

*Creating a Kleptocracy:
Clinton Administration Policy Towards Palestinian Economic Development*

I. INTRODUCTION

From the moment in this century that the United States emerged as an international power, the Middle East has been an important region for American national interests. Central to these interests has been the amelioration and resolution of the Arab-Israeli dispute. Kissinger's shuttle diplomacy, Carter's Camp David accords, the historic Madrid Conference, and the Oslo peace agreements represent famous examples in the bipartisan, seamless web of American efforts to stabilize the Middle East and to create opportunities for democracy and free enterprise. The Israeli-Palestinian peace process, symbolized most dramatically by the historic handshake between Rabin and Arafat, now occupies center stage in American Middle East policy. The Clinton administration has inherited from its predecessors the responsibility for crafting and implementing a policy towards the peace process that serves American national interests.

Among the principles that should guide the United States in its policy on the peace process two have long been clear: Israel must have security, and the Palestinians should have democratic government and a free market economy. These fundamental principles are the keys to the Oslo agreements and a safer, more prosperous Middle East region. While American and world attention has been riveted on recent violence between Israel and the Palestinians over the planned Jewish settlement in East Jerusalem, a disturbing pattern of behavior in U.S. policy towards Palestinian economic development has developed. The Clinton administration has become a willing participant in the creation of a kleptocracy in the Palestinian territories by supporting factions of the Palestinian leadership that are trying to monopolize the Palestinian economy. This systematic monopolization of the Palestinian economy threatens not only free market principles but also prospects for the development of democracy in the Palestinian territories by strengthening the hands of autocrats and fueling corruption. Tacit acceptance of this behavior by the Clinton administration represents a failure to pursue the policies and principles that best serve American national interests.

II. THE PEACE PROCESS AND THE AMERICAN NATIONAL INTEREST

The strategic, political, and economic importance of the Middle East to American foreign policy is well-established. The instability of the region has long been a primary source of concern for the United States and the premise of longstanding, bipartisan regional diplomacy. Until it is resolved, the Israeli-Palestinian conflict threatens to erode stability in the Middle East. A successful peace process serves American national interests in powerful ways: Israel can become more secure and prosperous as the threat of war and violence dissipates; Arab countries can put historic antagonisms behind them to help liberalize trade in the region and strengthen the regional economy; and the absence of conflict and the flowering of economic opportunity hold out the promise for democratic evolution in the Arab states of the region.

The leaders and diplomats who crafted the peace process have always stressed that Palestinian economic development is critical to a successful peace process. Peace without opportunities for a better standard of living would be a bitter and unacceptable fate to most Palestinians. The model chosen to deliver Palestinian economic development is free market capitalism. Unburdened by government-owned industries and governmental intervention in the economy, the Palestinians have an extraordinary opportunity to harness the power of free enterprise to stimulate Palestinian entrepreneurs and to attract foreign investors. The free enterprise strategy fits well with the renown commercial instincts and savvy of Palestinian business persons the world over.

Above all, history has repeatedly demonstrated that the free market model is also important to prospects for Palestinian democracy. Free markets are based on property rights and rules of law that protect individuals and their expectations from arbitrary governmental interference, which diffuses power throughout a society. Free enterprise is a powerful check against attempts to concentrate power in the hands of unaccountable politicians. A great synergy exists between free enterprise and democratic politics that could be exploited to bring the Palestinian people a future far removed from their historical suffering.

The strategy of basing the peace process on Palestinian economic development through free market capitalism conforms to deeply held American fundamental political and economic principles. Thus, a great synergy exists between the peace process strategy, American principles, and American national interests in a stable, prosperous, and democratizing Middle East.

III. CLINTON ADMINISTRATION POLICY ON PALESTINIAN ECONOMIC DEVELOPMENT

Implementing this peace process strategy on Palestinian economic development has proved extremely difficult. Most of the attention has been focused on the damage caused to the Palestinian economy by the Israeli reactions to terrorist attacks on Israel. Violence and the ensuing political instability have indeed hindered Palestinian businesses from growing and deterred foreign companies from investing.

What has gone virtually unnoticed, however, and what is deeply troubling, has been the behavior of the Clinton administration towards the systematic attempt made in the Palestinian territories by public officials and private interests to monopolize the Palestinian economy. Despite knowing about this attempt to monopolize, the Clinton administration has done little to exert its influence against the factions within the Palestinian leadership that are intent on monopolizing the Palestinian economy. The creation of such a monopolized economy threatens opportunities for foreign investors to contribute to Palestinian economic development and threatens fundamental American national interests in the peace process.

The behavior of the Clinton administration towards American private efforts to promote Palestinian economic development does great disservice to American principles and national interests. The reasons why the Clinton administration has exhibited this behavior must be

critically analyzed because the need for Palestinian economic development is too important in the long term to the entire peace process and vital to U.S. regional interests.

IV. THE MONOPOLIZATION OF THE PALESTINIAN ECONOMY

The Palestinian economy is suffering from two monopolistic assaults that are working like a vice to crush prospects for free markets. The Palestinian National Authority (PNA) itself is launching one of the assaults, and the other comes from a group of private investors intent on dominating strategic economic sectors.

A. PNA Monopoly Practices

The PNA itself controls exclusively many economic sectors, such as the importation of cement, petroleum, and flour,¹ and prohibits private enterprises from operating in them. In many cases, Israel supports these PNA monopolies in order to protect Israel suppliers from competition in the Palestinian market.² Much of the revenue generated from these monopolies goes directly to Arafat rather than the public treasury to be spent according to Arafat's unaccountable discretion.

Concerns about the attempts by the PNA to monopolize sectors of the Palestinian economy are common place among investors and groups trying to facilitate the peace process and Palestinian economic development. In a letter to President Clinton dated April 4, 1997, the director of the widely-respected, Jerusalem-based Israel/Palestinian Center for Research and Information urged the United States to use its influence to put an end to monopolistic PNA policies that "will strangle the private sector and delay or prevent economic development."³ David Hirst, a reporter for *The Guardian* newspaper in Britain has even more bluntly written that Arafat "and his coterie of unofficial economic 'advisors' have thrown up a ramshackle, nepotistic edifice of monopoly, racketeering and naked extortion which merely enriches them as it further impoverishes society at large."⁴ PNA attempts to monopolize the Palestinian economy are not, thus, hidden secrets.

¹ David Hirst, *Shameless in Gaza*, *The Guardian*, April 21, 1997, p. T8.

² Ibid.

³ Letter to President William Jefferson Clinton from Gershon Baskin, Israeli Director of the Israel/Palestinian Center for Research and Information, April 4, 1997.

⁴ David Hirst, *Shameless in Gaza*, *The Guardian*, April 21, 1997, p. T8.

B. PADICO Monopoly Practices

The private engine of monopolization of the Palestinian economy is a Liberian-registered company called the Palestine Development and Investment Ltd. (PADICO). PADICO was established in 1993 after the Israeli-Palestinian Declaration of Principles "to invest directly or through subsidiary companies that will help rebuild the economic infrastructure of the occupied Palestinian territories, while providing reasonable financial returns to company shareholders."⁵ In essence, PADICO was presented to the world as an investment fund through which entrepreneurial Palestinians and Arabs would invest capital that PADICO would direct into Palestinian economic reconstruction. PADICO claimed to be interested in the development of the free markets in the Palestinian territories because "[i]t fully realizes the important role of the Palestinian private sector in unfolding [the] economic environment brought about by the peace process."⁶ PADICO promised to establish separate boards of directors for the companies it created and to limit its investment to no more than 49% of such companies to allow "others from within and outside the territories to participate to the fullest extent possible."⁷ On the surface, PADICO appears to be a much needed source of investment capital sensitive to the needs of free market activity.

In reality, PADICO and the interests behind it are systematically gaining control of strategic economic sectors critical to Palestinian economic development. A small circle of Palestinians, in conspiracy with the highest levels of the PNA, are monopolizing the Palestinian economy by dominating strategic economic sectors and coordinating their domination through interlocking boards of directors. This circle has cleverly crafted a raw assault on free market principles and prospects for Palestinian democracy.

1. Domination of Strategic Economic Sectors

The PADICO interests have begun to establish for themselves a dominant role in many strategic economic sectors. PADICO's publicly proclaimed strategy was to focus on "projects that are of strategic importance to the Palestinian economy."⁸ The following paragraphs demonstrate how thoroughly the PADICO interests have attempted to achieve their goal of dominating strategic economic sectors.

⁵ PADICO Brochure, p. 4.

⁶ Ibid., p. 6.

⁷ Ibid.

⁸ Ibid., p. 6.

a. Telecommunications

PADICO's affiliated company, the Palestine Telecommunications Company (Paltel), claims to hold an exclusive agreement with the PNA to "manage, develop and operate the telecommunications network throughout Palestine."⁹ Paltel has, thus, a telecommunications monopoly in the Palestinian territories. More worrying perhaps than the actual monopoly is how the monopoly came about.

