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U.S. May Reduce Aid Plan to Get Israel to Halt Barrier

By STEVEN R. WEISMAN

The Bush administration, looking for ways to press Israel to halt construction of a barrier separating its citizens from Palestinian areas, is considering a reduction in loan guarantees for Israel that were approved by Congress this spring, administration officials said today.

Any such punitive step by the United States toward Israel would mark a change in President Bush's longstanding efforts to avoid any kind of confrontation with the government of Prime Minister Ariel Sharon.

Aides to Mr. Bush and Mr. Sharon have gone out of their way for months to say that they have few disagreements and that all have been resolved amicably. Such talk was reiterated last week during Mr. Sharon's visit to the White House.

What is at issue in the administration's possible action is \$9 billion in loan guarantees approved by Congress in the spring. They are intended for housing and commercial projects and were part of a package that also included \$1 billion in military aid to help Israel cope with the effects of the Iraq war.

Administration officials, who disclosed the potential move, said that it was being considered in response to a campaign by Palestinian leaders, who say the barrier has cut Palestinians off from farms, homes, schools and workplaces.

The Palestinians also contend that it is aimed at establishing a de facto border for Israel in the West Bank and the Gaza Strip. The future boundary of Israel and a Palestinian state is supposed to be negotiated in talks between the two sides.

An Israeli official said tonight that word of the administration's move, which was first disclosed in the Israeli newspaper Haaretz, had not been transmitted to Mr. Sharon's government. "This takes us by surprise," he added.

The barrier consists of concrete walls, barbed wire fences, ditches, sensors and other devices designed to keep Palestinians from crossing into Israeli territory or Jewish settlements under attack in the last two years by suicide bombers.

President Bush has suggested that while the barrier may be justified in security terms, it has created problems in the current phase of Israeli-Palestinian negotiations.

After his meeting with Mr. Bush last week, Mr. Sharon promised to look for ways to make the wall less onerous to Palestinians, perhaps by building more gates. Aides to the Israeli leaders say that the disagreement between Mr. Sharon and Mr. Bush over the barrier has been friendly.

Under the law passed by Congress, none of the money from the loan guarantees is to be spent to help Jewish settlements in the West Bank or Gaza. Indeed, the law requires that if Israel spends any money on such settlements, the loan guarantees must be reduced by that amount, American officials said.

Officials added that what is being considered is whether money spent to build the barrier constitutes money spent in an illegal way. Some officials argue that it is, at least to the extent that the barrier veers into the West Bank and Gaza to protect settlements.

An administration official said today that a growing consensus in the administration has led to the conclusion that the loan guarantees must not be used to pay for the barrier or to free other Israeli funds to build it. "The feeling is that we do need to do something about the fence," said an administration official.

The last time any of this money was frozen, though, was under Mr. Bush's father, and it led to a low point in American-Israeli relations.

Since taking office two and a half years ago, President Bush has sought to support Israel. Strong backing has also come from religious conservatives in the Republican Party.

Some, including Representative Tom DeLay, the House majority leader, have even suggested that Mr. Bush should not press Israel to adopt the peace plan calling for a Palestinian state.

The administration has nonetheless persisted in criticizing Israel's barrier as harmful to the peace plan. It was not clear tonight how much domestic criticism from either conservative Republicans or Democratic supporters of Israel would be stirred up by any move to reduce the loan guarantees.

Nor was it clear how much of a reduction would be approved or whether it would affect money that has already been spent, which has been in the tens of millions of dollars.

Reiterating the guarded American criticism of the barrier, Secretary of State Colin L. Powell said today that a nation "is authorized and it is within its rights to put up a fence, as it sees the need for one," but that the Israeli barrier created difficulties because of the peace negotiations.

Speaking to Radio Sawa, an American government-owned radio station broadcasting in the Middle East, Mr. Powell said the United States was "concerned when the fence crosses over onto the land of others." He said the United States was in "discussions with our Israeli friends" to make sure the barrier did not become a "hindrance" to the peace efforts. But he made no mention of reducing assistance.

Correction: August 9, 2003, Saturday An article on Tuesday about Israel's construction of a barrier between Israelis and Palestinians referred incorrectly to the affected area. While the barrier indeed veers into the West Bank, it will not affect Gaza or its Jewish settlements. (A barrier around Gaza has been in place since the 1960's, with Gaza's settlements surrounded by their own walls.)

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