements’ industrial zones and agricultural production is active due to the partial facilitation coming from the EU-Israel Association Agreement. Based on accessible data, such facilitation implies the EU-Israeli settlements growing trade in industrial and agricultural products sufficiently or substantially processed in settlements, the continued European foreign direct investments in settlements, and the growing financial flows by European funds into Israeli banks that finance settlements, as well as the participation of settlement linked companies in the EU research and development funds, which decreased in comparison between Horizon 2020 and the Seventh Framework Program. However, the same companies involved in the illegal settlements’ economy are still receiving EU funds.
The reason why the European Commission technical arrangements framework is failing the EU normative understanding lies in the lack of normative standard of responsibility that does not look backward on the liability of the Israeli government, banks, and European multinational companies, which should bear the main responsibility of the structural injustice stemming from the settlements. The European Commission is also unable to receive constructive engagement from the Israeli government, the Israeli companies and banks, and the multinational corporations, in technical cooperation, because all these actors hold on thoughtlessness and bad faith by distancing themselves from the harm they do in the occupied territories.

**Reference List**