In October 1994, the PNA apparently signed two agreements awarding two different companies, International Technologies Integration and American Telephone & Telegraph, rights to operate in the Palestinian telecommunications market.¹⁰ In April 1996, the PNA passed the Palestinian Telecommunications Law that, among other things, (1) requires competition in the Palestinian telecommunications market, and (2) expressly protects previous telecommunications agreements concluded by the PNA. Then, in November 1996, the PNA awarded Paltel the exclusive rights for telecommunications services in the Palestinian territories.¹¹ The PNA's grant to Paltel of exclusive rights violated not only its previous agreements awarding telecommunications privileges to other companies but also the Telecommunications Law.

• These facts demonstrate a clear attempt by the PADICO interests and the PNA to monopolize the Palestinian telecommunications system in the face of foreign companies seeking to invest in the Palestinian territories. Such brazenly monopolistic behavior undermines the confidence of foreign investors in the Palestinian economy, tramples on the rule of law and the importance of contracts, and shows the PNA and the PADICO interests to be engaged in a monopolistic conspiracy.

b. Capital Markets

The PNA has awarded to the Palestine Securities Exchange Company (PSEC) the exclusive right to operate the Palestinian stock market. PADICO owns 70% of PSEC.¹² PADICO, thus, controls access to the Palestinian capital market. To date, neither PSEC nor the PNA have developed any regulatory system for the stock market, leaving PADICO free to operate the market as it pleases.

⁹ Ibid., p. 9.

¹⁰ Toby Ash et al, *Gearing Up for a Great Leap Forward: Middle East Telecommunications Industry*, 39 *Middle East Economic Digest* (April 14, 1995), p. 13.

¹¹ David Harris, *PALTEL Gets PA Telecom Monopoly*, *Jerusalem Post*, November 18, 1996, p. 8.

¹² Suleiman al-Khalidi, *Mideast--Investment*, Reuters, December 16, 1996.

c. Industrial Zones

A key feature of Palestinian economic development plans has been the establishment of industrial zones to stimulate economic activity. The World Bank and the United States have strongly supported the development of the industrial zones. Currently, three industrial zones are planned--one in Gaza and two in the West Bank. PADICO has already signed an agreement with the PNA on August 8, 1996 to develop and operate the Gazan industrial zone.¹³ PADICO also plans to establish one of the industrial zones in the West Bank.¹⁴ Two-thirds of the industrial zone potential will, therefore, be in PADICO's hands.¹⁵

d. Tourism

Tourism is considered an important sector for Palestinian economic development. PADICO's affiliate, the Jerusalem Tourism Investment Company (JTIC), is planning to build hotels in East Jerusalem and to develop tourist sites in Bethlehem.¹⁶ The Bethlehem plans include a \$40 million five-star hotel and commercial complex to be opened in 1999.¹⁷ Bethlehem has the most tourist potential given the possible heavy flows of Christian tourists to Bethlehem for the 2000th anniversary of the birth of Jesus Christ. PADICO has again positioned itself strategically in a key sector of the Palestinian economy.

e. Real Estate

The Palestine Real Estate Investment Company (PREIC), another PADICO affiliate, holds a dominant position in the housing construction market in Gaza with PNA permission to proceed with two housing projects worth \$200 million and \$40 million respectively.¹⁸ PREIC

¹³ *PNA and Padico Agree to Build Gaza Industrial Zone, Middle East Economic Digest*, August 23, 1996, p. 20.

¹⁴ PADICO Brochure, p. 8.

¹⁵ The third industrial zone is being developed near the West Bank town of Jenin by the Northern International and Industrial Company. Deborah Horan, *Palestine Development: Industry and Jobs for Palestine*. Inter Press Service, July 19, 1996.

¹⁶ PADICO Brochure, p. 15.

¹⁷ Suleiman al-Khalidi. *Mideast--Investment*. Reuters, December 16, 1996.

¹⁸ Ibid.

has plans to extend its operations into the West Bank as well.¹⁹

f. Power Generation

PADICO has also been interested in investing in power generation facilities in Gaza because it submitted a proposal to the PNA for the development of a power plant to cover Gazan electrical demand for years to come.²⁰ Unlike other economic sectors, PADICO's bid did not succeed as another company was awarded the contract.²¹ Losing the contract has not apparently deterred PADICO from attempting to find a way to participate in the Gazan power plant project. It is understood that PADICO has pressured the successful bidder to allow PADICO to share in the contract. PADICO itself has openly stated that it still intends to be involved in the Gazan power plant, suggesting that perhaps its pressure on the company that actually won the contract might succeed. If this is the case, then PADICO's behavior in this sector mirrors its performance in the telecommunications sector where it gained dominance at the expense of other companies with contracts.

g. Port Facilities

Many believe that a seaport in Gaza is critical to Palestinian economic development because it gives the Palestinians access to world markets without having to route goods through Israel. The Gazan seaport is under construction by a European consortium. It has been reported that PADICO has started discussions with the PNA about PADICO operating the port after construction is completed.²²

h. Media

It is apparently widely known that PADICO has also recently expanded its reach into mass media by purchasing both a radio station and a newspaper. The close connections between PADICO and the PNA suggest that PADICO's foray into the media sector bodes ill for objective journalism in the Palestinian territories.

¹⁹ PADICO Brochure, p. 18.

²⁰ Ibid., p. 9.

²¹ Toby Ash, *Keeping Faith Against All Odds: Private Sector Investment*, 40 *Middle East Economic Digest*, September 13, 1996, p. 11.

²² Suleiman al-Khalidi, *Palestinian Firm in Multi-Million Dollar Projects*, Reuters, February 24, 1995.

2. *Coordination of Dominance*

The PADICO dominance in strategic sectors of the Palestinian economy is coordinated in a systematic way. This system of domination has three elements: (1) PNA complicity with the dominance; (2) direct investments by PADICO; and (3) investments by PADICO affiliates coordinated through interlocking boards of directors.

a. PNA Complicity

Given the highly centralized and autocratic nature of PNA governance, PADICO's activities could not go forward with the support of Arafat and his key advisors. Despite Arafat's promises to create a "new Singapore" in the Palestinian territories, monopolization represents PNA economic policy on the ground. And, as the PNA's own economic practices show, PADICO's efforts are only part of the monopolization story. Confronted with the monopolistic practices of the PNA and PADICO, private enterprises and free markets have little chance to take root and flourish in the Palestinian territories.

b. PADICO Investments

PADICO has pursued dominance partly through direct investments, such as its control of industrial zones and its investments in media.

c. Investments by PADICO Affiliates

PADICO's preferred strategy to achieve dominance is to utilize the affiliates its controls to invest in important economic projects. PADICO is the largest shareholder and thus controls Paltel, PSEC, JTIC, PREIC, as well as other affiliated companies. Thus, PADICO commands a diverse group of companies all aiming to dominate their respective economic sectors. The monopolistic synergy of this PADICO-controlled group of companies is highlighted further by the interlocking boards of directors of PADICO and its affiliates. Figure 1 illustrates the extent of the interlocking nature of the boards of directors of the main parts of the PADICO group of companies. Such interlocking boards of directors provide the PADICO interests with a well-crafted economic juggernaut that has no rival in the Palestinian economy apart from the PNA, with which they are in monopolistic conspiracy.

C. Explanations for PADICO's Behavior

The PADICO interests would, of course, deny that they are attempting to monopolize strategic sectors of the Palestinian economy. PADICO's response to such an accusation might be that the peculiar circumstances of the Palestinian territories requires PADICO, as the leading source of capital interested in Palestinian economic development, to play a large role in many sectors of the nascent Palestinian economy. PADICO could easily point out that promises of aid from the international community have not been fulfilled and that other foreign investors have

been unwilling to invest in the Palestinian territories because of political instability. In the absence of other sources of investment capital, PADICO naturally plays a very prominent role. In addition, PADICO could argue that its investors cannot wait for the political situation to settle down or other foreign investors to invest because ordinary Palestinians need jobs **now**--jobs that only PADICO is in a position to deliver. Concerns about PADICO's influence are well-taken but nonetheless naïve because the Palestinian economy cannot, give the unique nature of the Palestinian predicament, mirror the models of free market economists in the short-term. Moreover, PADICO has openly declared its intentions to invest in key economic sectors, which suggests PADICO has nothing to hide in connection with its activities.

As for its contacts with the PNA, PADICO finds itself in the same position as the international donor community in having to work through Arafat and his close advisors. PADICO cannot change the nature of the PNA in the short-term and provide badly needed economic opportunities for ordinary Palestinians. What may look like PNA favoritism towards PADICO may reflect the fact that PADICO is the only major source of investment capital ready and willing to invest in a broad spectrum of Palestinian economic activities **now** as opposed to waiting for a more comfortable investment climate.

On its face, this explanation for PADICO's behavior and its dominant position seems reasonable. PADICO can easily play on the political instability caused by Israeli security actions as the reason why it dominates the investment scene in the Palestinian territories. This explanation of PADICO's actions and influence breaks down, however, when one tries to figure out why PADICO has seemingly gone out of its way to undermine the position of other investors who have been ready and willing to invest in the Palestinian territories. The PADICO machinations in the telecommunications sector is a case in point and suggests that PADICO does not want competition from other investors in the strategic sectors it seeks to dominate.

The argument that only PADICO is in a position to deliver jobs to ordinary Palestinians also proves to be a weak claim. First, PADICO and its affiliated companies, for all their influence and power, have yet to produce much of anything by way of employment opportunities. In September 1996, the *Middle East Economic Digest* reported that PADICO "has still to deliver large-scale investment on the ground."²³ PADICO told Reuters a year and a half earlier that it "was now putting its projects 'on the ground'."²⁴ The gap between PADICO promises and performance seems large. PADICO blames Israeli closure policies for the delay in producing results: "We are involved in big projects and we have to do studies which take time. The situation imposed by Israel, especially the closure policies, has prevented and affected our

²³ Toby Ash, *Keeping the Faith Against All Odds: Private Sector Investment*, 40 *Middle East Economic Digest*, September 13, 1996, p. 11.

²⁴ Suleiman al-Khalidi, *Palestinian Firm in Multi-Million Dollar Projects*, Reuters, February 24, 1995.

ability to finalise these studies."²⁵ Some PADICO shareholders have a different explanation for PADICO's lack of progress and its broad range of investment interests. An anonymous senior representative of a major PADICO shareholder told the *Middle East Economic Digest* that PADICO "has got caught up in economic power games" in its involvement in many economic sectors.²⁶

As for PADICO's relationship with the PNA, the evidence suggests too strongly that the PADICO interests cultivate a very different relationship with Arafat and his key advisors than does the international donor community. Without Arafat's approval, PADICO's investment plans would go nowhere. In addition, PADICO's dominance could not be maintained without Arafat's blessing. So, the PADICO interests have deeply enmeshed themselves into Arafat's arbitrary and corrupt autocracy in order to monopolize and to maintain monopolization. The PADICO interests have, thus, aligned themselves firmly against free market and democratic principles.

The reasonable explanation for PADICO's behavior turns out to be an easily pierced facade hiding the PADICO interests' desire for dominance, hostility to competition, and conspiracy with the corrupt PNA.

V. CLINTON ADMINISTRATION SUPPORT FOR MONOPOLIZATION OF THE PALESTINIAN ECONOMY

Representatives of the Clinton administration have often discussed the lack of democracy in the PNA and the prevalence of corruption in the Palestinian economy with Arafat and his senior advisors. They have also raised these concerns very publicly.²⁷ The Clinton administration seems to be well aware of everything previously discussed in this paper. Given this situation, it is deeply troubling that the Clinton administration has taken an active role in supporting the attempts to monopolize the Palestinian economy by the PNA-PADICO conspiracy.

²⁵ Toby Ash, *Keeping the Faith Against All Odds: Private Sector Investment*, 40 *Middle East Economic Digest*, September 13, 1996, p. 11.

²⁶ Ibid.

²⁷ In a February 1997 speech to the Palestinian Legislative Council, American Counsel General in Jerusalem, Edward Abington, mentioned the lack of progress on the Basic Law, PNA violations of human rights, the undermining of court decisions, and the uninvestigated rumors of bribery and corruption. Abington continued: "All of these problems may be part of the growing pains of a new democracy, but left untreated they represent a serious threat to the eventual establishment of truly representational government for the Palestinians." *Remarks by Mr. Edward Abington, the Counsel General of the United States of America, on the occasion of the USAID-Palestinian Legislative Council Signing Ceremony, February 4, 1997.*

First, the Clinton administration proved reluctant to fulfill promises it made to American investors ready and willing to invest in the Palestinian territories. The Overseas Private Investment Corporation (OPIC) pledged in September 1994 to provide \$125 million to American companies trying to invest in the Palestinian territories.²⁸ Subsequently, OPIC proved unwilling to live up to its pledge through obstructionist behavior with American investors. OPIC's behavior became the subject of Senate hearings in July 1995.²⁹ As was noted in a law review article, "OPIC's reluctance to fulfill commitments that were publicly made has cast a shadow over the commitment of the U.S. Government to economic development in the Palestinian Territories."³⁰ The Clinton administration's failure to support American investors through OPIC sent the signal to other countries and the PADICO interests that the United States' support for private investment in the Palestinian economy was rhetorical only. Such signals could encourage those intent on monopolizing the Palestinian economy that the Clinton administration would not oppose such an effort except through words not supported by actions.

Second, the Clinton administration has not actively opposed the PNA-PADICO conspiracy to monopolize the Palestinian economy even though this conspiracy directly threatens U.S. policy initiatives. The PNA-PADICO monopolization conspiracy undermines the much-heralded U.S.-PNA free trade arrangement under which Palestinian goods enter the U.S. duty free and U.S. goods enter the Palestinian territories duty free. U.S. imports in the Palestinian territories will either go through the PNA's monopoly and thus fuel that corrupt enterprise or through PADICO's hands as the dominant player in the industrial zones, strategic economic sectors, and perhaps even the seaport if PADICO gets control of that too. U.S. companies that want to import Palestinian products will likewise have to deal with products that have had to run the corrupt labyrinth of the PNA-PADICO controlled Palestinian economy.

Similarly, the U.S. push for industrial zones as a way to jump start Palestinian economic development suffers from the PNA-PADICO conspiracy. U.S. investors seeking to utilize the Gazan industrial zone will likely have to pay rent to PADICO, utility bills to PADICO, and telephone bills to PADICO. Knowing that PADICO's power comes blessed by Arafat, an American investor cannot turn to the PNA for help against PADICO. Knowing that the Clinton administration has been aware of the PNA-PADICO conspiracy for years without taking action

²⁸ Overseas Private Investment Corporation Signs Historic Palestinian Agreement, OPIC Press Release, September 12, 1994.

²⁹ *Economic Development and U.S. Assistance in Gaza/Jericho, 1995: Hearings before the Subcommittee on the Near East and South Asian Affairs of the Senate Committee on Foreign Relations*, 104th Congress, 1st Session (1995).

³⁰ David P. Fidler, *Foreign Private Investment in Palestine: An Analysis of the Law on the Encouragement of Investment in Palestine*, 19 *Fordham International Law Journal* (1995), p. 553.

to oppose it, an American investor could not turn to its own government for support.

Third, the Clinton administration has not proved diligent in helping American investors confronted with PNA or PADICO attempts to undermine their investments or attempts to invest. Several American investors and potential investors have raised concerns about PNA or PADICO behavior with the Clinton administration; and the Clinton administration has, with varying degrees of enthusiasm, brought these concerns to the attention of the PNA. What is worrying is that the Clinton administration seems satisfied to raise such concerns without adequate follow-up activity. The Clinton administration does not seem troubled by the PNA's unwillingness to address the concerns of American investors and potential investors. In other words, the Clinton administration will intervene diplomatically but not require the PNA to provide answers or even to be in any way responsive. Such behavior clearly suggests to the PNA that the Clinton administration prefers to talk rather than back up words with action. Unfortunately for the peace process and American national interests, the Clinton administration is willingly engaging in a transparently ineffective monologue rather than a constructive dialogue with the PNA on Palestinian economic development.

Fourth, the recent allegations that the Clinton administration may have granted political favors in the foreign policy area in exchange for campaign contributions may have to be explored in connection with the Clinton administration's behavior on Palestinian economic development. The Clinton presidential campaign and the Democratic National Committee have accepted campaign contributions from a prominent American-Palestinian with direct business and familial connections with the people behind PADICO. According to Federal Election Commission data, PADICO's man in Washington, D.C. contributed over \$100,000 to Democratic campaigns in the last two election cycles. It is also widely known in Washington, D.C. that this individual enjoys access to and influence with Clinton administration officials working on Middle East policy. Such a relationship between PADICO's man in Washington, D.C. and the Clinton administration sends strong signals to PADICO that its efforts to dominate strategic economic sectors will not be vigorously opposed by the Clinton administration.

The behavior of the Clinton administration on Palestinian economic development demands a compelling explanation from the highest levels of the executive branch. Since it is inconceivable that the Clinton administration desires monopolization of the Palestinian economy as a strategic goal, perhaps its policy is based on tactical considerations: in the short-term the U.S. government is willing to tolerate questionable PNA economic policies because Arafat and his commitment to the peace process are too important to jeopardize. This tactical approach explicitly separates Palestinian economic development from the peace process because it assumes the peace process can succeed with a monopolized, corrupt Palestinian economy. David Hirst characterizes this dynamic as follows: Arafat's rule "only survives because, in robbing his people to bribe his bureaucrats, he has proved so great a commitment to the peace process that the parties on which he now completely depends--Israelis, Americans, and the international

community at large--are willing to ignore, even encourage, his manifest corruptions."³¹

In essence, the Clinton administration equates Arafat's survival at all costs with the peace process. Once a critical aspect of the peace process strategy, Palestinian economic development along free market principles has been abandoned tactically and strategically. The abandonment of free market economic development jeopardizes the goal of democratic governance for the Palestinian people. The presence of corrupt, impoverished, and non-democratic territories on its borders constitutes a long-term security threat for Israel. In dropping free market Palestinian economic development as a strategic objective, the Clinton administration has helped undermine the entire peace process and American national interests.

VI. WHAT THE CLINTON ADMINISTRATION IS HELPING TO CREATE

Whatever the justification for its actions, the Clinton administration is helping to create a kleptocracy in the Palestinian territories. The monopolization of the Palestinian economy by the PNA-PADICO conspiracy will stifle the development of a free market economy. The PNA-PADICO stranglehold on the economy will encourage businesses to pay money to the PNA or PADICO interests in exchange for room to operate commercially. Corruption rather than free markets will characterize the Palestinian economy. The PNA-PADICO conspiracy will nurture the arbitrary and non-democratic nature of the PNA government. The monopolization of the Palestinian economy even diminishes Arafat's power in the long term because the stranglehold on the economy gives the PADICO interests the ability to play king maker in the Palestinian territories. This concentration of economic and political power casts a dark shadow across the future of the Palestinian people, their desire for self-government, and their stabilizing influence in the region.

The Clinton administration's role in creating this kleptocracy undermines all American principles and national interests implicit in our role as sponsor of the peace process. Monopolization and corruption will suffocate Palestinian economic development and undermine peace. In addition, support for kleptocratic interests violates American commitment to the principles of free enterprise and democratization. The undermining of the peace process threatens Israel's long-term security interests, and thus contributes to the continuing instability of one of the most strategically vital regions in the world. Such lingering instability will hinder trade and market liberalization in the region, undercutting opportunities to allow more democratization to evolve in the region. Finally, the Palestinian people, who for so long have suffered and hoped for a better life, are abandoned again to a bitter fate.

Pressure must be brought to bear on the Clinton administration to end immediately its current policies that are helping create a kleptocracy in the Palestinian territories. On this issue, American power and principles must meld together to work for free markets, the rule of law, and

³¹ David Hirst, *Shameless in Gaza*, *The Guardian*, April 21, 1997, p. T8.

democracy in the Palestinian territories. Anything less constitutes a betrayal of American national interests in a secure Israel, a developing Palestinian economy and democracy, and a stable Middle East.

A. Arafat's Finances

Foreword: One of the most important facts of the Palestinian situation is very rarely mentioned in the Western media. This is the fact that Arafat has the sole and unrestrained control over all money belonging to the PA and the PLO, that is, to the Palestinian people. The situation changed for the worse after Arafat assumed the rule over the Palestinians in Areas C and B, since, from that time on, Israel has supplied much of the money he gets, which makes him, with his bombast, quite dependent on it. The first detailed survey of this situation has been done by the *Haaretz* Supplement translated here. In my view, the sorry situation it reveals is, in reality, even worse.

1. Arafat's Corrupt Regime (Part 1)

Haaretz Supplement, April 4, 1997

By Ronen Bergman & David Ratner

Last Tuesday, a man walked into the Bank Leumi branch on Hashmonaim Street in Tel-Aviv. He spoke fluent English, presented a German passport and asked a clerk to deposit a cheque in the account of the Palestinian Authority (PA) at the branch. The clerk mumbled something about having to ask the manager and disappeared for several minutes. When he returned, he informed the German that there was no PA account there and added, "Danke Schoen", ["thank you" in German] and goodbye. The clerk was not exactly correct, to say the least. The head of the PA, Yasser Arafat, maintains in this branch an account, called in the Territories "al-Sunduk al-Thani" (the "second" account in Arabic)—his other, secret budget.

According to an investigation conducted by senior figures in countries donating to the PA, only two persons have the right of signature in the account, Yasser Arafat and his senior economic adviser, the mystery man Mohammad Rashid, also known by the name of Khaled Al-Salam. According to other sources, the PA Finance Minister, Ahmad Zuheir Nashashibi, also has access to the account.

* Since this secret account in Tel-Aviv was opened in 1994, Israel has deposited at least 500 million shekel in it.

† An internal document of the International Monetary Fund

(IMF) in *Haaretz's* possession raises the possibility that the amounts are very much bigger. The IMF has clearly stated that the account in Tel-Aviv "is not under the supervision or control of the PA Finance Ministry."

What is being done with those funds? How much of them have been used for financing the operations of the PA and how much for other purposes? How much of the money goes into private hands? Except for the holders of the account, no one knows. Affairs reached the point that senior Israeli officials hear from the many PA Finance and Economy Ministers (there are many ministries and there had been several turnovers) bitter complaints that the monies which Israel transfers into the Tel-Aviv account does not reach the PA treasury. Israeli officials concerned have always shrugged off such complaints.

The Paris Protocol, signed in April 1994 after economic negotiations between Israel and the PLO, clearly sets forth the rules. From the economic aspect there is no border between Israel and the areas ruled by the PA. Both sides are to operate within a single customs union. In other words, customs and VAT representatives and other tax collectors of the Israeli government are not to be positioned along the dividing line but only at the external borders of the entire country. By this rule, the PA practically adopted all Israeli taxation and customs policies.

Sounds simple? Not at all. The Paris agreements also decided that Israel would return to the PA four different sets of taxes. Thus, for example, if a TV set is imported to Gaza through an Israeli port, the importer pays import tax to Israel. Such taxes are later transferred to PA treasury. In a similar manner VAT imposed on all purchases within Israel, the taxes on gasoline, alcohol and tobacco, income tax imposed on workers from the Territories who work in Israel and health tax they pay at the same time, are all transferred to the PA. Israel deducts handling fees from those sums and sometimes it also deducts the PA debts to Israeli institutions, such as the Bezek telephone company, the Electricity Company and the Israeli hospitals.

An internal Israeli Finance Ministry document lists the sums that Israel has transferred to the PA according to the agreement: 72 million shekel in 1994, 792 million in 1995.

1,392 million in 1996. In the first two months of this year 254 million shekel have already been transferred, and it may be estimated that 1.5 billion shekel will be transferred in 1997.

In the beginning, some Labor party ministers wanted to transfer all the money to Yasser Arafat personally in a cheque in order to impress him. Finance Ministry officials explained that this would not be proper. Ultimately it was agreed that Arafat would receive a copy of each deposit order.

This is the life blood of the PA. The following story will serve as a proof. The day after the opening of the Wailing Wall tunnel, in the midst of the battles between Israeli army soldiers and the PA policemen, a professional conference was held in Tel Aviv with participation of Aryeh Zeif, director of Israeli customs and in charge of transfers of monies to the PA. A senior PA official managed to contact Zeif on his cellular phone. He did not want to talk about the tunnel but to know whether Israel could transfer the money to the PA two days earlier than usual. He explained that it was for some technical reasons, something to do with holidays on the Palestinian calendar. Zeif readily agreed.

At the beginning of implementation of Paris agreements, representatives of the Israeli Finance Ministry asked the PA where it wanted the money to be transferred. The PA asked for transfers to be made to four different accounts in the Bank of Palestine and Arab Bank in Gaza, except for refunds for the gasoline tax. Mohammad Rashid requested that these refunds be deposited in a secret account in Bank Leumi, Hashmonaim branch in Tel-Aviv. The Israeli representatives lifted their eyebrows, smiled to each other but did not want to intervene in the internal affairs of the PA. The monies that pass through that account constitute a huge financial reserve under the direct supervision of Arafat. Why does he need it? The countries donating money to the PA undertook to place 2.4 billion dollars at his disposal. One billion dollars have been paid to date.

But these countries demanded transparency in exchange for the money--they want a full monitoring of the PA's bank accounts, in order that they know about and can approve the uses to which the money is being put. They also demanded that the IMF be added as "consultant" to the Palestinian team preparing the PA's annual budget. Arafat happily accepted the money, but less happily the supervision that accompanied it. The donor countries demanded that the money be invested in reconstructing the infrastruc-

tures and creating jobs. They did not approve unreasonable routine expenditures or support for institutions and especially the individuals whom Arafat chooses to favor.

Arafat had other plans. "The PA inflated their bureaucracy in a totally unjustified way", said General (reserves) Danny Rothschild, Coordinator of Activities in the Territories when the PA was being established. "They didn't fire the 21,000 employees of the Israeli Civil Administration; all of whom, except for few Israeli army officers, were Palestinians but they added to them 20,000 new clerks who came from Tunis and more than 40,000 policemen and security force members. The result was an immensely huge apparatus to which salaries had to be paid."

Dr. Hisnam Awartani, a prominent Palestinian economist from Bethlehem University, says, "Inflating the bureaucracy, especially if done in such a manner is a disaster for the economy, since huge numbers of employees are directed to public service and removed from production. But my ideas are only theoretical. In reality, it is impossible to fire a single person employed by the PA. Arafat needs those people as a political power base and therefore he pays them salaries through his second treasury. In fact, they constitute a time bomb. The vast majority of employees in the public service or security forces earn up to 1,000 shekel [now \$293] monthly, often less. That is not adequate money. They will marry and want to buy food for their children. It is only a matter of time before they will rebel. Real jobs with reasonable salaries have to be created."

Dr. Maher al-Kurd, Deputy Economy and Commerce Minister in the PA, responded, "I think that inflating the government bureaucracy is one of the PA's greatest economic achievements. Where would all of those people find jobs if we did not make them our clerks and policemen?"

A senior Israeli government official noted two additional purposes for the second treasury. "The PA has an emergency plan for extricating Arafat, his family and other senior leaders in the event of a coup against him. The plan envisions his operating a leadership in exile and requires large amounts of money for that purpose. The second and even more important reason is a series of operations that Arafat's regime feels obliged to fund in order to maintain its political power, regardless of good or bad economic effects. Thus, Arafat personally pays out of the second treasury martyr's benefits to widows and orphans who so become his personal clients. Donor countries would agree to this on

the condition that such expenditures made through the PA treasury but this would lower Arafat's personal power."

Former Labor minister Moshe Shanaal: "Rabin used to speak about this dirty business many times. He would turn red and become angry because of the double treasuries. It angered him that the money was being spent on salaries and bribes instead of creating jobs. Rabin tried to put pressure on Arafat, but the latter was always deeply insulted if his money, the most important thing for him, was mentioned. He always used to say, "Why don't they believe me?" He used to say that if they did not believe him, he would not cooperate in safeguarding Israel's security, and this turned to be a decisive argument. Nabil Shaath once spoke with Rabin and said that they needed time, had no experience and would hire accountants. Rabin thought it was a very strange answer." Dr. Al-Kurd, "The PA must create its own economic reserves for emergencies, such as civil war. It is regrettable that donor states and Israel do not understand this. If the PA had received from Israel and the donor states all the money it was promised and allowed to do with it what it wants, our situation would have been much better."

- So you are managing an additional, covert treasury?

"I do not know absolutely that such a treasury exists, although I think that I would certainly support it if it did."

- Into what accounts are the tax monies that Israel transfers deposited?

"Into bank accounts in Gaza and in the West Bank."

- Is there also an account in Tel-Aviv?

"In fact, I don't know exactly what accounts we have nor am I responsible for that. Ask someone else."

In his first interview with an Israeli newspaper, Mohammad Fashid confirmed the existence of the account in Tel-Aviv. "It is a transit account," he explained. "Israel deposits money there and a day later it is transferred to Gaza."

- So why is it necessary at all?

"The Israelis agreed to deposit the money there. You don't really think that someone is stealing the money or managing a covert account. How can so much money be hidden? The PA does not operate under the table and we have received permission from the donor states to employ as many policemen as we like. In fact, I don't know how many policemen we have, that is not my job. We have no need for a covert budget, everything is transparent and obvious. All of the money is transferred to the Finance Ministry."

The closure that Israel imposed on the Territories after the

terrorist attacks last year has caused great economic damage to the PA and its citizens. The PA announced that it expected a financial deficit of about \$200 million, as opposed to the prior planning in early 1996. The donor states mobilized themselves to help and more or less made up the difference. Their surprise was great when an examination by foreign diplomats discovered the second treasury in Tel-Aviv. With the help of funds channelled into that account it would have been possible to reduce the deficit without their aid. The World Bank and IMF who represent the donor states, demanded that the PA immediately close all the accounts in which funds are accumulated without their knowledge and unify them in one transparent and recognized account in the Bank of Palestine in Gaza. The PA promised that that would happen in March 1997. It didn't.

Monhammad Fashid, "I know that we promised to close all of the accounts. We are making significant and serious efforts to uphold that promise."

Back to the 1960s

Upon its establishment the PA attempted to emphasize its independence from Israel and announced a cancellation of all orders and regulations issued by the Israeli army since the occupation of the West Bank and Gaza Strip in 1967. In view of economic experts, such as Professor Ezra Sahan, that was a big mistake on the part of the PA, creating a judicial vacuum and commercial chaos that continue to this day. In this regard, at least, the PA did not learn the Israeli lesson of adopting the main part of the British legal system when Israel was established. The cancellation of the Military Government orders turned the judicial situation back 30 years. Jordanian law from the 1960s applies in the West Bank today and in Gaza the Egyptian laws dating from that time are applied. Although the judicial systems in both countries have been greatly improved since 1967, the PA intentionally imposed outdated laws which, for example, do not contain Companies or Investments Laws or other statutes that are vital for modern commerce and development. The result is that in the areas ruled by the PA there is no obligation to register companies or hold bids, there is no orderly system for repossession and collecting of debts, no law regulating mortgages for housing, no possibility of recording joint business ventures. The list of missing and badly needed economic laws can be expanded.

"Foreign investors still hesitate to come here," said a senior Western diplomat who maintains close ties with the PA on behalf of the donor states. "It is not clear to them how to operate and who will guarantee them their proprietary rights for their investments or ability to collect debts within PA's areas." Professor Jimmy Weinblatt from Ben-Gurion University, "Since the establishment of the PA, about 60 bank branches have sprung up in Gaza Strip, a huge number for such a small area. However, these branches are not prepared to lend money to Gaza residents or other inhabitants of the Territories, because there is no system for collecting the monies in the event of overdue payments."

Dr. Maher Al-Kurd, the PA Deputy Finance Minister confirmed that the judicial situation is very poor and that the formulation of new economic laws is yet to be initiated, with a delay of at least two years likely. He also confirmed that currently it is very difficult for the residents of the Territories to obtain information on economic matters, for example, the registration of companies. Al-Kurd also mentioned the failure of attempts to carry out the operations of official economic institutions, such as the Monetary Authority or Income Tax office. For this, and indeed for anything, he blames the donor states which did not channel sufficient funds to the PA planning commissions charged with formulating new economic laws.

The senior Western diplomat reacted adversely to these accusations: "The donor states firmly encouraged the PA to fill the void quickly and to formulate the necessary laws. The PA had no financial problem. The problem was their priorities. Instead of spending money on any positive purposes they chose to continue to finance their grossly inflated bureaucracy and pay salaries. When they managed to pass a single Law for Encouraging Capital Investments, it was really a disaster. Our teams of experts advised them not to pass it since it creates a huge government organization with enormous budget, supposed to support private entrepreneurs. We thought that it was only an opening for corruption. They were not willing to listen."

The Monopolies Celebrate

At the Erez check point, two weeks ago, a Palestinian arrived at the VIP crossing, the pressure of time clearly evident on his face. In his hands he held a pile of papers. Two young and scared Filipino women were cragging after him. The man pointed at them and asked to complete the

arrangement of their entrance permits to Gaza quickly. "They are the new servants for the house of Mohammad Rashid," he explained. In response to the question where are Rashid's offices, Amir Kiani, the U.S. trade attache in Israel, said with a loud laugh and a wink loaded with significance: "Which office do you mean? He has many offices." The official offices are located on Talatin Street, near the prestigious Rimal neighborhood of Gaza. A five-story building was built on which there is one sign only: The Ministry of Culture. On the third floor there are offices of the Palestinian Commercial Services Company (PCSC). It is a most luxurious office, even by Manhattan standards: lots of ornate and very costly office furniture. In the office kitchen, a large glass jar of formaldehyde preserves a huge black snake. On the walls are photographs of senior members of the PA. "Mr. Rashid is not here", the secretary explained, "he is abroad on business".

Muhammad Rashid, or Khaled A-Salam, is now one of the most powerful figures in the PA. Elegantly dressed, speaking excellent English, married to a Canadian citizen, able to tell a good joke when necessary, Rashid is cloaked in mystery and concentrates immense economic power in his hands as senior economic adviser to Arafat. Rashid is also known in the Gaza Strip as the "Kurdish doctor", from his origins in the Kurdish area in Iraq. He is not a Palestinian and he linked up with the PLO in the happy times of Beirut.

In the PLO headquarters in Tunis, Rashid was first Yasser Arafat's media adviser and edited the *Sawt al-Bilad* magazine, published in Cyprus with Soviet support. Then he became the special favorite of Arafat. Rashid is completely dependent on Arafat because of his origins. According to a senior figure in the PA, Arafat's blind trust in him makes him as dependent on Rashid as the latter is on him.

Say Rashid in the Gaza Strip and you say "monopolies". Simultaneously with the establishment of the PA, its leaders decided to establish their exclusive rule over the vital economic sectors by creation of monopolies. The franchises for managing the monopolies were given to several senior leaders of the PA, but mainly to Rashid. The owner of the monopoly buys the product he controls from the manufacturer or importer in Israel and sells it in the Territories at a much higher price. The difference serves for funding PA activities which the donor states refuse to finance or, more commonly, funds that disappear on the way, that is, disappear into private hands as is claimed by representa-

ties of the donor states, Palestinian economists and many members of the Palestinian parliament.

The gasoline sector is an excellent example of an especially lucrative PA monopoly. The residents of the Territories use 40 million liters of gasoline per month. Under Israeli rule the lion's share of that market was controlled by the Padesco Company comprised jointly of the largest Israeli gasoline companies (Paz, Dalek and Sonol). The company sold gasoline and oil to the 65 private gas stations in the West Bank and Gaza Strip and had supply contracts with the gas station owners extending beyond the year 2000. The Palestinian owners of the stations also leased their equipment from Padesco. In the economic agreement between the PA and Israel, the PA undertook not to disrupt agreements between Israeli suppliers and Palestinian clients that were signed prior to the date of Paris protocol.

Promises are one thing, reality is another. On October 18, 1994 agents of Jibril Rajub, the head of the PA's Preventive Security Agency, informed all gas station owners in the Territories that they were forbidden to receive gasoline from any source except 'Dor Energy'. Two days later Rajub's men halted at gunpoint Padesco tankers on their way from Israel to PA areas. The gas stations owners sent a joint letter to the PA requesting the continuance of their relationship with Padesco. Rajub simply did not answer.

Eli Ha'Lachmi, the former general director of Padesco, said, "After reinforcing the control of the PA in the Territories in this way, Rajub went further and announced that the gas station owners must pay a tax of a percentage of their daily sales. His secret police has a special 'Gas Patrol' conducting daily measurements at gas stations and examining differences between the reserves of the petrol from morning to evening." This tax enabled Rajub to increase his organization's power.

At present there are about 20 different PA security agencies. They compete with each other and the measure of their influence derives from their financial resources. Abraham Biger, general director of Paz up to two months ago, wrung his hands in despair: "Padesco was too naive. We believed that the PA would uphold its commitments to the Paris agreement and honor prior arrangements. We received no orderly information from the PA about any change in policy and it was like thunder on a clear day."

Overnight Padesco found itself with no agreement, no delivery arrangements and without the equipment it had leased to gas stations. In retrospect, it was found that the

PA had made an exclusive supply contract with the French-German company, Marimcoax, signed by Arafat. Then suddenly the Dor company got control of the market. The contract was signed between Yosef Antverg, at that time a general director of Dor and Mohammad Rashid who bore the title 'senior economic adviser' to Arafat. However, the owners of gas stations have no business relations with Dor Energy. Dor sells gasoline to the Palestinian monopoly at a certain price and the monopoly sells it to the station owners at a much higher price. The profit is retained by the monopoly. The station owners have no alternative because Rajub's secret police in the West Bank and Dahlan's one in Gaza Strip prevent all imports from competitors and provide Dor's tankers with armed guards right up to the gas stations.

Another method to finance the increased activity of the secret police is the collection of the unloading tax. Rajub and Dahlan control all the unloading docks at the crossings from Israel into the PA areas. Dahlan is the owner of all the unloading forklifts at the Erez check post. Thus, every merchant and truck owner has to pay the secret police a bribe in order to pass through. Sometimes this is done more simply. An Israeli importer of cleaning materials who opened a branch in Gaza, was asked to pay \$2,000, as an initial 'contribution' to Force 17. Commanders of the force told him that they will protect him from Dahlan.

A wealthy Arab from East Jerusalem was asked a year ago to purchase 14 new jeeps at his own expense for the use of Rajub's secret police.

A senior minister in the former Labor government who examined the procedures for transferring merchandise says, "One of main problems I have found was the control of the crossings by all kinds of PA forces that collect passage taxes fixed by themselves for their own profit. I encountered people like Dahlan and others who keep private treasures. Thus, for example, a force which received from Arafat a franchise for monopolizing imports of gravel would impose a tax on all gravel imports. I didn't try to check if the money was deposited in private accounts or went to finance various secret police organizations. Every VIP in the PA gets his power by creation of his own income system. In that manner Palestinian drivers pay a passage tax to one or another secret police or another force in order to transfer their goods from the northern part of the Gaza Strip into its southern part. This has no connection with Israel or the closure. Simply, a PA check point is set up in order to levy

taxes for the benefit of some secret police force." Each PA secret police agency or force wants to get as much money as it can by such means.

The Gasoline Wars

Although the agreement for supplying gasoline was signed by Rashid wearing his governmental hat, it is not clear which hat he wears when he manages the gasoline monopoly. According to senior figures in the donor states and important Palestinian economists, the management of the monopoly is in the hands of PCGC. We were told that the manager of its offices is Mohammad Rashid. A senior Western diplomat who examined the matter on behalf of donor states noted that Rashid is the owner of the monopoly and takes a huge share in the profits for himself. The Palestinian parliament has asked the PA several times for data about companies managed by Rashid and always met with an obstinate refusal, supposedly for reasons of security. Maher al-Kurd, PA Deputy Economy Minister, refused to answer any questions concerning Mohammad Rashid.

Padesco wrote the Gasoline Commissioner in the PA, Harbi Mohammad Abdel Qader Sarsour, and asked for compensation for the enormous amount of its property in the gas stations in the areas ruled by the PA. Sarsour announced that the money was on the way. That was in November 1995. No money has yet been received.

In Israel, Padesco petitioned the District Court to order Dor Energy to cease supplying gasoline to the PA. Dor argued, rightfully from the legal point of view, that it had absolutely nothing to do with the gas station owners who had signed contract with Padesco and that its contract was solely with the PA which cannot be sued in Israeli courts.⁴ Padesco then filed a petition in the Israeli Supreme Court against the State of Israel and the PA jointly. It estimates its damages from the transfer of its franchise to Dor at 43 million shekel. It demands that the Israeli government compensate it from the monies it transfers to the PA.

In addition, Padesco also wrote to the Israeli State Comptroller, asking her to examine the role that the two former senior members of the Israeli security establishment, Yossi Genosar and Shmuel Goren, played in the procedures leading to Dor's getting the fat contract with the PA.⁵ Shmuel Goren is now a director in Dor Chemicals Commerce. The name of Genosar, the head of the state owned oil company Amidar, was often mentioned in the last

two years as the Israeli Siamese twin of Mohammad Rashid who connects and coordinates Rashid's Israeli business. The State Comptroller was asked to examine conflict of interests between Genosar's two positions. What came of the complaints? State Comptroller's office refused this week to answer any questions.

Shmuel Goren said, "All Padesco's claims are lies. I have been familiar with them for a long time. I submitted documents and permits to the State Comptroller which prove that I retired as the Israeli Coordinator of Government Activities in the Territories in 1991, while the deal I had with the PA monopoly was signed in 1994. I worked in the Dankner group which owns Dor, but I had no connection with Dor Energy's deal with the PA. I do not know Mohammad Rashid and have never met him. I know that he is much involved with Yossi Genosar and others, but I do not know him."

Yossi Genosar refused to make any comment. It appears that he, formerly a division head in the Shabak and a sworn enemy of the PLO, has become the greatest friend of the PA and the PLO leadership. A Palestinian journalist, Assad al-Assad has translated into Arabic an unflattering article about Genosar that appeared in the Hebrew economic paper *Globes* and published it in his newspaper, *Al-Bited*. Hours after the paper was distributed to newsstands, agents from Rajub's Preventive Security Agency appeared in al-Assad's office and informed him that he was under arrest for damaging PA security. They collected from newsstands all copies of the paper carrying the article. Rajub, who undertook the case himself, explained to al-Assad that he should not publish lies in his paper even though translated, and detained him for 24 hours until he promised not to publish anything adverse to Genosar in the future.

Another Israeli intermediary between Dor and the Palestinian Authority is Ovadia Koko, from Holon, also known as Abdallah. Koko is major partner in the Sheffer & Levy Company for gasoline transport based in Rishon LeZion, not far from Koko's Pub which he owns. A person who has recently visited the company's offices testified that he saw a picture of Arafat on Koko's walls but the one of Rashid was more prominent. The Sheffer Company shares the distribution of Dor-owned gasoline in the areas ruled by the PA with the Yiftach company. Yiftach's tankers cover the PA areas north of Naplus and Sheffer does all the rest.

Koko refused to comment and only stated that it was a

pleasure to do business with the PA. Some light on that pleasure was shed by Eli Mota'i, Yiftach's manager. "It is not only a problem of taxes and monopolies. Nothing works there without the old man. First of all you have Rajub and Dahlan. The business there works smoothly only if you fix them. Everyone feeds off this nice business and the people in power receive percentages. There are several power centers. I cannot indicate them because in some way the information may draw fire. I only thank God that I'm now not personally involved in all that."

A senior figure in the Israeli taxation system said that at one of the stages of economic negotiations Rashid tried to bring in representatives of Dor Energy as external advisers to the negotiations. The Israelis did not agree and Dor's people were forced to leave the negotiation room. In July 1997, Dor Energy's franchise is supposed to expire. In the PA areas it is expected that it will be immediately renewed, without a tender.

It is interesting that Yosef Antverg, the outgoing general director of Dor was recently mentioned as a candidate for position of director of the Israel Land Authority which currently belongs to the Infrastructure Ministry of Ariel Sharon. As the general director of Dor he, together with Mohammad Rashid, signed the agreement between Dor and the PA. "I don't want to talk about my business with the PA," he said.

- Were you personally involved in the negotiations with the PA?

"I will not say yes or no. Up to now I have kept silent. Some things work better far from the media."

- Several months ago Israelis were invited to Mohammad Rashid's wedding in Cairo. Were you one of them?

"I was invited but I did not go."

Shmuel Dankner, the owner of Dor Energy, said that the contact between Dor and the PA was made by normal negotiations. "What exactly motivated them to choose us? I suppose that it was the competitive prices and the ability to convince them that we would provide the best service."

- Padesco claims that there was no tender.

"I know that Padesco made all sorts of offers. It was not a tender that was published, but it was a tender."

- A real tender? They claim that Jibril Rajub's men prevented them from entering.

"It hurts them. Dor Energy hurts them. That's how one should work, they have to become accustomed to the realities of life."

- The Paris agreements determined that the PA has to honor agreements. Padesco argues that they had long-term agreements.

"According to international law, an entity such as the PA can cancel as many contracts as it likes, even legal contracts."

- It is said that you have close relations with Mohammad Rashid.

"First of all, if you want to hear about him, ask him. Second, we have proper relations, as with any large client."

- But he invited only his good friends to his wedding in Cairo.

"Yes, I was invited to his wedding in Cairo. I am his good friend".

- In 1997 your franchise expires. What will happen then?

"I have no doubt that it will be renewed. We are the best."

- What amount do you sell to the PA in one year?

"150 million dollars."

Notes:

1. According to my sources he does not have, although Arafat's entourage is promoting rumors that he has. In any case, he has no real authority.

2. Probably the sums are higher. It is also being claimed, and I trust those claims, that Arafat is paid in cash, personally, from the Israeli secret services funds which cannot be checked.

3. The same situation exists in many other areas. In fact, the chief job of PA secret police seems to be to extort protection money, or "a cut" of the profits from everybody who is not already "protected".

4. Some of the numerous PA check points have, in my view, no purpose but extorting money from car drivers and passengers. Usually a quite small sum in cash will be acceptable.

5. The condition that the PA cannot be sued in Israeli courts was one of the most important points on which Arafat's negotiators insisted in Oslo. Rabin was at first inclined to oppose it, but in the end had submitted to Peres and his "experts", and also to the Shabak who supported Arafat.

6. The expression "security establishment" means here the Shabak. Goren has been known for many years as "the Tsar of the West Bank". Genosar had been not only a chief interrogator, that is, a torturer in the Shabak but has deceived, and lied to, two inquiry commissions established

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MASRI. CHERYL D

10/14/94 \$300.00

WASHINGTON, DC 20008

REAL ESTATE -(Contribution)

CALIFORNIANS FOR HUFFINGTON

MASRI. CHERYL DAVIS

4/30/96 \$250.00

WASHINGTON, DC 20008

CAPITAL CORPORATION -(Contribution)

CITIZENS FOR ELEANOR HOLMES NORTON

MASRI. CHERYL DAVIS

10/21/96 \$1,000.00

WASHINGTON, DC 20008

VOLUNTEER -(Contribution]
ANN HENRY FOR CONGRESS
MASRI, CHERYL DAVIS
5/16/94 \$1,000.00
WASHINGTON, DC 20008
FREE LANCE WRITER -(Contribution]
COLEMAN FOR SENATE COMMITTEE

MASRI, HANI
9/27/96 \$2,000.00
MCLEAN, VA 22101
CAPITAL CORPORATION -(Contribution]
ARAB AMERICAN LEADERSHIP POLITICAL ACTION COMMITTEE

MASRI, HANI
3/20/96 \$20,000.00
MCLEAN, VA 22101
CAPITAL CORPORATION -(Contribution]
DNC SERVICES CORPORATION/DEMOCRATIC NATIONAL COMMITTEE

MASRI, HANI
3/16/96 \$250.00
MCLEAN, VA 22101
-(Contribution]
STEVE OWENS FOR CONGRESS

MASRI, HANI
10/31/96 \$600.00
MCLEAN, VA 22101
CAPITAL CORP -(Contribution]
TORRICELLI FOR U S SENATE INC

MASRI, HANI
2/6/95 \$500.00
WASHINGTON, DC 20015
CAPITAL CORP -(Contribution]
COMMITTEE TO ELECT JOHN BALDACCI

MASRI, HANI
6/23/94 \$20,000.00
WASHINGTON, DC 20007
-(Contribution]
DNC SERVICES CORPORATION/DEMOCRATIC NATIONAL COMMITTEE

MASRI, HANI
5/16/94 \$1,000.00
WASHINGTON, DC 20008
CAPITOL CORPORATION -(Contribution]
COLEMAN FOR SENATE COMMITTEE

MASRI, HANI
4/15/94 \$1,000.00
WASHINGTON, DC 20013
-(Contribution]
BRENDA ELIAS FOR US CONGRESS

MASRI, HANI
5/8/96 \$25,000.00
MCLEAN, VA 22101
CAPITAL CORPORATION -{[Receipt--exempt from limits]}
DNC-NON-FEDERAL INDIVIDUAL

MASRI, HANI
6/14/95 \$1,000.00
WASHINGTON, DC 20007
CAPITOL CORPORATION -(Contribution]
CLINTON/GORE '96 PRIMARY COMMITTEE INC

MASRI, HANI MR

6/23/94 \$30,000.00
WASHINGTON, DC 20007
-[[Receipt--exempt from limits]]
DNC-NON-FEDERAL INDIVIDUAL

MASRI HANI MR
3/20/96 \$5,000.00
MCLEAN, VA 22101
-[[Receipt--exempt from limits]]
DNC-NON-FEDERAL INDIVIDUAL

MASRI HODA H
10/28/94 \$1,000.00
FORT LAUDERDALE, FL 33308
HOMEMAKER -[Contribution]
FRIENDS OF RAY LAHOOD

MASRI, HUSSEIN H
4/18/95 \$1,000.00
FT LAUDERDALE, FL 33308
-[Contribution]
DOLE FOR PRESIDENT INC

MASRI, HUSSEIN H
4/18/95 \$1,000.00
FT LAUDERDALE, FL 33308
-[Contribution]
DOLE/KEMP '96 COMPLIANCE COMMITTEE INC

MASRI, HUSSEIN H
10/28/94 \$1,000.00
FORT LAUDERDALE, FL 33308
MASRI DELICATESSEN -[Contribution]
FRIENDS OF RAY LAHOOD

MASRI, KRAIDA
10/28/94 \$1,000.00
FORT LAUDERDALE, FL 33308
HOMEMAKER -[Contribution]
FRIENDS OF RAY LAHOOD

MASRI MOHAMAD
4/18/95 \$1,000.00
FT LAUDERDALE, FL 33308
-[Contribution]
DOLE FOR PRESIDENT INC

MASRI MOHAMAD
4/18/95 \$1,000.00
FT LAUDERDALE, FL 33308
-[Contribution]
DOLE/KEMP '96 COMPLIANCE COMMITTEE INC

MASRI, SA'AD F
9/14/94 \$250.00
VIENNA, VA 22180
DYNCORP -[Contribution]
TOM DAVIS FOR CONGRESS

MASRI SA'AD F MR
11/3/94 \$250.00
VIENNA, VA 22180
DYNCORP -[Contribution]
TOM DAVIS FOR CONGRESS

MASRI, SAMIRA
4/18/95 \$1,000.00
FT LAUDERDALE, FL 33308
-[Contribution]
DOLE FOR PRESIDENT INC

MASRI, SAMIRA MS
5/10/95 \$1,000.00
FT LAUDERDALE, FL 33308
-[Contribution]
DOLE/KEMP '96 COMPLIANCE COMMITTEE INC

MASRI, SUSAN MRS
12/31/93 \$250.00
LOUISVILLE, KY 40207
HOMEMAKER -[Contribution]
SUSAN B STOKES FOR CONGRESS COMMITTEE

MASRI, ZAHY H MRS
7/8/93 \$1,000.00
LOUISVILLE, KY 40207
PHYSICIAN -[Contribution]
NATIONAL REPUBLICAN SENATORIAL COMMITTEE

Time of this request: 4/16/97 7:35:23 PM

Below is an overview of the company's D&B Rating(s) since 01/01/91:

RATING	DATE APPLIED
---	04/27/93
ERN	01/01/91

PAYMENT SUMMARY

The Payment Summary section reflects payment information in D&B's file as of the date of this report.

D&B has not received a sufficient sample of payment experiences to establish a PAYDEX score.

Below is an overview of the company's dollar-weighted payments, segmented by its suppliers' primary industries:

TOTAL RCV'D	TOTAL DOLLAR AMOUNTS	LARGEST HIGH CREDIT	% W/IN TERMS	DAYS SLOW			
				<31	31-60	61-90	91+
#	\$	\$	%	%	%	%	%
Total in D&B's file	2	20,250	20,000				

Payment By Industry:

1 Mfg wood home furn	1	20,000	20,000	-	-	-	-	100
2 Air courier service	1	250	250	100	-	-	-	-

Other Payment Categories:

Cash experiences	0	0	0
Payment record unknown	0	0	0
Unfavorable comments	0	0	0
Placed for collection			
with D&B	0	0	
other	0	N/A	

The highest "Now Owes" on file is \$ 0
 The highest "Past Due" on file is \$ 0

D&B receives over 220 million payment experiences each year. We enter these new and updated experiences into D&B Reports as this information is received.

PAYMENTS (Amounts may be rounded to nearest figure in prescribed ranges)

- Antic - Anticipated (Payments received prior to date of invoice)
- Disc - Discounted (Payments received within trade discount period)
- Ppt - Prompt (Payments received within terms granted)

REPORTED	PAYING RECORD	HIGH CREDIT	NOW OWES	PAST DUE	SELLING TERMS	LAST SALE WITHIN
02/97	Ppt	250	-0-	-0-	N15	1 Mo
09/96	Slow 210	20000	-0-	-0-		4-5 Mos

* Payment experiences reflect how bills are met in relation to the terms granted. In some instances payment beyond terms can be the result of disputes over merchandise, skipped invoices etc.

* Each experience shown represents a separate account reported by a supplier. Updated trade experiences replace those previously reported.

FINANCE

06/11/96

On JUN 11 1996 Walter Bradford, spokesperson, defarrred all information.

As of Jun 11 1996, a search of Dun & Bradstreet's Public Record Database found no open suits, liens, judgments or UCC's to which Capital Corporation at 5862 Elm St Ste 720 , Mc lean, VA was a named defendant or debtor. Public records received hereafter will be entered into the Database and will be included in reports which contain a Public Filings section.

BANKING

12/96

Loans granted to high 6 figures on a secured basis. Now owing high 6 figures. Collateral consists of real estate.

HISTORY

06/11/96

HANI MOSSERY, PRES
DIRECTOR(S): THE OFFICER(S)

BUSINESS TYPE: Corporation -
Profit

DATE INCORPORATED: 08/18/1981
STATE OF INCORP: Delaware

Business started 1981 by Hani Mossery. Relocated Jun 1996 from Washington, DC.

Incomplete history caption has been applied due to the following factor(s):

-- Stock ownership and/or nature of legal ownership has not been clearly established.

-- Antecedent information on one or more of the principals lacks sufficient detail.

HANI MOSSERY. Antecedents declined.

OPERATION

06/11/96

Operations include real estate trading and investments (100%).
Terms: Commissions. Sells to individuals. Territory : Local.

EMPLOYEES: 5 which includes officer(s).

FACILITIES: Occupies premises in a building.

LOCATION: Undetermined section.

04-16(6GN /406)

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061110110

FULL DISPLAY COMPLETE

New Search

Order an Investigation

[Global Marketing Lists](#) [Global Family Linkage](#) [Global Company Lookup](#) [U.S. Public Records](#)

صحيفة أسرا إيلية تتحدث عن احتكاكات وتجاوزات في السلطة الفلسطينية وحساب سري في تل أبيب

تل أبيب - الشرق الأوسط

في تحقيق صحفي تضمنت 10 أيلول كلمة، تحدث صحيفة «هافاريم» الإسرائيلية عن تجاوزات السلطة الفلسطينية في السلطة الوطنية الفلسطينية في السنوات الخمسة الماضية والاتصالات المباشرة مع إسرائيل منذ عام 1994.

وتنقل الصحيفة في أيلول وقالت إن هذا الحساب هو أول حساب رسمي يشرح كيفية تعامل السلطة الفلسطينية مع إسرائيل منذ عام 1994.

وذكرت الصحيفة في أيلول وقالت إن هذا الحساب هو أول حساب رسمي يشرح كيفية تعامل السلطة الفلسطينية مع إسرائيل منذ عام 1994.

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والله وال لا نصدق فيه يوم واحد، إذ ما أن انكشف حجم حقوقنا ومفاتيحنا التي حصدتها لنا في سنواتنا الأخيرة، انقلبنا من كوننا أنواع البرابرة إلى كائنات إنسانية.

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UNOFFICIAL TRANSLATIONS

TEL AVIV / AL-SHARO AL-AWSAT NEWSPAPER

In a detailed investigative report that exceeded ten thousand words, the Israeli newspaper Haaretz published a report accusing the economic administration of the PNA of monopolizing and favoring those who are close to the PNA. The paper claims that Palestinian President Yasser Arafat uses a secret "second fund" established in a Tel-Aviv bank account through one of those close to him.

The spokesperson of the PNA denied the accusations, but members of the opposition at the legislative council confirmed those accusations, and Palestinian legislative council member Haidar Abdel Shafi blamed the PNA for the deterioration of the economic situation in the territories.

Hisham Awartani, Director of the Independent Economic Institute, said that it is wrong to blame Israel for all the economic problems and that the Palestinians should also take the blame. Another legislative council member, Husam Khader, accused officials close to Arafat of using the PNA's money as if it was their own family's money. Haaretz said that after the cancellation of the military laws that were in effect in the West Bank and Gaza, the PNA returned to the old laws that were administered in Gaza and the West Bank before 1967. Those laws have legal gaps and allow for the formation of bogus corporations and fraudulent activities.

The paper added that according to the Israeli Finance Ministry, the Israeli Government has transferred annually 1.5 Billion Israeli Shekel (\$454 million) to the account of the PNA. (From 1994 until 1996, total transfer was approximately \$1.36 Billion) as per the Economic Agreement signed between the two parties after Oslo. This money belongs to the Palestinians and it comes from taxes that Israel collects for goods imported into the Palestinian areas. A portion of this money gets transferred to a special PNA account in Tel-Aviv, registered under the name of Muhammad Rashid, also known as Khaled Slam—a senior economic advisor for Yasser Arafat. In the past three years, the amount deposited in this account totaled \$500 million Israeli Shekel (\$151 million).

Rashid did not deny the existence of this account, and added that this account is not secretive and that the donor countries know about it as well as the Palestinian Finance Ministry (the Palestinian Finance Ministry denied that they knew anything about this account). Rashid said that this account is temporary, and is being used only to facilitate the transfer of money from Israel to the Palestinian Banks in Gaza where the account is subjected to all kinds of supervision.

Haaretz also talks about monopolizing the Palestinians industries and business deals. Haaretz quotes an internal document by the U.S. State Department about the existence of twenty seven monopolistic companies in the Palestinian territories, which control the basic vital economy. Most of those companies are either registered under the names of persons directly connected to the PNA, or registered under the special circle of people known to pay under-the-table for the "Preventive Security".

Haaretz adds that Muhammad Rashid is of Kurdish origin and worked as Press Advisor for Arafat before his current position - he is highly appreciated by President Arafat where he proved himself during the economic talks with the Israelis.

The paper added that Rashid succeeded in recruiting Senior Israelis for the economic cooperation like Yussi Ginosar - a senior officer who used to work for the Israeli intelligence. He also recruited Shmuel Goren, who was the previous coordinator between the Israeli Defense Ministry and the West Bank Military Administration, and other Israeli personnel who have access to Israeli Government.

The paper also added that the explanation that they received on the existence of this side account, is to enable Arafat and his family to flee the country in the case of a military coup.

Figure 1. Interlocking Representation on Board of Directors of PAIDICO and Main PAIDICO Affiliates

